Political Connections and Organizational Growth:
A Multi-Level Analysis

Laura Fernández-Méndez
Universidad de Oviedo
Esteban García-Canal
Universidad de Oviedo
Mauro F. Guillén
University of Pennsylvania

ABSTRACT

Previous research has shown that organizations derive advantages from their political connections, although not every organization profits from such connections to the same extent. We develop a multi-level theory of the effect of political connections in the home country on foreign organizational growth, delineating the boundary conditions at the firm, industry, country, and supranational levels. We argue that political connections facilitate foreign growth, especially for firms with higher levels of intangible assets, in heavily regulated industries, in foreign countries with few checks and balances on the executive branch of the government, and in regions of the world sharing a similar institutional framework with the firm's home country. We use panel data on the political connections of Spanish listed firms from 1986 to 2008, and find robust support for these hypotheses. We discuss the implications for organizational theory.

INTRODUCTION

The impact of political connections on organizational decision making, growth, and performance has received intermittent attention in the field of organizational studies. Selznick's (1949) classic study of cooptation in the Tennessee Valley Authority, Pfeffer and Salancik's (1978) resource-dependence perspective, and Mizruchi's (1992) study of the political behavior of American corporations represent important milestones in the development of this area of research. More recently, researchers have examined the effect of political connections, including Siegel (2007), who showed that political ties in the home country allowed South Korean firms to establish more international alliances, and that the value of political ties was contingent on changes in who occupied the highest political offices in the home country. In fact, he documented that political connections can be both an asset and a liability, depending on who controls the executive branch of government. In a similar vein, Marquis and Qian (2013) described political ties as a "double-edged sword" because, on the one hand, they provide firms with access to resources, but on the other the very same connections make them more prone to government control. Brockman et al. (2013) showed that the effect of political connections on post-merger performance depended on institutional characteristics of the country—e.g. level of corruption and the strength of the legal system. Despite this previous research, we still do not fully understand the boundary conditions around the basic proposition that organizations with political connections enjoy certain advantages over those lacking them, including higher rates of growth and performance.

The effect of political connections on organizational growth has received far more attention in other fields. The corporate governance literature in the field of finance has documented that politically-connected firms have higher stock valuations (Faccio, 2006; Fisman, 2001; Goldman et al. 2009), obtain more government protection (Faccio et al., 2006), take higher financial risks (Boubakri et al., 2013), enjoy greater access to financial resources

(Claessens et al., 2008), and display a greater degree of diversification (Li et al., 2012) than firms lacking such connections. These studies emphasize that politically-connected firms secure resources that enable them to grow faster.

In this paper we examine the contingent advantages associated with political connections in the case of foreign corporate growth. Foreign investment is the typical way in which companies take advantage of growth opportunities abroad. These growth opportunities are in part possible because of the resources accumulated by firms in their home country (Caves, 1996; Buckley and Casson, 1976). Given that political connections can be understood as a firm-specific resource, and that it is easier for firms to develop political connections in the home country, a number of questions arise. Do such domestic ties discourage or encourage foreign growth? Are political connections valuable for all firms? Are political connections more useful in some industries than others? Do they apply equally in different foreign markets defined at the national and supranational levels?

Building on resource-dependence theory, we formulate a model of the contingent effect of political connections. We argue that political connections in the home country encourage foreign growth, and that this effect is greater for firms with more intangible assets such as technology and brands, those in heavily regulated industries, those expanding in countries having governments with high level of discretionary power, and those expanding into foreign countries with similar institutions as the home country. Thus, we argue and test the general proposition that the value of political resources in general, and political connections in particular, is contingent on variables that operate at different levels of analysis.

Our theoretical approach involves formulating a multi-level contingency model in order to analyze the effect of political connections on firms' foreign growth more comprehensively (Ghayour et al., 2013; Hitt et al., 2007). Previous research in organizational theory and strategy has emphasized the firm, industry, country and region as the key levels of analysis (Flores and Aguilera, 2007). At the firm level, firm's resources have been considered as crucial in achieving competitive advantages and in consequence in delineating firms' strategy (Barney, 1991; Peteraf, 1993). Similarly, industry characteristics and structure have also been important in determining firms' outcomes (Porter, 1980). In the case of the last two dimensions, host-country and regional levels, research in the field of international strategy has highlighted the need to jointly analyze these dimensions in order to explain firms' international strategy. Above the country-level analysis, regions have been proposed as a relevant domain (Flores and Aguilera, 2007; Ghemawat, 2003; Arregle et al. 2009, 2013).

A MULTI-LEVEL PERSPECTIVE ON POLITICAL TIES

Most previous studies on the political connections of firms focus on the crucial role of the board of directors. There is a long tradition of organizational research linking the composition and background of the board of directors to organizational outcomes such as performance (McDonald et al., 2013), and growth through diversification (Jensen and Zajac, 2004). Interpersonal dynamics on the board of directors, where people with different backgrounds and connections interact, is widely accepted to be an arena in which the organization negotiates and manages its external contingencies (Westphal et al., 2008). More specifically, organizational researchers have focused on the phenomenon of interlocking directors, i.e. individuals who sit on more than one corporate board. As noted by Pfeffer and Salancik (2003:161), interlocking directors are "one form […] to manage the environment by appointing significant external representatives to positions in the organization." The role of politicians and former politicians on corporate boards of directors has also received some

attention in the literature. In fact, the mobility of politicians to organizations and vice versa generates common understandings. The provision of valuable resources is another important role that resource-dependence researchers have attributed to the board of directors (Hillman and Dalziel, 2003). Hillman (2005) further argued that former politicians on the board do not only provide the organization with connections with governments, but also valuable knowledge regarding how the political process works more generally. In this sense, recent research has argued that politicians acting as directors may bring two types of resources to the organization, namely, human and social capital (Lester et al., 2008).

Building on the idea that the presence of directors with political connections helps organizations secure certain resources, we argue that, if political connections matter for organizational growth in the form of foreign investments, it must be the case that their presence provides some kind of a firm-specific advantage (Buckley and Casson, 1976; Caves, 1996; Hennart, 1982; Teece, 1977). Previous research has included political resources into the firm's resource set, as they usually are unique, inimitable and valuable (Boddewyn and Brewer, 1984; Dahan, 2005; Guillén and García-Canal, 2010), and, thus likely to become a source of competitive advantage (Barney, 1991, 2001; Moran and Ghoshal, 1999). In a similar way, early entrants into a foreign market use political resources to obtain first-mover advantages (Frynas et al., 2006; Sun et al., 2010). In this vein, a recent stream of research has found political resources developed in the home country as drivers of organization's international growth (Cuervo-Cazurra and Genc, 2008; García-Canal and Guillén, 2008; Holburn and Zelner, 2010; Jiménez-Palmero, 2010).

For political ties in the home country to have an impact on foreign organizational growth, however, they must help the firm secure valuable resources in the home country or be portable to foreign locations, or both. Research has shown that political connections in the home country may help the firm secure valuable resources that are useful to international expansion, including funding, market share, and managerial talent (Bunkanwanicha and Wiwattanakantang, 2009; Faccio, 2010; Goldman et al., 2013; Khwaja and Mian, 2005; Leuz and Oberholzer-Gee, 2006; Sun et al., 2010; Wang et al., 2012). The literature has also shown that the benefits of political connections are transferable from the home country to other countries (Holburn 2001; Henisz 2003). Frynas et al. (2006) took this line of reasoning one step further by arguing that political resources are clearly portable from one country to another because politicians on the board may have knowledge and/or contacts in foreign markets. Given these arguments and evidence, we formulate:

Hypothesis 1. The greater the presence of directors with domestic political connections on the board, the greater the firm's foreign growth.

Multi-Level Boundary Conditions

The literature on political connections hints that the value of such ties is not the same for all firms under all circumstances. Some studies have focused on the characteristics of host countries, e.g. developed versus emerging (Sun et al., 2012; Wang et al., 2012), institutional characteristics such as the degree of corruption or the strength of the legal system (Brockman et al. 2013), or how political connections abroad are not equally beneficial to all firms, because other factors need to be taken into account. For instance, Sun et al. (2010) showed how the firm's level of technology development conditions the effectiveness of political ties. Peng and Luo (2000) found that in a transition economy the effect of political ties on firms' performance varied across ownership types, business sectors, and size. They showed that

political ties increase performance of non-state owned firms, firms in the service sector, and small firms. Other research has shown the contingent value of political connections depending on the alignment of the directors with the political regime at different points in time (Fisman, 2001; Goldmand et al., 2009; Goldman et al., 2012; Siegel, 2007; Sun et al., 2011), or with the level of uncertainty (Wang et al., 2013).

Previous research, however, has not assessed the complete set of boundary conditions at various levels of analysis such as the firm, the industry, the country, and the supranational region. We approach the contingent value of political connections from a multi-level perspective, emphasizing that certain types of firms, operating in specific industries and foreign locations stand to obtain more benefits than others. In the following paragraphs, we analyze the impact of different boundary conditions at the firm, industry, country, and supranational levels. Figure 1 shows the causal relationships established in our theory.

Firm level. The benefits stemming from domestic political ties in the board of directors may not be equal for all firms expanding abroad, as their effectiveness is conditioned by some firm characteristics. As noted above, the literature has emphasized that political connections may not only help the firm obtain specific favors from the government but also provide it with general knowledge about how the political process works (Hillman, 2005), and enable the firm to access information more effectively (Useem, 1986). Thus, political connections facilitate firms' entry into a foreign country. However, a successful entry is just a first step in the process of making profits in a foreign country, as firms will face some competition from established local firms. Indeed, when firms expand abroad, they face the so-called liability of foreignness because they are not familiar with the environment in which they are going to compete (Hymer, 1976; Zaheer, 1995). This fact puts them in a situation of disadvantage when compared to local firms, forcing the foreign firm to have some distinctive

competitive advantages to overcome this liability. In this sense, it has been demonstrated that the firms' level of intangible assets, such as proprietary technology, trademarks, or managerial capabilities, provide firms with these competitive advantages (Buckley and Casson, 1976; Hymer, 1960; Dunning, 1973). Thus, whereas political connections are used to facilitate entry into a foreign market, when it comes to increase market share or make a profit vis-à-vis local competitors, intangible assets are required. This is a requirement for any kind of industry. For instance, when analyzing the international expansion of the largest Spanish multinationals in Latin America, Guillén and García-Canal (2010) and Guillén (2005) found that these companies relied not only on their political capabilities to operate profitably, but also on their intangible assets such as project-execution capabilities (Amsden and Hikino, 1994). In sum, firms with greater levels of intangible assets are expected to benefit more from political connections. Thus, we predict that:

Hypothesis 2. The greater the firm's intangible assets, the greater the effect of domestic political connections on the firm's foreign growth.

Industry level. The government is an important external stakeholder that influences all kind of firms through regulation and other policies. The government can even change the firms' opportunity set (Lester et al., 2008). However, the extent to which firms are affected by the decisions of governments varies across industries (Hillman, 2005). In heavily regulated industries such as electricity or water, conditions of entry, prices, and many other aspects of the business are often decided by the government (Hillman, 2005; Keim and Hillman, 2008). In these industries, government intervention may alter the profitability of the firms through changes in regulated prices, the degree of competition, or even by expropriating part of the cash flows or their entire investments (García-Canal and Guillén, 2008; Henisz, 2000; Henisz and Zelner, 2001). As Pfeffer and Salancik (2003: 203) once put it, in regulated industries

"the decisions of consumers become less important than the decisions of lawmakers and government agents." Thus, it is not a surprise that previous research has shown that political interlocks are profitable for all types of firms, but more so for heavily regulated firms (Agrawal and Knoeber, 2001; Hadani and Schuler, 2013; Hillman, 2005).

The foreign growth of regulated firms has often occurred in the wake of privatization and liberalization processes in both the home and the host countries (Guillén and García-Canal, 2010). These processes created investment opportunities for firms to enter foreign markets through license bidding processes (García-Canal and Guillén, 2008; Bonardi, 2008). During these liberalization processes, the interaction between political institutions and regulators manifests itself to varying degrees (Levy and Spiller, 1994). Even though these processes did not follow the same path or occur at the same pace in all countries, some common patterns can be discerned (Coen, 2005; Levy and Spiller, 1994). In countries having more of a market-based economy, managers and politicians involved in liberalization processes possess valuable experience and knowledge regarding how these processes work that can be applied in foreign countries. Thus, political connections in the home country may also be valuable when these companies invest abroad, as directors know how the regulatory process works and how to deal with governments and regulators. As evidence of the crucial importance of these type of knowledge in regulated industries, a manager of one of the most important companies in the telecommunications industry in Europe told us in a personal interview that having people inside the company that know how the political process works is a crucial factor for firms in the industry[1]. These individuals can help anticipate regulatory changes and know how to establish negotiations with politicians and regulators. Taking into account these arguments, we predict that:

[1] Telephone interview held on 21th July 2011

Hypothesis 3. For firms in heavily regulated industries, the positive effect of domestic political connections on firm's foreign growth will be greater.

Host-country level. Countries differ from one another in terms of their political structure, traditions, and culture, with implications for the value and impact of political connections. Differences in political systems and the degree of institutional development can make international expansion easier or more difficult (Cuervo-Cazurra and Genc, 2008). The advantages associated with domestic political connections will be different depending on those cross-national differences. Specifically, we argue that, when expanding abroad, these advantages are more effective in foreign countries with governments enjoying policy discretion. If the number of checks and balances on the executive branch of government is high (low policy risk) it is more difficult for all veto players to reach an agreement to change policies or regulations (Tsbelis, 1995, 2002). Moreover, when checks and balances are abundant, it is more likely that different actors across the three branches of government will have different preferences. In that case, the difficulty of building consensus for policy change is even greater (Tsbelis, 1995, 2002). It is difficult to implement political strategies as the number of checks and balances increases because firms need to invest much time, effort, and resources to influence pivotal politicians or officials having greater influence in policymaking (Holburn and Vanden Berg, 2002). On the contrary, if there are few checks and balances, firms may take advantage of governmental discretion to get better entry conditions — sometimes in exchange of commitments for local infrastructure development in the case of firms operating in regulated industries (García-Canal and Guillén, 2008; Guillén and García-Canal, 2010). Thus, bargaining relationships between multinationals and host governments are easy to implement in the presence of policy risk because firms do not have to deal with a large number of actors but just with one official (Arregle et al., 2013). In this context, political

ties may act as facilitators of negotiations between firms and host governments to define a win-win situation for both parties.

Thus, political connections may help the firm move beyond conventional practices by reaching ad hoc agreements with governments not subject to checks and balances. Therefore, we predict that:

Hypothesis 4. When investing in countries with governments enjoying policy discretion, the positive effect of domestic political connections on the firm's foreign growth will be greater.

Supranational Level. Besides the political structure of the host country, supranational institutional features can also reduce or increase the effect that domestic political ties have on the foreign growth of the firm. As their degree of internationalization increases, firms have to deal with an ever-increasing array of institutional environments (Keim and Hillman, 2008). However, host countries in which the firm may invest can be grouped in different blocs according to their degree of similarity with the institutional environment of the home country of the firm.

Countries sharing a common historical background tend to develop similar institutions (Makino and Tsang, 2011). Past research illustrates how the origin, structure, and functioning of the national legal system is closely related to patterns of colonization, migration, and cultural development (Guillén and Suárez, 2001; Rangan and Drummond, 2004; Schneper and Guillén, 2004). In fact, in relation to colonization patterns, legal origin theory (La Porta et al., 2008; La Porta et al., 1998) establishes that "countries have pervasive regulatory styles inherited from the transplantation of legal systems" (Botero et al., 2004: 1339). Several studies have found similarities among countries and their type of regulations considering their legal origin. For instance, Botero et al. (2004) showed that legal origin explains the variation in labor regulations across 85 countries. Glaeser and Shleifer (2002) highlighted

how the independence of the judicial system also varies across families of the legal system. The common background that the legal system provides makes it a suitable variable to build institutional blocs based on historical legacy. So, it is expected that legal systems will play a crucial role when politically connected firms expand abroad. Legal systems matter because they differ not only in the way in which governmental agencies and regulatory bodies are organized, or in the level of regulation, but also in a number of different aspects which condition economic activity (La Porta et al., 2008). We argue that firms with more political ties will be more successful using their political resources in blocs of countries that share the same legal system. Indeed, we can assume that former politicians acting as directors provide multinationals with valuable knowledge regarding how to operate under a particular legal system, knowledge that can be transferred easily to countries having a similar legal system as a consequence of sharing a common historical background. Thus, we predict that:

Hypothesis 5. For a firm investing in regions of the world with the same legal system as the home country, the positive effect of domestic political connections on firm's foreign growth will be greater.

METHOD

Sample

Our sample comprises the foreign investments made by all Spanish listed firms between 1986 and 2008. The main interest of using data from Spain lies in the fact that the internationalization of Spanish firms is a recent phenomenon, and thus it is possible to create a dataset with minimal left censoring. The sample includes a total of 105 listed firms. We secured the information about the foreign direct investments of these firms from the Systematic Database on International Operations of Spanish Companies, built under the

sponsorship of the Spanish Institute for Foreign Trade, ICEX (see Guillén and García-Canal, 2007).

Variables

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

Main independent variable. To capture the level of *political connections* for each firm we calculated a time-varying variable ("% Connections") that accounts for the percentage of members of the firm's board of directors who served in the government prior to becoming a director. We considered the highest-level political positions, whether elected or appointed, including prime minister, vice-prime minister, cabinet minister, deputy minister, and member of the national parliament and senate. We collected these data following two steps: (1) we identified the names of the directors serving on each company's board for each year during the period under investigation using legal filings, annual reports, company websites, and corporate directories[2]; and (2) we searched for the name of each director in comprehensive newspaper databases to identify those who had played a role in the government either as an appointed or as an elected official.

Firm characteristics. As a proxy for the *intangible assets* owned by the firm we used Tobin's q. Previous research has considered this ratio as an appropriate variable to measure the firms' level of intangible assets (Berry, 2006). Indeed, the higher the Tobin's q the higher the value of the intangible assets (Mork et al. 1988) that lie at the core of a firm's competitive advantages. To compute Tobin's q, we followed the procedure described by Chung and Pruitt (1994).

[2] The Maxwell Espinosa: Shareholders Directory Spain, Duns50000 and DICODI

Industry. To account for the *regulated* nature of the industry in which the firm operates, we created a dummy variable called "Regulated," which takes a value of 1 if the firm operates in a regulated industry (banking, telecommunications, electricity, gas, water, petroleum, or construction), and zero otherwise.

Host country checks and balances. We measured the efficacy of the checks and balances in the host country using the level of policy risk. We define *policy risk* as the degree to which politicians and regulators can unilaterally alter the conditions in which firms operate in the country, in a way that affects the profitability of their investments. Considering this definition, the political constraint index POLCONV, developed by Henisz (2000), is the most accurate and widely-used measurement from which we can build a policy risk index. The POLCONV index includes the number of independent power branches (e.g., the executive, legislative and judicial powers) with veto capacity over policy changes in each country, considering also the degree of alignment among them. Values in this index range from zero to one, with zero being the lowest degree of political constraints and 1 the highest. The higher the number of power branches with veto capacity, and the lower the alignment among them; that is, the higher the POLCONV index, the more difficult it is for politicians to unilaterally change the rules of the game. From the POLCONV index, we constructed a policy risk index by subtracting the POLCONV score from 1.

Supranational level. To measure the institutional similarity between the home and host institutions we used a dummy variable ("Regional Legal Family") equal to 1 if the host country legal system is based on the Napoleonic Civil Code (as it is the case of Spain), and zero otherwise (La Porta et al., 2008).

Control variables. We also include in all models a battery of control variables at the host country, industry, and firm levels. We use "Macroeconomic Uncertainty" to control for other sources of risk unrelated to politics and policy (Campa, 1993; Dunning, 1993). We calculated this variable following the methodology developed by Servén (1998) for measuring unexpected changes in economic growth. We also included in all regressions a measure for the size of the economy (logged GDP at constant 2000 prices), economic growth (GDP growth rate), the attractiveness of the country to foreign investors (total inward foreign direct investments as a percentage of the GDP), openness to trade (imports plus exports as a percentage of GDP),[3] and a dummy variable indicating if the host country has initiated market reforms (Henisz et al., 2005; Lora, 2000; Wallsten, 2002). At the industry level we included a set of dummy variables. At the firm level, we included: a dummy variable denoting if the state participates in the equity of the firm, under the assumption that listed firms with an equity participation by the state are less risk averse than other firms (García-Canal and Guillén, 2008; Vergés 1999, 2010); firm size as measured by logged assets; and the firm's international experience measured by the number of previous foreign investments. In addition to industry dummies, all analyses include firm, year, and host-country fixed effects. All independent variables were lagged one year.

Empirical Model

Political connections across firms are not distributed randomly, because each firm makes a choice as to whom to appoint to the board. Thus, political ties should be considered as an endogenous variable. Some unobserved firm characteristics may be influencing both the establishment of political ties and our dependent variable, i.e. the firm's propensity to grow abroad. To correct for this endogeneity problem we used the instrumental variable (IV)

[3] These four variables have been obtained from the World Bank indicators database

method. We first built a panel data regression model[4] in which the dependent variable was political connections and the independent variables were the traditional instrumental variables that the literature uses to explain the level of political connections: whether the firm is located in the capital of the country (Boubakri et al., 2008; Boubakri et al., 2013); and the age or experience accumulated by the firm (Leuz and Oberholzer-Gee, 2006). We also included in the first stage other control variables such as firm's sales, number of patents, the percentage of foreign ownership, and two dummy variables indicating whether the firm is included on the IBEX 35 (the blue-chip Spanish Stock index), and whether the firm pays dividends. We also included industry and year dummies. Given the longitudinal nature of our data, we ran a Hausman test to determine whether to use fixed or random-effects specifications (Hausman, 1978). The Hausman test was not significant, meaning that the random-effects specification is more appropriate than fixed effects. Location and sales variables were significant at the 0.01 level of significance, and firm's experience variable was significant at the 0.1 level of significance (p=0.083). We then proceeded to use the predicted values of political connections obtained from the first-stage panel data regression as our main independent variable in the second stage.

As the dependent variable of our model is non-negative and integer-valued, Poisson regression is more appropriate than ordinary least squares. To adjust for over dispersion, we used the negative binomial model, a generalization of the Poisson model in which the assumption of equal mean and variance is relaxed (Cameron and Trivedi, 1998; Hausman et al., 1984). We dealt with the longitudinal character of the data using the fixed-effects specification of Hausman et al. (1984), which includes a time-invariant variance-to-mean ratio, for each firm (Allison and Waterman, 2002). This fixed-effects specification reduces

[4]We modeled the level of political connections of firm i in year t as: $y_{it} = \alpha + \beta_1 LOC_{it} + \beta_2 AGE_{it} + \beta_3 SALES_{it} + \beta_4 PAT_{it} + \beta_5 FOROWN_{it} + \beta_6 IBEX_{it} + \beta_7 DIVID_{it} + u_{it}$

our sample to 62 firms that have made at least one entry into a foreign country during the observation period. Table 1 reports the descriptive statics and the correlation matrix. To avoid high correlations between main and interaction effects, we mean centered the continuous variables involved in the latter (Jaccard and Turrisi, 2003).

RESULTS

Table 2 shows the results for the negative binomial regressions with levels of significance reported for two-tailed tests. The results are presented using three cumulative specifications: control variables only, main effects, and interaction effects to test the boundary conditions.

We find support for each of our predictions. As predicted by Hypothesis 1, domestic political connections have a positive impact on firms' foreign growth. Hypothesis 2, which predicted that the effect of domestic political ties is greater as the firm's intangible assets increase, receives strong support as well. The prediction that the positive effect of domestic political ties on firms' foreign growth is higher for firms operating in regulated industries (Hypothesis 3) is also supported. Hypothesis 4, predicting that the positive effect of domestic political ties on firm's foreign growth is higher as policy risk in the host country increases, also receives support. Finally, Hypothesis 5, which predicted that the positive effect of domestic political ties on firm's foreign growth is higher if the firm invests in a foreign country with the same legal system as the firm's home country, receives strong support. In the case of the control variables only the host country market reforms and host country GDP are significant in all regressions.

Magnitude of the Effects

Our results regarding the effect of political connections on firm's foreign growth are not only significant but also large in magnitude. The size of the effect of political connections must be assessed considering also the moderating effects of the boundary conditions. Since our full model includes two moderators that are dummy variables, there are four possible scenarios resulting from the combination of them (see Table 3). We start our analysis using the baseline scenario established in our theory and then we compare it with other possible scenarios. In addition, as there are two continuous moderating variables (Tobin's q and Policy Risk), we calculated the magnitude of the effect of political connections considering the variation of each of these two effects separately, keeping the variable that is not of interest valued at its mean. We used the coefficient estimates from the third specification reported in Table 2.

The first two columns of Table 3 show the magnitude of the moderating effect of intangible assets, as measured by Tobin's q, under the four different scenarios. We present the results for a level of Tobin's q equal to the mean plus one-half standard deviation, while holding policy risk at its mean. In the baseline scenario of investments by firms in regulated industries undertaken in countries located in the Civil-Code legal region, the firm's foreign investments increase by 150.58 percent in response to a one-half standard deviation increase in political connections. That is the scenario with the highest percentage increase. The lowest percentage increase is 60.08 percent for firms in non-regulated industries investing in countries that are not located in the Civil-Code legal region. The last two columns in Table 3 show the percentage increases when both Tobin's q and policy risk are held at their means. As predicted by our full regression model in Table 2, the percentage in the first two columns of Table 3 under each of the four scenarios is always significantly greater than the corresponding percentage in the last two columns.

The third and fourth columns in Table 3 report the moderating effect of a policy risk at a level of increase of one-half of a standard deviation, while keeping intangible assets at mean value. As in the case of intangible assets, the highest percentage is to be found in the baseline scenario (134.16 percent) and the lowest in the most different scenario across the two columns (49.59 percent). Each percentage in these columns is significantly greater than the corresponding one in the last two columns of Table 3, although not as high as in the case of the effect of intangible assets.

Figure 2 shows the marginal effects of political connections on firms' foreign growth in the baseline scenario, at different levels of policy risk. Similarly, Figure 3 shows the marginal effects of political connections on firms' propensity to invest abroad at different levels of the firm's Tobin's q.

Robustness Checks

We conducted supplementary estimations aimed at ensuring the robustness of our results. The fixed-effects specification of our models excludes firms that did not invest abroad during the period of observation. To rule out the existence of selection biases we re-estimated our negative binomial regression following a two-stage procedure based on Heckman's selection method (1976, 1979). In the first step we estimated a probit regression for panel data to explain the decision to invest abroad. In this first step the unit of observation is the firm-year. We introduced several variables at the firm and home-country levels that may influence the firm's decision of investing abroad. At the firm level we used the log of sales, Tobin's q, the number of years that the CEO has been in his/her position, the concentration of ownership, whether the CEO is also the chairman of the company, the

leverage ratio, and whether the firm is partially state owned.[5] At the home country level we used the GDP growth rate and the number of months that the Spanish economy had been in recession at each year.[6] We also included industry dummies. In the second step we entered the inverse Mills ratio in the negative binomial regression (Heckman 1979). Our results remain the same after correcting for potential sample selection bias (see Table 4). The effect of political connections remains positive and significant in the specification with the main effects. In the full regression model the significance of this variable falls below the 0.05 level but it is significant at the 0.1 level (p=0.056). The interaction terms remain significant across all the specifications, supporting each of the hypotheses about boundary conditions.

We also ran another regression using a random-effects specification, using the sample of all 97 firms regardless whether they ever invested abroad or not. Table 5 shows the results using this specification. The main and interaction effects remain significant without the fixed-effects. We also re-estimated this negative binomial regression using the random-effects specification, just for the sample of 62 investing firms. The results of this regression are shown in Table 6. We obtained similar patterns of significance. The only remarkable change is that the significance of the main effect falls below the 0.1 level in the full regression model.

We also ran an additional robustness check to see if using a binary dependent variable instead of the count of investments would change the results, i.e. by truncating the dependent variable to values of zero (no investments) or one (one or more investments). We were concerned that perhaps the endogenous nature of political connections would produce different results with different definitions of the dependent variable. We show the results in

[5] Data regarding the number of years that the CEO has been in the company, the concentration of ownership, when the CEO is also member of the board of directors, the level of leverage have been obtained from companies' reports and press news.
[6] Data obtained from the World Bank indicators.

Table7 using a probit regression model in the second stage, and the same instrumental-variables model in the first stage. The coefficient for the political connections variable and all interaction terms are significant using this alternative method, proving the robustness of our results. In sum, each of our robustness analyses confirms that the positive effect of domestic political connections on the firm's foreign growth is magnified when each and all of the conditions established in our theory are met.

DISCUSSION AND CONCLUSION

Our study provides strong and robust evidence on the impact of political ties in foreign organizational growth. By developing a multilevel contingency theory based on resource-dependence theory, we show that having political ties in the board of directors makes firms more prone to foreign expansion, especially to countries with policy instability and a legal system similar to the one of their home country. We also show that it is for firms with strong competitive advantages, and competing in regulated industries where this effect is more important. Rather than considering political ties as personal connections with politicians, as the majority of previous research in this field has assumed, we adopted the view that considers these ties as sources of knowledge regarding how the political process works (Hillman, 2005; Lester et al., 2008) and how firms can gain easy access to relevant information (Useem, 1986). By doing so we extend resource-dependence theory to explain the role that firms' political ties at home play on the firm's foreign growth.

Our first remarkable result is that domestic political ties have a positive influence in foreign expansion. Previous research shows that the degree of internationalization of firms is positively correlated to the size of the board (Sanders and Carpenter, 1998; Tihanyi et al., 2000). For this reason, firms having larger boards would be better prepared to deal with the uncertainties and increased resource dependence associated to international expansion, as

suggested by the seminal work of Pfeffer and Salancik, making them more prone to invest abroad. However, why hiring local politicians help companies to expand abroad in *specific countries* and in *specific industries*? This result is not straightforward, as domestic politicians could be expected to provide investment opportunities in the home country, the country in which they have developed their political experience, or just gaining the support of the local administrations. In this way foreign politicians could be more instrumental to promote foreign expansion. We explain this apparent paradox by arguing that these politicians do not only provide direct ties with governments, but also valuable knowledge regarding how to deal with governments and regulations abroad, even in countries where they do not have personal ties. This result is consistent with the recent trend to analyze the contribution of board members, not only in terms of coopting external organizations, but also in terms of the social and human capital provided by the board members (Kor and Sundaramurthy, 2009; Westphal and Fredrickson, 2001).

Another important result of our paper is that the impact of domestic politicians in foreign growth is dependent on a number of boundary conditions at the firm, industry, country, and regional levels of analysis.

At the firm level, we found a robust and positive moderating effect of the firms' intangible assets, as measured by Tobin's q. This result suggests that political and market-based resources are complementary. Domestic political ties allow firms to achieve greater levels of foreign growth if they are complemented by other firm's intangible assets such as a technology, and project execution capabilities among others. In this vein, we are contributing to the literature that jointly analyzes market-based and political resources (Baron 1995, 1999; Boddewyn and Brewer, 1994; Hillman and Hitt, 1999). Some studies in the field of political strategy have highlighted the importance of political variables to the success of the firm in obtaining a profit in the marketplace. The vast majority of this research sees political and

market strategies as complementary (Baron 1995, 1999; Keim and Hillman, 2008; Shaffer et al., 2000) whilst others assert that both strategies can sometimes be substitutes (Bonardi 2004, 2011). Our analysis clarifies to some extent this controversy in the case of firms' foreign growth. We argued that political and economic resources provide firms with different benefits that, jointly, allow these companies growing abroad. Political resources are oriented to obtain better entry conditions and facilitate the entry of the firm into a foreign country whilst market-based resources allow firms to achieve success when facing local competitors in the market arena (Shaffer et al., 2000) overcoming the liability of foreignness. In other words, political connections facilitate the first step in the location choice, but market-based resources act as a guarantee of the firm's success facing local competitors.

Organizational and strategic literatures largely recognize the influence of institutions on the behavior of organizations (DiMaggio and Powell, 1991; North, 1990; Peng, 2002; Peng et al., 2009; Scott, 1995; Williamson, 1985). Consistent with this literature, our theoretical approach proposed that the positive effect that political connections have on firms' foreign growth is constrained by institutional environment in two ways. First, we found that characteristics of the host-country institutional environment regarding its political structure — the effectiveness of checks and balances— constitute one of these constraints. Usually, countries where checks and balances are more effective have been considered as more attractive for firms implementing political strategies (Bonardi et al., 2005; Kingsley et al., 2012). However, our result regarding the moderating effect of policy risk shows that for firms having more political resources these strategies are easier to put in practice in countries where checks and balances are less effective. These firms are able to leverage their political resources and take advantage of policy risk, something that is more difficult in countries with more effective checks and balances because firms have to use more time and resources to influence the decisions of governments. Second, the institutional similarity between home

and host countries also constitutes a limit in the exploitation of political ties. Even though institutions vary country by country (Hillman and Keim, 1995; Keim and Hillman, 2008), organizations embedded in a particular institutional environment have developed certain skills that can be used to obtain benefits in countries with similar intuitional characteristics (Delios and Henisz, 2003; Henisz, 2003, Henisz and Delios, 2002,). Thus, our analysis speaks to the debate about the impact of institutional similarity on organizational strategies (Henisz and Zelner, 2005; Kostova and Roth, 2002; Perkins, forthcoming).

Another finding with important implications is the one related to the difference between regulated and non-regulated industries. Previous argued that regulated firms have more political capabilities than other firms (García-Canal and Guillén, 2008; Guillén and García-Canal, 2010, 2012; Henisz, 2003; Holburn and Zelner, 2010). We contribute to this line of research as our results suggest that firms in regulated industries are able to leverage their firm-specific political resources to a greater extent than firms in other industries. This moderation effect is above and beyond the main effect of political connections (Hillman 2005). In our sample, firms in regulated industries not only have more political connections (9.7 percent versus 3.6 percent), but they leverage them to a greater extent.

Overall, our results sustain and reinforce the underlying assumption in our theory, i.e. that the contribution of political connections to a firm's growth opportunities goes beyond the number of personal ties that politicians may have. First, as previously mentioned, if politicians from the firm's home country were coopted just for their personal relationships with governments and regulators, politically connected firms should invest more in their home country than non-politically connected firms, as the bulk of the personal connections of these politicians are their home country. In addition, if the impact of political ties on international expansion were exclusively associated to friendship and personal ties, it would be negative or positive depending on the positions of power of the agents tied to the

politicians in the board, as the evidence of Siegel (2007) and Fisman (2001) suggest. For these reasons, our results cannot be explained just on the basis of the personal ties of the politicians. In addition, the fact that the impact of domestic politicians in foreign expansion is greater in regulated industries and in countries with the same legal system cannot be explained just for the direct ties of politicians. It is in these industries where the knowledge and expertise provided by the politicians become more valuable, and it is in countries sharing the same legal system where their knowledge and experience is more applicable. Thus an important contribution of our paper is to highlight not only that political connections provide companies with knowledge regarding how the political process works; but also that this knowledge that can be exploited outside the firm's home country. Acknowledging this contribution of political ties in terms of knowledge rather than political action could also be a step forward to combine Resource Dependence Theory with the Resource Based View of the firm (Barney, 1991; Hillman et al. 2009), as this is a sort of knowledge difficult to obtain in a competitive market and thus is valuable, rare, difficult to imitate and difficult to substitute. In the same way, some bridges can be built between resource-dependence theory and internationalization theory (Buckley and Casson, 1976; Caves, 1996), as the main assumption of internationalization theory is that firms exploit abroad knowledge, experience, and assets developed in their home countries.

Although we have found robust support for a multi-level theory of the contingent value of political connections, the research reported in this paper suffers from some limitations. One of them has to do with the institutional environment. We only analyzed what North (1990) called "formal institutions" (laws, regulations, and rules), overlooking the effect that informal institutions may exert. Another limitation is that we were unable to control for the possibility that firms may have political connections in the host country. Analyzing the impact of those connections would require correcting for the endogeneity based on initial

entry into the country, a problem that lies beyond the scope of our paper. In addition, we have measured only direct political connections through the cooptation of former politicians as members of the board of directors, but not through other types of connections not based on personal ties. A final limitation of our work has to do with the generalizability of the results beyond the case of Spanish companies.

These limitations offer several opportunities to advance in the study of political ties and political resources in general. Regarding the analysis of institutional similarities between host and home countries regarding "informal institutions" (norms and culture), some characteristics such as language can also influence the effect of political ties on organizational foreign growth. Concerning local political, it would be interesting to analyze their effect not only at the moment of entry but also when it comes to subsequent investments. It is likely that these local ties do not influence the firm's initial entry into a particular host country but that they can be a determinant factor in subsequent investments and even in the survival of the firm's investments. These and other areas of research can be pursued to continue advancing the theory of contingent political advantages pursued in this paper.

Table 1. Means, standard deviations, and correlations

	Variables	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	Firm entries-country-year	0.01	0.16	1																		
2	%Connections	-6.72E-12	0.05	0.08	1																	
3	%Connections x Firm's Tobin's q	-0.01	0.07	-0.02	-0.16	1																
4	%Connections x Regulated Industry	0.01	0.03	0.09	0.85	-0.21	1															
5	%Connections x Country Policy Risk	2.68E-05	0.01	-0.03	0.01	-0.01	0.01	1														
6	%Connections x Regional Legal Family	-7.40E-06	0.03	0.10	0.72	-0.11	0.61	0.15	1													
7	Firm's Tobin's q	8.24E-09	2.32	-0.02	-0.06	-0.28	-0.11	0.00	-0.05	1												
8	Regulated Industry	0.32	0.47	0.08	0.67	-0.18	0.64	0.00	0.48	-0.16	1											
9	Country Policy Risk	-2.08E-09	0.31	-0.04	0.00	0.01	0.00	0.01	0.00	0.00	0.01	1										
10	Regional Legal Family	0.52	0.50	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.20	1									
11	Partial State Ownership	0.05	0.23	0.01	0.29	-0.09	0.26	0.01	0.21	-0.07	0.21	0.00	0.00	1								
12	Assets	-0.22	2.17	0.10	0.74	-0.17	0.62	0.00	0.53	-0.11	0.77	0.01	0.00	0.20	1							
13	Previous Firm Entries Inter.	11.60	25.83	0.13	0.46	-0.10	0.47	-0.01	0.33	-0.09	0.42	-0.01	0.00	-0.03	0.61	1						
14	Macr. Uncertainty	-7.12	1.23	-0.01	0.00	-0.01	0.00	0.01	0.00	0.01	0.01	0.23	0.14	0.04	-0.03	-0.06	1					
15	Host Country GDP	24.01	2.06	0.10	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01	-0.43	-0.09	-0.02	0.01	0.03	-0.33	1				
16	Host Country GDP growth	3.70	4.75	0.00	0.03	0.00	0.02	0.02	0.02	0.00	-0.01	0.01	-0.06	-0.03	0.03	0.08	-0.04	-0.01	1			
17	Host Country inward FDI	5.60	30.00	-0.01	0.00	0.01	0.00	0.00	0.00	-0.01	-0.01	-0.10	0.07	-0.02	0.01	0.03	-0.01	-0.01	0.05	1		
18	Host Country Opennes Trade	79.34	51.84	-0.04	0.00	0.00	0.00	0.00	0.00	-0.01	-0.01	-0.14	-0.18	-0.02	0.02	0.04	0.06	-0.15	0.14	0.36	1	
19	Host Country market reforms initiated	0.59	0.49	0.06	-0.01	0.01	-0.01	0.00	0.00	-0.02	-0.03	-0.12	-0.06	-0.06	0.03	0.09	-0.17	0.32	0.13	-0.07	0.04	1

Table 2. Firm fixed-effects negative binomial regressions predicting the count of foreign investments

VARIABLES	(1)	(2)	(3)
%Connections (H1)		27.03**	15.97*
		(4.75)	(2.28)
%Connections x Firm's Tobin's q (H2)			3.50*
			(2.55)
%Connections x Regulated industry (H3)			13.03*
			(2.19)
%Connections x Country Policy Risk (H4)			7.81**
			(3.03)
%Connections x Regional Legal Family (H5)			6.34**
			(4.25)
Firm's Tobin's q	0.11	0.10	0.06
	(1.47)	(1.32)	(0.71)
Regulated industry	-0.70	0.28	-0.19
	(-1.16)	(0.45)	(-0.39)
Country Policy Risk	-0.46	-0.45	-0.82*
	(-1.40)	(-1.36)	(-2.33)
Regional Legal Family	-0.61	-0.67	-0.92
	(-0.35)	(-0.39)	(-0.53)
Firm's Partial State Ownership	0.02	0.01	0.07
	(0.14)	(0.07)	(0.45)
Firm's Assets	0.13	-0.13	-0.11
	(1.58)	(-1.31)	(-1.09)
Firm's International Experience	-0.00	-0.00	-0.00
	(-1.53)	(-1.27)	(-1.62)
Macroeconomic Uncertainty	0.05	0.05	0.05
	(0.80)	(0.80)	(0.70)
GDP	0.94*	0.95*	0.95*
	(2.50)	(2.54)	(2.55)
GDP growth	0.01	0.00	0.01
	(0.48)	(0.44)	(0.48)
FDI inward	0.00	0.00	0.00
	(0.61)	(0.62)	(0.64)
Trade openness	-0.01	-0.01	-0.01
	(-1.41)	(-1.46)	(-1.53)
Market reforms initiated	0.53**	0.54**	0.54**
	(2.98)	(3.03)	(3.04)
Constant	-24.73**	-24.85**	-24.83**
	(-2.99)	(-3.00)	(-3.00)
Observations	77,043	77,043	77,043
Number of firms	62	62	62

Note: z-statistics in parentheses ***p<0.001, ** p<0.01,* p<0.05

Table 3: Percentage Increase in the Firm's Foreign Investments in Response to a one-half standard deviation increase in political connections under four alternative scenarios

	Tobin's q (mean+one-half SD)		Policy Risk (mean+one-half SD)		Both Policy Risk and Tobin's q set at the mean	
	Regulated	Non-Regulated	Regulated	Non-Regulated	Regulated	Non-Regulated
Same Regional Legal Family	150.58	85.41	134.16	73.26	127.79	68.55
Different Regional Legal Family	116.34	60.08	102.17	49.59	96.68	45.52

Table 4. Firm fixed-effects negative binomial regressions predicting the count of foreign investments. Results corrected for selection bias.

VARIABLES	(1)	(2)	(3)
%Connections (H1)		26.28**	13.57
		(4.58)	(1.91)
%Connections x Firm's Tobin's q (H2)			3.02*
			(2.13)
%Connections x Regulated industry (H3)			15.10*
			(2.48)
%Connections x Country Policy Risk (H4)			7.80**
			(3.01)
%Connections x Regional Legal Family (H5)			6.63**
			(4.41)
Firm's Tobin's q	0.14	0.12	0.09
	(1.71)	(1.50)	(1.01)
Regulated industry	0.51	-0.11	-0.25
	(1.10)	(-0.22)	(-0.51)
Country Policy Risk	-0.44	-0.43	-0.79*
	(-1.33)	(-1.30)	(-2.26)
Regional Legal Family	-0.61	-0.67	-0.93
	(-0.35)	(-0.38)	(-0.54)
Firm's Partial State Ownership	0.03	0.02	0.07
	(0.22)	(0.14)	(0.47)
Firm's Assets	0.11	-0.14	-0.12
	(1.24)	(-1.35)	(-1.18)
Firm's International Experience	-0.00	-0.00	-0.00
	(-0.98)	(-0.84)	(-1.12)
Macroeconomic Uncertainty	0.05	0.05	0.05
	(0.83)	(0.82)	(0.73)
GDP	0.93*	0.95*	0.95*
	(2.50)	(2.53)	(2.55)
GDP growth	0.00	0.00	0.00
	(0.44)	(0.40)	(0.45)
FDI inward	0.00	0.00	0.00
	(0.62)	(0.63)	(0.65)
Trade openness	-0.01	-0.01	-0.01
	(-1.43)	(-1.47)	(-1.55)
Market reforms initiated	0.53**	0.54**	0.54**
	(2.97)	(3.03)	(3.03)
Inverse mills	-0.20	-0.15	-0.18
	(-1.91)	(-1.51)	(-1.74)
Constant	-24.64**	-24.69**	-24.73**
	(-2.98)	(-2.98)	(-2.99)
Observations	74,359	74,359	74,359
Number of firms	62	62	62

Note: z-statistics in parentheses ***p<0.001, ** p<0.01,* p<0.05

Table 5. Random-effects negative binomial regressions predicting the count of foreign investments. Results for the sample that accounts for investing and non-investing firms.

VARIABLES	(1)	(2)	(3)
%Connections (H1)		26.22**	17.02**
		(5.47)	(3.06)
%Connections x Firm's Tobin's q (H2)			4.13**
			(3.47)
%Connections x Regulated Industry (H3)			13.49*
			(2.53)
%Connections x Country Policy Risk (H4)			7.42**
			(2.90)
%Connections x Regional Legal Family (H5)			6.24**
			(4.23)
Firm's Tobin's q	-0.06	-0.07	-0.09
	(-0.95)	(-1.20)	(-1.42)
Regulated industry	0.62	-0.01	-0.15
	(1.67)	(-0.03)	(-0.40)
Country Policy Risk	-0.45	-0.44	-0.80*
	(-1.37)	(-1.34)	(-2.27)
Regional Legal Family	-0.58	-0.63	-0.89
	(-0.33)	(-0.36)	(-0.51)
Firm's Partial State Ownership	0.00	-0.01	0.07
	(0.02)	(-0.09)	(0.48)
Firm's Assets	0.23**	-0.04	-0.01
	(3.11)	(-0.48)	(-0.15)
Firm's International Experience	-0.00	-0.00	-0.00
	(-1.40)	(-1.13)	(-1.59)
Macroeconomic Uncertainty	0.05	0.05	0.04
	(0.79)	(0.78)	(0.68)
GDP	0.93*	0.94*	0.95*
	(2.48)	(2.51)	(2.53)
GDP growth	0.01	0.00	0.01
	(0.49)	(0.45)	(0.48)
FDI inward	0.00	0.00	0.00
	(0.61)	(0.62)	(0.64)
Trade openness	-0.01	-0.01	-0.01
	(-1.40)	(-1.44)	(-1.53)
Market reforms initiated	0.53**	0.54**	0.55**
	(2.99)	(3.04)	(3.06)
Constant	-24.92**	-24.94**	-25.04**
	(-3.01)	(-3.01)	(-3.03)
Observations	99,202	99,202	99,202
Number of firms	97	97	97

Note: z-statistics in parentheses ***p<0.001, ** p<0.01,* p<0.05

Table 6. Random-effects negative binomial regressions predicting the count of foreign investments. Results just for the sample of investing firms.

VARIABLES	(1)	(2)	(3)
%Connections (H1)		20.26**	7.42
		(4.15)	(1.34)
%Connections x Firm's Tobin's q (H2)			4.19**
			(3.10)
%Connections x Regulated industry (H3)			17.33**
			(3.26)
%Connections x Country Policy Risk (H4)			6.82**
			(2.62)
%Connections x Regional Legal Family (H5)			6.01**
			(3.99)
Firm's Tobin's q	0.05	0.04	0.03
	(0.68)	(0.49)	(0.42)
Regulated industry	-0.41	0.35	-0.01
	(-0.80)	(0.64)	(-0.02)
Country Policy Risk	-0.43	-0.42	-0.69*
	(-1.30)	(-1.27)	(-1.99)
Regional Legal Family	-0.99	-1.03	-1.24
	(-0.57)	(-0.59)	(-0.71)
Firm's Partial State Ownership	0.01	-0.00	0.08
	(0.09)	(-0.01)	(0.52)
Firm's Assets	0.23**	0.02	0.05
	(3.17)	(0.18)	(0.59)
Firm's International Experience	-0.00	-0.00	-0.00
	(-0.47)	(-0.35)	(-0.73)
Macroeconomic Uncertainty	0.05	0.05	0.04
	(0.78)	(0.78)	(0.69)
GDP	1.04**	1.05**	1.05**
	(2.75)	(2.77)	(2.79)
GDP growth	0.01	0.01	0.01
	(0.53)	(0.51)	(0.52)
FDI inward	0.00	0.00	0.00
	(0.59)	(0.59)	(0.62)
Trade openness	-0.01	-0.01	-0.01
	(-1.62)	(-1.65)	(-1.73)
Market reforms initiated	0.54**	0.55**	0.55**
	(3.02)	(3.05)	(3.08)
Constant	-27.30**	-27.17**	-27.38**
	(-3.28)	(-3.26)	(-3.29)
Observations	77,368	77,368	77,368
Number of firms	62	62	62

Note: z-statistics in parentheses ***p<0.001, ** p<0.01,* p<0.05

Table 7. Probit regression predicting foreign market entry.

VARIABLES	(1)	(2)
%Connections (H1)	14.02**	8.36**
	(5.08)	(2.87)
%Connections x Firm's Tobin's q (H2)		1.50**
		(2.61)
%Connections x Regulated industry (H3)		8.69**
		(3.32)
%Connections x Country Policy Risk (H4)		2.80*
		(2.25)
%Connections x Regional Legal Family (H5)		3.48**
		(4.96)
Firm's Tobin's q	-0.05	-0.04
	(-1.75)	(-1.69)
Regulated industry	0.13	0.09
	(0.44)	(0.32)
Country Policy Risk	-0.22	-0.35*
	(-1.47)	(-2.14)
Regional Legal Family	-0.06	-0.16
	(-0.08)	(-0.21)
Firm's Partial State Ownership	0.04	0.06
	(0.44)	(0.68)
Firm's Assets	-0.05	-0.03
	(-0.98)	(-0.73)
Firm's International Experience	-0.00	-0.00
	(-0.93)	(-1.33)
Macroeconomic Uncertainty	0.03	0.03
	(1.09)	(1.06)
GDP	0.34	0.33
	(1.91)	(1.84)
GDP growth	0.00	0.00
	(0.71)	(0.89)
FDI inward	-0.00	-0.00
	(-0.30)	(-0.32)
Trade openness	-0.00	-0.00
	(-0.44)	(-0.51)
Market reforms initiated	0.15	0.15
	(1.95)	(1.90)
Constant	-10.67**	-10.40**
	(-2.73)	(-2.66)
Observations	99,202	99,202
Number of firms	97	97

Note: z-statistics in parentheses ***p<0.001, ** p<0.01,* p<0.05

Figure 1. Causal relationships established in our multi-level theory.

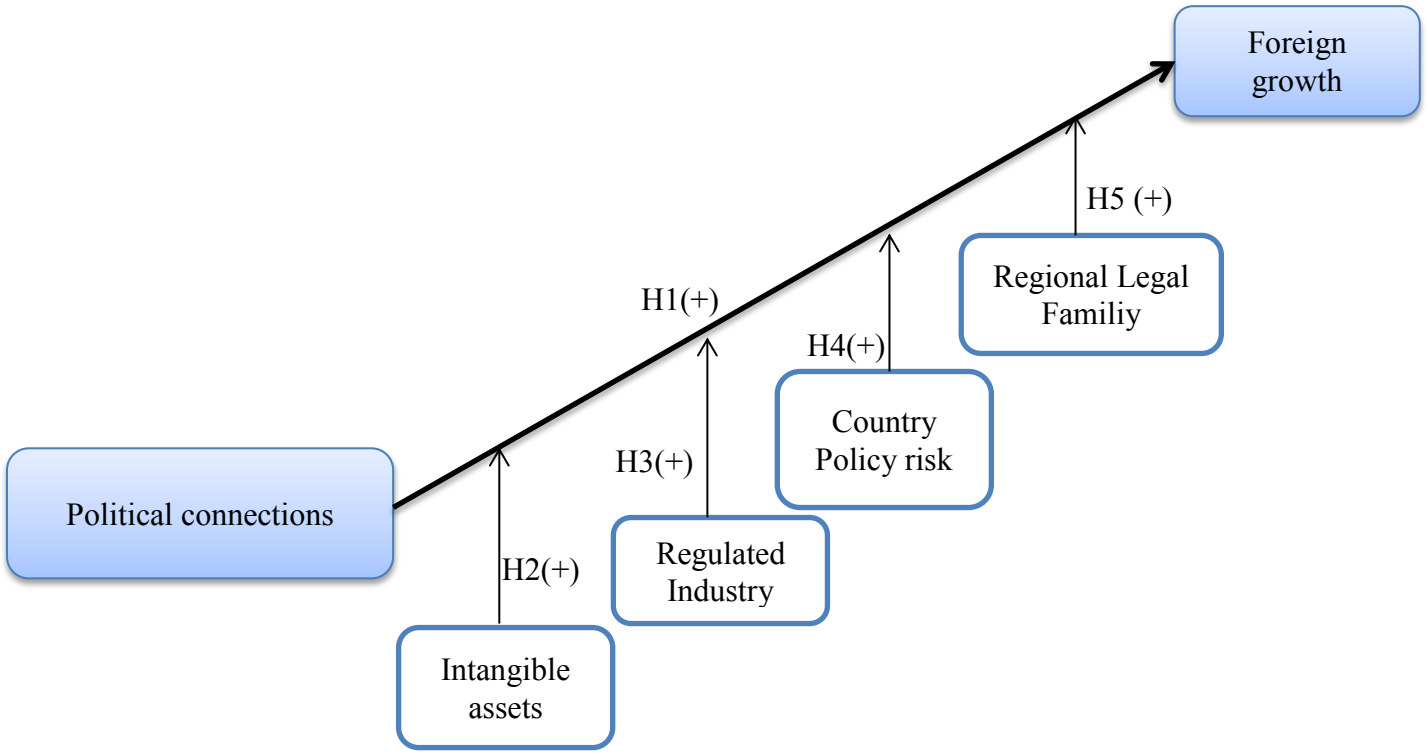


Figure 2. Marginal effects of political connections on firms' FDI when Tobin's q is valued at its mean

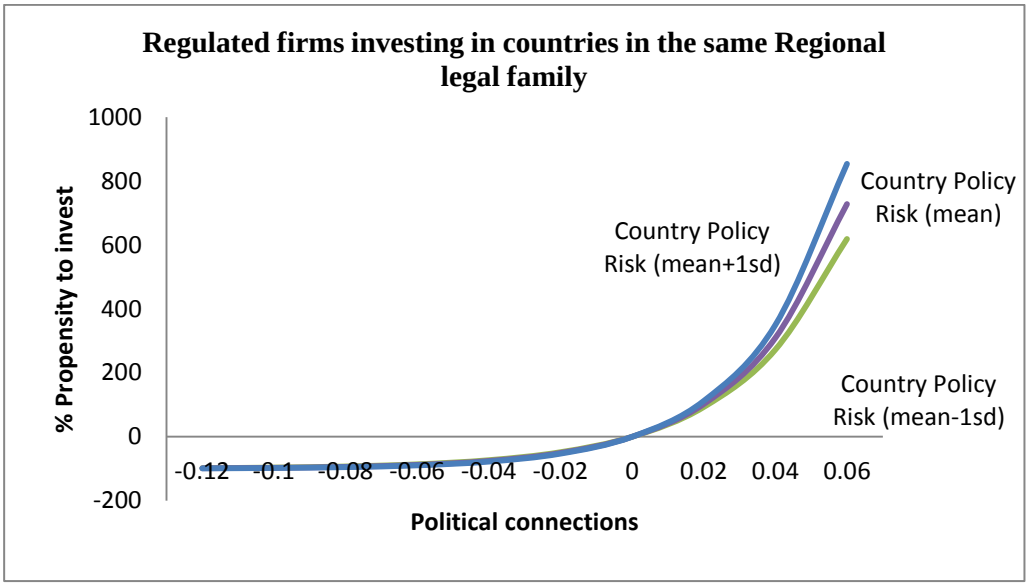
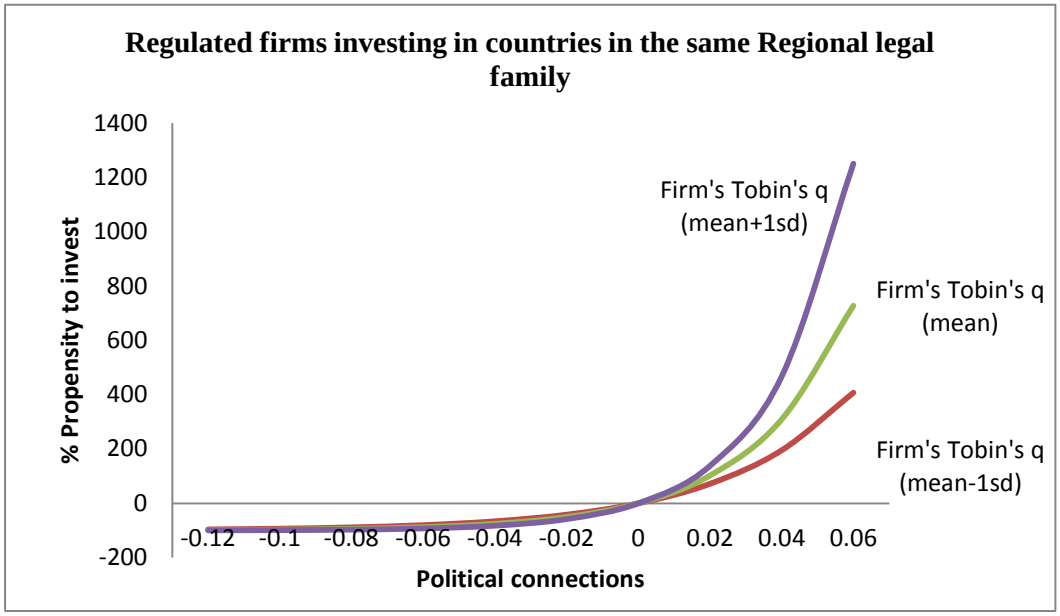


Figure3. Marginal effects of political connections on firms' FDI when policy risk is valued at its mean



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