Politicians in the boardroom: Is it a convenient burden?

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Abstract

The paper analyzes the governance of the corporation when politicians hold board positions. Specifically, we study whether former politicians have different probabilities of holding relevant positions on boards of directors and delegated committees compared to other directors. Our results provide strong evidence against a lower probability and weak evidence of higher involvement. Our results suggest that when deciding on the positions held by their directors, firms estimate the quality of former politicians as corporate directors, in terms of monitoring and advising, to be similar to that of other directors. This quality is also corroborated, especially when politicians serve as independent directors, by studying whether their presence affects board performance in terms of CEO turnover control, executive director compensation, audit qualifications, and earnings management. Only when politicians serve as proprietary directors, representing large shareholders, we find some evidence of board performance deterioration, weak evidence when they serve as executive directors.

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1. Introduction

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

Our study is centered on one form of political connections: politicians' presence in firms' boardrooms. While the political connections may provide an overall benefit to a firm (e.g., a higher probability of obtaining contracts with the state, protecting the firm from competition), politicians' work in the boardroom may be costly to the firm, lowering the performance of the board of directors as a controlling and advisory corporate governance mechanism. This could be especially relevant for former politicians without previous business experience. It is typical to find politicians on the boards of the largest firms (Goldman et al., 2009, Faccio, 2006); however, little attention has been paid to the effect of politicians on boards of directors' performance.

Agrawal and Knoeber (2001) and Goldman et al. (2009) find that for some firms, a director with former experience in politics is useful due to their knowledge of the political system, rather than only for their connections. Several empirical papers find evidence supporting the existence of costs of political connections in addition to benefits. Okhmatovskiy (2010), in Russia, finds situations where politicians force a firm to deviate from value creation strategies and pursue political objectives. You and Du (2012), in China, show that political connections may generate entrenchment of politically connected executives. Sun et al. (2015) provide evidence of the risk generated by political connections in unstable political environments. In a developed country with less government intervention in the economy, such as the US, Kang and Zhang (2015) find empirical evidence of government directors (including former politicians and former government workers) behaving as mere rubber stamps on boards of directors. They are more likely to miss board meetings and do not contribute to generate better corporate governance practices, suggesting that government directors are low-quality corporate directors.

Our study also focuses on the quality that former politicians provide and the costs they create as corporate directors by analyzing different activities carried out by directors in the boardroom; the membership of the delegated committees, and relevant positions on these committees and on the board of directors (Chair, Vice Chair and Secretary). This focus allows us to analyze the contribution of former politicians as corporate directors from the firms' point of view: Firms decide on the characteristics and positions to be held by each director, and directors decide how to behave on the board. However, firms' behavior may be the result of an uncontrolled agency problem: Large shareholders, executives, and board directors have a major influence on this behavior. Therefore, we analyze the performance of the board of directors in CEO

turnover events, executive directors' compensation practices, audit qualifications, and earnings management. Contrary to Kang and Zhang (2015), we find that firms behave as if former politicians were not low-quality corporate directors and that this assessment is not misbehavior by firms. Finally, we note that we focus the analysis on the role played by former politicians in the boardroom. We do not analyze why firms obtain such political connections, although we assume that they are positively related to firms' value, as previous research using a similar sample of firms (Guerra-Pérez et al., 2015) reports evidence supporting a positive relationship.

Our research contributes to the literature on political connections by further analyzing the activity of former politicians in the boardroom (Kang and Zhang, 2015), providing additional empirical evidence of the quality of politicians as corporate directors (Agrawal and Knoeber, 2001; Goldman et al., 2009). We provide evidence on the corporate governance costs and benefits of hiring such corporate directors (e.g., Okhmatovskiy, 2010; Sun et al., 2015; You and Du, 2012). We also contribute to the literature on political connections with an analysis in a continental European setting, where ownership is highly concentrated and most firms have controlling shareholders (Bona-Sánchez et al., 2014; Ferguson and Voth, 2008; Guerra-Pérez et al., 2015; Niessen and Ruenzi, 2010). This characteristic of the sample allows us to disentangle whether the performances of former politicians differ when they serve as directors representing large shareholders from when they serve as independents or executive directors.

The following section positions our analysis in the literature on politically connected firms and formulates our research questions. Section 3 introduces the data used for the empirical analysis and our methodological strategy. Section 4 presents the results, and section 5 concludes.

2. Related Literature and Research Questions

Corporations' political connections are relevant for investors given their relation to value creation. The resource dependence theory explains political connections as a device to reduce the risk generated by political decisions (Hillman, 2005). These connections are voluntary and tend to create value for firms (e.g., Ferguson and Voth, 2008; Li et al., 2008; Ovtchinnikov and Pantaleoni, 2012), although few studies find the opposite (e.g., Aggarwal et al., 2012). Other connections can be the result of privatization, as in transition economies, such as Russia (Okhmatovskiy, 2010) and China (Francis et al., 2009). These are connections imposed by the government in the privatization process and may destroy value if they become an obstacle to implementing the necessary reforms to improve firms' efficiency and profitability (Boubakri et al., 2009; Boubakri et al, 2008; Fan et al., 2007; Omran, 2009).

The effect of firms' political connections can also negatively influence resource allocation in the overall economy. Indeed, in some countries, the government controls the financial system, such as China (Li et al., 2008), Brazil (Claessens et al., 2008), Indonesia (Leuz and Oberholzer-Gee, 2006), Malaysia (Bliss and Gul, 2012), and Pakistan (Khwaja and Mian, 2005). Claessens et al. (2008) explain that politically connected firms in Brazil obtain access to financial resources in better condition even with worse investment projects. Additionally, in developed economies, such as the US, political connections may generate misallocation of financial resources (Duchin and Sosyura, 2012). Financial resources may be inefficiently assigned even when the International Monetary Fund and the World Bank are involved, rescuing poorly performing firms with political connections (Faccio et al, 2006). Therefore, corporations' political connections may negatively affect countries' economies while creating value for connected firms.

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

Political connections may be established through several mechanisms: i) Political campaign contributions, e.g., Cooper et al. (2010), Claessens et al. (2008), and Faccio et al. (2006). ii) The personal involvement of politicians as corporate directors is another typical way to measure firms' political connections. Former politicians become corporate directors (e.g., Goldman et al., 2009, in the US) and also current politicians if there are no incompatibility constraints (e.g., Okhmatovskiy, 2010, in Russia). iii) The revolving doors can go in the opposite direction when businesspeople enter politics, as reported in Bunkanwanicha and Wiwattanakantang (2009) and in Hillman et al. (1999). iv) State ownership of corporations is a common political connection mechanism in China, where the state keeps ownership stakes even in listed corporations (e.g., Le and O'Brien, 2010). v) Finally, some researchers take a broader perspective to measure firms' political connections, such as when a large shareholder is closely related to a top official (Faccio, 2006).

Political connections may also generate costs to firms, even if the overall effect is positive. Whenever politicians serve as corporate directors, the deviation from value-

maximizing objectives in favor of political objectives is one of the most relevant costs, to the extent that it can exceed the benefits in privatized firms (e.g., Okhmatovskiy, 2010). Low-quality accounting information is also a cost when it is the consequence of political connections. This may be because these connections generate less need to provide reliable accounting information to obtain financial resources (Chaney et al, 2011). This could also be the result of a strategy to conceal rent-seeking activities by colluding politicians, managers and controlling shareholders or to mask the advantages the firm obtains from the political connections (Chen et al, 2010). Indeed, political connections may be the result of an uncontrolled agency problem (You and Du, 2012). Even in the US, Aggarwal et al. (2012) find empirical evidence of political campaign contributions benefiting managers instead of shareholders. Finally, political connections may also generate a relevant source of risk by themselves (Sun et al., 2015).

Less attention is paid in the literature to the potential costs generated due to politicians' presence in the boardroom and their potential negative effect on firms' corporate governance. More precisely, they can affect the performance of the board of directors in tasks of monitoring and advising the managerial team. One potential reason for this influence could be their lack of previous business experience (e.g., Spain). A few articles, such as Agrawal and Knoeber (2001), Goldman et al. (2009), and Kang and Zhang (2015), provide some empirical evidence regarding the quality of former politicians as corporate directors in the US setting.

Related to the quality of former politicians as corporate directors, our analysis seeks to answer two main questions: i) Do firms value the quality of former politicians as better, worse, or equal in relation to the quality of other directors? We answer this question by comparing the positions held on the board of directors and on the board committees by former politicians compared to those held by other directors. ii) Do

former politicians in the boardroom affect the performance of the board of directors as a controlling and advisory corporate governance mechanism? We investigate this question analyzing whether the board of directors' performance in key relevant tasks is affected. These tasks refer to CEO turnover under poor company performance, the control of executive directors' compensation, and finally to the generation of reliable accounting information reducing the probability of audit qualifications and earnings management activities.

Our article provides a better understanding of the specific implications of having politicians on a board of directors, providing guidance on how to configure a board to maximize the value that politically connected members provide.

3. Data and Methodology

3.1. Data

We build a database to identify former politicians from the main political institutions in Spain present on the boards of Spanish listed firms at any moment between 2004 and 2012. We assemble a list of 20,316 names that includes all members of the Parliament, the Senate, the Central Government (prime minister, government ministers, and secretaries of state), and all seventeen regional parliaments since the beginning of the Spanish democracy in 1977, plus the members of the European Parliament since its inception in its actual format in 1979. These data come from the official web sites of each institution (Table I). We perform an automatic matching process with the dataset of board members and double-check for matching individuals. We obtain accurate identifications given the cultural idiosyncrasy of Spain, where citizens typically have one name and two family names.[i] We take data on the firms'

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corporate governance practices, such as board and committees composition, from a standardized Annual Report of Corporate Governance (ARCG), where firms indicate whether they comply with each of the recommendations of the Spanish code of best corporate governance practices, and which contains related governance information. These reports come from the "*Comisión Nacional del Mercado de Valores*" (CNMV, the Spanish Securities and Exchange Commission).

All the firms listed on the Spanish Stock Exchange from 2004 to 2012 that also released the standardized ARCG generate a sample with 1,105 firm-year observations, after excluding one bank that was managed by the regulator to avoid bankruptcy.[ii] The number of firms per year ranges from 135 in 2007 to 115 in 2012, and the corporate boards contain 12,248 board seats-year observations. Firms' financial data, such as market capitalization, are from the Thomson One Banker database.

[Insert Table I about here]

For the analysis of board of directors performance, the initial sample size changes after data cleansing and database matching. For the analysis of CEO turnover events, the sample is formed by 921 firm-year observations, for executive directors' compensation by 920 observations, for audit qualifications by 951 observations, and for earnings management by 894 observations. The sample size is smaller when the main board committee is linked to specific corporate governance practices (821, 852, 948 and 891, respectively).[iii]

3.2. Institutional setting

We identified the members of the first three levels of executive political power of the central government (prime minister, government ministers and state secretaries). At

the national level, legislative power resides in two bodies, parliament and senate. Spain is divided into seventeen regions with some degree of political autonomy called "*Comunidades Autonomas*". Each region has its own regional parliament, whose members we identify. Our database identifies the core group of relevant politicians in Spain at the national and regional levels. The Spanish incompatibility norms prohibit active politicians holding corporate directorships. Therefore, as in related papers in the US (Goldman et al., 2009), we analyze political connections in the form of former politicians on firms' boards of directors.

Corporate governance in Spain is mainly driven by the code of good governance ("*Código Unificado de Buen Gobierno*"), under the principle of comply or explain. A board of directors' structure includes internal and external directors, as in the US and the UK. Internal directors are executives of the firm. Typically, the Chief Executive Officer (CEO) is the chair of the board of directors (57.6% of our firm-year observations, Table II). External directors are classified as independent directors and proprietary directors. Proprietary directors are proposed by large shareholders to protect their interests. In Spain, as is usual in the continental European countries, ownership is highly concentrated. The average ownership of the largest shareholder is 35.1%; it is 49.1% for the three largest shareholders (Table II). Firms of any size have controlling shareholders, with stakes over 3% of capital. The code recommends a similar proportion of independent and proprietary directors as the proportion between the free float and the ownership of significant shareholders. Additionally, the code recommends one third of independents. Finally, directors classified as "other" include outside directors that do not represent any significant shareholder and lack independence due to former relationships with the firm, its managers, or its significant shareholders. Firms must classify directors into these categories in their ARCG, which facilitates analysis of the

role played by former politicians in the boardroom. See Table II for the average distribution of directors among the four categories. The size of our firms is smaller than the sizes of firms analyzed in related articles in the US, such as Goldman et al. (2009), with an average market capitalization higher than $ 20,000 million, which fits into the top quartile of our sample (€ 15,000 million of market capitalization). Firm performance measures in Table II capture the effect of the economic crisis, especially among small firms. Over one third of our observations relate to firms with former politicians on their board of directors. More than half of the largest firms do have such directors, and this is stable over time.

[Insert Table II about here]

The Spanish code of corporate governance recommends that firms have several delegated board committees. The audit committee concerns itself with the accounting and internal control systems. Members with accounting skills and experience are recommended. The nomination committee evaluates the CEO, directors and executives and is in charge of dismissal and new appointment nominations. The remuneration committee proposes the incentive schemes of executives and directors. Finally, firms usually have an executive committee to address relevant matters between board meetings. Executive directors are especially relevant on the executive committee given their knowledge of firms' day-to-day operations. Outside directors, especially independent directors, are the relevant ones on the other committees, as recommended by the Spanish code of governance. For the supervisory committees (audit, nomination and remuneration), the code also recommends chairing by an independent director. Firms may have other delegated committees; however, those mentioned above are the most common.

3.3. Methodology

Our research methodology examines whether firms value the quality of former politicians as board directors as equal to that of other directors and whether the activity of former politicians in the boardroom affects the performance of the board of directors.

To answer the first question, we check for significant differences between former politicians and other directors in terms of positions on the board and on the delegated committees. From the information that firms must provide in their ARCG, we are able to identify the position held by any director on the board of directors. On all boards and delegated committees, there is a Chair and a Secretary, most have at least one Vice Chair. For example, the Secretary of the board must provide legal advice on corporate governance issues, among other duties.

This analysis is performed in our director-firm-year sample, with 12,248 observations. In a first step, we compare the average measures of activity in the boardroom between former politicians and other directors, such as the proportion of board Chair positions. In a second step, we take into account that several firm and director characteristics, other than previous experience as politicians, may explain the activity of directors on the board. We estimate pooled regression and logit models with year and industry fixed effects, where we consider several control variables, such as board size (on smaller boards, the probability of holding a given position is higher). Inference is based on robust standard errors clustered by firm (Huber, 1967; Petersen, 2009; White, 1980, 1982).

To answer our second research question, we analyze relevant actions and outputs of the nomination, remuneration, and audit committees of the board of directors in their supervisory duties. Regarding the nomination committee, we analyze CEO turnover

events, for the remuneration committee executive directors' compensation, and for the audit committee audit qualifications and earnings management activities. This analysis is performed at the firm level on our panel of 1,105 firm-year observations from 2004 to 2012. These corporate governance practices are selected given their relevance and the information available in the ARCG.

In our analysis of CEO turnover events and audit qualifications, the dependent variables are dummies, and we estimate these empirical models with generalized estimating equations (GEE) logit panel data models to account for any unobserved persistence in the residuals within each firm. See Ballinger (2004) for a description of this method in organizational research. The empirical models of executive director compensation and earnings management are estimated with panel data firm fixed effect models to control for any unobserved and constant firm characteristic. Inference in all the models is based on robust (Huber-White) standard errors.

4. Results

4.1 Descriptive analysis

We identify 95 former politicians serving as corporate board directors.[iv] Half served in the central government: 1 as a prime minister, 29 as ministers, and 19 as secretaries of state, Table III. This suggests that firms prefer former politicians with high-level responsibilities in the government, those with the most valuable political connections and managerial skills. Goldman et al. (2009) in the US find higher value provided by former politicians with related experience, not by former politicians with greater responsibilities. This preference for high-level former politicians in our sample may explain why most of the 95 politicians belong to parties that governed the nation. First is the "*Partido Socialista*" (the labor party in Spain) with 37 corporate

directorships, second is the "*Partido Popular*" (the conservative party) with 26, and, finally, the "*Unión de Centro Democrático*" (the conservative party that ruled Spain at the beginning of the actual Spanish democracy) has 16. Regarding their activities as politicians, 37% of the former politicians from the central government served in the Finance ministry and 57% in ministries related to some industry, such as Defense, Sports, Agriculture, Communication, or Tourism and Commerce. Politicians with government responsibilities related to business seem to be the most valued by firms. This is consistent with Agrawal and Knoeber (2001) and with Goldman et al. (2009), who find a relationship between former politicians' skills and knowledge and the resources needed by firms.

[Insert Table III about here]

In our sample, there are 2,411 different individuals serving as board directors; politicians represent 4% of them. However, a director may serve with different firms, and politicians have 5% of the total year-directorships available. Indeed, on average, a former politician serves on the boards of 1.6 firms, whereas other directors serve with 1.2 firms. Furthermore, the value of political connections seems to be greater for larger firms. The average percentage of former politicians on the boards of the largest quartile of firms by market capitalization is 6.3%, and it is only 2.2% in the lowest quartile of firms (Table II). Approximately half of the largest firms have politicians on their boards, whereas this figure is 16% for smaller firms. This is consistent with the greater propensity of larger firms to obtain political connections found in the related literature (e.g., Faccio, 2006). Most of the firms in the Oil and Energy industrial sector (71%) have politicians on their boards, whereas this figure is approximately 27% for firms in the Consumer Goods sector. This may be due to the high regulation of the Oil and Energy sector, generating a high value of political connections. Previous research in the

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Spanish sample documents a positive correlation between the presence of former politicians as board directors and firms' value (Guerra-Pérez et al., 2015). All the results are consistent with Agrawal and Knoeber (2001) in their US sample.

4.2 The activity of former politicians in the boardroom

Regarding activity in the boardroom, we show that former politicians serve as all types of directors: executive, independent, proprietary and other. Most former politicians serve as independent directors (56.5%); however, many also serve as proprietary directors (27.8%) and some as executive directors (11.9%), Table III. In comparison with the remaining directors, the proportion of independents is greater among the former politicians, whereas the proportion of executive and proprietary directors is lower (see Table II for the average proportions).

In terms of positions (Chair, Vice-Chair, and Secretary) on the board of directors and the delegated committees, the data reveal that politicians are not less active than other directors (Table IV).

[Insert Table IV about here]

In our sample, there are 11,650 observations (directorship-year) of non-politician directors, and 9% of them chair the board (average of a dummy variable taking the value 1 when the observation belongs to a Chair position, computed with all the observations belonging to non-politicians). There are 598 observations of former politicians, with a similar proportion of Chair positions. There are statistically significant differences indicating a greater proportion of politicians holding positions as Secretaries of boards of directors and as Chair and Vice Chair of delegated committees. Additionally, on average, politicians serve on a greater number of delegated committees. All this empirical evidence suggests that former politicians do indeed play

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an active role when they move to the private sector. However, belonging to a greater number of delegated committees implies higher compensation as a corporate director, which is not necessarily related to relevant responsibilities. Therefore, to better value the relevance of politicians in the boardroom, we now focus the analysis on the main committees, Table V.

[Insert Table V about here]

Table V shows that there is a lower statistically significant presence of politicians on the executive committee and a greater presence on the nomination and remuneration committees. Regarding positions, politicians show significantly greater activity on all committees. A greater proportion of politicians hold the positions of Vice Chair and Secretary on the executive, nomination and remuneration committees, and of Chair positions on the audit committee.

These results may be explained by several factors not related to the skills and knowledge provided by former politicians as corporate directors. Politicians typically serve with larger firms, which have greater numbers of board-delegated committees that might explain the greater activity measures of politicians in the previous tables. However, larger firms also have larger boards (e.g., Linck et al., 2008), where the likelihood of holding a position is lower for any director, reinforcing our previous results. The greater proportion of independent directors among politicians may also explain their greater activity on board committees, where codes of corporate governance recommend a central role for outside directors. Tenure in the firm probably generates valuable knowledge of the firm and increases the likelihood of obtaining positions on the board of directors. Finally, corporate boards may behave differently in different industrial sectors. To control for these effects, we analyze the activity of board directors

with pooled logit models, where the dependent variable is a dummy variable detecting when a particular director holds a position, and where we control for the existence of each delegated committee. The key explanatory variable is a dummy variable identifying whether a director is a former politician (Politician in Table VI). Control variables are board size, a dummy variable identifying whether a director serves as an independent or proprietary director, director tenure, and industry and year dummy variables. We also estimate pooled regression models (with the same controls) to analyze the relation between being a former politician and the number of memberships and Chair, Vice Chair, and Secretary positions on the delegated board committees.

[Insert Table VI about here]

The multivariate models of Table VI do not confirm the statistically significant higher board activity of politicians found in Tables IV and V. Former politicians do not hold relevant positions on the board of directors (Panel A), hold memberships on the main board committees, nor hold relevant positions on such committees (Panel B) with significantly different probability than other directors hold these positions. The Politician variable shows only weak statistical significance explaining the number of Chair positions when all committees are considered (Panel C). Non-tabulated results (omitted for space considerations and available on request) show that when a logit model is estimated for every type of relevant position on the main committees, there is statistical significance of a greater likelihood of holding a Vice Chair position by former politicians on the nomination and remuneration committees. Regarding our control variables, board size reduces the probability of holding positions in the boardroom. The effect of the number of directors exceeds the effect of the number of committees in larger boards. Outside directors are less likely to hold relevant positions on the board of directors and on the executive committee and are more likely to hold positions on the

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other board committees. Tenure is also positively related to the activity of directors in the boardroom.

State ownership may affect the probability of politicians holding positions on the board of directors. However, state ownership is residual in Spain; it remains in only 7 firms (3.1% of our firm-year sample, Table II), represented by 34 observations. The minimum ownership is 4%, it is approximately 5% in four firms, approximately 10% in one firm, and approximately 20% in one firm, except in 2004, when it was 28.5%, the maximum state ownership in our sample. We analyze whether our previous results remain if only observations with no state ownership are analyzed. Given the small sample of firms with state ownership, we do not estimate the previous empirical models considering only these observations. Our overall results remain in this smaller sample. The results are omitted for space considerations and are available on request.

In summary, our results indicate that former politicians hold positions in the boardroom as other corporate directors do. We find only weak empirical evidence of higher activity of former politicians, which is strong evidence against lower activity. Former politicians do not play a secondary role on boards of directors.

4.3 Corporate governance practices with former politicians

We analyze the effect of the presence and of the relevant positions hold by former politicians (Chair, Vice Chair, and Secretary) on the board of directors and on the relevant board committee for each analyzed output of the board of directors (e.g., the audit committee for audit qualifications and the remuneration committee for executive compensation). Additionally, we are able to control whether the results depend on the type of directorship (e.g., independent director). However, in the initial sample, with 1,105 observations (firm-year), there are 415 observations with former politicians on

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boards of directors, and only in 23 cases is the politician directorship type "other". Therefore, we only analyze the effect when politicians serve as executives on boards of directors (70 observations), as proprietary directors (144 observations) and as independent directors (260 observations). On the committees, there are over 190 observations with politicians on the relevant board committee, most of them serving as independent directors (139 to 141, depending on the committee) and several as proprietary directors (36 to 40). The reduced number of observations with politicians serving as executives on the analyzed board committees (12 to 19) does not allow an accurate analysis of their effect. Finally, regarding relevant positions on the board committees, there are too few observations of proprietary directors holding such positions (17 on the nomination and remuneration committees, and 3 on the audit committee), and therefore, we only analyze the case of independent directors (Tables VII to X).

To detect the specific effect of the presence of former politicians, we control for the existence of any underlying uncontrolled agency problem. We use a set of corporate governance control variables on ownership, board characteristics, and other relevant characteristics of corporate governance (see Table II for descriptive statistics). We use the ownership of the largest shareholder as a measure of ownership concentration, which is highly correlated with the ownership of the three and five largest shareholders (0.91 and 0.83, respectively), and also account for the ownership of executive and non-executive directors. All these variables are assumed to be negatively related to an agency problem between managers and shareholders. Board measures proxy for the power of the CEO in front of the board of directors (a dummy variable to identify when the CEO is also the chair of the board of directors and the percentage of executive directors), board efficiency (board size, related to coordination problems, Yermack,

1996), directors' dedication (measured by the percentage of busy directors – those with three or more directorships – with no time to properly monitor and advise executives, Fich and Shivdasani, 2006), and managers' conflicts of interest (measured by a dummy variable detecting the presence of interlocked executive directors, that is, executive directors on the nomination and remuneration committees, and by a dummy variable identifying firms that declare commercial transactions with their managers). Finally, we also consider corporate governance practices protecting managers from takeovers (with a dummy variable identifying firms with "voting caps", that is, a maximum in the number of votes of a given shareholder, and a dummy variable identifying "golden parachutes", that is, covenants to protect executives against dismissal, Brick et al., 2006).

Given the marginal presence of the state in the ownership of Spanish listed firms (34 observations belonging to 7 firms), we are not able to determine whether the effect of the presence of former politicians differs in state-owned firms. Therefore, we control for any potential effect of state ownership on our results analyzing only firms with no state ownership. We find no relevant differences, and therefore, with our space constraints, we only report results with the full sample. Omitted results are available on request.

4.3.1 The Nominating Committee: CEO turnover

The board of directors, and especially the nomination committee, is in charge of CEO turnover decisions after poor performance. Hermalin and Weisbach (1998) show that the CEO, selecting board members, reduces the discipline against her/him when the firm underperforms. Indeed, the composition of the board of directors may reflect an uncontrolled agency problem. Therefore, we analyze whether the presence of former

politicians in the boardroom, and especially on the nomination committee, affects the probability of CEO turnover after poor performance. The effect may also be due to differences in the quality of former politicians as executives' supervisors. Our set of corporate governance control variables captures any underlying uncontrolled agency problem not specifically related to the political connections.

In our sample, with 921 firm-year observations for this analysis, we detect 129 CEO turnover events, increasing from 14 in 2004 to 21 in 2008. After 2008, the number of events decreases, reaching 16 in 2012.[v] These events are detected in 14.4% of the observations where politicians serve in the boardroom and in 13.7% of observations without politicians. These results suggest that boards are stricter when politicians are present.

As in Hwang and Kim (2009), the dependent variable of our empirical model is a dummy variable identifying the CEO turnover (when the new CEO takes office) and the explanatory variables are one period lagged stock return, our set of dummy variables detecting the presence and activity of politicians in the boardroom and our set of corporate governance variables lagged one period, and these variables interacted with the lagged stock return.

Panel A of Table VII shows the effect of the presence of former politicians in the boardroom, panel B the effect of politicians holding relevant positions in the boardroom (Chair, Vice Chair, or Secretary), and panel C the effect of the presence of and relevant positions held by politicians on the nomination committee (Chair, Vice Chair, or Secretary). Control variables are omitted for space considerations (available on request). These models seem to properly characterize CEO turnover events. The probability of CEO turnover is higher the lower the previous year stock return is and decreases

whenever the CEO also chairs the board of directors, and the higher probability after bad performance is lower the larger the board of directors is (probably due to coordination problems, Yermack, 1996) and when there are interlocked executive directors. For panel C, only with observations of firms with a nomination committee, the negative influence on the role of the board of directors in CEO turnover events of the presence of interlocked executive directors is replaced by the proportion of executive directors.

[Insert Table VII about here]

On the board of directors, panel A, model 1, includes a dummy variable detecting the presence of former politicians in the boardroom. In model 2, the dummy variable detects the presence of politicians serving as executive directors, in model 3 as proprietary directors, and in model 4 as independent directors. The overall evidence suggests a positive effect of the presence of former politicians on the performance of the board of directors in terms of CEO turnover monitoring. The turnover probability increases after poor performance (negative stock return) when there are politicians in the boardroom (model 1, weak evidence) and when they serve as independent directors (model 4). There is only weak empirical evidence of lower unconditional CEO turnover probability when the politician serves as an executive director (model 2). Panel B shows that it is not relevant whether former politicians hold relevant positions on the board of directors. None of the dummy variables detecting such situations is statistically significant.

Regarding the presence of former politicians on the nomination committee, panel C in Table VII shows empirical evidence of a positive effect. The unconditional probability of CEO turnover events increases with the presence of former politicians serving as proprietary directors (model 2), and the turnover probability after bad

performance increases with the presence of politicians (model 1, weak evidence), also as independent directors (model 3), with politicians holding relevant positions (model 4), also as independent directors (model 5). In unreported results, we replace the dummy variable detecting the activity of former politicians holding relevant positions on the nomination committee by dummy variables detecting independent directors holding these positions (being former politicians or not), and no positive relation with the role of the board of directors is found regarding CEO turnover events. Therefore, the effect of former politicians does not only depend on the type of directorship they hold.

We also estimate the models of Table VII with pooled logit models using robust (Huber-White) standard errors clustered by firm and with random effects using bootstrap (50) standard errors, and overall results remain robust. Non-reported estimations are omitted to save space and are available on request.

4.3.2. The Remuneration Committee: Compensation of Executive Directors

We analyze whether the presence of former politicians on the board of directors, and especially on the remuneration committee, is related to the average individual compensation of executive directors. If the presence of former politicians reflects an unsolved agency problem or is detrimental to the quality of the board of directors as a manager control mechanism, we expect greater compensation in firms with such directors (see Goergen and Renneboog, 2011, for the relation between executive compensation and weak corporate governance). In these cases, former politicians would not contribute to good board performance. Our set of corporate governance control variables should detect any agency problem effect, unless specifically related to the political connections. The proposed model of compensation includes fixed pay,

bonuses, cash from exerted stock options, retirement benefits, and any additional remuneration from the firm.

In our sample, the average individual compensation for executive directors is € 1.2 million (Table II). It is greater when politicians serve in the boardroom than when no politician serves (€ 1.6 versus € 0.9 million), and the difference is statistically significant using a simple t test of differences in means (Hamilton, 2013).

The dependent variable of our empirical model of compensation is the log of the average individual compensation of executive directors. The key explanatory variables are our set of dummy variables detecting the presence and activity of former politicians in the boardroom. The structure of control variables follows Core et al. (1999), with size (the log of market capitalization), growth opportunities (the market to book ratio), past performance (one period lagged ROA and stock return), and risk (the standard deviation of previous year monthly stock returns) as the economic determinants of compensation based on firm characteristics (see also Lambert and Larcker, 1987, and Aggarwal and Samwick, 1999). See Table II for descriptive statistics. The model then considers our set of corporate governance control variables. The average tenure of executive directors is also considered. Furthermore, in our setting, board size and the percentage of executive directors also correct for the fact that the CEO typically receives the highest pay, and therefore, the higher the number of executive directors is, the more the average executive director compensation, our dependent variable, decreases.

Table VIII shows the estimated models of executive director compensation. The presence of former politicians on the board of directors is considered in panel A, whether they hold relevant positions on the board in panel B, and their presence and positions on the remuneration committee in panel C. Control variables are omitted for

space considerations (available on request). Firm size is a main determinant of executive director compensation in Spain. Golden parachutes are also a significant variable positively related to compensation; these devices act as a salary supplement instead of a substitute (hedging executive directors' risk). Board size and the percentage of executive directors show a negative and statistically significant coefficient, showing that these variables control for the fact that our dependent variable is the average compensation of executive directors and the CEO always receives higher compensation.

[Insert Table VIII about here]

Regarding the presence of politicians on the board of directors, as seen in Table VIII, panel A, there is no positive relation to executive director compensation – even when politicians serve as executive directors – contrary to the findings by Peng et al. (2015) in a developing economy where political ties are especially valuable human capital. We only detect a statistically significant negative effect on compensation when politicians hold relevant positions as independent directors (panel B, model 4). We analyze whether what is relevant is the position in the hands of independent directors (being politicians or not) replacing the dummy variable identifying politicians by a dummy variable identifying independent directors holding the relevant positions, and no significant relation is found with executive director compensation; the results are omitted to save space. Finally, whether politicians sit or hold relevant positions on the remuneration committee does not affect executive director compensation (panel C).

We also estimate pooled OLS models with year and industry fixed effects and robust (Huber-White) standard errors clustered by firm, and our overall conclusion remains. Politicians as board directors do not reduce the board's supervisory role over executive director compensation. All the omitted results are available on request.

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4.3.3. Audit committee: Audit Qualifications and Earnings Management

The board of directors, and especially the audit committee, control the agency problem through the quality of accounting information. There is empirical evidence on the market reacting to such control (e.g., Anderson et al., 2004). Politicians may affect the quality of accounting information for different reasons. The first is related to the politician's personal expertise and ability in accounting to be able to control the accounting process. If on average politicians are low-quality directors in accounting, the quality of the accounting statements is expected to be lower. Additionally, the presence of the former politician in the boardroom as the result of an uncontrolled agency problem would also generate a lower quality of accounting information. A third reason is related to the resources provided by the former politician to the firm, which could bring privileges to the firm having an interest in concealing them (Chen et al., 2010). Finally, the political connections may provide privileged access to financial resources, so that the firm does not need high accounting standards to obtain these resources (Chen et al., 2010). With our set of corporate governance control variables, the agency problem should be reflected in the "politicians" variables if related to the political connections. Financial firms are excluded from this analysis given their special regulation in terms of financial reporting.

4.3.3.1 Audit qualifications

The potentially lower quality of financial information due to the presence of former politicians generates a higher probability of audit qualifications. We estimate empirical models where the dependent variable is a dummy identifying firms receiving a qualified opinion from the external auditor on their annual financial report. We obtain this information from the ARCG and from the web page of CNMV. The ARCG

contains auditor opinions since 2007. Approximately 12% of our observations present audit qualifications (Table II), only 9.5% among observations with politicians, and 13.3% among observations where no politicians serve in the boardroom. The key explanatory variables detect the presence of former politicians and their relevant positions on the board and on the audit committee. We follow Sánchez-Ballesta and García-Meca (2005) for the relevant control variables. They estimate an empirical model to explain audit qualifications in the Spanish context, with firm size, firm financial stability variables, and corporate governance variables. In the US context, Dopuch et al. (1987) explain audit qualifications only with the first two types of variables. The effect of firm size on the probability of receiving an audit qualification is ambiguous. In large firms, auditors bear a higher opportunity cost if a misstatement is detected. However, internal financial control systems are typically better in larger firms. These firms also generate a conflict of interest for auditors since a qualified opinion may cause a loss of significant fees. We measure firm size with the log of market capitalization. Firms' financial risk usually affects the severity of auditors; therefore, leverage (long-term debt over total assets) is expected to be positively related to audit qualifications. Operating performance (ROA) and liquidity (current assets over current liabilities) are proxies for short-term firm failure risk and are expected to be negatively related to audit qualifications. See Table II for descriptive statistics. Finally, we include our set of corporate governance variables.

Table IX shows the estimation of our models of audit qualifications. Panel A analyzes the presence of former politicians, panel B the effect of relevant positions in the hands of former politicians on boards of directors, and panel C the effect of their presence and of relevant positions in their hands on the audit committee. All the observations of firms with politicians serving as executive directors present no audit

qualifications, and the logit methodology is not able to explain variability in the chances of obtaining an audit qualification based on this variable. Therefore, in Table IX, we do not analyze the effect of the presence of former politicians serving as executive directors. Additionally, our logit model does not converge in model 1 of panel A, when a dummy variable detecting the presence of former politicians on the board of directors is considered. In this model, convergence is achieved when a shorter version of our list of corporate governance control variables is considered (the same used by Sánchez-Ballesta and García-Meca, 2005, ownership by the largest shareholder, by executive and non-executive directors, and board size). The results of model 1 panel A of Table IX refer to this shorter empirical model. The non-significance of the "politicians" variable in this model discards the possibility of confounding its effect with the effect of an uncontrolled agency problem related to the omitted control variables. Convergence of the complete model is also achieved with pooled logit models with robust standard errors and with random effects models with bootstrap standard errors, generating the same result regarding former politicians. Our overall results remain robust if the shorter list of control variables is considered in all the models.

[Insert Table IX about here]

Control variables are omitted to save space in Table IX and show that firm size and liquidity are the main economic determinants of audit qualifications in our Spanish sample. Larger firms and firms with short-term financial stability present a lower probability of receiving audit qualifications. The presence of former politicians is only statistically significant when they are serving as proprietary directors (model 2 of panel A). Then, there is a higher probability of obtaining an audit qualification. Former politicians holding relevant positions on the board of directors (panel B) or on the audit

committee (panel C) are not relevant to the probability of receiving an audit qualification, or their presence on the audit committee (panel C).

We also estimate pooled logit models with robust (Huber-White) standard errors clustered by firm and with random effects using bootstrap (50) standard errors and obtained robust results. These models are omitted to save space and are available on request.

4.3.3.2 Earnings Management

Earnings management may be used to improve the accuracy of accounting information or to manipulate this information to conceal a firm's true economic performance. This is based on the possibility of applying accounting rules with different criteria. Accruals are used to proxy for earnings management in the accounting literature. Two different approaches have been used to disentangle the information component from the manipulation component; Jones (1991) uses discretionary accruals models, and Gopalan and Jayaraman (2012) use a regression approach with the fundamental determinants of the informative portion. We use the most recent approach.

Earnings management is approximated as the absolute value of accruals (ACC) divided by the absolute value of cash flow from operations. Cash flow from operations is defined as operating income minus accruals. Accruals are calculated as follows:

$$ACC_{it} = \left[\Delta CA_{it} - \Delta Cash_{it} \right] - \left[\Delta CL_{it} - \Delta STD_{it} \right] - Dep_{it} \qquad (1)$$

where ΔCA_{it} is the change in total current assets for firm i in year t, $\Delta Cash_{it}$ is the change in cash, ΔCL_{it} is the change in total current liabilities, ΔSTD_{it} is the change in short-term debt, and Dep_{it} is the depreciation and amortization expense. A simple t test of differences in means (Hamilton, 2013) is not able to reject the null of equal earnings

management activity between observations with and without politicians in the boardroom, although it is lower with politicians.

In our empirical model, the log of our proxy of earnings management is the dependent variable. It is naturally affected by differences in operating cycle, credit of suppliers, volatility of the operating environment, capital intensity, and profitability (Dechow and Dichev, 2002; Dechow, 1994; Hribar and Nichols, 2007). Therefore, we identify the informative part of our earnings management proxy with the following explanatory variables: the log of the sum of days receivable and days inventory (operating cycle), the log of days payable (credit of suppliers), the standard deviation of past year monthly stock returns (the volatility of the operating environment), fixed assets over total assets (capital intensity), and a dummy variable to identify firms with negative net income (profitability).[vi] Additionally, following Gopalan and Jayaraman (2012), we include growth opportunities (the market to book ratio), size (the log of market capitalization), and leverage (long-term debt over total assets) as additional determinants. See Table II for descriptive statistics. Finally, we include our set of corporate governance variables. Our key explanatory variables detect the presence of politicians and their positions on the board of directors and on the audit committee.

[Insert Table X about here]

Similarly to previous tables, we omit control variables in Table X to save space (available on request). Our earnings management measure is indeed affected by its natural determinants: profitability (positive effect), the operating cycle (positive effect), the credit of suppliers (negative effect) and capital intensity (weak positive effect). Only capital intensity presents a different sign than in Gopalan and Jayaraman (2012). No variable detecting the presence (panel A) and activity (panel B) of former politicians in

the boardroom affects the earnings management activity of the firm, even specifically on the audit committee (panel C).

We also estimate pooled OLS models with year and industry fixed effects and robust (Huber-White) standard errors clustered by firm, and we find some evidence of a reduction in earnings management when politicians serve on the audit committee. Our overall finding of no deterioration of the board of directors in terms of earnings management when boards include former politicians remains. The results are omitted to save space and are available on request.

5. Conclusions

Our analysis corroborates that firms value former politicians as board directors, with a preference for politicians with high-level responsibilities when they served as politicians, preferably in the Finance ministry and in ministries related to economics, such as Commerce, Agriculture or Industry. Consistently with Faccio (2006), larger firms have more political connections. There is also a higher dependence on politicians by firms in regulated industries, as found by Agrawal and Knoeber (2001) and Goldman et al. (2009).

Our main contribution to the literature on firms' political connections is the evidence that politicians' behavior in the boardroom does not differ from that of other directors. Politicians serve predominantly as independent directors, and their activity on the board and on the board committees are similar to that of other directors. Finally, analyzing relevant supervisory outputs of boards of directors, such as CEO turnover when a firm underperforms, executive director compensation, audit qualifications, and earnings management behavior, we show that former politicians in the boardroom behave properly. The overall performance of the board of directors does not

systematically deteriorate with the presence of former politicians in the boardroom. Notably, we obtain some evidence suggesting an improvement. Only when former politicians serve as proprietary directors and as executives do we obtain some evidence of deterioration, weak evidence when they serve as executives.

Our results differ from those of Kang and Zhang (2015) in the US, where they find a passive role of former government directors. Their analysis measures decisions of corporate directors in the boardroom: meeting attendance. Nevertheless, we analyze the positions of each director on the board and on the delegated committees, which are firm decisions that reflect, to our understanding, the value assigned by the firm to each corporate director.[vii]

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

NOTES

[i] The matching process is enhanced with search patterns called Regular Expressions using the POSIX and Perl's standards (Stata 13 manual). Since the name of a person may be written in different ways, we write each name in different ways to increase the probability of a match between both databases. For instance, "Juan Antonio Martín" may also be written as "Juan A. Martín", as "JUAN A. MARTIN", or as "Martín, Juan Antonio", to show a few examples. A final step is to check each match in the firm's ARCG and on its web site and the web sites of the institutions where politicians served to prevent the matching of different people with the same name. If these sources are not sufficient, we conduct a Google search of media web pages and on Wikipedia.

[ii] Several foreign firms are allowed to release annual reports according to the rules in their home country.

[iii] The analysis of several outputs of the board of directors requires specific empirical models. For this reason, the number of firm-year observations changes slightly across models. One year lagged corporate governance practices are necessary to analyze CEO turnover events; these practices are not available before 2004, and therefore, we must delete 118 observations in this analysis. One year lagged stock market and accounting data are necessary for several of our analyses. New firms and newly listed firms do not have lagged stock market data, and new firms also lack lagged accounting data. We analyze the firm resulting from a merger or acquisition as a new firm and therefore with no past data. Whenever a firm changes its name, we check its files in the CNMV (available at www.cnmv.es) to evaluate whether the change is due to a merger or acquisition. This past stock market and accounting information is necessary to study CEO turnover events (generating the deletion of 66 observations), executive director compensation (67 observations deleted), and earnings management (57 observations deleted). Information on executive director compensation is not available for firms with no executive directors (70 observations) and for firms not reporting it in their ARCG (48 observations). Finally, given the special nature and regulation in terms of financial reporting of the financial sector, its observations are deleted in the analysis of audit qualifications and of earnings management (154 observations). When the activity of politicians on board committees is analyzed, we must take into account that the nomination and remuneration committees were not mandatory during our sample time period, so that over 10% of our observations lack these committees. Therefore, our sample is reduced in 100 observations for the analysis of CEO turnover events and in 68 observations for the analysis of executive director compensation. The audit committee was mandatory; consequently, we only lose three observations due the lack of information on its composition.

[iv] We also identify 6 board directors who became politicians, such as Manuel Pizarro, the former CEO of Endesa, one of the largest Spanish firms; however, we do not consider them as politicians on the boards of corporations.

[v] CEOs are not directly identified in the ARCG. We identify the CEO as the chair of the board of directors whenever the firm declares CEO-Chair duality. For the remaining firms, we identify the CEO as "*Consejero Delegado*" among

board directors. In firms without a "*Consejero Delegado*", we identify the CEO as the highest-ranking executive director on the executive committee of the board of directors. In firms without such a committee, we select the "*Director General*" among the group of non-director top executives. The last resort is to identify the CEO as the executive director with the highest rank. In cases of doubt (e.g., when there are two "*Consejero Delegado*"), we choose the alternative generating CEO stability.

[vi] Days receivable is computed as 360 divided by the ratio of sales divided by the average accounts receivable, days inventory as 360 divided by the ratio of cost of goods sold divided by the average inventory, and days payable as 360 divided by the ratio of the cost of goods sold divided by the average accounts payable. Averages are computed with the current and the previous annual financial statements.

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

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Table I. Sources of data on politicians

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

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

Table II. Firm-level characteristics

Corporate Governance variables are described for the overall sample, as well as stock market capitalization and stock return. Other variables are described for the largest sample where used in the analysis. For the analysis of audit qualifications, the sample size is 951 observations, for CEO turnover events 921, for executive director compensation 920, and for earnings management 894. Executive director tenure is reported only for firms with executive directors. Operations director-firm identifies whether directors have conducted commercial transactions with the firm, a director is busy if she/he holds a position on three or more boards of directors, interlocked executive directors are those who are members of the nomination and remuneration committees, golden parachutes protect top executives against dismissal, and voting caps are a maximum number of votes that a shareholder may exercise independently of the number of shares that she/he has. Panel B provides the mean value of the variables (% observations) by the quartiles of the firms ordered by market capitalization (first and last quartiles). Quartiles are recomputed every year. Panel C provides the mean value for the first and last years of the sample.† The first year in CEO turnover events is 2005.

	Panel A: Overall sample			Panel B: Means, % observations, by market capitalization		Panel C: Means, % observations, by Year	
	# Observations (firm-year)	Mean %Observations	Std. Dev	First (largest)	Fourth	2004	2012
Financial variables							
Market Capitalization (million €)	1,105	4,346.74	11,510.73	15,243.93	97.19	3,893.53	3,744.64
Stock return	1,105	-8.0%	50.4%	3.4%	-22.1%	20.3%	-16.8%
Long-term debt / Total assets	951	0.22	0.18	0.29	0.16	0.18	0.26
Short-term assets / Short-term liabilities	951	1.38	0.94	1.16	1.50	1.52	1.36
Return on Assets	951	3.8%	10.6%	8.4%	-0.6%	5.9%	1.0%
Market value of Equity / Book value of Equity	920	2.68	5.42	3.71	1.93	3.12	0.57
Standard deviation of monthly stock return	920	9.8%	6.2%	7.9%	11.1%	6.2%	12.0%
Negative Net Income (% Observations)	894	22.5%		5.6%	40.9%	8.2%	43.3%
Long-term assets / Total assets	894	0.55	0.22	0.66	0.48	0.54	0.58
Operating Cycle (# Days inventory + Days receivable)	894	422.29	925.39	240.47	568.27	499.47	470.74
Credit of Suppliers (# Days)	894	228.94	727.25	427.96	129.89	145.93	180.25
Absolute value of accruals / Total assets	894	0.07	0.08	0.06	0.10	0.07	0.08
Cash Flow From Operations / Total assets	894	0.08	0.13	0.14	0.04	0.09	0.08
Corporate Governance variables							
Board size (# directors)	1,105	11.08	3.77	14.47	8.33	10.94	10.97
Executive directors over board size	1,105	19.5%	12.4%	17.2%	20.6%	21.1%	18.2%
Proprietary directors over board size	1,105	42.6%	22.2%	38.0%	42.2%	42.5%	40.2%
Independent directors over board size	1,105	33.3%	18.0%	39.3%	32.2%	33.2%	36.2%
Other directors over board size	1,105	5.7%	11.6%	7.1%	6.3%	3.2%	5.4%
Politicians as directors over board size	1,105	4.5%	6.9%	6.3%	2.2%	4.2%	4.5%
Busy non-executive directors over # non-executives	1,105	8.5%	13.2%	13.1%	5.4%	10.0%	6.0%
Mean tenure of directors (# Years)	1,105	7.09	2.23	6.75	6.56	7.06	7.40
Mean tenure of executive directors (# Years)	1,031	8.87	7.20	8.39	8.42	8.45	9.48
Ownership of the largest shareholder	1,105	35.1%	25.2%	34.1%	27.1%	34.5%	31.6%
Ownership of the three largest shareholders	1,105	49.1%	24.0%	47.2%	43.3%	47.4%	46.4%
Executive director ownership	1,105	10.3%	20.8%	3.4%	10.9%	11.3%	7.6%
Non-executive director ownership	1,105	12.9%	19.4%	8.6%	15.8%	10.6%	14.4%
State Ownership	1,105	0.3%	2.1%	0.8%	0.0%	0.3%	0.4%
CEO is board chair (% Observations)	1,105	57.6%		64.9%	52.2%	51.7%	53.9%
Interlocked executive directors (% Observations)	1,105	19.1%		12.7%	23.2%	22.9%	13.0%
Operations directors-firm (% Observations)	1,105	38.1%		33.7%	37.7%	27.1%	36.5%
Golden parachutes (% Observations)	1,105	60.1%		82.6%	54.0%	50.8%	65.2%
Voting Cap (% Observations)	1,105	14.6%		24.6%	10.1%	15.3%	11.3%
State Ownership (% Observations)	1,105	3.1%		6.5%	0.7%	1.7%	4.3%
Politician as board director (% Observations)	1,105	37.6%		57.2%	16.3%	35.6%	36.5%
Auditor qualification (% Observations)	951	11.9%		1.9%	23.9%	15.0%	7.9%
CEO turnover events (% Observations)	921	14.0%		11.1%	17.9%	11.9%†	14.7%
Individual average compensation of executive directors (thousand €)	920	1,238.90	2,124.18	2,592.77	306.32	851.03	1,579.83

Table III. Politicians

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

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

Table IV. Director activity in the boardroom

Individual average number of positions on the board of directors. # Committees, # Chair, # Vice Chair, # Secretary is the average number of positions considering all committees. Averages are computed for each group of corporate directors, former politicians and other directors. A t-test is a test where the null hypothesis is an equal average in both groups of directors (see Hamilton, 2013). Sample with 12,248 observations (directorship-year) from the year 2004 to 2012. Eleven thousand six hundred fifty observations belong to non-politicians and 598 to former politicians. *** means statistical significance at the 1% level, *** at the 5% level, and * at the 10% level.

	Average # of positions by each type of corporate director						
	Board of directors			Board committees			
	Chair	Vice Chair	Secretary	# Committees	# Chair	# Vice Chair	# Secretary
Non Politician	0,0913	0,0844	0,0196	0,9991	0,2336	0,0085	0,0434
Politician	0,0936	0,0753	0,0368	1,0953	0,3010	0,0301	0,0552
Total	0,0914	0,0839	0,0204	1,0038	0,2369	0,0096	0,0440
t-test	-0,1915	0,785	-2.9049***	-2.5549**	-3.4586***	-4.7575***	-1,0163

Table V. Director activity on the main board committees

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

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

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

Table VI. Director activity with control variables

Panel A and Panel B present pooled logit models. In Panel A, the dependent variable is an indicator of Chair, Vice Chair, and Secretary of the board of directors and membership on the main board committees. In Panel B is an indicator of a relevant position on the main board committees (Chair, Vice Chair and Secretary). Panel C presents pooled regression models where the dependent variable is the number of committee memberships and the number of Chair, Vice Chair, and Secretary positions of each director on all the delegated board committees. In all the panels, t statistics (in parenthesis) are robust and clustered by firm (Huber, 1967; Petersen, 2009; White, 1980, 1982). Board size is the number of board directors in each firm. Politician is a dummy variable identifying former politicians on the board. Outside director is a dummy variable identifying whether each director serves as an independent or proprietary director. Tenure is the tenure of each director in each firm, measured in years. Firms are assigned to industries according to the Madrid Stock Exchange industrial sector classification. Sample formed by 12,248 observations (directorship-firm-year) from the year 2004 to 2012. The numbers of observations in Panel A and Panel B are lower for the models of committees. Executive, nomination, remuneration committees are not mandatory and are not present in all firms. The audit committee is mandatory, although three firm-year observations do not report its composition. *** means statistical significance at the 1% level, *** at the 5% level, and * at the 10% level.

Panel A: Logit models - Relevant positions on the board of directors and membership on committees							
				Membership on committees			
	Chair	Vice Chair	Secretary	Executive	Audit	Nomination	Remuneration
Board Size	-0.116***	0.028	-0.068*	-0.040***	-0.096***	-0.084***	-0.084***
	(-7.946)	(1.598)	(-1.771)	(-3.407)	(-10.107)	(-5.985)	(-5.986)
Politician	0.394	-0.099	0.919	-0.374	0.175	0.270	0.266
	(1.001)	(-0.246)	(1.460)	(-1.271)	(1.020)	(1.567)	(1.550)
Outside director	-2.378***	-0.131	-1.309***	-1.454***	1.448***	1.304***	1.302***
	(-13.518)	(-0.835)	(-4.210)	(-9.431)	(11.733)	(10.166)	(10.129)
Tenure	0.077***	0.050***	0.022*	0.052***	0.006	0.027***	0.027***
	(7.863)	(7.219)	(1.700)	(5.465)	(0.860)	(4.904)	(4.868)
Indistry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	12248	12248	12248	6653	12214	11300	11272
chi^2	447.891***	102.235***	90.291***	249.868***	287.868***	215.930***	207.752***

Panel B: Logit models - Relevant positions				Panel C: Regression models - Number of positions			
	Committees				Committees		
	Executive	Audit	Nomination	Remuneration	# Membership	# Chair	# Vice Chair	# Secretaries
Board Size	-0.069***	-0.106***	-0.101***	-0.101***	0.009	-0.009***	0.002*	-0.002
	(-2.766)	(-9.351)	(-6.704)	(-6.754)	(0.948)	(-5.643)	(1.818)	(-1.203)
Politician	0.457	0.305	0.336	0.330	0.077	0.079*	0.021	0.020
	(0.950)	(1.368)	(1.439)	(1.415)	(0.912)	(1.805)	(1.111)	(0.608)
Outside director	-2.502***	1.371***	0.942***	0.943***	0.254***	0.007	-0.003	-0.016
	(-12.159)	(8.409)	(4.347)	(4.346)	(5.349)	(0.310)	(-0.653)	(-1.146)
Tenure	0.063***	0.011**	0.032***	0.031***	0.009***	0.006***	0.000	0.002***
	(5.513)	(1.969)	(5.929)	(5.905)	(2.817)	(3.753)	(1.421)	(2.631)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6653	12214	11300	11272	12248	12248	12248	12248
chi^2	354.132***	281.541***	191.518***	185.471***				
R^2					0.044	0.017	0.018	0.012
Adjusted R^2					0.043	0.016	0.017	0.011

Table VII. CEO turnover with politicians on the Board of Directors

GEE panel data logit models allowing persistence in the residuals with Huber (1967) and White (1982, 1980) robust t statistics (in parenthesis), where the dependent variable is a dummy variable to identify CEO turnover events. The key explanatory variables are one period lagged stock return and one period lagged dummy variables detecting the presence of former politicians in the boardroom and its interaction with the lagged stock return. In Panel A, dummy variables identify politicians (All) and politicians serving as executive directors, as proprietary directors, and as independent directors. In Panel B, they identify the presence of former politicians holding a relevant position (Chair, Vice Chair, Secretary) on the board of directors (All) as executive, proprietary, and independent directors. In Panel C, they identify the presence of politicians on the nomination committee as proprietary and independent directors, holding a relevant position on this committee (All), and also as independent directors. Control variables (omitted to save space, available on request) are lagged one period; percentage of shares owned by executives, by non-executives, and by the largest shareholder of the firm, a dummy variable identifying whether the CEO is also the chairman of the board of directors, the size of the board, the percentage of executives on this board, a dummy variable identifying whether directors have conducted commercial transactions with the firm, the percentage of busy non-executive directors (those holding a position on three or more boards of directors), a dummy variable identifying the presence of interlocked executive directors (those who are members of the nomination and remuneration committees), a dummy variable identifying where there are golden parachutes protecting top executives against dismissal, and a dummy variable identifying firms with voting caps (a maximum number of votes that a shareholder may exercise independently of the number of shares she/he has), and the interaction between these variables and one period lagged stock return. Finally, a constant term, industrial sector and year dummy variables are introduced. Models analyzing the nomination committee have fewer observations due to the existence of firms without such a committee. Chi^2 is a Wald test of the statistical significance of all the explanatory variables. *** denotes significance at the 1% level; ** denotes significance at the 5% level; * denotes significance at the 10% level.

Panel A: Presence of Politicians on the Board of Directors

	(1)	(2)	(3)	(4)
Stock Return$_{t-1}$	-2.559***	-2.281**	-2.103**	-2.369***
	(-2.786)	(-2.492)	(-2.204)	(-2.608)
All$_{t-1}$	-0.127			
	(-0.495)			
All$_{t-1}$ x Stock return$_{t-1}$	-0.787*			
	(-1.710)			
As Executives$_{t-1}$		-0.997*		
		(-1.885)		
As Executives$_{t-1}$ x Stock return$_{t-1}$		0.470		
		(0.943)		
As Proprietary$_{t-1}$			0.086	
			(0.217)	
As proprietary$_{t-1}$ x Stock return$_{t-1}$			0.458	
			(0.678)	
As Independents$_{t-1}$				0.054
				(0.221)
As Independents$_{t-1}$ x Stock return$_{t-1}$				-1.071**
				(-2.132)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Observations	921	921	921	921
Chi^2	81.298***	81.632***	81.981***	81.119***

Panel B: Relevant positions on the Board of Directors

	(1)	(2)	(3)	(4)
Stock Return$_{t-1}$	-2.347***	-2.291**	-2.097**	-2.225**
	(-2.585)	(-2.483)	(-2.350)	(-2.511)
All$_{t-1}$	-0.383			
	(-1.024)			
All$_{t-1}$ x Stock return$_{t-1}$	-0.161			
	(-0.213)			
As Executives$_{t-1}$		-1.012		
		(-1.432)		
As Executives$_{t-1}$ x Stock return$_{t-1}$		0.399		
		(0.556)		
As Proprietary$_{t-1}$			-0.260	
			(-0.313)	
As proprietary$_{t-1}$ x Stock return$_{t-1}$			2.732	
			(1.317)	
As Independents$_{t-1}$				-0.210
				(-0.305)
As Independents$_{t-1}$ x Stock return$_{t-1}$				-0.914
				(-0.886)
Year fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes
Observations	921	921	921	921
Chi^2	83.990***	80.044***	82.588***	79.631***

Panel C: Politicians on the Nomination Committee

	(1)	(2)	(3)	(4)	(5)
Stock Return$_{t-1}$	-1.579*	-1.487*	-1.582*	-1.657*	-1.622*
	(-1.698)	(-1.646)	(-1.725)	(-1.721)	(-1.709)
Presence All$_{t-1}$	0.306				
	(1.212)				
Presence All$_{t-1}$ x Stock return$_{t-1}$	-1.002*				
	(-1.933)				
Presence as Proprietary$_{t-1}$		1.043**			
		(2.548)			
Presence as Proprietary$_{t-1}$ x Stock return$_{t-1}$		1.496			
		(1.554)			
Presence as Independent$_{t-1}$			0.203		
			(0.689)		
Presence as independent$_{t-1}$ x Stock return$_{t-1}$			-1.385**		
			(-2.243)		
Relevant position All$_{t-1}$				-0.035	
				(-0.067)	
Relevant position All$_{t-1}$ x Stock return$_{t-1}$				-3.117***	
				(-3.465)	
Relevant position as Independent$_{t-1}$					-0.803
					(-1.004)
Relevant position as Independent$_{t-1}$ x Stock return$_{t-1}$					-4.931***
					(-4.620)
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Observations	821	821	821	821	821
Chi^2	62.587***	82.391***	71.216***	72.890***	80.704***

Table VIII. Executive director compensation with politicians

Firm fixed effects panel data estimation with Huber (1967) and White (1982, 1980) robust t statistics (in parentheses). The dependent variable is the log of the average individual compensation of executive directors. The key explanatory variables are dummy variables identifying politicians in the boardroom. In Panel A, dummy variables identify the presence of politicians (All) and politicians serving as executive directors, proprietary directors, and independent directors. In Panel B, they identify the presence of former politicians holding a relevant position (chair, vice-chair, secretary) on the board of directors (All) and as executive, proprietary, and independent directors. In Panel C, they identify the presence of politicians on the remuneration committee as proprietary and independent directors, holding a relevant position on this committee (All), and also as independent directors. Models analyzing the remuneration committee have fewer observations due to the existence of firms without such a committee. Control variables (omitted to save space, available on request) are the log of market capitalization, the market to book ratio, one period lagged return on assets and stock return, the standard deviation of previous year monthly stock returns, the average tenure of executive directors, and our set of corporate governance control variables described in Table VII. Finally, a constant term and year dummy variables are introduced. *** denotes significance at the 1% level; ** denotes significance at the 5% level; * denotes significance at the 10% level.

Panel A: Presence of Politicians on the Board of Directors

	(1)	(2)	(3)	(4)
All	0.016			
	(0.192)			
As Executives		0.112		
		(0.713)		
As Proprietary			-0.020	
			(-0.201)	
As Independents				0.095
				(1.207)
Year fixed effects	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes
Observations	920	920	920	920
R^2	0.234	0.234	0.234	0.236
Adjusted R^2	0.212	0.212	0.212	0.214

Panel B: Relevant positions on the Board of Directors

	(1)	(2)	(3)	(4)
All	0.115			
	(0.534)			
As Executives		0.100		
		(0.446)		
As Proprietary			0.134	
			(0.484)	
As Independents				-0.145**
				(-2.282)
Year fixed effects	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes
Observations	920	920	920	920
R^2	0.235	0.234	0.235	0.234
Adjusted R^2	0.212	0.212	0.212	0.212

Panel C: Politicians on the Remuneration Committee

	(1)	(2)	(3)	(4)	(5)
Presence All	-0.148				
	(-1.602)				
Presence as Proprietary		-0.378			
		(-1.309)			
Presence as Independent			-0.082		
			(-1.130)		
Relevant position All				0.006	
				(0.038)	
Relevant position as Independent					0.119
					(1.336)
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes
Observations	852	852	852	852	852
R^2	0.247	0.249	0.244	0.243	0.244
Adjusted R^2	0.223	0.226	0.220	0.219	0.220

Table IX. Audit qualifications with politicians

GEE panel data logit models allowing persistence in the residuals with Huber (1967) and White (1982, 1980) robust t statistics (in parenthesis), where the dependent variable is a dummy variable to identify observations with audit qualifications. The key explanatory variables are dummy variables identifying politicians on the board of directors. In Panel A, dummy variables identify the presence of politicians (All) and politicians serving as proprietary directors and as independent directors. In Panel B, they identify the presence of former politicians holding a relevant position (chair, vice-chair, secretary) on the board of directors (All) and as proprietary and independent directors. In Panel C, they identify the presence of politicians on the audit committee as proprietary and independent directors, holding a relevant position on this committee (All) and also as independent directors. Models analyzing the audit committee have fewer observations due to three cases where the composition of the audit committee is not reported in the ARCG. Control variables (omitted to save space, available on request) are the log of stock market capitalization, total long-term debt over total assets, short-term assets over short-term liabilities, and our set of corporate governance control variables (Table VII). Finally, a constant term, industrial sector and year dummy variables are introduced. Chi^2 is a Wald test of the statistical significance of all the explanatory variables. *** denotes significance at the 1% level; ** denotes significance at the 5% level; * denotes significance at the 10% level. † Model 1 of Panel A is estimated without our set of corporate governance variables, except the ownership of the largest shareholder, of executive directors and of non-executive directors, and board size.

Panel A: Presence of Politicians on the Board of Directors

	(1)†	(2)	(3)
All	0.2228		
	(0.717)		
As Proprietary		1.367***	
		(2.887)	
As Independents			-0.161
			(-0.491)
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Observations	951	951	951
Chi^2	85.3555***	149.353***	114.265***

Panel B: Relevant positions on the Board of Directors

	(1)	(2)	(3)
All	-0.849		
	(-0.949)		
As Proprietary		0.205	
		(0.106)	
As Independents			-0.503
			(-0.978)
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Observations	951	951	951
Chi^2	121.130***	117.048***	122.908***

Panel C: Politicians on the Audit Committee

	(1)	(2)	(3)	(4)	(5)
Presence All	0.055				
	(0.169)				
Presence as Proprietary		0.311			
		(0.492)			
Presence as Independent			0.077		
			(0.236)		
Relevant position All				0.305	
				(0.893)	
Relevant position as Independent					0.221
					(0.598)
Year fixed effects	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes
Observations	948	948	948	948	948
Chi^2	111.033***	109.267***	111.290***	119.011***	116.459***

Table X. Earnings Management with politicians

Firm fixed effects panel data estimation with Huber (1967) and White (1982, 1980) robust t statistics (in parenthesis). The dependent variable is our measurement of earnings management, the log of the absolute value of accruals divided by the absolute value of operating cash flow. The key explanatory variables are dummy variables identifying politicians on the board of directors. In Panel A, dummy variables identify the presence of politicians (All) and politicians serving as executive directors, proprietary directors, and independent directors. In Panel B, they identify the presence of former politicians holding a relevant position (chair, vice-chair, secretary) on the board of directors (All) and as executives, proprietary, and independent directors. In Panel C, they identify the presence of politicians on the audit committee as proprietary and independent directors, holding a relevant position on this committee (All), also as independent directors. Models analyzing the audit committee have fewer observations due to three cases where the composition of the audit committee is not reported in the ARCG. Control variables (omitted to save space, available on request) are a dummy variable detecting observations with negative net income, the log of the sum of days of receivable and days of inventory, the log of the number of days payable, fixed assets over total assets, long-term debt over total assets, the log of market capitalization, the market to book ratio, the standard deviation of previous year monthly stock returns, and our set of corporate governance control variables described in Table VII. Finally, a constant term and year dummy variables are introduced. *** denotes significance at the 1% level; ** denotes significance at the 5% level; * denotes significance at the 10% level.

Panel A: Presence of Politicians on the Board of Directors					Panel B: Relevant positions on the Board of Directors				Panel C: Politicians on the Audit Committee					
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)		(1)	(2)	(3)	(4)	(5)
All	0.004				0.122				Presence All	-0.163				
	(0.022)				(0.714)					(-1.102)				
As Executives		0.001				0.049			Presence as Proprietary		-0.039			
		(0.004)				(0.207)					(-0.110)			
As Proprietary			0.128				0.109		Presence as Independent			-0.166		
			(0.814)				(0.529)					(-0.990)		
As Independents				-0.121				0.181	Relevant position All				0.012	
				(-0.695)				(0.424)					(0.067)	
									Relevant position as Independent					0.053
														(0.281)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes		Yes	Yes	Yes	Yes	Yes
Observations	894	894	894	894	894	894	894	894		891	891	891	891	891
R^2	0.062	0.062	0.063	0.063	0.062	0.062	0.062	0.062		0.060	0.059	0.060	0.059	0.059
Adjusted R^2	0.032	0.032	0.032	0.033	0.032	0.032	0.032	0.032		0.030	0.028	0.030	0.028	0.029