

# Understanding the political connections of Portuguese companies through their board members

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## Abstract

**Purpose** – This study aims to analyse the political connections of Portuguese companies through the members of the board of directors, exploring how these connections influence, in particular, the composition and characteristics of the boards.

**Design/methodology/approach** – The research used a strategy based on analysing the financial statements and curriculum vitae of the directors of Portuguese companies listed on Euronext Lisbon from 2014 to 2019. The political connections of board members were examined, considering the variables identified in the existing literature.

**Findings** – The results indicate that companies with political connections maintain these relationships for long periods and have a greater number of members on the board of directors compared to companies without such connections. Directors with political experience tend to occupy non-executive positions, suggesting that companies may value political contacts more than the management skills of these directors. It was also found that there are politically connected directors who belong to multiple boards and that women appointed to the board are less likely to have a political background, reflecting male dominance in Portuguese politics.

**Research limitations/implications** – The main limitations of this study include the small number of listed companies in the sample, which may affect the statistical robustness of the results, as well as the use of secondary sources, which may not capture all relevant policy linkages. In addition, the results are specific to the Portuguese context and may not be generalisable to other countries or other regions of the world.

**Originality/value** – This study contributes to the understanding of political connections in Portuguese companies, offering valuable insights into how these connections influence board composition and can impact corporate strategy and governance. The findings of this study can be especially useful for business leaders looking to optimise the formation of their boards of directors.

**Keywords** Political connections, Euronext Lisbon, Board of directors

**Paper type** Research paper



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## 1. Introduction

In an increasingly globalised world, where the markets in which companies operate are more and more competitive, political connections can eventually be a differentiating factor in achieving business success.

According to the [Diário de Notícias \(2019\)](#), in a survey released by the European Commission in December 2019, Portugal was the country with the highest number of respondents who strongly state that the only way to succeed in business is through some kind of political connection. The survey also reveals, that Portuguese entrepreneurs are the Europeans who most consider that very close links between business and politics lead to corruption. In this sense, the Portuguese and Greeks are the ones who most defend that favouritism and corruption harm business competition.

The scientific literature, however, refers to advantages and disadvantages for companies in obtaining political connections, and often with distinct conclusions. For [Boubakri \*et al.\* \(2008\)](#) politically connected firms show lower financial performance when compared to other firms. While for [Li \*et al.\* \(2008\)](#) firms with political connections show better performance, for [Boubakri \*et al.\* \(2012\)](#) and [Khwaja and Mian \(2005\)](#) politically connected firms have easier access to finance, whereas for [Leuz and Oberholzer-Gee \(2006\)](#) these firms have a lower ability to access foreign finance.

The financial and institutional crisis that affected several European countries, such as Greece, Italy, Ireland, Portugal and Spain in 2007 and subsequent years, has led to increased interest in the study of political and commercial ties and their respective effects on companies ([Bona-Sánchez \*et al.\*, 2014](#)). The low transparency of the links between political elites and business, together with the absence of a generally accepted definition of a political link, makes it difficult to empirically study the relationship between political links and business behaviour ([Chen \*et al.\*, 2011a](#)).

According to [Hillman \(2005\)](#), resource dependence theory mentions the importance of firms linking to the external environment, with government being a source of external interdependence and uncertainty for business, it is plausible that firms seek to establish linkages to minimise uncertainty and reduce external risk. Therefore these linkages thus become a valuable asset. Unlike many other resources at the firm's disposal, political linkages can lose their value quickly when, for example, the government fails to win an election, and the idea remains that investments in political relationships can be particularly risky ([Leuz and Oberholzer-Gee, 2006](#)).

Given the complexity and implications of political connections, this study seeks to analyse political connections by analysing the characteristics of Portuguese Euronext Lisbon companies that have appointed members with a political background to the board of directors.

The study sought to observe the characteristics of the board of directors in order to ascertain whether there are significant and relevant differences between companies with political connections and companies without such connections.

The study differs from previous literature in several ways. Firstly, it defines political office. In addition to positions held on behalf of Portugal, unlike [Kakoo \(2016\)](#), we consider political positions held in other countries to be a political connection. [Bianchi and Viana \(2014\)](#) considered political positions to be head of state, prime minister, minister, secretary of state and deputy. In this study, in addition to these positions, other relevant political positions were added, such as deputy minister, counsellor of state, chief of staff, head of the civil house, political advisor/consultant and other relevant political positions such as ambassador. Secondly, we exclusively studied the political connection through executive members (board of directors), while [Azevedo \*et al.\* \(2019\)](#) include members of the supervisory board and members of the general assembly. Thirdly, we made an effort to manually collect data that would otherwise be unavailable (or at least unorganised) regarding members of the board of directors. Fourthly, the originality of the sample selected for this study, due to the

unique combination of companies included along with the time period covered, which extends from 2014 to 2019.

The main contribution of this work is the use of new data, through the manual collection of data that would otherwise not be available, or at least not organised. This data, which was analysed in the article, is relevant to understanding the political connections of Portuguese companies, bringing new descriptive results. In this sense, it is a valuable piece of research that contributes as an exploratory endeavour to define more specific questions for future research on the topic. The research offers valuable insights for the public interested in corporate governance and the intersection between business and politics in Portugal.

The results show that: once political connections are established in companies, they are maintained for several years; the number of members of the board of directors of companies with political connections is on average considerably higher than that of companies without such connections; women appointed to the board of directors are less likely to have held political positions; a board member with political experience is more likely to hold the position of non-executive; there are directors with political connections who are members of the board of directors of several Euronext Lisbon companies.

## 2. Bibliographic review

Studies show that corporate political links are more common in countries with weak legislative systems, so political links are often seen as a proxy, serving as a protection in these countries (Chen *et al.*, 2011a). In countries with a well-functioning legal system, companies are not expected to receive a substantial competitive advantage, or preferential treatment through their political connections (Goldman *et al.*, 2009). According to Faccio (2002), democratic systems may discourage linkages because political opponents are encouraged to uncover and publicise abuses of office, moreover democracies generally have a higher literacy rate, which increases the likelihood that citizens will perceive and question political misconduct. The story is probably different in non-democratic systems (Faccio, 2002). In fact, Faccio (2002) considers that within democratic systems, when politicians involved are exposed to misconduct, they fear removal from office, and so may not wish to engage in activities that could put their careers at risk. On the other hand, political stability allows politicians time to build reputations and relationships, increasing the potential benefits of such connections. According to Faccio (2002) the benefits extracted by firms with political connections are usually greater in countries with high corruption rates.

The benefits of these links can take many forms, including favourable regulatory conditions (Agrawal and Knoeber, 2001), import licences (Mobarak and Purbasari, 2006), inhibit competitors from entering the market (Bunkanwanicha and Wiwattanakantang, 2009), capital controls (Johnson and Mitton, 2003), higher probability of financial bailouts in times of economic crisis (Faccio *et al.*, 2006), easy access to bank financing (Boubakri *et al.*, 2012; Charumilind *et al.*, 2006; Claessens *et al.*, 2008; Faccio, 2002; Khwaja and Mian, 2005; Li *et al.*, 2008), lower interest rates (Infante and Piazza, 2014), higher stock returns (Ahmed *et al.*, 2020; Chiu *et al.*, 2013; Feng *et al.*, 2014; Ferguson and Voth, 2008; Goldman *et al.*, 2009), easier merger processes (Ferris *et al.*, 2016), lower taxation (Faccio, 2002), and better financial performance (Boubakri *et al.*, 2012; Li *et al.*, 2008).

Furthermore, the benefits are not only for firms, according to Shleifer and Vishny (1994), politicians seek to influence firms through subsidies, and benefit from their connection to firms, notably through the receipt of bribes, or in the pursuit of policy objectives such as increasing employment rates.

However, according to some authors political linkages also have disadvantages and costs for firms, particularly a lower ability to access foreign finance (Leuz and Oberholzer-Gee, 2006), their investments are less efficient (Chen *et al.*, 2011a, b), the quality of the financial

information provided is weaker (Bona-Sánchez *et al.*, 2014; Chaney *et al.*, 2011), they reduce profitability (Jackowicz *et al.*, 2014), they have higher debt ratios (Faccio, 2010), and they exhibit higher employee mortality rates (Fisman and Wang, 2015). Moreover, contrary to what is reported by other authors, for Augusto *et al.* (2020), Belghitar *et al.* (2016), Bertrand *et al.* (2006) Boubakri *et al.* (2008), Carretta *et al.* (2012), Faccio (2002), and Fan *et al.* (2007), political connections impair firm financial performance.

According to Hooy and Wong (2018), it is more common to find research focused on the impacts of political connections in national contexts, as the heterogeneity among countries and different political settings makes studies seeking transnational comparisons less frequent. Most studies focus on a single country, rather than attempting a cross-country comparison (Asquer and Calderoni, 2011). According to Fan *et al.* (2007) the results of any single country study are specific to conditions in that country.

In Portugal Bianchi and Viana (2014) conducted an exploratory analysis of firms listed on Euronext Lisbon in 2010, showing that most firms had political connections, and that the size of firms with political connections is significantly larger than that of other firms. Regarding financial autonomy, return on assets and effective income tax rate they conclude that there do not seem to be significant differences between the two groups observed. As for the politicians, the study shows that the majority held the position of Minister, that all have a higher education degree, are male, and that the main area of training is Law, followed by Economics. The politicians involved held, in some cases, management/directors/supervisory positions in more than one company in the sample. Azevedo *et al.* (2019) analysing a sample of 36 non-financial companies on Euronext Lisbon between 2009 and 2012, suggest that in Portugal, politically connected companies are more likely to have higher levels of social responsibility reporting and disclosures in their annual reports and accounts than their non-politically connected counterparts. For Kakoo (2016) In Portugal, it is not possible to affirm the existence of a relationship between the quality of accounting information and whether or not an entity has political connections. This is contrary to the findings of Chaney *et al.* (2011) in a 19 country analysis.

As pointed out by Dombrovsky (2011), it should be noted that most of the literature uses data from listed companies, which raises the question of whether the results generalise to the whole population.

In short, there is no conclusive evidence in the literature that political relations favour firms and in what context. The existing studies allow us to infer that, due to the multiplicity of variables and measurement methods, political contexts and theoretical currents, generalisations cannot yet be formalised (Bianchi and Viana, 2014).

### 3. Study

#### 3.1 Definition of the problem, research questions and objective

The literature suggests that one way for companies to minimise the impact and unpredictability of the external environment around them is to develop strategies through links to the world of politics. Although the real impact is still unknown, as the various studies and research present different conclusions.

Since the board of directors is responsible for representing and managing the company's activities, its composition mirrors the company's actions and strategy, which may imply that members with a political background can indicate strategies and political orientations (Bandeira-de-Mello *et al.*, 2012a). Hillman *et al.* (2016) point out that resource dependence theorists argue that boards of directors with political members can benefit companies by reducing uncertainty and providing preferential resources. We sought to understand the political connections of Portuguese companies through the members of the board of directors by studying a sample of companies over an extended period of time.

In this sense, we will analyse the characteristics of the companies in Euronext Lisbon with political connections. In Portugal, scientific studies on the real impact of political connections on companies are still scarce.

In order to achieve our objective, we must define what is meant by political attachment.

*3.1.1 Definition of political attachment.* In the first instance, it is important to analyse and seek a definition of what a political connection is and what it is about.

According to [Hooy and Wong \(2018\)](#), generally political connection is defined by a social relationship involving intrigue to obtain authority or power, however, when it comes to defining politically connected companies, each of the researchers has their own definition. As stated by [Bianchi and Viana \(2014\)](#) the concept of political linkage is new in the literature and it seems that there is still no single, generalised and precise definition, instead, several definitions coexist for the same concept that have been developed depending on the researcher's study and their theoretical model.

[Boubakri et al. \(2012\)](#), [Chaney et al. \(2011\)](#), [Faccio \(2002\)](#) and [Faccio et al. \(2006\)](#) recognise a company as having political connections if at least one of the major shareholders (controlling at least 10% of the voting shares), or if one of its key executives (e.g. the CEO or chairman of the board) is a member of parliament, a minister, a head of state, or closely related to a politician through kinship or friendship. [Dombrovsky \(2011\)](#) in Latvia is a little more restricted than the previous authors, not considering kinships and political friendships as a form of connection. However, [Fan et al. \(2007\)](#), [Chen et al. \(2011b\)](#) and [Wu et al. \(2012\)](#) define a Chinese company as having political connections if the CEO is a current or former member of the central government, local government or military. In France, [Bertrand et al. \(2006\)](#) consider a company politically connected if its CEO attended elite schools [1], and was once a civil servant or held a government position. In Germany, [Ferguson and Voth \(2008\)](#) considered firms with political connections to be those whose executive members in 1933 were close to the Nazi Party. In Brazil, [Claessens et al. \(2008\)](#) identify the companies that made campaign contributions to candidates for federal deputies and identify these as companies with political connections. For [Ang et al. \(2013\)](#), [Belghitar et al. \(2016\)](#), [Bona-Sánchez et al. \(2014\)](#), [Carretta et al. \(2012\)](#), [Chen et al. \(2011a\)](#), [Goldman et al. \(2009\)](#) and [Hillman \(2005\)](#) companies with political connections are those in which at least one member of the board of directors holds or has held important political positions. [Bianchi and Viana \(2014\)](#) and [Boubakri et al. \(2008\)](#) on the other hand, consider not only the members of the board of directors but also the members of the supervisory board. In Italy, for [Asquer and Calderoni \(2011\)](#) there are: direct, and indirect political connections. Direct ones are when at least one of its directors, on any of its boards, has at the same time held a national political position. Indirect action happens when at least one of its directors is related to a politician in office at the time. For [Feng et al. \(2014\)](#), companies with political connections are those whose entrepreneurs participate in Chinese politics. In Pakistan, [Khwaja and Mian \(2005\)](#) define politically connected companies as those with directors who have run in political elections, whereas in Indonesia, for example [Mobarak and Purbasari \(2006\)](#) consider companies with links to the Suharto family as politically connected. [Faccio and Parsley \(2009\)](#) consider companies with political connections to be those based in the hometown of politicians who have died a sudden death. [Ferris et al. \(2016\)](#) define as politically connected companies those USA subsidiaries owned by multinational companies based outside the USA that made campaign contributions to the 2016 USA election.

As it can be seen and verified, there are several definitions and concepts of what is considered a company with political connections. This also explains the reason for the disparate results obtained in various studies, as it makes it difficult to compare them and draw the following conclusions. [Hooy and Wong \(2018\)](#) mention that many studies present different definitions of what a political link is, and therefore produce different results.

Considering that the political actions of companies are mainly instrumentalised by the ownership structure and the board of directors, it becomes important to investigate the implications of the decisions of these structures and the political role (Bandeira-de-Mello *et al.*, 2012b). In a competitive market, which disputes scarce resources, and whose future is uncertain, the political connections mediated through the board of directors contribute in reducing the dependence of the company with the external environment (Camilo, 2011).

According to Bona-Sánchez *et al.* (2014), Spanish politicians tend not to be part of the executive body of politically connected Spanish companies, and the vast majority are non-executive directors. Augusto *et al.* (2020) observed 83 banks supervised by the European Central Bank between 2013 and 2017 and concluded that women on the board of directors, although in the minority, have a higher rate of political ties than men. As stated by Pereira (2013), there is no consensus on the existence of a relationship between the size of the board of directors and company performance, with some authors detecting a negative relationship, others a positive relationship, and others finding no relationship at all. For the purposes of this study, as in Ang *et al.* (2013), Belghitar *et al.* (2016), Bona-Sánchez *et al.* (2014), Carretta *et al.* (2012), Chen *et al.* (2011a), Goldman *et al.* (2009) and Hillman (2005) a company was considered politically connected when at least one of its directors holds or has held a relevant political position.

As in Boubakri *et al.* (2008) the definition of political attachment adopted covers current and former politicians, based on the argument that politicians are able to extract income even when not directly in power. As in Bianchi and Viana (2014) these political positions will be the head of state, prime minister, minister, secretary of state and member of parliament. However, for the purpose of this study we have been more comprehensive, so we have added certain political positions due to their relevance such as deputy to the minister, state advisor, head of cabinet, head of civil house, political advisor/consultant among other relevant political positions such as ambassador. In addition to the positions held in representation of Portugal, contrary to what happened with Kakoo (2016), we considered political positions held in other countries. In other words, for the purposes of this work, the political connection is valid regardless of the area of the globe to which the political post or former political post refers or respected.

In this study, only direct connections were considered (when at least one of the administrators holds or held a political position) referred to by Asquer and Calderoni (2011). It does not include indirect connections such as the administrator having family members in politics. This approach was based on the study by Dombrovsky (2011), which states that indirect connections are difficult to identify precisely, due to the lack of reliable information about politicians' relatives. Checking direct links has become easier and clearer, as they generally arise from biographical profiles published on the websites of companies and public bodies (Asquer and Calderoni, 2011). Bianchi and Viana (2014) also identify other indirect links such as lobbying activities and monetary contributions to financial support for electoral campaigns and political parties. However, as mentioned by the authors, in Portugal lobbying is neither regulated nor recognised by parliament, and as such it is not possible to identify companies with political connections through spending on lobbying activities. According to the portuguese law, companies are not allowed to make donations to finance political parties or to support electoral campaigns. Therefore, only direct political connections were the target of this study, due to the fact that there was enough information available to adopt this model in the identification of the companies that were the object of this research study.

Analysing Portuguese companies, Azevedo *et al.* (2019) and Bianchi and Viana (2014), in addition to the members of the board of directors, considered the members of the supervisory board and the general meeting. We have chosen to be a little more restricted in our definition, considering only the directors, because being the competence of the directors to manage the

company's activities as referred to in article 405 n.º1 of the Portuguese Company Code (*Código das Sociedades Comerciais*) (2020), and as paragraph 2 of the same article states that the board of directors has full and exclusive powers to represent the company, the appointment of an individual with political connections to the board of directors may be related to his political knowledge, namely his experience and political contacts, as well as the projection of his political image abroad, to help the company mitigate the problems referred to in the theory of resource dependence.

*3.1.2 Research question and objective.* The aim of this study is to identify and analyse the characteristics of political connections in Portuguese companies through the members of the board of directors. In order to achieve this objective, and based on previous scientific work and its conclusions, the following research question is raised: what are the political connections of Portuguese companies through the members of the board of directors? To this end, seven variables identified in the literature review will be examined in order to gain an in-depth and objective understanding of political connections:

*Prevalence and Distribution of Companies with Political Links:* with this variable we intend to verify the proportion of companies listed on Euronext Lisbon that have political links and how these links are distributed between the companies included in the PSI-20 and the rest. This analysis will allow us to assess the extent of political connections in that business context.

*Continuity of Political Connections Over Time:* with this variable we aim to find out whether political connections are a lasting characteristic of companies or whether they vary over time, reflecting a possible adaptation of business strategies or changes in the political and economic environment.

*Gender Influence on Political Ties:* this variable makes it possible to analyse whether there is a gender disparity with regard to the presence of political ties, and whether women, despite being a minority on boards of directors, are more likely to have a political background.

*Positions of Directors with Political Ties:* this variable makes it possible to understand whether the presence of directors with a political background translates predominantly into supervisory and advisory roles, rather than operational and direct management roles.

*Relationship between Board Size and Political Connections:* this makes it possible to ascertain whether the presence of directors with political experience influences the size of companies' boards of directors, i.e. it aims to assess whether the inclusion of directors with a political background has an impact on the structure and size of boards of directors.

*Concentration of Political Connections:* this variable makes it possible to analyse whether the majority of politically connected companies have only one member with such connections, addressing whether there is a tendency for companies to maintain a concentration of political connections in a small number of board members.

In turn, *the Multiple Appointments of Directors* variable makes it possible to analyse whether there is a common practice among politicians and ex-politicians to take up various positions on boards of directors, potentially reflecting a network of influence and political contacts.

### 3.2 Characterisation of the sample

Given the subject matter and the consequent lack of openness on the part of institutions and economic agents to discuss it, in order to carry out this study, a content analysis was carried out using secondary sources of information. This study is composed of the companies admitted to trading on the Euronext Lisbon regulated market on 31 December 2020 (this list can be consulted in [Annex 1](#)). Due to data availability limitations, most studies focus on listed companies, which are usually required by law to disclose their accounting data, as well as information on the board of directors ([Asquer and Calderoni, 2011](#)).

The sample is composed of Portuguese listed companies that were on Euronext Lisbon on 31 December 2020. SAD (sport limited companies) were excluded due to the fact that the reporting period does not correspond to the calendar year. Investment funds and companies undergoing a special revitalisation process were also excluded.

In summary, of the 37 Portuguese companies that made up Euronext Lisbon on 31 December 2020, the sample consists of 31 companies.

### 3.3 Collection of data

For data collection in this study, it was decisive to define the type of data to be taken into consideration. It was essential to meet the problems we intend to address and the objectives defined for this work. Therefore, we delimited our research, to the identification of the Portuguese companies in Euronext Lisbon that have directors with professional experience in relevant political positions, and compared with the other companies in Euronext Lisbon without directors with a *background* in politics.

The sample period is between 2014 and 2019. This time interval was chosen for several reasons. Firstly, the study of [Bianchi and Viana \(2014\)](#) about the companies in the Euronext Lisbon with political connections was carried out for a time window of one year. Therefore, we intend to find out if the results obtained by these authors are maintained if we expand the years of study. Secondly, in our experience when collecting data for this study, board mandates of the companies in our sample vary on average between three and four years, so we intend our study to capture at least one election for a new mandate in each of the companies. Thirdly, the studies analysed and included in the literature review have very different time periods, ranging, for example, from 15 years as [Hooy and Wong \(2018\)](#) to 3 years such as [Hillman et al. \(2016\)](#) and [Bao et al. \(2016\)](#), so the time sample chosen in this study of six years seems reasonable and feasible in view of previous work.

The Portuguese Company Code ([Código das Sociedades Comerciais \(2020\)](#)) provides for the existence of three different *corporate governance* structuring models: monist model, Anglo-Saxon model and dualist model. Listed companies must choose one, without being allowed to adopt models that do not comply with the legal parameters. According to [Evans et al. \(2018\)](#), the governance structure currently adopted by Portuguese listed companies is the monist structure, in which the board of directors consists of the CEO and other directors, who may be executive or non-executive. The identification of directors with political connections was carried out manually. The lack of transparency involving connections and influences of a political nature, combined with some theoretical discrepancy involving the conceptualisation of political connections, makes it difficult to accurately ascertain all the members of the board of directors who may provide some type of political resource to the company ([Bona-Sánchez et al., 2014](#)). Similar to [Bianchi and Viana \(2014\)](#), firstly, the annual accounts of the companies in the sample were collected through the directory of the Securities and Exchange Commission - "[Comissão do Mercado de Valores Mobiliários \[2\] \(CMVM\)](#)", which consists of the corporate governance report, which identifies the members of the board of directors and usually includes a brief summary of their professional CVs, as recommended by the CMVM in its best practices. Secondly, as with [Azevedo et al. \(2019\)](#) and [Bianchi and Viana \(2014\)](#), we searched the *Google* search engine for each of the directors of the companies in the sample between 2014 and 2019 in order to assess possible relevant political positions held that do not appear in the corporate governance report, namely through various official pages of sovereign and government bodies, news in reference newspapers, or even the *curriculum vitae* made available digitally on various other pages. In addition, during the identification process of the directors, other types of information were collected, such as whether the director is executive or non-executive, whether he/she is male or female, and whether he/she is a director in more than one of the companies in the sample.

#### 4. Presentation and interpretation of findings

The results obtained from our study, after collecting and studying the data, are as follows:

##### 4.1 Sample description and analysis

As previously mentioned, this study aims to analyse the policy linkages between 2014 and 2019 of Portuguese companies listed on Euronext Lisbon as of 31 December 2020. The analysis of our sample went through several stages, in an attempt to achieve the most reliable results possible.

In a first stage, we analysed the annual report and accounts and the corporate governance report of each of the companies between 2014 and 2019, which allowed us to identify all the directors, distinguish between executive and non-executive directors, and differentiate between men and women. Next, we analysed the *curriculum vitae* of each of them, with the aim of determining which directors had political experience. This allowed us to identify that 63 of the 439 directors of the companies in the sample hold or have held relevant political positions, and we identified the respective positions (see Table 1). We conclude that a significant part of the positions held are those of minister and secretary of state. It should be noted that in the case of having held several political positions, the most important position was considered.

Consequently, based on these elements, we identify which companies have political connections. It should be recalled that, for the purposes of this study, a company is considered to have political connections when one of the directors has a *background* in politics.

##### 4.2 Results and interpretation of the characteristics of enterprises with political links

Seven variables were defined to study the characteristics of politically connected companies and their boards of directors.

With regard to variable *Prevalence and Distribution of Companies with Political Connections*, it can be seen that the total number of companies with political connections (95 companies) over the six years of the sample is slightly higher than the number of firms without political connections (91 firms), as shown in Table 2. The same happened with Bianchi and Viana (2014) when they analysed the year 2010. However, in the present study, the difference between the number of companies with political ties and the remaining companies is smaller than in Bianchi and Viana (2014). We found that between 2014 to 2019 only 51.1% of listed companies had political connections, while in Bianchi and Viana (2014)

Number of administrators	Political position held
1	Prime Minister
15	Minister
12	State Secretary
2	Deputy Minister
4	State Council
5	Chief of Staff
5	Congressperson
1	Civil House Chief
9	Others
9	Advisor/Consultant
63	Total

Source(s): Table by authors

**Table 1.**  
Types of political links

**Table 2.**  
Number of companies  
with political  
connections and  
without political  
connections

Variable 1 Description	2019		2018		2017		2016		2015		2014		Total	
	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%	No. of companies	%
With	16	51.6	15	48.4	15	48.4	15	48.4	16	51.6	18	58.1	95	51.1
Without	15	48.4	16	51.6	16	51.6	16	51.6	15	48.4	13	41.9	91	48.9
Total	31		31		31		31		31		31		186	
With (PSI 20)	9	52.9	8	47.1	9	52.9	9	52.9	10	58.8	10	58.8	55	53.9
Without (PSI 20)	8	47.1	9	52.9	8	47.1	8	47.1	7	41.2	7	41.2	47	46.1
Total (PSI 20)	17		17		17		17		17		17		102	

**Source(s):** Table by authors

this figure was approximately 60%. This may be due to the fact that the present study focuses exclusively on board members, whereas [Bianchi and Viana \(2014\)](#) consider, in addition to the directors, the members of the supervisory and oversight bodies who had previously held political posts.

As shown in [Table 2](#), we found that, as happened above, if we restrict our sample only to the companies in the PSI-20, there is also a prevalence of companies with political connections from 2014 to 2019, representing 53.9% of the companies in the PSI-20. A figure quite similar to the 51.1% was verified in the global sample of 31 companies. It may also be concluded that the number of Portuguese listed companies with political connections does not depend on whether or not those companies are in the PSI-20. In other words, it seems that this fact is irrelevant for the creation of the political link, neither encouraging nor discouraging.

Analysing [Table 3](#), with regard to the variable *Continuity of Political Links Over Time*, it can be seen that 45.2% of the 31 companies in the sample are connected politically uninterruptedly from 2014 to 2019, while 38.7% of the companies have no political connection in the time period of the sample. On the other hand, only 5 firms, representing 16.1% of the total sample firms, are firms that alternate between having political connections or no connections in the years of the study. If we analyse only the PSI-20 companies, we find that the results are quite similar. Therefore, it can be concluded that political connections (regardless of whether they are PSI-20 companies or not) when established are maintained for extended periods of time, and only in residual cases does a company change its status between politically connected and non-politically connected. On the other hand, given that the percentage of companies without political connections in all six years of the study represents a considerable value (38.7%) may mean that political connections are difficult to create, or a considerable part of the companies do not consider such connections to be necessary in the Portuguese panorama.

With regard to variable *Gender Influence on Political Connections* the results obtained in Portuguese companies are contrary to the study of [Augusto et al. \(2020\)](#), who analysing 83 banks supervised by the European Central Bank between 2013 and 2017 found that women on the board of directors, had a higher rate of political ties than men. According to our study, in Portugal, with regard to Portuguese listed companies, the opposite is true. A female director is significantly less likely to be appointed for her professional experience in politics when compared to men. As shown in [Table 4](#), male directors with political connections represent 16.1% of the total number of men on boards, while only 6.3% of female board members have experience in politics. There may be several reasons for this conclusion, including the fact that politics in Portugal is still dominated by men, or as said in [Augusto et al. \(2020\)](#), women have differentiating characteristics, such as greater ethical concern and

Variable 2 Description	No. of companies	%
Companies with political connections in all 6 years of the study	14	45.2
Companies without political connections in all 6 years of the study	12	38.7
Remaining companies	5	16.1
Total companies in the study	31	
Companies with political connections in all 6 years of the study (PSI 20)	8	47.1
Companies without political connections in all 6 years of the study (PSI 20)	6	35.3
Remaining companies (PSI 20)	3	17.6
Total companies in the study	17	

**Source(s):** Table by authors

**Table 3.**  
Number of companies  
and the period of  
political connection

risk aversion. This last reason may be a factor of exclusion for those who have the power to appoint the directors, as they seek in the political connection ways to circumvent the law, and unethical business, often being illegal.

Furthermore, it should be noted that as concluded in [Augusto et al. \(2020\)](#) women are in the minority on boards, as of the 439 directors identified as appointed to the boards of the companies in our sample between 2014 to 2019 only 79 are women.

With regard to *the Positions of Directors with Political Ties*, as shown in [Table 5](#), 2016 recorded the minimum value of non-executive directors with political connections over the years of this study, representing 69.4% of the total number of directors with political connections, while the maximum was recorded in 2014 with 77.6%. As was the case in Spain with [Bona-Sánchez et al. \(2014\)](#), we conclude that directors with political connections in Portuguese listed companies are more likely to be appointed to the non-executive position, which means that their appointment does not have the company's management as its main objective, because otherwise the number of executive directors would in our opinion be clearly higher. According to [Baila \(2015\)](#), one of the main purposes of the non-executive director position is to ensure an image of transparency and credibility to the surrounding environment. This may be one of the factors for such a high number of non-executive directors with political connections. Companies may feel that a member with political connections could help their image with *stakeholders*. On the other hand, [Carretta et al. \(2012\)](#) report that politicians holding executive positions on the board of directors seem to exert a negative impact on Italian banking activity, namely in terms of net interest income, the quality of the loan portfolio and the level of capitalisation. The authors argue that the problem is not having politicians on the banks' boards, but allowing politicians to occupy executive positions. This may also be a determining factor, leading the companies in our sample to try to protect themselves from possible negative effects, namely regarding financial performance, by appointing directors with political connections to non-executive positions. In addition, the appointment may mean that companies are only interested in the portfolio of contacts of these directors and what may arise from it, and not in their management of the companies.

With regard to variable *Relationship between Council Size and Political Links*, as shown in [Table 6](#), Portuguese listed companies with political connections present more members in their boards of directors. The average in companies without political connections in the years studied varies between 7 and 8 directors, while in the companies with political connections this figure is between 11 and 13 directors on average over the six years. [Jensen \(1993\)](#) argues that boards of directors with a larger number of members may be less effective than smaller boards. The author states that, the high number of directors may facilitate the role of supervision and control, on the other hand, this increase may have negative effects on business performance, because when they become too large, this dimension increases agency problems.

Variable 3 Description	No.
Directors between 2014 and 2019 (men)	360
Directors between 2014 and 2019 (women)	79
Directors between 2014 and 2019 (total)	439
Directors between 2014 and 2019 (men) with political connections	58
Directors between 2014 and 2019 (women) with political connections	5
Directors between 2014 and 2019 (total) with political connections	63
Directors between 2014 and 2019 (men) with political connections %	16.11%
Directors between 2014 and 2019 (women) with political connections %	6.33%

**Table 4.**  
Likelihood of directors  
having political  
connection

**Source(s):** Table by authors

Variable 4 Description	2019		2018		2017		2016		2015		2014		No.	Total %	Average
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%			
Executive	10	25.6	10	26.3	11	31.4	12	33.3	12	28.6	13	26.5	68	27.9	11.3
Non-executive	29	74.4	28	73.7	25	71.4	25	69.4	31	73.8	38	77.6	176	72.1	29.3
Total	39		38		35		36		42		49		244		

**Source:** Table by authors

**Table 5.**  
Number of executive  
and non-executive  
directors with political  
connections

**Table 6.**  
Number and average of  
directors of companies  
with and without  
political connections

Variable 5 Description	2019		2018		2017		2016		2015		2014		Total Average
	No. of directors	Average	No. of directors	Average	No. of directors	Average	No. of directors	Average	No. of directors	Average	No. of directors	Average	
Companies with political connections	191	11.9	170	11.3	177	11.8	177	11.8	214	13.4	239	13.3	12.3
Companies without political connections	126	8.4	128	8.0	115	7.2	115	7.2	122	8.1	93	7.2	7.7
<b>Total</b>	317		298		292		292		336		332		19.9

**Source(s):** Table by authors

In the study by [Bona-Sánchez et al. \(2014\)](#) most Spanish companies with political connections were exclusively politically connected through a board member, ranging from 59.6% to a maximum of 73.9%. With regard to variable “Concentration of Political Links”, the same is not the case in our study. Although in all years of the sample it is found that Portuguese listed companies politically connected through only one director are in greater number than companies with political connections through two or more directors, only in 2017 companies connected by only one director represent the majority of companies with 53.3%, translating into 8 companies out of 15 with political ties. In all other years, they never represent the majority, with the lowest value occurring in 2019, where they represent 37.5% of that year’s sample. This suggests that in Portugal, companies may feel the need to establish a political connection through more than one member of the board of directors. Possibly even from different political backgrounds, in order to, for example, mitigate the problems mentioned by [Leuz and Oberholzer-Gee \(2006\)](#) which imply that companies find it difficult to re-establish links with a new government when their political connections are removed from power, or by [Faccio and Parsley \(2009\)](#) which find a drop in the value of companies based in the hometown of politicians who died a sudden death.

Another relevant data in [Table 7](#) is that from 2014 to 2019 the number of companies with more than 5 directors with political ties has been decreasing. This may be due to the fact that Portugal went through a serious economic crisis at the beginning of the last decade, where it was even intervened by the Troika, registering an economic recovery in the following years, which may mean less need to have so many members on the board of directors with political ties, since according to [Dombrovsky \(2011\)](#) firms seek political connections in response to a major adverse shock to their revenues. The financial crisis we experienced certainly affected the revenue volume of a considerable amount of firms in our sample.

Analysing [Table 8](#), with regard to “Multiple Appointments of Directors”, as verified by [Bianchi and Viana \(2014\)](#) there are directors with political connections who hold the position of director in more than one company. In all the years of the study there is at least one director with political experience who holds the position in three of the companies in the sample, and between one and two directors who hold the position in two of the companies in the sample.

## 5. Conclusion

Based on a research strategy, this study joins other studies on the effects of linkages between business and politics, contributing to the understanding of this theme. The results are relevant to the extent that, by complementing the existing ones, they broaden the understanding of political linkages and encourage new studies. This study offers valuable insights that can influence strategic decision-making in Portuguese companies. We have identified patterns in political connections and their influences on boards of directors, and we believe that this understanding can guide board formation and corporate strategy. The results may be especially relevant for business leaders seeking to optimise the composition of their boards. We also consider the ethical and governance implications, reflecting on how the findings can influence ethical practices, transparency and regulatory compliance.

The sample of our study comprised the Portuguese companies listed in Euronext Lisbon on 31 December 2020. The study was carried out for the years 2014–2019. The aim of the study was to determine the effects of political connections on the characteristics of the companies and their boards of directors.

When investigating the political connections of Portuguese companies through their directors, and answering our research question, what are the political connections of Portuguese companies through the members of the board of directors, and taking into account the variables identified in the literature review, we concluded that the number of companies with connections is slightly higher than companies without such connections, and

**Table 7.**  
Number of politically  
connected companies  
by number of  
politically connected  
directors

Variable 6 Description	2019		2018		2017		2016		2015		2014		Total	
	No. of comp	%	No. of comp	%	No. of comp	%	No. of comp	%	No. of comp	%	No. of comp	%	No. of comp	%
8 directors with political connections	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	1	5.6	1	1.1
7 directors with political connections	0	0.0	0	0.0	1	6.7	0	0.0	0	0.0	0	0.0	1	1.1
6 directors with political connections	0	0.0	0	0.0	0	0.0	1	6.7	3	18.8	2	11.1	6	6.3
5 directors with political connections	2	12.5	2	13.3	1	6.7	1	6.7	1	6.3	1	5.6	8	8.4
4 directors with political connections	3	18.8	3	20.0	2	13.3	2	13.3	0	0.0	1	5.6	11	11.6
3 directors with political connections	1	6.3	2	13.3	1	6.7	1	6.7	2	12.5	2	11.1	9	9.5
2 directors with political connections	4	25.0	2	13.3	2	13.3	4	26.7	3	18.8	3	16.7	18	18.9
1 director with political connection	6	37.5	6	40.0	8	53.3	6	40.0	7	43.8	8	44.4	41	43.2
Total	16		15		15		15		16		18		95	

**Source(s):** Table by authors

once this political connection is established, companies maintain it for a long period of time. In addition, on average they have a board of directors with a higher number of members than companies without connections, and directors with a background in politics are more likely to be appointed as non-executive members, which may mean that companies are only interested in the portfolio of contacts of these directors and what may come of it, and/or in projecting their political image abroad, and not in their management of the companies.

We also conclude that there are politically connected directors who belong to more than one board of directors of the companies in our sample. And that sometimes companies present in their board of directors several directors with political experience, which suggests that in Portugal, companies may feel the need to establish a political connection through more than one member of the board of directors.

Furthermore, women appointed to the board of directors are less likely to have held political positions when compared to men. This may be justified by the fact that in Portugal politics is still dominated by men, or else, as was the case in the study by Augusto *et al.* (2020), women have differentiating characteristics, such as greater ethical concern and risk aversion, a reason that may be an exclusion factor for those who seek in the political connection ways to circumvent the law, and unethical business.

It should be noted that this whole study is subject to some limitations, namely the reduced number of listed companies, which reduces the statistical robustness of the results. The fact that some corporate governance reports only present the positions that the board members have held in the last five years, thus there may be the possibility that the sample of Portuguese companies with political connections is higher. There are also limitations arising from the use of secondary sources, which are often difficult to identify. And as was the case with Bona-Sánchez *et al.* (2014) we acknowledge that close relationships with political elites that do not involve the presence of a director with a background in politics were not considered in our empirical analysis. As a consequence, the results may be affected by these limitations and strategies adopted.

Additionally, our study only refers to Portugal, so the conclusions drawn may not be the same in other parts of the world. As stated by Camilo (2011) the context of each country is relevant and influences the conclusion on this topic. Legal issues, institutions, shareholder protection, corruption and government interference in the economy are key points that can affect political linkages.

With regard to future research, methodologically similar studies are suggested by changing the number of variables for example and/or the sample. Dombrovsky (2011) mentioned that most studies on this topic use data from listed companies, which raises the question of whether the results generalise to the entire population of companies. We also

Variable 7 Description	2019 No. of directors	2018 No. of directors	2017 No. of directors	2016 No. of directors	2015 No. of directors	2014 No. of directors	Total No. of directors	%
Present in 3 companies	1	1	1	1	1	1	6	2.8
Present in 2 companies	2	2	1	1	2	1	9	4.1
Present in 1 company	32	31	30	31	35	44	203	93.1
	35	34	32	33	38	46	218	

Source(s): Table by authors

**Table 8.**  
Number of directors  
with political  
connections present in  
one or more boards of  
the companies in the  
sample

suggest that future studies should analyse political connections beyond board members, such as members of the supervisory board, general assembly, shareholders/partners and CEO. In addition, one could study indirect political connections defined by [Asquer and Calderoni \(2011\)](#), like having an director who is a relative of a politician. It is also suggested to study the political links between companies and other characteristics such as size, sector of activity and financial performance.

### Notes

1. Higher education institutions: *École Nationale d'Administration e École Polytechnique*.
2. Site: <https://www.cmvm.pt/pt/Pages/home.aspx>

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(The Appendix follows overleaf)

Name	ISIN	Symbol	PSI 20
Altri, SGPS, S.A.	PTALT0AE0002	ALTR	Yes
Banco Comercial Português, S.A.	PTBCP0AM0015	BCP	Yes
Cofina, SGPS, S.A.	PTCFN0AE0003	CFN	
Corticeira Amorim, SGPS, S.A.	PTCOR0AE0006	COR	Yes
CTT – Correios de Portugal, S.A.	PTCTT0AM0001	CTT	Yes
EDP – Energias de Portugal, S.A.	PTEDP0AM0009	EDP	Yes
Estoril-Sol, SGPS, S.A.	PTESO0AM0000	ESON	
Flexdeal Simfe, S.A.	PTFXD0AM0018	FLEXD	
Futebol Clube do Porto - Futebol, SAD	PTFCP0AM0008	FCP	
Galp Energia, SGPS, S.A.	PTGAL0AM0009	GALP	Yes
Glantt – Global Intelligent Technologies, S.A.	PTPAD0AM0007	GLINT	
Ibersol - SGPS, S.A.	PTIBS0AM0008	IBS	Yes
Imobiliária Construtora Grão Pará, S.A.	PTGPA0AP0007	GPA	
Impresa – SGPS, S.A.	PTIPR0AM0000	IPR	
INAPA - Investimentos Participações e Gestão, S.A.	PTINA0AP0008	INA	
Jerónimo Martins, SGPS, S.A.	PTJMT0AE0001	JMT	Yes
Lisgráfica - Impressão e Artes Gráficas, S.A.	PTLIG0AE0002	LIG	
Martifer SGPS, S.A.	PTMFR0AM0003	MAR	
Grupo Média Capital, SGPS, S.A.	PTGMC0AM0003	MCP	
Mota Engil, SGPS, S.A.	PTMEN0AE0005	EGL	Yes
The Navigator Company, S.A.	PTPTI0AM0006	NVG	Yes
NOS SGPS, S.A.	PTZON0AM0006	NOS	Yes
Novabase SGPS, S.A.	PTNBA0AM0006	NBA	Yes
Pharol, SGPS, S.A.	PTPTC0AM0009	PHR	Yes
Ramada Investimentos e Indústria, S.A.	PTFRV0AE0004	RAM	Yes
Reditus SGPS, S.A.	PTRED0AP0010	RED	
REN – Redes Energéticas Nacionais, SGPS, S.A.	PTREL0AM0008	RENE	Yes
Semapa – Sociedade de Investimento e Gestão, SGPS, S.A.	PTSEM0AM0004	SEM	Yes
Sociedade Comercial Orey Antunes, S.A.	PTORE0AM0002	ORE	
Sonae - SGPS, S.A.	PTSON0AM0001	SON	Yes
Sonae Indústria, SGPS, S. A.	PTS3P0AM0025	SONI	
Sonaeacom, SGPS, S.A.	PTSNC0AM0006	SNC	
Sport Lisboa e Benfica - Futebol SAD	PTSLB0AM0010	SLBEN	
Sporting Clube de Portugal Futebol - Futebol SAD	PTSCP0AM0001	SCP	
Teixeira Duarte, S.A.	PTTD10AM0000	TDSA	
Toyota Caetano Portugal, S.A.	PTSCT0AP0018	SCT	
VAA-Vista Alegre Atlantis, SGPS, S.A.	PTVAA0AM0019	VAF	

**Table A1.**  
Euronext Lisbon  
companies on  
December 31, 2020  
with Portuguese ISIN

**Source(s):** Table by authors based on information available on the Euronext Lisbon portal (<https://live.euronext.com/pt/markets/lisbon>) © 2021 Euronext

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