



Political Connections and Corporate Performance: Insights from Portuguese Listed Companies

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Biographical Note

Filipa Castro Silva was born in Vizela in 2001 and, since the age of eight, she aspired to have her own business empire in the United States. In order to follow her interest in the world of Finance and Entrepreneurship, she decided to pursue a Management degree at the School of Economics and Management in the University of Porto (FEP), followed by a Master's in Finance, which she is completing with the present dissertation.

During her academic life, she was an active member of the 1st, 2nd and 3rd year Commission, and participated in Linking Students, a FEP's organization, where she served as a member and later as the Director of the Financial Department. She was also a Magma ambassador and then became the Team Leader of the FEP and ISEP teams.

Professionally, she has done two summer internships at the Bank of Portugal and PwC. Additionally, during her second and third semesters of the Master's in Finance, she worked part-time as a freelancer for Magma Studio, focusing on conducting interviews and sales calls.

Since February 2024, Filipa Silva started her full-time professional career at PwC's Strategy & Corporate Finance department (M&A).

“Have goals bigger than yourself.”

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Highlights

- This research analyses the impact of political connections on the financial performance of Portuguese listed firms.
- Political connections positively influence profitability, especially for right-wing affiliations.
- During economic crises, the positive impact of political ties on profitability decreases.
- Political connections show no significant effect on market performance overall, but left-wing affiliations negatively impact market value during instability.
- Left-wing and non-executive political ties are associated with higher borrowing costs.
- This study addresses multiple gaps in the literature by focusing on Portuguese firms and by exploring how political connections across different parties distinctly impact firms' performance.

Abstract

The impact of political connections on firms' performance has gained considerable attention in the corporate environment, yet it remains underexplored within the broader European context. This study seeks to address this gap by examining how political connections influence the financial performance of publicly listed Portuguese firms, with a unique emphasis on executive and non-executive roles, as well as their ideological affiliations.

Using data from 39 companies listed on Euronext Lisbon between 2001 and 2022, we employ fixed effects regression models to analyse the effects of political connections on profitability, market performance, and cost of debt. Our findings reveal that political connections positively influence profitability, particularly for firms associated with right-wing parties. During economic crises, the impact of political ties on profitability decreases, suggesting a dependency on economic stability. There is no significant evidence that political relationships affect market performance. On the other hand, certain types of affiliations can result in higher borrowing costs, reflecting a greater perceived risk among lenders.

In summary, this research pioneers by not only analysing the impact of political connections but also delving into specific types of political affiliations, offering new insights into how right-wing and left-wing political connections, alongside their executive and non-executive roles, shape the performance of Portuguese firms.

Keywords: Firm performance, political connections, Portugal, right-wing, left-wing, executive roles, non-executive roles, ROE, Tobin's Q, cost of debt.

JEL-Codes: D61, D72, G14, G30, G41

Sumário

No contexto empresarial, o impacto das relações políticas no desempenho das empresas tem sido objeto de considerável interesse, embora permaneça pouco explorado na esfera europeia. Este estudo procura preencher essa lacuna ao investigar a influência das conexões políticas no desempenho financeiro das empresas cotadas em Portugal, com um foco específico nas relações políticas executivas e não executivas, bem como no tipo de afiliação ideológica.

Com recurso a dados de 39 empresas cotadas na Euronext Lisboa, entre 2001 e 2022, utilizamos modelos de regressão com efeitos fixos para analisar os efeitos das conexões políticas na rentabilidade, desempenho de mercado, e custo da dívida. As nossas conclusões revelam que as conexões políticas têm um impacto positivo na rentabilidade, especialmente para as empresas associadas a partidos de direita. Durante crises económicas, o impacto dos laços políticos na rentabilidade diminui, sugerindo uma ligação com a estabilidade económica. Não há evidências de que as relações políticas afetam significativamente o desempenho de mercado. Por outro lado, certos tipos de conexões políticas estão relacionados com custos de financiamento mais elevados, refletindo um maior risco percebido pelos credores.

Em suma, este estudo não analisa apenas o impacto global das conexões políticas, mas também investiga diversos tipos específicos de filiações políticas, proporcionando novas perspetivas sobre como as conexões políticas de direita e esquerda, tal como as relações políticas executivas e não executivas, moldam o desempenho das empresas portuguesas.

Palavras-chave: Performance empresarial, conexões políticas, Portugal, direita, esquerda, executivos, não executivos, retorno sobre o património líquido, Q de Tobin, custo da dívida.

Classificação JEL: D61, D72, G14, G30, G41

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1. Introduction

In the high-stakes game of business, political ties wield a double-edged sword. For instance, whilst Boeing's political connections have helped the company secure contracts like manufacturing Air Force One, the United States President's official aircraft, the shadows cast by the Petrobras scandal remind us of the dark side of political entanglements. Despite intensive scrutiny in the interplay between political connections and corporate performance globally, the Portuguese business landscape remains a critical yet overlooked area.

Recent studies have attempted to illuminate the intricate relationship between political connections and firms' performance (e.g., Akey, 2015; Ahmed & Hussainey, 2023; Chen et al., 2014; Ngo & Susnjara, 2020), with "political connections" denoting the associations that companies have with individuals who were involved in a political party. Yet, the question of whether the global value of political connections is positive or negative for firms remains a matter of ongoing debate (Ahmed & Hussainey, 2023).

On one hand, political connections can lead to overinvestment and an increased extent of corruption endangering firms' value (Chan, et al., 2020; Shleifer & Vishny, 1994). Conversely, those connections may contribute to value enhancement through benefits such as easier access to financing, lower taxes, and stronger market power (Chen et al., 2014; Faccio, 2010; Lashitew, 2014; Ngo & Susnjara 2020; Tee, 2019). This dual influence underscores a double-edged sword effect (Ang et al., 2013; Tihanyi et al., 2019) where political connections can yield both favourable and unfavourable outcomes for a firm, potentially enhancing or eroding its performance (Ahmed & Hussainey, 2023; Wang et al., 2021).

The complexity of this debate can be heightened by research that delves deeper into distinct categories of politically connected firms, suggesting that the specific type of political connections under analysis can cause different outcomes. For instance, Wong and Hooy (2018) explored four types of politically connected firms: government-linked companies, board of directors, businessmen, and family members. They conclude that government-linked companies and board of directors, considered more stable political connection, exhibit a positive relationship with firm performance. However, even within the more stable political connections, the literature remains shattered, as there is evidence of politically connected directors exerting a negative impact on the performance of state-owned enterprises (Menozzi et al., 2012). Given the importance of boards of directors in corporate success (Kanakriyah,

2021), and their ultimate internal authority within the corporation (Molz, 1985), our study aims to concentrate on that category of politically connected publicly listed firms.

The research can be further contextualised within diverse institutional frameworks (e.g., Ahmed & Hussainey, 2023). Noteworthy, countries with robust legal systems and effective corporate governance structures are more prone to prevent the misuse of political ties, positively influencing a company's overall performance (Acemoglu et al., 2016; Ngo & Susnjara, 2020). Conversely, in regions with weaker systems, the higher risk of corruption can negatively impact a company's performance (Bliss & Gul, 2012; Domadenik et al., 2016; Singam, 2003). Moreover, societal norms play a crucial role, influencing a company's operational performance through either the acceptance or condemnation of political ties (Torres-Spelliscy, 2018), potentially manifesting in actions like boycotts or buycotts (Pecot et al., 2021). Thus, the conclusions about the relationship between a firm's performance and its political connections can be influenced by many cultural¹ (Fan et al., 2015) and economic factors (Carney et al., 2020; Li & Xia, 2013), becoming relevant to consider the specific context of each country as different institutional frameworks may lead to different conclusions (Keefe, 2019).

A bibliometric analysis conducted by Ahmed and Hussainey (2023) reveals that, out of 138 research papers considered, only six countries within the European Union (EU) were thoroughly analysed: Czech Republic (Szarzec et al., 2022), Finland (Amara & Khlif, 2020), France (Amara & Khlif, 2020; Bertrand et al., 2018), Italy (Infante & Piazza, 2014), Netherlands (Van Ees et al., 2003), and Spain (Pérez et al., 2015). While extensive research on the topic has been directed toward countries such as the US, England, Malaysia, and China (e.g., Acemoglu et al., 2016; Aldhamari et al., 2020; Bliss & Gul, 2012; Ngo & Susnjara, 2020; Wan et al., 2023; Wang et al., 2021), there is a significant underrepresentation of diverse EU perspectives. Moreover, while some research focuses on the EU level (e.g., Amara & Khlif, 2020; Bussolo et al., 2019; La Rocca et al., 2022), fewer studies are conducted at the national level (e.g., Bertrand et al., 2018; Infante & Piazza, 2014; Pérez et al., 2015) emphasising the need for further investigation.

¹ Since our study exclusively focuses on Portuguese companies, and given scholarly literature suggests a degree of stability in cultural norms and values over time (e.g., Beugelsdijk et al., 2013; Hofstede, 2022), we assume Portugal's cultural attributes have remained stable, exerting negligible influence on the effects of political connections on companies' performance.

Addressing this research gap, this study seeks to delve into the westernmost country in Europe, Portugal, offering a detailed examination with valuable insights into the broader lack of EU-related information. Portugal's unique political history, marked by the transition from an authoritarian regime to a democracy post-1974, its landscape dominated by centrist parties, and its strategic relationships within the European Union (EU), presents a distinctive context for studying the interplay between political connections and corporate performance.

Considering the “conventional wisdom” that board political connections are of crucial strategic significance for companies (Fu & Sun, 2023; Kanakriyah, 2021), we bridge the aforementioned research gap by examining the impact of political connections on the financial performance of publicly listed Portuguese companies. Our study is guided by the following first research question (RQ1): *Does the financial performance of Portuguese companies exhibit a significant difference between politically connected and non-politically connected firms?* Scholars underscore that executive and non-executive board members have different political incentives that manifest in divergent outcomes (e.g., Khaw et al., 2019). Thus, we pose the second research question (RQ2): *Does the financial performance of Portuguese companies exhibit a significant difference based on whether their board members with political ties hold executive or non-executive roles?* Literature has also been pointing that different outcomes of political connections may be attributed to idiosyncrasies of political parties (e.g., Cochrane, 2013), to the socialization and knowledge process (e.g., Tyllström, 2021), or, more broadly, to differences in the level of transparency and lobby power (e.g., Holman & Luneburg, 2012). Hence, one can ask (RQ3) *To what extent can we discern a quantifiable difference in the financial performance of Portuguese companies depending on their association with right-wing or left-wing political connections?* The answer to this question will provide valuable and fresh insights into the discussion on the intricate nature and impacts of political connections by examining whether the affiliation of political connections with a specific “wing” of political parties leads to distinct outcomes at the level of firms’ performance. By doing so, we segregate our analysis into political connections affiliated with left and right parties, thus scrutinizing whether (legal) revolving doors between political power and the business world actually produce different outcomes between the two sides of the Portuguese political spectrum.

As a result, this research aims to contribute to the existing literature in three different ways. Firstly, it expands the geographic scope by focusing on Portuguese firms, addressing a gap left by studies centred on other countries, mainly out of the EU context. Secondly, it introduces a crisis variable to the empirical models enabling to assess whether political

connections impact firms' performance differently during periods of economic crises versus economic and political stability. Lastly, regarding the variables of interest, our research differentiates some types of political connections, examining both executive and non-executive ties, and distinguishing between right-wing and left-wing affiliations (our main breakthrough). By doing so, our study not only enhances our understanding of how political connections affect firm performance in the Portuguese context but also provides new insights into the role of economic crises and the different outcomes between the two sides of the political spectrum.

To answer the three research questions, we rely on financial data on 39 Portuguese companies listed on the Euronext Lisbon, collected from Sabi, Orbis, and from firms' annual reports. Data concerning the extent of political connections was collected through the Government of the Portuguese Republic's portal and from the annual reports of each company for each year in analysis. The analysis covers the period from 2001 or the individual Initial Public Offering (IPO) date, whichever is later, to 2022 (in most of the cases). Using this data and employing for a fixed effects regression model, we examined to what extent political connections (and affiliation with the two "wings" of political parties) impacts the Portuguese firms' profitability, market performance, and cost of debt.

Our research unveils a nuanced relationship between political connections and firm performance in the Portuguese context. We find that political ties exert a positive influence on profitability, for both executive and non-executive political connections, and that companies aligned with right-wing ideologies demonstrate enhanced accountability performance. In addition, in times of economic crises, the impact of political ties on profitability tends to decrease, which suggests a dependency on economic stability. Contrary, little evidence was found to support the idea that political connections impact a firm's market performance. Moreover, we show that non-executive political relationships and associations with left-wing parties raise a company's debt expenses.

This document is organised as follows. In Section 2, we delve into the Portuguese context, examining its political background and the nature of political connections. In Section 3, we review the existing literature on the impact of political connections on firm performance and outline the research hypotheses. In Section 4, we describe the data, method, and variables. In Section 5, we present and discuss our findings. In Section 6, we conclude by highlighting our contributions and addressing research limitations and suggestions for future research.

2. Portuguese Context

2.1. Portuguese Background

The historical context of Portugal is essential for comprehending the impact of political connections on Portuguese companies' financial performance. Before April 25, 1974, Portugal was under the authoritarian *Estado Novo regime*, led by António de Oliveira Salazar and, later, Marcello Caetano. This regime, marked by censorship and limited civil liberties (Da Silva & Ferreira, 2019; Goodin & Tilly, 2008), heavily regulated businesses and established state monopolies in key industries, creating an environment where political connections were crucial for business operations.

The *Carnation Revolution* on April 25, 1974, transitioned Portugal to a democracy, ending the *Estado Novo regime* (Magone, 2014). The following period saw political instability and ideological struggles, culminating in the establishment of a stable democratic government in 1976. Since then, Portugal's political landscape has been dominated by the Socialist Party (PS) and the Social Democratic Party (PSD) (see Table A1 in appendix)².

Following the Carnation Revolution, Portugal experienced a wave of nationalizations in key sectors, including banking, transportation, and heavy industries, as the new government sought to control essential services and industries (Royo, 2004). By the late 1980s and into the 1990s, Portugal began gradually shifting towards privatization, influenced by (neo)liberal policies and the prospect of EU integration (Baer & Leite, 2003). This transition not only aligned Portugal's economy with EU standards but also reshaped political connections within companies (Boubakri, 2008), as businesses sought to navigate the new regulatory landscape and secure favourable conditions from the state.

Portugal's integration into the European Union in 1986 and adoption of the euro in 1999 were pivotal economic milestones. These developments set the stage for the launch of the Lisbon Strategy plan in 2000³, aimed at enhancing economic growth, employment, and social cohesion across member states, including Portugal. The Lisbon Strategy represented a

² Despite the longstanding presence of other parties in the Republic Assembly, such as CDS (People's Party), BE (Left Block) and PCP (Portuguese Communist Party), the majority of Portuguese voters consistently favoured one of the two cantered parties to govern the country.

³ Our study examines the period following the implementation of the Lisbon Strategy in 2001, exploring how this era of competitiveness fostering and the prior wave of privatizations shaped the environment for political connections within Portuguese companies.

strategic effort by the European Council to harmonise economic policies and foster competitiveness within the EU framework, marking a new phase for Portugal.

This historical trajectory has contributed to Portugal's current left-leaning ideological stance, with an average ideology index of 4.3 on a scale from 0 (far left) to 10 (far right) (EU Political Barometer, 2022).

In summary, Portugal's evolution from the Estado Novo regime to a stable democratic system, coupled with ideological leanings and the evolution of Portugal alongside broader EU integration efforts, underscore the intricate relationship between political ties and financial performance in Portuguese companies. This context is crucial for the analysis of the impact of political connections on corporate financial outcomes.

2.2. Portuguese Political Connections

The below figures display network diagrams generated by Gephi that unravels the intricate web of political connections within Portugal from 2001 to 2022. These diagrams delineate the relationships between individuals who simultaneously held a position in the Portuguese government and served on at least one of the boards of the 39 Portuguese companies analysed.

Figure 1 displays a diagram that emphasises the distinction between left-wing and right-wing political affiliations. It illustrates individuals who held positions in the Portuguese government and concurrently served on boards of at least one of the 39 companies under analysis. Red nodes represent these individuals, connected through lines either to "Left-Wing" or "Right-Wing" nodes based on their political affiliation, highlighting the partisan dynamics at play. For example, if a company had at least one board member who also held a position within a right-wing (or left-wing) democratic Portuguese government, this connection is depicted by a line extending to the "Right-wing Political Connection" (or "Left-wing Political Connection") node. Notably, the absence of an "Independent" node reflects the lack of data on independent political connections among the analysed companies.

As detailed in Table A1, in appendix, members of the PS (Socialist Party) are categorised as left-wing, while those of the PSD (Social Democratic Party) or CDS (People's Party) are categorised as right-wing. This categorization helps in distinguishing the political leanings of the individuals involved.

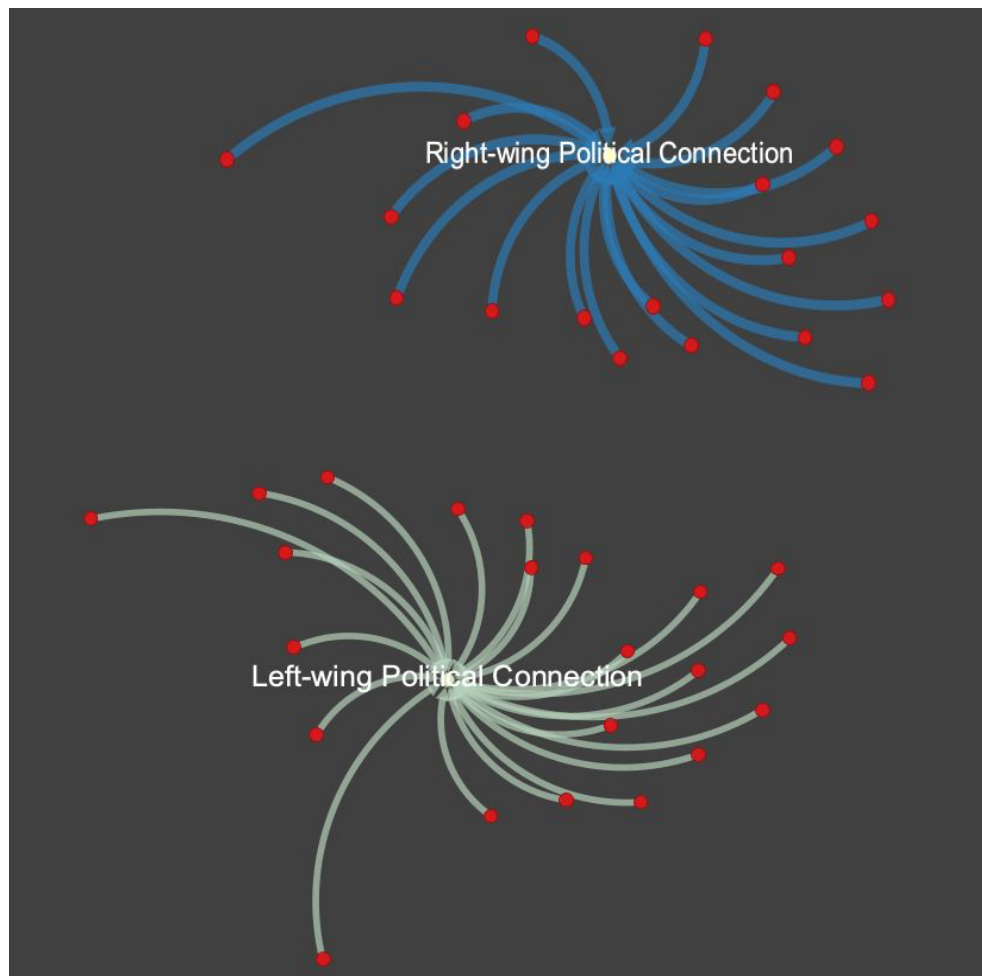


Figure 1. Portuguese Right-wing and Left-wing Political Connections (2001-2022)

In Figure 2, the diagram shifts focus to the roles of executive and non-executive board members within political contexts. It highlights individuals who held positions in the Portuguese government while also serving as either executive or non-executive members on at least one of the boards of the 39 companies. Nodes represent these individuals, connected to either "Executive" or "Non-Executive" nodes based on their board roles, underscoring the varying degrees of influence exerted by these people according to their board positions and political affiliations.

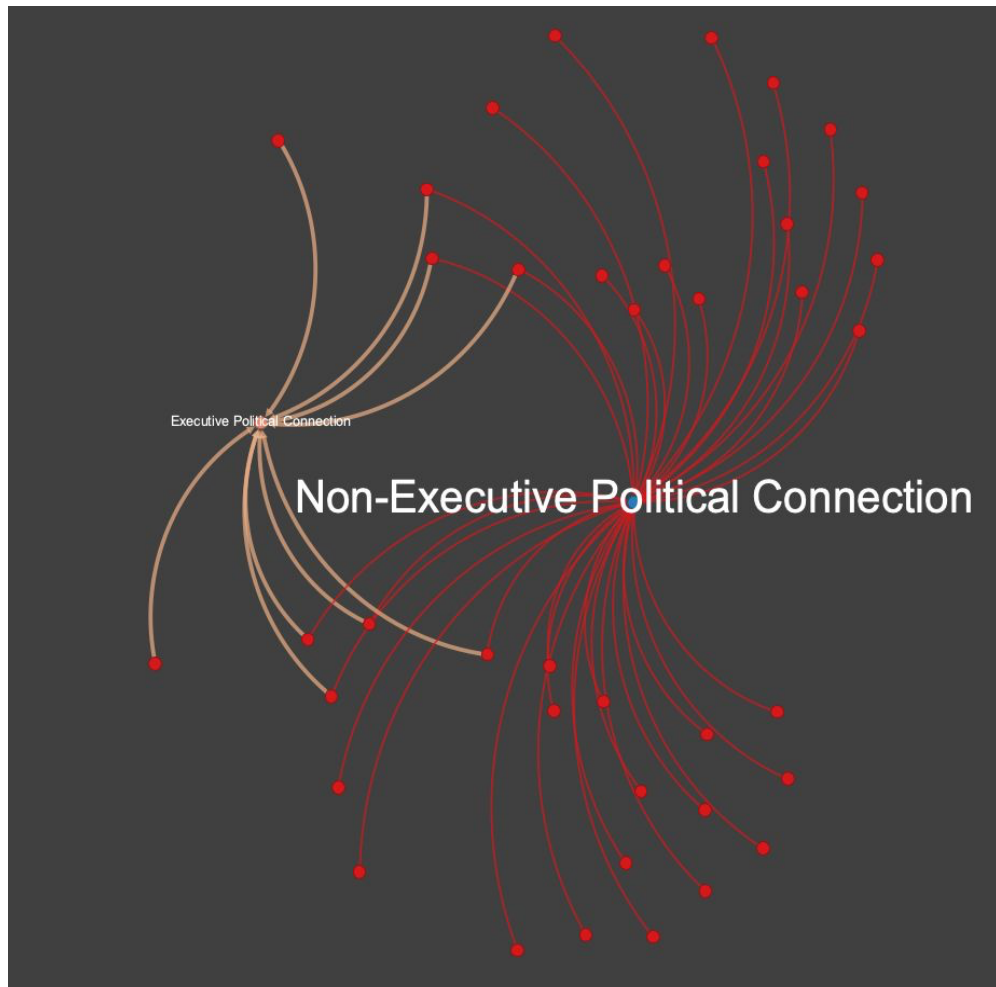


Figure 2. Portuguese Executive and Non-Executive Political Connections (2001-2022)

Figure 3 displays the third diagram that features the four nodes: left-wing, right-wing, executive and non-executive. It integrates these distinctions to portray the comprehensive landscape of political influence across Portuguese firms. Each diagram utilises nodes and connecting lines to visually capture political affiliations, contributing to a nuanced understanding of how political connections impact corporate dynamics.

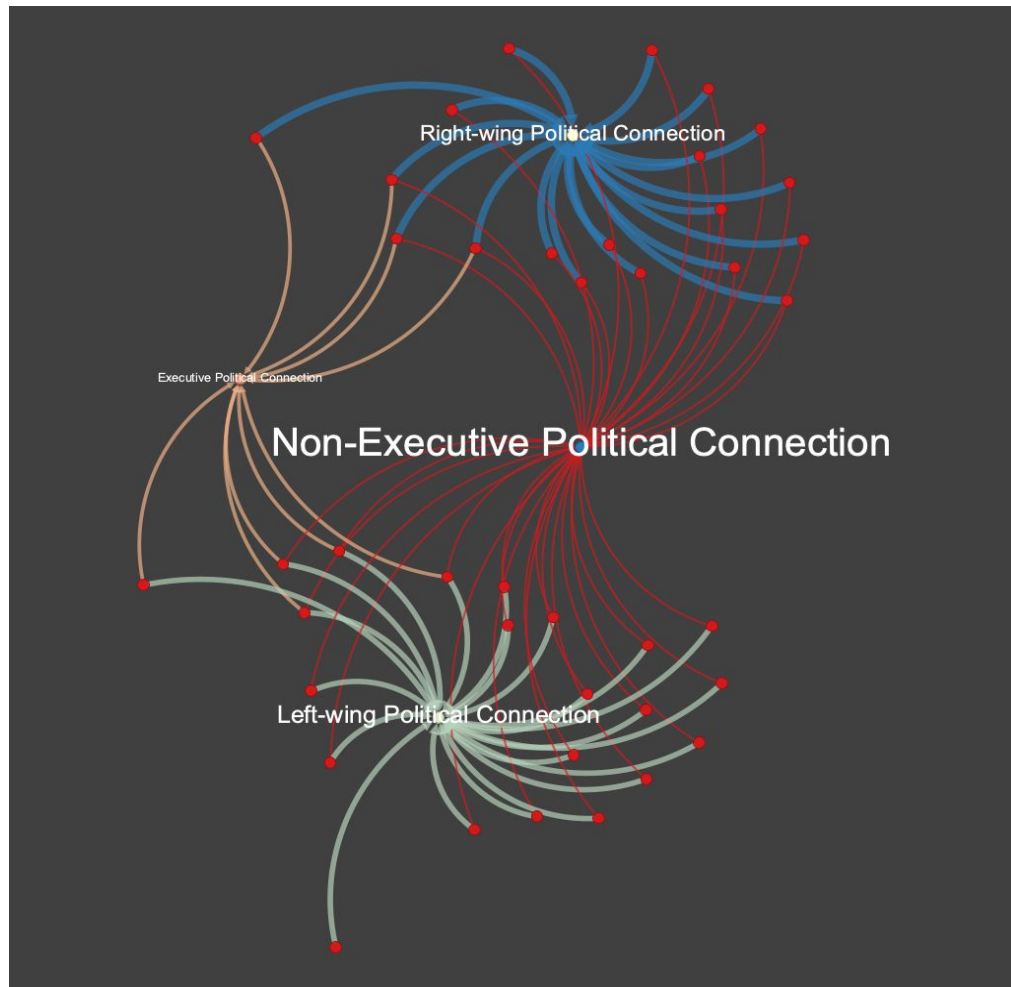


Figure 3. Portuguese Political Connections (2001-2022)

The network diagram reveals the presence of numerous connections between political figures and corporate boards, underscoring the significance of political ties in business operations and strategic decision-making.

For instance, among the 39 companies under analysis, five executive members had previous association with left-wing parties, while four were associated with right-wing parties. Similarly, more non-executive members were connected to left-wing parties compared to right-wing ones⁴.

Therefore, through visually mapping the political connections, the diagram provides insights into the complex interplay of political influence within Portugal, highlighting the

⁴ However, this does not imply that companies have more executive or non-executive associations with left-wing parties than with right-wing parties. In our model, the duration of the political connection within the company is a critical factor.

importance of studying the impact of political connections on Portuguese firms' financial performance, particularly in dissociating the contrasting effects of right-wing and left-wing political influences on various financial metrics.

3. Literature Review and Hypotheses Development

Political connections play a pivotal role on the growth of firms (e.g., Aldhamari et al., 2020; Ang et al., 2013; Boubakri et al., 2012; Diwan & Schiffbauer, 2018; Wong & Hooy, 2018) and nations (Beck et al., 2000), and therefore have been a subject of substantial interest in theoretical and empirical papers (e.g., Ahmed & Hussainey, 2023; Keefe, 2019; Ngo & Susnjara, 2020; Shleifer & Vishny, 1994). Within this dynamic context, firms often strategically align themselves to be politically connected in order to increase firm value (Faccio, 2010). However, the global value of a political connection depends on various factors, such as overinvestment and ability to access credit, and is still up for debate (Ahmed & Hussainey, 2023).

3.1. Profitability and Market performance

The realm of corporate performance encompasses various dimensions, with a critical distinction between firm profitability and market performance. Firm profitability is an accounting measure that assesses a company's capacity to generate profits through internal financial metrics and operational efficiency. Market performance, on the other hand, is determined by the market's view of the company, which is reflected in aspects such as stock valuation and overall market dynamics.

Some literature provides evidence of a negative effect of political connections on the firm profitability, measured through earnings (e.g., Cull et al., 2015), return on assets (Shahzad et al., 2021), change in return on sales, sales growth, and earnings growth (e.g., Boubakri et al., 2008). This detrimental effect on profitability can be attributed to overinvestment problems that political connected firms face (e.g., Nahandi & Khanqah, 2018; Chan, et al., 2020; Keefe, 2019; Su et al., 2013) due to lack of accountability (Vu & Deffains, 2013) and information asymmetry (Lin, 2016), which leads to inefficient capital allocation (Nahandi & Khanqah, 2018; Chan, et al., 2020). Such inefficiencies can result from the influence of politicians, causing the companies to prioritise enhancing political influence rather than pursuing value-maximizing strategies (Najaf, 2019). This aligns with the concept of moral hazard in agency theory, where politically connected firms may experience a principal-principal conflict between the state and firms' shareholders (Gao et al., 2019). This conflict occurs when firms prioritise political goals over productivity and profitability (Gao et al., 2019), operating under the belief that they will be bailed out by the government (Kostovetsky, 2015). As a result, these firms are likely to take on more risk, believing their

political connections will shield them from negative consequences (Kostovetsky, 2015), thus reinforcing the moral hazard.

However, this detrimental view is not consensual as there is also evidence of a positive effect of political connections on firms' profitability (e.g., Ahmed & Hussainey, 2023; Aldhamari et al., 2020; Ang et al., 2013; Boubakri et al., 2012; Diwan & Schiffbauer, 2018; Wong & Hooy, 2018). This positive relationship can be explained through several theoretical perspectives.

Stewardship theory posits that given a choice between self-serving behaviour and pro-organizational behaviour, a steward will place higher value on cooperation than defection (Davis et al., 1997). Politically connected managers can act as highly effective stewards, enhancing shareholder wealth and yielding superior financial outcomes and market performance relative to their unconnected counterparts (Najaf & Najaf, 2021).

Moreover, the Resource Dependency theory (RDT) views the board of directors as the lynch pin between a company and the resources it needs to achieve its objectives (Pfeffer, 1972). According to RDT, politically connected boards play an active role in resource generation, such as providing valuable market insights and engaging with influential policymakers (Goldman et al., 2009; Najaf & Najaf, 2021). Consequently, politically connected boards are often better positioned to attract investments and enhance the firms' performance through strategic resources (Najaf & Najaf, 2021).

Aligned with these theoretical perspectives, studies have shown that political connections positively affect sales (e.g., Su & Fung, 2013), reduce taxes and increases market power (Faccio, 2010). Additionally, firms with political ties often have enhanced access to credit under more favourable conditions (e.g., Arifin et al., 2020; Houston et al., 2014; Ngo & Susnjara, 2020; Su & Fung, 2013; Tee, 2019). These advantages can lead to higher profitability and improved overall firm performance, counterbalancing the moral hazard risks associated with political connections.

This dual influence underscores a “double-edged sword effect” (Ang et al., 2013; Tihanyi et al., 2019), where political connections can yield both favourable and unfavourable outcomes for a firm (e.g., Chen et al., 2014; Tihanyi et al., 2019), potentially enhancing or eroding its profitability (Ahmed & Hussainey, 2023; Wang et al., 2021). The nuanced nature of this relationship between political connections and firm profitability prompts a deeper exploration into the specific impact of political connections. Building upon previous research

and recognizing its divergent outcomes, we will address this topic for publicly listed Portuguese companies by formulating the following hypotheses:

Hypothesis 1.1 (H1.1): Political connections increase the profitability of Portuguese listed companies.

Hypothesis 1.2 (H1.2): Political connections decrease the profitability of Portuguese listed companies.

In the realm of market performance, political connections also constitute a critical factor with discernible implications for stock prices (Lin et al., 2016). However, the literature offers mixed insights into the relationship between political connections and market performance.

Some studies report evidence of positive effects of political connections on market performance, namely on Cumulative Abnormal Returns (CAR) (e.g., Faccio, 2010; Goldman et al., 2009), Tobin's Q (Eissa & Eliwa, 2021; Idris et al., 2020) and stock price synchronicity (e.g., Lin et al., 2019), enhancing the alignment of stock prices within the market. These findings can be explained, on the one hand, by the advantages derived from companies' political connections, including preferential treatment and better access to resources and, on the other hand, by investors' tendency to invest in politically connected companies seeking better market valuation (Maaloul et al., 2018). Moreover, theories such as Resource Dependency theory and Stewardship theory suggest that politically connected firms may access strategic resources more effectively and achieve better market performance due to their ability to secure enhanced financing, gain valuable market insights, and engage with influential policymakers, as discussed earlier (Davis et al., 1997; Goldman et al., 2009; Najaf & Najaf, 2021; Pfeffer, 1972).

Contrasting views in the literature argue that political connections can negatively affect stock returns (e.g., Fan et al., 2007; Keefe, 2019), Tobin's Q (Shahzad et al., 2021) and market-to-book value (e.g., Fan et al., 2007). Specifically, a body of research shows that executive political connections negatively impact firm performance due to the tendency for politically connected executives to populate boards with government officials lacking business expertise (Fan et al., 2007). The broader implications of these findings suggest that the negative impact of political connections stems from investors' awareness of associated problems, such as lack of accountability (Vu & Deffains, 2013), inefficient capital allocation (Nahandi & Khanqah, 2018; Chan, et al., 2020; Keefe, 2019; Su et al., 2013), and the tendency for politically

connected individuals to prioritise enhancing political influence over pursuing value-maximizing strategies (Najaf, 2019).

The mixed evidence within the existing literature underscores the need for a more comprehensive examination of the impact of political connections on market performance. Therefore, we address this relationship specifically for Portuguese listed firms through the formulation of the following hypotheses:

Hypothesis 2.1 (H2.1): Political connections increase the market performance of Portuguese listed companies.

Hypothesis 2.2 (H2.2): Political connections decrease the market performance of Portuguese listed companies.

3.2. Cost of debt

Recent literature suggests that politically connected companies were found to have lower cost of debt (e.g., Arifin et al., 2020; Houston et al., 2014; Ngo & Susnjara, 2020; Tee, 2019). This funding advantage is more pronounced if the company was connected to the incumbent political party (Chen et al., 2014). Moreover, those firms receive larger loans than firms with no such ties, thus having a higher ability to access credit (e.g., Boubakri et al., 2012; Diwan & Schiffbauer, 2018; Lashitew, 2014). Those findings suggest that lenders may recognise the benefits of political ties, as they strength the bank's relationships (Houston et al., 2014), or because politically connected firms are perceived to be safeguarded by the government in case of failure (Diwan & Schiffbaeur, 2018) or simply due to a sense of higher firms' reputation and creditworthiness (Cheng & Wu, 2019; Houston et al., 2014). The advantages of connected firms regarding access to funding at favourable terms help to understand why their level of leverage often surpasses those of non-politically connected firms (e.g., Faccio, 2010). Yet, it is essential to note that these findings may also be associated with intrinsic characteristics, such as size, operational scale, and market influence, that favours a politically connected company and also influence its inclination towards higher leverage based on its needs and risk tolerance.

However, the consensus regarding the positive influence of political connections on the cost of debt does not extend uniformly across all institutional frameworks. In systems characterised by weaker governance structures, companies associated with political parties may face adverse consequences in the form of increased interest rates, given their higher susceptibility to corruption. For instance, in Malaysia, a country that faced notable problems

of corporate governance (Singam, 2003), evidence suggests that politically connected firms are perceived as riskier, resulting in higher interest rates charged by lenders (e.g., Bliss & Gul, 2012).

Given the need to consider the specific circumstances of each nation and the ambiguous relationship found between political connections and loan interest rates, we formulate the following hypotheses:

Hypothesis 3.1 (H3.1): Political connections increase the cost of debt of Portuguese listed companies.

Hypothesis 3.2 (H3.2): Political connections decrease the cost of debt of Portuguese listed companies.

3.3. Executive vs. Non-Executive Political Connections

Political connections within firms can significantly influence corporate outcomes, and the nature and impact of these connections can vary depending on the distinct categories of political connections (e.g., Chen et al., 2014; Wong & Hooy, 2018). Our study focuses on political connections characterised by the firms' board of directors. These connections are considered stable and significant for corporate success (Kanakriyah, 2021; Wong & Hooy, 2018) and hold ultimate internal authority within the corporation (Molz, 1985).

Executives, such as CEOs and CFOs, have direct control over strategic and operational decisions within a firm, allowing them to implement changes swiftly and to capitalise on opportunities arising from their political connections. This direct influence on firms' decisions can lead to more immediate and substantial impacts on its performance. In contrast, non-executive board members tend to play more independent roles and primarily provide oversight and strategic advice rather than making day-to-day operational decisions (Khaw et al., 2019). The non-executive roles therefore mean their political connections might not translate into operational advantages but can still offer significant strategic benefits through networking and influence.

Given that executive and non-executive board members may have different political incentives leading to varying outcomes (Khaw et al., 2019), it is pertinent to analyse the distinct impacts of executive versus non-executive political connections. Thus, this study tests our research hypotheses (H1, H2 and H3) within the context of non-financial Portuguese listed companies, differentiating the political connections based on their executive or non-executive nature to address RQ2: *Does the financial performance of Portuguese*

companies exhibit a significant difference based on whether their board members with political ties hold executive or non-executive roles?

3.4. The two sides of the political spectrum

The establishment of political connections with different political parties may result in divergent types of influences exerted by politicians and perceptions by investors, lenders and stakeholders, thereby impacting the performance and value of firms, making it pertinent to consider the political party with which the connection is established. Evidence indicates that firms aligning with the winning party exhibit positive abnormal returns (e.g. Akey, 2015; Goldman et al., 2009; Lin et al., 2016), whereas those associated with losing parties experience a decline in stock prices (e.g., Goldman et al., 2009). Moreover, the impact on the cost of debt also depends on the type of political connection established (e.g., Chen et al., 2014). This collection of research demonstrates the diverse impact of political connections on firms' profitability, market performance, and cost of debt, depending on the nature of the relationship with either the winner or loser party.

Consequently, considering literature has been pointing that different outcomes of political connections may be attributed to idiosyncrasies of political parties (e.g., Cochrane, 2013) or differences in the level of transparency and lobby power (e.g., Holman & Luneburg, 2012), the question arises as to whether the relationship between political connections and firms' performance is also influenced by the intrinsic characteristics of the political parties involved.

For example, research on public business management and politics suggested a relationship between state ownership enterprises (SOEs) and firm performance, founding that SOEs tend to perform better in environments with right-leaning governments, particularly in cases of lower political constraint (e.g., Aguilera et al., 2021). This may be related to evidence that individuals affiliated with right-wing parties often have more previous experience in business and finance compared to their left-wing counterparts (e.g., Diaz-Serrano & Kallis, 2022). There is also evidence of a severe impact of different political ideologies on stock markets, with the mean of stock prices increasing when right-wing parties are expected to win elections (e.g., Leblang & Mukherjee, 2005), and with a substantial short-term decrease in stock market valuations when left-wing parties are elected (e.g., Girardi, 2020). Despite these findings on public management, the existing literature falls short in dissociating the nuanced impacts of right-wing and left-wing political connections on

companies' financial outcomes. This research gap emphasises the need for a more thorough examination of how connections with specific political ideologies, beyond mere party victories, shape the financial landscape for businesses. Hence, this study examines the impact of political connections through our research hypotheses (H1, H2 and H3) within the context of non-financial Portuguese listed companies, specifically distinguishing between right-wing and left-wing affiliations to address RQ3: *To what extent can we discern a quantifiable difference in the financial performance of Portuguese companies depending on their association with right-wing or left-wing political connections?*

Figure 4 summarises both the explicit and implicit hypotheses discussed above, presenting the conceptual model of our study. We also examine whether economic (in)stability influences the effects of political connections on firms' performance by considering the periods of the global financial crisis and the Portuguese sovereign debt crisis, characterised by significant economic, financial, and political instability.

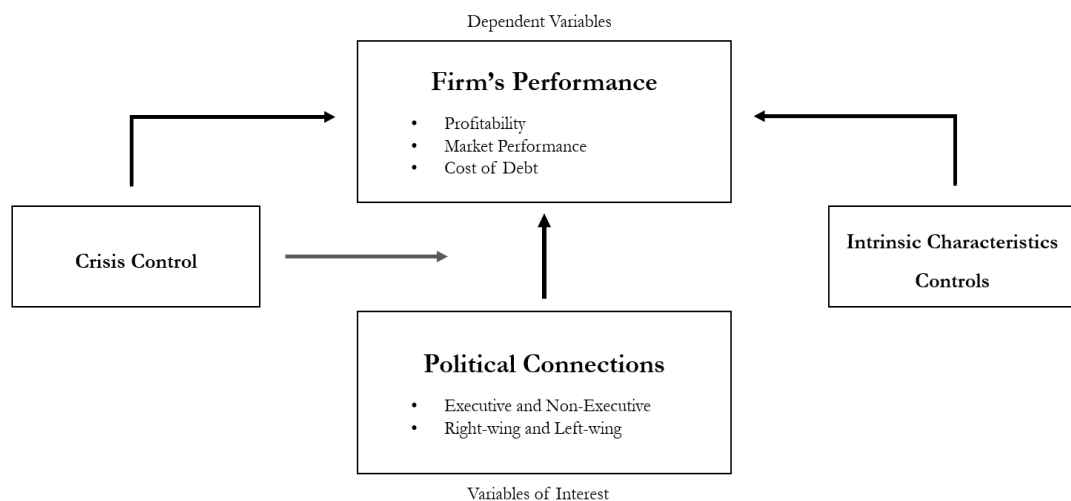


Figure 4. Conceptual Model

4. Data, Method and Variables

4.1. Data

Our data comprises the 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange. The analysis period for each company, as detailed in Table A2 in Appendix, covers the period from 2001 or the individual IPO date, whichever is later, to 2022. The exception is the company *Sociedade das Águas da Curia*, which was last traded in 2017. Financial companies and football clubs were excluded from the analysis.

In order to answer the research questions, we sourced relevant financial metrics through the Sabi and the Orbis database. Additionally, information on political connections was manually gathered from the portal of the Government of the Portuguese Republic and from the annual reports of each company for each year in analysis. Subsequently, a Python code was employed to match and consolidate this data, facilitating the identification of established political connections.

4.2. Method

To address the research questions and answer our research hypotheses, we regress our dependent variables as follows:

$$Y_{it} = \alpha + \beta_1 X_{it} + \beta_2 Z_{it} + \beta_3 Crisis_t + \varepsilon_{it} \quad (1)$$

where i denotes each company at time t and ε_{it} represents the stochastic error; Y_{it} is the set of dependent variables: i.e., *Return on Equity* (to test H1.1 and H1.2), *Tobin's Q* (H2.1 and H2.2) and *cost of debt* (H3.1 and H3.2); X_{it} is the set of our main covariates allowing us to evaluate the overall presence of political connections (i.e., *PC*) as well as its (non)executive nature (i.e., *PC Non-Executive* and *PC Executive*) and ideological (i.e., *PC Left* and *PC Right*); Z_{it} is the set of controls for intrinsic characteristics, accounting for *Price-to-Book Value* (PBV), *Return on Assets* (ROA), *Total Assets*, *Working Capital*, *Earnings Before Interest and Taxes* (EBIT), *Depreciation and Amortization* (D&A), and *Debt-to-Equity ratio*. Additionally, we include a control variable (i.e., *Crisis*) to account for the impact of economic crises on firms' performance. This variable also allows us to analyse the models separately for periods during or before and after the global financial crisis followed by the Portuguese sovereign debt crisis,

providing insights into the differential effects of political connections under varying economic conditions.

We employed for Breusch-Pagan Lagrange multiplier test to determine the suitability of panel models compared to Ordinary Least Squares (OLS) regressions. Subsequently, we ran the Hausman test to choose between random effects and fixed effects models, with fixed effects being deemed most appropriate based on the test results (see Tables A3 to A8, in appendix). Those tests reject the null hypothesis of constant variance (Breusch-Pagan Lagrange multiplier test) and that the Random Effects estimates are more efficient than those obtained from Fixed Effects estimators (Hausman test). Therefore, equation 1 was estimated using Fixed Effects with robust standard errors. This approach is consistent with previous studies that have also employed fixed effects in their empirical research (e.g., Aldhamari et al., 2020; Cull et al., 2015), which ensures the reliability and validity of our findings.

According to the Central Limit Theorem (CLT), the distribution of the mean will be normally distributed regardless of the population's distribution, provided the sample size is sufficiently large (Zhang et. Al, 2022). Given our large data size, the normality assumption can be overlooked.

4.3. Variables

4.3.1. Dependent Variables

To evaluate the profitability of Portuguese listed companies and the influence of political connections on their financial performance, we use the Return on Equity (ROE) as a dependent variable (e.g., Tihanyi et al., 2019). To assess the impact of political connections on market performance, we employ Tobin's Q as a response variable (e.g., Aldhamari et al., 2020). Additionally, to analyse the impact of political connections on financing costs, we use the cost of debt as a dependent variable (e.g., Bliss & Gul, 2012; Ngo & Susnjara, 2020).

4.3.2. Main covariates

The main variable of interest in our research is the *political connection (PC)* that is a binary variable that takes the value one if the firm, for that year, has at least one board of directors or general meeting board member who held a position within a democratic Portuguese government, and zero otherwise. Those connections can be assessed in terms of affiliations with either left-wing or right-wing parties, as well as through distinctions between executive and non-executive political ties.

Political connections with different parties are categorised as left-wing political connections (*PC Left*) and right-wing political connections (*PC Right*). *PC Left* assumes the value one if the firm, for that year, has at least one board of directors or general meeting board member who held a position within a democratic Portuguese left-wing government, and zero otherwise (i.e., to firms with no political connections or with only political connections with a right-wing government). *PC Right*, conversely, assumes the value one if the firm, for that year, has at least one board of directors or general meeting board member who held a position within a democratic Portuguese right-wing government, and zero otherwise (i.e., to firms with no political connections or with only political connections with a left-wing government).

Regarding distinctions between executive and non-executive positions, *PC Executive* is a binary variable that assumes the value one if the firm, for that year, has at least one executive member who held a position within a democratic Portuguese government, and zero otherwise (i.e., to firms with no political connections or with only non-executive political connections). On the other hand, *PC Non-Executive* assumes the value one if the firm, for that year, has at least one non-executive member who held a position within a democratic Portuguese government, and zero otherwise (i.e., to firms with no political connections or with only executive political connections).

4.3.3. Control Variables

A set of variables was included in all regressions because they have been found by previous literature to explain the dependent variables. These variables encompass valuation, size, liquidity, profitability and financial structure control. Valuation is controlled using the Price-to-Book Value (PBV) ratio (e.g., Shahzad et al, 2021). Size is represented by the total book value of assets (e.g., Arifin et al., 2020; Bandeira-de-Mello et al., 2012; Bliss & Gul, 2012). Working capital is employed to control for short-term liquidity (e.g., Sakti et al., 2020). Financial structure of firms is controlled through the debt-to-equity ratio (e.g., Ardiatmi & Sampurno, 2014; Lusy et al., 2018). Lastly, different operational profitability levels are controlled using the Return on Assets (ROA) ratio, Earnings Before Interest and Taxes (EBIT) and Depreciation and Amortization (D&A) (e.g., Ang et al., 2013; Piot & Missonier-Piera, 2007; Tee, 2019; Warrad & Oqdeh, 2018).

Given the importance of contextual factors, as discussed in preceding sections, it is relevant to assess the specific context of each country, particularly its economic factors

(Carney et al., 2020; Li & Xia, 2013). In that sense, our models account for the period including the global financial crisis and the Portuguese sovereign debt crisis (2008-2014), aligning with research that takes periods of crises into account (e.g., Carney et al., 2020; Li & Xia, 2013). We also developed additional models to assess how political connections impact firms' performance differently during periods of economic crises versus stability.

Table 1 presents definitions, measures and sources of variables.

Table 1. Variables definitions, measures and sources

Variables	Definition	Measure	Source
Dependent variables			
ROE	Return on Equity = Earnings Before Tax (EBT) / Equity	Ratio	Sabi
Tobin's Q	Tobin's Q = Market Value of Firm's Assets / Replacement Cost of Firm's Assets	Ratio	Orbis
Cost of debt	Cost of Debt = Interests Paid / Total Debt	Ratio	Sabi
Main covariates			
PC	"1" assigned to firms with at least one political connection, and "0" otherwise.	Binary	Company's reports & Government of the Portuguese Republic's Portal
PC Executive	"1" assigned to firms with at least one executive political connection, and "0" otherwise.	Binary	
PC Non-Executive	"1" assigned to firms with at least one non-executive political connection, and "0" otherwise.	Binary	
PC Left	"1" assigned to firms with at least one left-wing political connection, and "0" otherwise.	Binary	
PC Right	"1" assigned to firms with at least one right-wing political connection, and "0" otherwise.	Binary	
Controls			
PBV	Price-Book Value	Ratio	Orbis
ROA	Return on Assets using Profit (Loss) before tax	Ratio	Sabi
Assets	Book value of total assets	€ B	Sabi
Working Capital	Working Capital	€ B	Sabi
EBIT	Earnings Before Interest and Taxes	€ B	Sabi
DA	Depreciation and Amortization	€ B	Sabi
Debt to Equity	Debt-to-Equity Ratio	Ratio	Sabi
Crisis	Takes the value 1 if between 2008 and 2014 (coventing the Global Financial Crisis and the Portuguese Sovereign Debt Crisis), and 0 otherwise.	Binary	-

4.4. Descriptive Statistics

Table 2 displays the descriptive statistics for the variables included in our models. After conducting an outlier analysis, we decided to winsorize both the dependent and independent variables (excluding those of interest) at the 5th and 95th percentiles to enhance the robustness of our research⁵. Table A9 in Appendix reports the correlation matrix.

Table 2. Descriptive Statistics

This table presents the descriptive statistics of the research variables. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange. The variables' descriptions can be found in Table 1.

Variables	Measure	Obs.	Mean	Std. Dev.	Min.	Max.
Dependent variables						
ROE	Ratio	448	0.08	0.30	-3.05	1.72
Tobin's Q	Ratio	448	0.43	0.36	0.012	1.88
Cost of debt	Ratio	448	0.07	0.06	0	0.42
Main covariates						
<i>Baseline</i>						
PC	Binary	448	0.28	0.45	0	1
<i>Additional</i>						
PC Executive	Binary	448	0.10	0.29	0	1
PC Non-Executive	Binary	448	0.25	0.43	0	1
PC Left	Binary	448	0.15	0.36	0	1
PC Right	Binary	448	0.21	0.41	0	1
Controls						
Crisis	Binary	728	0.27	0.44	0	1
PBV	Ratio	448	1.45	1.50	0.01	11.06
ROA	Ratio	448	0.04	0.11	-0.56	0.55
Assets	€ B	448	1.87	4.10	0.003	22.86
Working Capital	€ B	448	0.06	0.38	-0.35	4.36
EBIT	€ B	448	0.07	0.16	-0.30	0.96
D&A	€ B	448	0.004	0.01	-0.0001	0.07
Debt to Equity	Ratio	448	1.39	2.02	0.002	22.54

As can be seen from the Table 4., on average, 28% of the firm-year observations have at least one board member who held a position within a democratic Portuguese government. Within these observations, 10% have executive board members with government positions, and 25% have at least one non-executive board member with government experience. The higher prevalence of non-executive connections compared to executive connections suggests that firms are more likely to have politically connected individuals in non-executive roles

⁵ Thus, all variables except the variables of interest are winsorized in all the analyses.

rather than operational leadership positions. Note that in a given firm-year, a company may have both executive and non-executive board members who hold government positions. Furthermore, 15% of the firm-year observations have board members with connections to left-wing governments, while 21% have connections to right-wing governments. This indicates that right-wing political connections are slightly more prevalent than left-wing connections in the firms observed, even though left-wing political connections are also relatively common. Table A10, in the appendix, provides detailed descriptive statistics segmented by subsample for further examination.

The Figure 5 below illustrates the temporal trends of politically connected firms, providing insights into the evolving landscape of such affiliations and highlighting the distribution of affiliations over time.

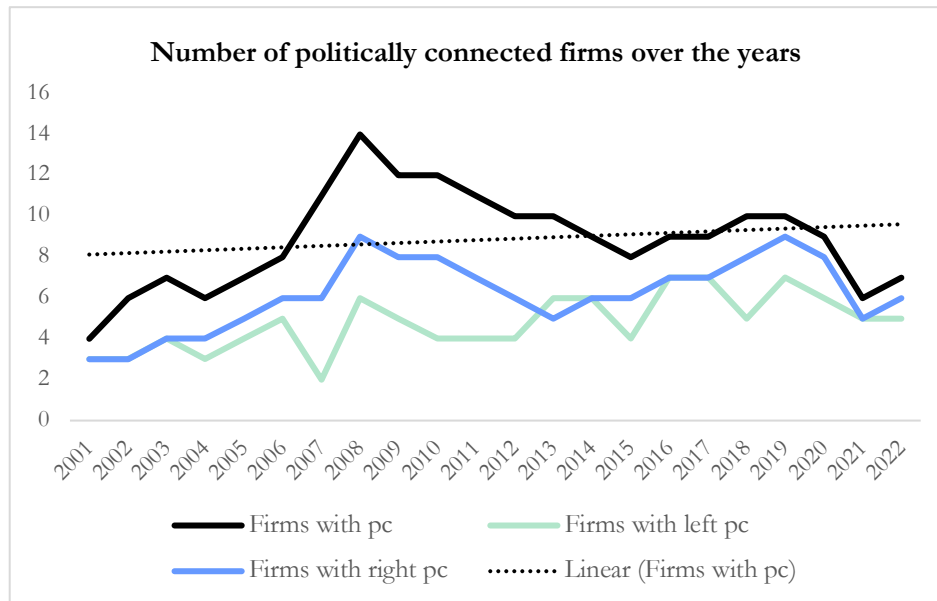


Figure 5. Number of politically connected firms over the years

As illustrated in Figure 5, spanning from 2001 to 2022, an average of 9 companies per year exhibited having political connections, with the trend gradually increasing from 8 to 10 over the analysed period. This consistent presence of politically connected firms accounts for approximately 23% of the total 39 companies assessed.

5. Findings

5.1. Impact of Political Connections on Firms' Profitability

To answer the RQ1 we defined the hypotheses H1.1 and H1.2 which explores whether firms with political connections exhibit higher or lower profitability, measured by ROE. To answer RQ2 and RQ3, we examine whether there is a quantifiable difference in the profitability of Portuguese firms based on their political associations at the executive and non-executive levels, as well as their affiliations with right-wing or left-wing parties. To address these questions, we ran regressions for each variable of interest, controlling for all relevant factors. The results of these regressions are presented in Table 3.

Table 3. Multivariate regression analysis of H1.1 and H1.2

The dependent variable in these regressions is ROE, computed as the ratio between earnings before tax and equity. The main covariates are either *PC* or *PCE* and *PCNE* or *PCL* and *PCR*. The variables' descriptions can be found in Table 1. White heteroscedasticity-consistent standard errors were employed to estimate t-statistics when heteroscedasticity is present.

Dependent Variable	ROE		
	Column I	Column II	Column III
Main Variable(s) of interest	PC	PCE & PCNE	PCL & PCR
Main Covariates			
PC	0.109*** (0.037)		
PC Executive		0.146** (0.058)	
PC Non-Executive		0.087** (0.035)	
PC Left			0.037 (0.030)
PC Right			0.138*** (0.043)
Controls			
Crisis	0.043 (0.026)	0.040 (0.026)	0.048* (0.028)
PBV	-0.007 (0.013)	-0.006 (0.013)	-0.006 (0.012)
ROA	2.149*** (0.272)	2.140*** (0.273)	2.186*** (0.275)
Assets	0.054*** (0.008)	0.054*** (0.008)	0.054*** (0.008)
WC	0.042*** (0.010)	0.036*** (0.010)	0.044*** (0.009)
EBIT	0.047 (0.094)	0.059 (0.093)	0.028 (0.092)
D&A	0.811 (1.506)	0.976 (1.512)	1.074 (1.632)
Debt to Equity	-0.050** (0.020)	-0.052*** (0.019)	-0.051** (0.020)
Intercept	-0.088*** (0.031)	-0.093*** (0.031)	-0.097*** (0.032)
Observations	448	448	448
R-squared (within)	0.677	0.679	0.682
Number of companies	36	36	36
Prob > F	0.0000	0.0000	0.0000

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

In Column I, the positive coefficient of the variable *PC* is statistically significant at the 1% level, providing strong support for hypothesis H1.1 that suggests political connections

increase the profitability of Portuguese listed companies. Politically connected companies have a ROE that is, on average, 10.9 percentage points (pp) higher than non-politically connected companies, *ceteris paribus*. These findings are consistent with several body of literature (e.g., Aldhamari et al., 2020; Ang et al., 2013; Boubakri et al., 2012; Diwan & Schiffbauer, 2018; Faccio, 2010; Wong & Hooy, 2018), underscoring the tangible benefits of political ties in a business context. Moreover, these results resonate with Stewardship Theory and Resource Dependency Theory, indicating that politically connected board members prioritise organizational interests and have access to critical resources, thereby improving firms' profitability.

The estimations reported in Column II suggest that both executive and non-executive political connections appear to positively impact the ROE. While non-executive politically connected companies exhibit a ROE that is, on average, 8.7 percentage points higher than non-politically connected companies, *ceteris paribus*, executive politically connected companies exhibit, on average, a ROE of 14.6 percentage points higher than their non-politically connected counterparts. A Wald test was further conducted to compare the coefficients for executive and non-executive political connections, revealing no statistically significant difference between them. This suggests that while political connections influence ROE, whether these connections are executive or non-executive does not significantly affect their impact.

In Column III the coefficient of *PC Left* variable is not statistically significant at the 10% level. On the other hand, the coefficient of the variable *PC Right* is positive and statistically significant at the 1% level. This evidence suggests companies with right-wing political connections exhibit a significant increase in profitability compared to those without such connections. Specifically, our model indicates that firms with right-wing political connections have a ROE that is, on average, 13.8 percentage points higher than companies without such connections, *ceteris paribus*. On the other hand, political connections associated with left-wing parties do not demonstrate a statistically different ROE than that reported by non-political connected firms.

This differential impact can be attributed to the distinct priorities of the political spectrums. Left-wing parties often prioritise social welfare, income redistribution and labour rights over business-friendly policies (Öniş & Kutlay, 2020), which may not directly enhance firms' profitability. On the other hand, right-wing parties often advocate for pro-business policies (Öniş & Kutlay, 2020). Additionally, research suggests that individuals affiliated with

right-wing parties often have more extensive backgrounds in business and finance compared to their left-wing counterparts (e.g., Diaz-Serrano & Kallis, 2022). This greater business experience translates into practical skills and knowledge that can directly enhance a company's operational efficiency, thereby enhancing ROE.

In summary, the results presented in Table 3 indicate that political connections, both executive and non-executive, positively influence firms' profitability. Regarding political spectrum affiliations, only right-wing political connections appear to positively impact a firm's ROE, *ceteris paribus*. Table A11 in appendix check for perfect multicollinearity. The variance inflation factors (VIFs) of each variable is below 2 indicating collinearity is not an issue (Asteriou & Hall, 2021).

Previous research has found that periods of crises affect companies differently based on their intrinsic characteristics, particularly their political connections (e.g., Carney et al., 2020; Li & Xia, 2013). To further understand how political connections impact firms' performance during periods of economic crises versus stability, we extend this analysis by estimating the models separately for the periods before and after the global financial crisis and the Portuguese sovereign debt crisis, as well as for the period during the crises. The results of these regressions are presented in Table 4.

Table 4. Multivariate regression analysis of H1.1 and H1.2 during crises and stability periods

The dependent variable in these regressions is ROE, computed as the ratio between earnings before tax and equity. The main covariates are either *PC* or *PCE* and *PCNE* or *PCL* and *PCR*. The data are segmented into periods during economic and financial crises and periods outside economic and financial crises, providing insights into the differential effects of political connections on ROE under varying economic conditions. The variables' descriptions can be found in Table 1. White heteroscedasticity-consistent standard errors were employed to estimate t-statistics when heteroscedasticity is present.

Dependent Variable	ROE					
	I.1 Before and After Crises	I.2 During Crises	II.1 Before and After Crises	II.2 During Crises	III.1 Before and After Crises	III.2 During Crises
Main Variable(s) of interest	PC	PC	PCE & PCNE	PCE & PCNE	PCL & PCR	PCL & PCR
Main Covariates						
PC	0.137*** (0.048)	0.018 (0.026)				
PC Executive			0.232** (0.100)	0.006 (0.040)		
PC Non-Executive			0.094** (0.041)	0.000 (0.024)		
PC Left					0.045 (0.042)	-0.022 (0.035)
PC Right					0.146*** (0.052)	0.061* (0.032)
Controls						
PBV	-0.004 (0.013)	-0.056* (0.032)	-0.001 (0.013)	-0.055* (0.032)	-0.002 (0.012)	-0.058* (0.033)
ROA	1.979*** (0.320)	2.683*** (0.415)	1.959*** (0.319)	2.688*** (0.418)	2.016*** (0.331)	2.666*** (0.409)
Assets	0.060*** (0.007)	-0.011 (0.029)	0.061*** (0.007)	-0.012 (0.029)	0.059*** (0.007)	-0.010 (0.029)
WC	0.048*** (0.009)	-0.402 (0.678)	0.035*** (0.013)	-0.399 (0.673)	0.050*** (0.009)	-0.387 (0.683)
EBIT	0.138 (0.094)	-0.195 (0.124)	0.180* (0.095)	-0.196 (0.124)	0.110 (0.094)	-0.193 (0.124)
D&A	0.930 (1.230)	1.104 (3.928)	1.185 (1.198)	1.121 (3.916)	1.266 (1.386)	0.914 (3.942)
Debt to Equity	-0.064*** (0.019)	0.019* (0.009)	-0.067*** (0.016)	0.019* (0.010)	-0.065*** (0.019)	0.017* (0.009)
Intercept	-0.089** (0.035)	0.063 (0.068)	-0.099*** (0.034)	0.067 (0.069)	-0.091** (0.035)	0.065 (0.070)
Observations	329	119	329	119	329	119
R-squared (within)	0.680	0.860	0.688	0.860	0.683	0.862
Number of companies	36	31	36	31	36	31
Prob > F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

The coefficient for *PC* in Column I.1 is statistically significant at the 1% level for periods before and after the crisis. This result indicates that during these periods, politically connected companies correlate positively with ROE, *ceteris paribus*, supporting the hypothesis that political connections positively influence firms' profitability during stable economic times. However, the coefficient of *PC* reported in Column I.2 is not statistically significant during crisis periods, suggesting that the benefits of political connections vanish in times of economic stress.

Similarly, both executive and non-executive politically connected companies benefit from political ties in periods of stability. The results reported in Column II.1 shows that executive and non-executive political connections each correlate positively with ROE. However, the estimates reported in Column II.2 indicate that during crises periods neither the *PC Executive* nor the *PC Non-Executive* variables were statistically significant, underscoring once again that the advantages of political ties are not observed during economic instability.

Results reported in Columns III.1 and III.2, show that political connections associated with left-wing parties remained not statistically significant in any of the periods analysed, suggesting that these connections do not have a measurable impact on firms' profitability regardless of the economic context. Conversely, companies associated with right-wing parties correlated positively with ROE across all periods.

These findings underscore the significance of political affiliations in bolstering firms' profitability, particularly in stable economic climates. In times of crisis, only right-wing political connections consistently yield positive outcomes.

5.2. Impact of Political Connections on Firms' Market Performance

To analyse the impact of political connections on a firm's market performance, measured by Tobin's Q, we ran regressions for global political connections (H2.1 and H2.2), as well as executive, non-executive, right-wing and left-wing connections. The results are presented in Table 5.

Table 5. Multivariate regression analysis of H2.1 and H2.2

The dependent variable in these regressions is Tobin's Q, computed as the ratio between the market value of firm's assets and the replacement cost of firm's assets. The main covariates are either *PC* or *PCE* and *PCNE* or *PCL* and *PCR*. The variables' descriptions can be found in Table 1. White heteroscedasticity-consistent standard errors were employed to estimate t-statistics when heteroscedasticity is present.

Dependent Variable	Tobin's Q		
	Column I	Column II	Column III
Main Variable(s) of interest	PC	PCE & PCNE	PCL & PCR
Main Covariates			
PC	0.0004 (0.048)		
PC Executive		0.046 (0.052)	
PC Non-Executive		-0.023 (0.049)	
PC Left			-0.046 (0.037)
PC Right			-0.004 (0.075)
Controls			
Crisis	-0.085*** (0.027)	0.086*** (0.026)	-0.082*** (0.028)
PBV	0.060* (0.030)	0.061* (0.030)	0.060* (0.030)
ROA	0.354* (0.207)	0.352* (0.208)	0.352* (0.207)
Assets	-0.030** (0.013)	-0.031** (0.013)	-0.031** (0.014)
WC	-0.044** (0.021)	-0.046** (0.022)	-0.042* (0.021)
EBIT	-0.149* (0.088)	-0.145* (0.086)	-0.148 (0.089)
D&A	-3.280 (2.656)	-3.210 (2.677)	-3.425 (2.656)
Debt to Equity	-0.011 (0.010)	-0.011 (0.011)	-0.011 (0.010)
Intercept	0.445*** (0.054)	0.447*** (0.051)	0.454*** (0.059)
Observations	448	448	448
R-squared (within)	0.188	0.189	0.189
Number of companies	36	36	36
Prob > F	0.0008	0.0003	0.0002

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

The coefficients in Columns I, II and III are not statistically significant. Thus, no evidence was found to prove that political connections influence a firm's market performance. These results might suggest that, while political connections can enhance operational efficiency and profitability, as evidenced by Table 3, the Portuguese market does not perceive these benefits as sustainable or significant enough to affect the market valuation of firms. Investors might perceive political connections as offering advantages such as favourable regulations and access to contracts, but they also acknowledge potential drawbacks such lack of accountability and inefficient capital allocation (Nahandi & Khanqah, 2018; Chan, et al., 2020; Vu & Deffains, 2013). This nuanced perception, balancing benefits and drawbacks, renders the overall impact of political connections challenging for investors to gauge.

Moreover, neither political connections associated with right-wing nor left-wing parties demonstrated significance in these findings. Nonetheless, this outcome aligns with the Portuguese political context. Despite their differences, PS and PSD, the two parties that have predominantly ruled the country since 2001, share moderate policies. Consequently, this has fostered a more stable and predictable business environment where companies are not significantly differentiated by investors based on their political connections. This observation holds particularly true in a relatively small country like Portugal, where political connections, whether direct or indirect, are commonplace.

The variance inflation factors (VIFs) of each variable is below 2, as indicated in Table A11 in appendix, suggesting collinearity is not an issue.

Nevertheless, this analysis was conducted over a general timeframe, leaving unanswered questions about the impact of political connections on firms' market performance during periods of economic crises.

In order to better understand how political connections impact firms' performance during periods of economic crises versus stability we now extend the previous analysis by estimating the models separately for the periods before and after the global financial crisis and the Portuguese sovereign debt crisis, as well as for the period during the crises.

The results of these regressions are presented in Table 6.

Table 6. Multivariate regression analysis of H2.1 and H2.2 during crises and stability periods

The dependent variable in these regressions is Tobin's Q, computed as the ratio between the market value of firm's assets and the replacement cost of firm's assets. The main covariates are either *PC* or *PCE* and *PCNE* or *PCL* and *PCR*. The data are segmented into periods during economic and financial crises and periods outside economic and financial crises, providing insights into the differential effects of political connections on Tobin's Q under varying economic conditions. The variables' descriptions can be found in Table 1. White heteroscedasticity-consistent standard errors were employed to estimate t-statistics when heteroscedasticity is present.

Dependent Variable	Tobin's Q					
	I.1 Before and After Crises	I.2 During Crises	II.1 Before and After Crises	II.2 During Crises	III.1 Before and After Crises	III.2 During Crises
Main Variable(s) of interest	PC	PC	PCE & PCNE	PCE & PCNE	PCL & PCR	PCL & PCR
Main Covariates						
PC	-0.032 (0.052)	0.037 (0.123)				
PC Executive			-0.043 (0.027)	0.186 (0.114)		
PC Non-Executive			-0.019 (0.048)	-0.043 (0.067)		
PC Left					-0.048 (0.048)	-0.023* (0.012)
PC Right					-0.050 (0.071)	0.104 (0.225)
Controls						
PBV	0.048* (0.027)	0.085* (0.042)	0.048* (0.028)	0.081* (0.040)	0.049* (0.027)	0.081** (0.037)
ROA	0.345 (0.245)	0.176 (0.301)	0.350 (0.247)	0.187 (0.292)	0.333 (0.240)	0.151 (0.287)
Assets	-0.026 (0.016)	0.060 (0.054)	-0.026 (0.016)	0.047 (0.049)	-0.027 (0.016)	0.062 (0.054)
WC	-0.042* (0.023)	0.383 (0.772)	-0.040* (0.023)	0.529 (0.736)	-0.041* (0.024)	0.407 (0.770)
EBIT	-0.214* (0.120)	0.006 (0.098)	-0.220* (0.125)	0.006 (0.097)	-0.212* (0.115)	0.009 (0.098)
D&A	-3.507 (2.932)	-11.226** (4.618)	-3.543 (2.933)	-11.911** (4.483)	-3.748 (2.917)	-11.519** (4.504)
Debt to Equity	-0.010 (0.008)	-0.044 (0.031)	-0.010 (0.007)	-0.044 (0.027)	-0.010 (0.007)	-0.047 (0.031)
Intercept	0.471*** (0.053)	0.205* (0.116)	0.471*** (0.052)	0.236** (0.095)	0.483*** (0.057)	0.208* (0.112)
Observations	329	119	329	119	329	119
R-squared (within)	0.120	0.187	0.120	0.243	0.124	0.194
Number of companies	36	31	36	31	36	31
Prob > F	0.1051	0.0000	0.0012	0.0000	0.0949	0.0000

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

Like previous models, little evidence was found to support the notion that political connections influence a firm's market performance, regardless of the economic context.

The coefficient for *PC Left* in Column III.2 was the only statistically significant, which suggests that during crises, companies associated with left-wing parties were negatively perceived by investors since political connections to left-wing parties correlated negatively with Tobin's Q.

Note the global financial crisis and the sovereign debt crisis spanned from 2008 to 2014, with the Portuguese financial crisis emerging in 2010, during which Portugal was governed by the PS from 2005 to 2011. Despite the relatively subtle impact of left-wing political connections we previously found, the sequence of events may have led investors to lose confidence in companies with left-wing political connections.

5.3. Impact of Political Connections on Firms' Cost of Debt

To address the two research questions on the impact of political connections on a firm's cost of debt, we ran further regressions, with the results presented in Table 7.

Table 7. Multivariate regression analysis of H3.1 and H3.2

The dependent variable in these regressions is the cost of debt, computed as the ratio between interests paid and total debt. The main covariates are either *PC* or *PCE* and *PCNE* or *PCL* and *PCR*. The variables' descriptions can be found in Table 1. White heteroscedasticity-consistent standard errors were employed to estimate t-statistics when heteroscedasticity is present.

Dependent Variable	Cost of Debt		
	Column I	Column II	Column III
Main Variable(s) of interest	PC	PCE & PCNE	PCL & PCR
Main Covariates			
PC	0.006 (0.009)		
PC Executive		-0.019 (0.016)	
PC Non-Executive		0.017** (0.007)	
PC Left			0.025** (0.010)
PC Right			-0.001 (0.011)
Controls			
Crisis	0.010 (0.006)	0.010* (0.006)	0.008 (0.007)
PBV	-0.001 (0.001)	-0.002 (0.001)	-0.002 (0.001)
ROA	-0.034 (0.039)	-0.033 (0.038)	-0.035 (0.040)
Assets	0.008*** (0.003)	0.009** (0.003)	0.008*** (0.003)
WC	0.012*** (0.004)	0.013*** (0.004)	0.010*** (0.004)
EBIT	0.026 (0.023)	0.024 (0.021)	0.025 (0.022)
D&A	-0.653 (0.971)	-0.685 (0.966)	-0.585 (0.897)
Debt to Equity	-0.003* (0.002)	-0.003* (0.002)	-0.003* (0.002)
Intercept	0.054*** (0.006)	0.053*** (0.006)	0.052*** (0.005)
Observations	448	448	448
R-squared (within)	0.052	0.064	0.062
Number of companies	36	36	36
Prob > F	0.0000	0.0000	0.0000

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

The coefficient for *PC Non-Executive* in Column II is statistically significant at the 5% level and indicates that non-executive politically connected companies, on average, have a cost of debt 1.7 percentage points higher than their non-politically counterparts, *ceteris paribus*. These findings suggest that non-executive political connections increase the cost of debt for Portuguese listed companies.

This negative effect on companies with non-executive political connections will be reflected in those company's ROE, as the cost of debt influences Earnings Before Taxes. However, despite this negative impact, the coefficient for *PC Non-Executive* in Column II of Table 2 shows a positive impact of non-executive political connections on firms' profitability, measured by ROE. This demonstrates that the positive effects of these connections more than compensate for the negative effects on the cost of debt.

In contrast, neither the coefficient for *PC* in Column I nor the coefficient for *PC Executive* in Column II demonstrate statistical significance.

In Column III, the coefficient of *PC Right* variable is not statistically significant. However, the coefficient for *PC Left* variable is significant at the 5% level, indicating that companies with left-wing political connections experience a significant increase in the cost of debt compared to those that have no such connections. Specifically, our model indicates that firms with left-wing political connections have a cost of debt that is, on average, 2.5 percentage points higher than companies without such connections, *ceteris paribus*. On the contrary, the impact of political connections associated with right-wing parties was not deemed significant.

These findings are consistent with existing literature (e.g., Bliss & Gul, 2012; Singam, 2003), which suggests that companies with some type of associations with political parties may face adverse consequences in the form of increased interest rates, given their higher susceptibility to corruption. Such conclusions are often observed in systems characterised by weaker governance structures that face problems of corporate governance.

This aligns with insights from the World Corporate Governance Index (WCGI), where countries like Portugal and Malaysia, classified in Group 2 (scoring between 60-80), require further improvements in terms of corporate governance. Thus, evidence from Portugal mirrors that from Malaysia, suggesting that certain political connections may increase a company's perceived riskiness in the lenders perspective, potentially resulting in higher interest rates (e.g., Bliss & Gul, 2012).

Consistent with previous models, multicollinearity is not a concern, as the variance inflation factors (VIFs) for each variable are below 2 (see Table A11 in the appendix).

In order to gain deeper insights into how political connections impact firms' cost of debt during periods of economic crises compared to stable conditions, we extend our previous analysis by estimating the models separately for the periods before and after the global financial crisis and the Portuguese sovereign debt crisis, as well as for the period during the crises. The results of these analyses are presented in Table 8 below.

Table 8. Multivariate regression analysis of H3.1 and H3.2 during crises and stability periods

The dependent variable in these regressions is the cost of debt, computed as the ratio between interests paid and total debt. The main covariates are either *PC* or *PCE* and *PCNE* or *PCL* and *PCR*. The data are segmented into periods during economic and financial crises and periods outside economic and financial crises, providing insights into the differential effects of political connections on cost of debt under varying economic conditions. The variables' descriptions can be found in Table 1. White heteroscedasticity-consistent standard errors were employed to estimate t-statistics when heteroscedasticity is present.

Dependent Variable	Cost of Debt					
	I.1 Before and After Crises	I.2 During Crises	II.1 Before and After Crises	II.2 During Crises	III.1 Before and After Crises	III.2 During Crises
Main Variable(s) of interest	PC	PC	PCE & PCNE	PCE & PCNE	PCL & PCR	PCL & PCR
Main Covariates						
PC	0.007 (0.009)	0.005 (0.005)				
PC Executive			-0.014 (0.016)	0.004 (0.005)		
PC Non-Executive			0.017** (0.008)	0.004 (0.006)		
PC Left					0.025* (0.014)	-0.002 (0.006)
PC Right					-0.001 (0.009)	0.012* (0.007)
Controls						
PBV	0.000 (0.002)	-0.004 (0.005)	-0.001 (0.001)	-0.004 (0.005)	0.000 (0.002)	-0.005 (0.005)
ROA	-0.024 (0.042)	-0.029 (0.076)	-0.023 (0.041)	-0.028 (0.076)	-0.028 (0.043)	-0.032 (0.077)
Assets	0.008** (0.003)	-0.027* (0.015)	0.009** (0.003)	-0.027* (0.015)	0.008** (0.003)	-0.027* (0.015)
WC	0.012** (0.005)	0.337 (0.273)	0.013** (0.005)	0.339 (0.276)	0.010* (0.005)	0.339 (0.275)
EBIT	0.039 (0.027)	-0.002 (0.025)	0.036 (0.024)	-0.002 (0.025)	0.040 (0.025)	-0.001 (0.025)
D&A	-0.592 (1.102)	-1.988 (1.490)	-0.621 (1.096)	-1.997 (1.504)	-0.530 (1.018)	-2.019 (1.500)
Debt to Equity	-0.003 (0.002)	-0.005 (0.004)	-0.003 (0.002)	-0.005 (0.004)	-0.003 (0.002)	-0.005 (0.004)
Intercept	0.049*** (0.007)	0.141*** (0.034)	0.048*** (0.008)	0.142*** (0.035)	0.048*** (0.007)	0.142*** (0.035)
Observations	329	119	329	119	329	119
R-squared (within)	0.053	0.054	0.062	0.054	0.062	0.055
Number of companies	36	31	36	31	36	31
Prob > F	0.0000	0.1600	0.0000	0.0244	0.0000	0.2030

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

The coefficient of *PC Non-Executive* variable in Column II.1 remained statistically significant at the 5% level, indicating that under normal circumstances, non-executive politically connected companies correlate positively with the cost of debt, *ceteris paribus*.

Similarly, the *PC Left* variable coefficient in Column III.1, significant for a 10% level, suggests that firms with left-wing political connections, in stable periods, correlate positively with the cost of debt, indicating a higher cost of debt for companies with left-wing political connections compared with those without such connections.

However, the broader implications of political connections during stable periods, including executive political affiliations and associations with right-wing parties, yielded statistically insignificant results. Therefore, these findings suggest that such political connections do not exert a discernible influence on the company's cost of debt.

Furthermore, our results on the influence of political ties during economic downturns were inconclusive. Higher 'Prob > F' values indicate that the overall model lacked statistical significance, despite the coefficient of *PC Right* variable showing statistical significance at the 10% level. As such, drawing definitive conclusions regarding the influence of political connections during crises remains challenging.

6. Conclusions

Using data from an extensive analysis of Portuguese listed companies, this study examines the impact of political connections on firms' performance, focusing on both executive and non-executive roles, as well as the ideological nature of these connections.

Our research reveals that politically connected companies have a positive effect on firms' profitability, measured by ROE. This evidence supports both Stewardship Theory and Resource Dependency Theory, which argue that political connections enhance firms' profitability by prioritizing organizational interests and providing crucial resources. Both executive and non-executive political affiliations positively impact ROE, with our findings indicating that the distinction between these roles does not significantly affect the influence of political connections on firms' profitability.

Our study additionally uncovered differential effects based on the ideological spectrum of political connections. We found that firms linked with right-wing parties consistently experience positive impacts on profitability, regardless the economic context. These findings suggest that the pro-business policies and extensive business experience associated with right-wing parties (e.g., Diaz-Serrano & Kallis, 2022; Öniş & Kutlay, 2020) contribute to maintaining firms' profitability even during financial instability. In contrast, firms associated with left-wing parties don't demonstrate significant financial benefits, highlighting the prioritization of social welfare, income redistribution and labour rights over pro-business policies (Öniş & Kutlay, 2020).

Moreover, our investigation into firms' performance during economic crises reveals that while overall political connections positively influenced profitability during stable economic periods, their impact became statistically insignificant during downturns. This finding suggests that the benefits of political ties may rely on economic stability and regulatory predictability, echoing prior research on the contextual nature of political connections (Carney et al., 2020; Li & Xia, 2013).

Contrary to profitability, little evidence was found to support the notion that political connections impact a firm's market performance, measured by Tobin's Q. This suggests that while political ties may enhance operational efficiency and profitability, their perceived benefits do not translate into sustained market valuation improvements, reflecting investor scepticism. However, during economic and political instability, companies with left-wing political connections exhibited poorer market performance compared to firms without such

connections, potentially due to economic challenges during PS governance from 2005-2011, which eroded investor confidence in left-wing-aligned-companies.

Additionally, political ties, particularly non-executive and left-wing affiliations, were associated with higher costs of debt, indicating greater risk perception among lenders (Bliss & Gul, 2012). These findings underscore the financial implications of political ties, revealing potential downsides in terms of increased borrowing costs, especially in weaker governance environments.

Given the findings of this study, policymakers should acknowledge the potential economic benefits that political connections can offer to firm profitability, particularly those with ties to right-wing parties. To fully leverage these benefits, it is crucial to foster a stable and predictable economic environment where political connected firms can thrive. However, caution must be taken to prevent the potential downsides of political connections, such as overinvestment and increased corruption, which can endanger firms' value. Therefore, policymakers should aim to balance the support for business-friendly policies with the implementation of mechanisms that ensure fair competition and mitigate the risks associated with political affiliations, especially in times of economic instability. Additionally, transparent regulations should be established to maintain investor confidence and promote sustainable economic growth. Firms, on their part, should recognise the advantages of having political connections while upholding ethical practices and maintaining operational efficiency to safeguard and enhance their value.

In summary, our findings shed light on the nuanced effects of political connections on firms' financial metrics. While political connections generally enhance operational efficiency and profitability, they do not significantly affect market valuation, and certain connections can increase borrowing costs. Thus, additional research is needed to elucidate the global impact of political connections on firms' performance.

Our study significantly contributes to the literature by providing a detailed and nuanced analysis of the impact of political connections on Portuguese listed companies, distinguishing between executive (PCE) and non-executive (PCNE) ties. In addition, our study uniquely examines the ideological spectrum of political connections and their effects during economic crises, offering new insights into the interplay between political affiliations and firms' performance, contributing to the broader understanding of the role of political connections in corporate finance.

Nonetheless, our study has some limitations that must be considered when analysing our findings. Firstly, our research concentrates mostly on the category of politically connected firms characterised by board of directors. Future research should consider additional categories of political connections, as different types may yield different outcomes (Wong & Hooy, 2018). Secondly, while we examine three financial metrics - ROE, Tobin's Q, and Cost of Debt - future research could explore broader dimensions to provide a more holistic understanding of the effects of political connections on corporate behaviour. Thirdly, the choice of Portugal as a focus imposes limitations, notably a small data size due to the country's narrower capital market scope, which constrains our ability to draw robust inferences from sub-samples.

Additionally, while evidence from France suggest political connections leads to lower profits (Bertrand et al., 2018), evidence from Spain shows political connections positively affects Tobin's Q (Pérez et al., 2015) and evidence from Italy suggests politically connected firms benefit from lower interest rates (Infante & Piazza, 2014). Thus, the results from Portugal cannot be generalised to other countries with different market structures and political landscapes. Addressing these limitations, future research can build upon our findings and provide a more comprehensive understanding of the role of political connections in corporate finance.

Noteworthy, there is a significant gap in existing research, as no prior public study has specifically examined the distinct impacts of political connections across different parties on the political spectrum on firms' performance. This gap highlights the need for further research to understand how political connections, particularly those aligned with right-wing and left-wing ideologies, uniquely influence corporate outcomes.

7. References

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8. Appendices

Table A1. Constitutional Governments of Portugal

This table presents the composition and ruling periods of each constitutional government of Portugal, including the political parties involved and their categorization as either centre-left (classified as left-wing in our model) or centre-right (classified as right-wing). It also notes that three constitutional governments were independent.

Constitutional Governments of Portugal	Period	Parties in Government	Type of Party
I Constitutional Governments of Portugal	1976-1978	Socialist Party	Centre-left
II Constitutional Governments of Portugal	1978-1978	Socialist Party & People's Party	Centre-left Centre-right
III Constitutional Governments of Portugal	1978-1978	Independent	-
IV Constitutional Governments of Portugal	1978-1979	Independent	-
V Constitutional Governments of Portugal	1979-1980	Independent	-
VI Constitutional Governments of Portugal	1980-1981	Social Democratic Party & People's Party & People's Monarchist Party	Centre-right
VII Constitutional Governments of Portugal	1981-1981	Social Democratic Party & People's Party & People's Monarchist Party	Centre-right
VIII Constitutional Governments of Portugal	1981-1983	Social Democratic Party & People's Party & People's Monarchist Party	Centre-right
IX Constitutional Governments of Portugal	1983-1985	Socialist Party & Social Democratic Party	Centre-left Centre-right
X Constitutional Governments of Portugal	1985-1987	Social Democratic Party	Centre-right
XI Constitutional Governments of Portugal	1987-1991	Social Democratic Party	Centre-right
XII Constitutional Governments of Portugal	1991-1995	Social Democratic Party	Centre-right
XIII Constitutional Governments of Portugal	1995-1999	Socialist Party	Centre-left
XIV Constitutional Governments of Portugal	1999-2002	Socialist Party	Centre-left
XV Constitutional Governments of Portugal	2002-2004	Social Democratic Party & People's Party	Centre-right
XVI Constitutional Governments of Portugal	2004-2005	Social Democratic Party & People's Party	Centre-right
XVII Constitutional Governments of Portugal	2005-2009	Socialist Party	Centre-left
XVIII Constitutional Governments of Portugal	2009-2011	Socialist Party	Centre-left
XIX Constitutional Governments of Portugal	2011-2015	Social Democratic Party & People's Party	Centre-right
XX Constitutional Governments of Portugal	2015-2015	Social Democratic Party & People's Party	Centre-right
XXI Constitutional Governments of Portugal	2015-2019	Socialist Party	Centre-left
XXII Constitutional Governments of Portugal	2019-2022	Socialist Party	Centre-left

Table A2. Companies and periods under analysis

This table outlines each company included in our research along with the respective analysis period for each. Thus, our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange.

Companies	Period in Analysis	
	From	Until
Altri, SGPS, S.A.	2005	2022
Cofina, SGPS, S.A.	2001	2022
Conduril – Engenharia, S.A.	2001	2022
Corticeira Amorim, SGPS, S.A.	2001	2022
CTT – Correios de Portugal, S.A.	2013	2022
EDP – Energias de Portugal, S.A.	2001	2022
EDP Renováveis, S.A.	2008	2022
Estoril – Sol, SGPS, S.A.	2001	2022
Farminveste, SGPS, S.A.	2018	2022
Galp Energia, SGPS, S.A.	2006	2022
Glintt – Global Intelligent Technologies, S.A.	2001	2022
Greenvolt – Energias Renováveis, S.A.	2021	2022
Grupo Média Capital, SGPS, S.A.	2004	2022
Ibersol, SGPS, S.A.	2001	2022
Imobiliária Construtora Grão-Pará, S.A.	2001	2022
Impresa, SGPS, S.A.	2001	2022
Inapa – Investimentos, Participações e Gestão, S.A.	2001	2022
Jerónimo Martins, SGPS, S.A.	2001	2022
Lisgráfica – Impressão e Artes Gráficas, S.A.	2001	2022
Litho Formas, S.A.	2001	2022
Martifer, SGPS, S.A.	2007	2022
Monumental Residence – Sociedade de Investimento Coletivo Imobiliária Fechada, S.A.	2019	2022
Mota-Engil, SGPS, S.A.	2001	2022
NOS, SGPS, S.A.	2001	2022
Novabase – Infraestruturas, SGPS, S.A.	2001	2022
Olimpo Real Estate Portugal, SIGI, S.A.	2020	2022
Pharol, SGPS, S.A.	2001	2022
Ramada Investimentos e Indústria, S.A.	2008	2022
Reditus, SGPS, S.A.	2001	2022
REN – Redes Energéticas Nacionais, S.A.	2007	2022
Sociedade das Águas da Curia, S.A.	2001	2017
Semapa	2001	2022
Sonae, SGPS, S.A.	2001	2022
Sonaecom, SGPS, S.A.	2001	2022
Sonagi, SGPS, S.A.	2013	2022
Teixeira Duarte, S.A.	2010	2022
The Navigator Company	2006	2022
Toyota Caetano Portugal, S.A.	2001	2022
VAA – Vista Alegre Atlantis, SGPS, S.A.	2001	2022

Table A3. Model Selection Diagnostics for Base Model

This table displays the outcomes of the Breusch-Pagan Lagrange multiplier test and the subsequent Hausman test. These tests evaluate the appropriateness of panel models and, if suitable, select between random effects and fixed effects models. Based on these findings, the fixed effects model is deemed more suitable for the models with the *PC* variable of interest. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange.

	Column I	Column II	Column III
Dependent variable	ROE	Tobin's Q	Cost of Debt
Main variable of interest	PC	PC	PC
<i>Controls</i>	Yes	Yes	Yes
Pooled OLS versus RE			
Breusch-Pagan LM test [Chi2(1)] [H0: OLS is more efficient]	45.44***	472.10***	159.76***
RE versus FE			
Hausman Test [Chi2(8)] [H0: RE is more efficient]	85.32***	59.23***	80.50***

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

Table A4. Model Selection Diagnostics for Models with PCE and PCNE

This table displays the outcomes of the Breusch-Pagan Lagrange multiplier test and the subsequent Hausman test. These tests evaluate the appropriateness of panel models and, if suitable, select between random effects and fixed effects models. Based on these findings, the fixed effects model is deemed more suitable for the models with the *PCE* and *PCNE* variables of interest. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange.

	Column I	Column II	Column III
Dependent variable	ROE	Tobin's Q	Cost of Debt
Main variables of interest	PCE & PCNE	PCE & PCNE	PCE & PCNE
<i>Controls</i>	Yes	Yes	Yes
Pooled OLS versus RE			
Breusch-Pagan LM test [Chi2(1)] [H0: OLS is more efficient]	40.10***	392.61***	165.81***
RE versus FE			
Hausman Test [Chi2(8)] [H0: RE is more efficient]	98.49***	26.76***	14.40*

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

Table A5. Model Selection Diagnostics for Models with PCL and PCR

This table displays the outcomes of the Breusch-Pagan Lagrange multiplier test and the subsequent Hausman test. These tests evaluate the appropriateness of panel models and, if suitable, select between random effects and fixed effects models. Based on these findings, the fixed effects model is deemed more suitable for the models with the *PCL* and *PCR* variables of interest. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange.

	Column I	Column II	Column III
Dependent variable	ROE	Tobin's Q	Cost of Debt
Main variables of interest	PCL & PCR	PCL & PCR	PCL & PCR
<i>Controls</i>	Yes	Yes	Yes
Pooled OLS versus RE			
Breusch-Pagan LM test [Chi2(1)]	34.25***	457.64***	142.07***
[H0: OLS is more efficient]			
RE versus FE			
Hausman Test [Chi2(8)]	91.29***	32.95***	79.19***
[H0: RE is more efficient]			

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

Table A6. Breusch-Pagan / Cook-Weisberg test for Base Model

This table displays the outcomes of the Breusch-Pagan test, indicating heteroscedasticity in our base model. Therefore, heteroscedasticity-consistent standard errors were employed. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange.

	Column I	Column II	Column III
Dependent variable	ROE	Tobin's Q	Cost of Debt
Main variable of interest	PC	PC	PC
<i>Controls</i>	Yes	Yes	Yes
Heteroskedasticity			
Breusch-Pagan test [Chi2(1)]	496.60***	230.58***	23.57***
[H0: Constant variance]			

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

Table A7. Breusch-Pagan / Cook-Weisberg test for Models with PCE and PCNE

This table displays the outcomes of the Breusch-Pagan test, indicating heteroscedasticity in our models with the *PCE* and *PCNE* variables of interest. Therefore, heteroscedasticity-consistent standard errors were employed. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange.

	Column I	Column II	Column III
Dependent variable	ROE	Tobin's Q	Cost of Debt
Main variables of interest	PCE & PCNE	PCE & PCNE	PCE & PCNE
<i>Controls</i>	Yes	Yes	Yes
Heteroskedasticity			
Breusch-Pagan test [Chi2(1)]	508.59***	183.92***	10.68***
[H0: Constant variance]			

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

Table A8. Breusch-Pagan / Cook-Weisberg test for Models with PCL and PCR

This table displays the outcomes of the Breusch-Pagan test, indicating heteroscedasticity in our models with the *PCL* and *PCR* variables of interest. Therefore, heteroscedasticity-consistent standard errors were employed. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange.

	Column I	Column II	Column III
Dependent variable	ROE	Tobin's Q	Cost of Debt
Main variables of interest	PCL & PCR	PCL & PCR	PCL & PCR
<i>Controls</i>	Yes	Yes	Yes
Heteroskedasticity			
Breusch-Pagan test [Chi2(1)]	534.93***	239.89***	32.71***
[H0: Constant variance]			

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

Table A9. Pearson Correlation matrix

This table presents the correlation of all research variables. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange. The variables' descriptions can be found in Table 1.

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Dependent variables																
ROE	(1)	1.0000														
Tobin's Q	(2)	0.1963*	1.0000													
Cost of Debt	(3)	0.0308	-0.0457	1.0000												
Main covariates																
PC	(4)	0.0701	0.0603	0.1294*	1.0000											
PC Executive	(5)	0.0879	0.1983*	0.0140	0.5267*	1.0000										
PC Non-Executive	(6)	0.0607	-0.0365	0.1210*	0.9277*	0.3396*	1.0000									
PC Left	(7)	0.1423*	0.0220	0.1499*	0.6838*	0.6647*	0.6218*	1.0000								
PC Right	(8)	0.0648	0.0148	0.1533*	0.8386*	0.3130*	0.8407*	0.3741*	1.0000							
Controls																
PBV	(9)	0.1412*	0.5507*	0.0146	0.1170*	0.0931*	0.0712	0.0040	0.1037*	1.0000						
ROA	(10)	0.7819*	0.3200*	0.0304	-0.0080	0.0446	-0.0258	0.0269	-0.0075	0.2252*	1.0000					
Assets	(11)	0.0872	-0.0220	0.0125	0.3128*	0.5530*	0.3164*	0.4161*	0.3065*	-0.0050	0.0416	1.0000				
Working Capital	(12)	0.0051	-0.0227	0.0418	0.1215*	0.2209*	0.1285*	0.1865	0.1011*	0.0254	-0.0152	0.2411*	1.0000			
EBIT	(13)	0.3560*	0.2249*	0.0503	0.1084*	0.2579*	0.0532	0.1889*	0.0566	0.1488*	0.4356*	0.3184*	-0.0581	1.0000		
D&A	(14)	0.0774	-0.0873	0.0158	0.1331*	0.1289*	0.1666*	0.2265*	0.2094*	-0.0690	-0.0431	0.2951*	0.0259	-0.0010	1.0000	
Debt to Equity	(15)	-0.1540*	-0.1772*	-0.0418	0.3193*	0.1206*	0.3484*	0.2113*	0.3531*	0.0016	-0.1142*	0.0943*	0.0370	0.0083	0.2485*	1.0000

*, **, and *** denote significance at the 10%, 5%, and 1% level, respectively.

Table A10. Descriptive statistics by subsample

This table presents the descriptive statistics of the research variables for our data of 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange. The data are segmented into periods during economic and financial crises and periods outside economic and financial crises, providing insights into the differential effects of political connections under varying economic conditions. The variables' descriptions can be found in Table 1.

		During Crises					Before and After Crises				
	Measure	Obs.	Mean	Std. Dev.	Min.	Max.	Obs.	Mean	Std. Dev.	Min.	Max.
Dependent variables											
ROE	%	119	0.042	0.250	-2.047	0.561	329	0.089	0.318	-3.047	1.724
Tobin's Q	Ratio	119	0.335	0.331	0.019	1.878	329	0.461	0.368	0.012	1.878
Cost of Debt	%	119	0.075	0.057	0.0003	0.415	329	0.062	0.059	0.000	0.415
Main covariates											
<i>Baseline</i>											
PC	Binary	119	0.269	0.445	0	1	329	0.280	0.450	0	1
<i>Additional</i>											
PC Executive	Binary	119	0.101	0.302	0	1	329	0.094	0.293	0	1
PC Non-Executive	Binary	119	0.244	0.431	0	1	329	0.249	0.433	0	1
PC Left	Binary	119	0.193	0.397	0	1	329	0.137	0.344	0	1
PC Right	Binary	119	0.176	0.383	0	1	329	0.225	0.418	0	1
Controls											
PBV	Ratio	119	1.22	1.262	0.010	6.101	329	1.536	1.564	0.010	11.055
ROA	Ratio	119	0.019	0.086	-0.562	0.359	329	0.052	0.111	-0.562	0.554
Assets	€ th M	119	1.903	3.996	0.006	21.237	329	1.854	4.143	0.003	22.858
Working Capital	€ th M	119	0.013	0.074	-0.286	0.315	329	0.072	0.440	-0.351	4.364
EBIT	€ th M	119	0.076	0.175	-0.158	0.962	329	0.066	0.155	-0.302	0.962
D&A	€ th M	119	0.004	0.008	0	0.043	329	0.004	0.010	0.000	0.066
Debt to Equity	Ratio	119	1.526	1.946	0.002	12.226	329	1.335	2.053	0.002	22.541

Table A11. VIF testing

This table presents the VIF values of each explanatory variable for all the main models. Our data comprises 39 Portuguese non-financial publicly listed private firms, all of which had been listed on Euronext Lisbon Stock Exchange. The variables' descriptions can be found in Table 1.

Main variable(s) of interest	PC	PCE & PCNE	PCL & PCR
<i>Controls</i>	Yes	Yes	Yes
PC	1.25		
PC Executive		1.56	
PC Non-Executive		1.32	
PC Left			1.38
PC Right			1.36
PBV	1.09	1.09	1.09
ROA	1.34	1.34	1.34
Assets	1.45	1.78	1.54
WC	1.10	1.12	1.12
EBIT	1.46	1.48	1.48
D&A	1.18	1.19	1.20
Debt to Equity	1.19	1.22	1.22
Mean VIF	1.23	1.31	1.28