PAPER

What do Former Government Officials really Bring to the Board?

Santiago Kopoboru[*] • Leticia Pérez-Calero[**] • Gloria Cuevas-Rodríguez[***]

Abstract The Board of directors is the steering wheel organisations use to achieve their goals and its composition has widely been analysed. This paper will show how the number of former government officials has increased in the board of large Spanish firms over the last two decades depending on the number of former government officials in the board and how regulated the industry is. The results will also show that even though there was a period in which more former government officials joined boards, the numbers have stabilised in recent years due to, among other factors, the increasing concerns in society related to the "revolving doors" behaviours.

Keywords: corporate boards, government officials, resource dependence theory, regulatory environment.

Introduction

The number of public company firms that include former government officials (FGOs) has increased and has been analysed by many authors in different countries (Houston & Ferris, 2015; Lester, Hillman, Zardkoohi, & Cannela, 2008). These numbers cannot be ignored. Such an increase indicates that FGOs are a valuable resource firms pursue and use (Bona-Sánchez, Pérez-Alemán, & Santana-Martín, 2014; Chizema, Liu, Lu, & Gao, 2015; Goldman, Rocholl, & So, 2013). Having FGOs sit on boards allow firms to be involved in government policy. Firms can manage the political environment effectively as they may achieve favourable subsidies, reduce the threat of market entry, improve firm legitimacy, reduce the threat of product substitutes, and increase market share (Oliver & Holzinger, 2008). In other words: boards, through FGOs, get involved in strategic political management to manipulate the political environment in their own favour. The role played by FGOs can be analysed through the framework of resource dependence

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theory, which stresses the importance of providing resources as the primary function boards have (Pfeffer & Salancik, 1978). Board members bring resources to the firm, which in turn will be used to achieve specific goals. Then, by selecting directors with ties to important institutional players, firms can help create favourable environmental contexts (Kim & Cannella, 2008). Former government officials are politically connected and can help influence legislation (Houston & Ferris, 2015) or reduce the likeness of regulatory bodies enforcement actions (Correia, 2014).

Previous literature focused on boards has mainly analysed the board structure, that is, size and composition (ratio of outsiders versus insiders) and mostly within the Anglo-Saxon context, even though recently the number of studies focused on other regions, the European Union, Africa, and China, has increased. This descriptive analysis of the number of former government officials in large Spanish companies in the last two decades will help us understand if the same phenomena has taken place in Spain.

This research aims to analyse the evolution of the number of FGOs in the boards of large Spanish firms whose main activity is in highly regulated sectors. Following resource dependence theory (Pfeffer & Salancik, 1978), boards will access valuable resources, former government officials, and use them to effectively deal with highly regulated environments. This is but one of the mechanisms boards have to achieve their strategic goals.

The paper proceeds as follows: the next section reviews the theoretical background. This leads to the hypotheses and methodology next. Finally, findings, discussion, analysis, and conclusions.

Theoretical Background and Hypotheses

Resource dependence theory will emphasise the importance of providing resources as the primary function boards have (Pfeffer & Salancik, 1978). Board members provide resources to firms which in turn will be used to achieve specific goals and help reduce uncertainty (Pfeffer, 1972), increasing legitimacy (Pfeffer & Salancik, 1978), lower transaction costs (Hillman, Cannella, & Paetzold, 2000; Williamson, 1984), providing better advice (Lorsch & MacIver, 1989; Mintzberg, 1983), and providing better access to capital (Mizruchi & Stearns, 1988). "When an organisation appoints an individual to a board, it expects the individual will come to support the organisation, will concern himself with its problems, will variably present it to others, and will try to aid it" (Pfeffer & Salancik, 1978, p. 163). "Resource dependence scholars argue boards of directors are a primary method for absorbing critical elements of environmental uncertainty into the firm" (Hillman, 2005, p. 495). These board members' support is not limited to the national level but also board members can develop relationships with institutions and people in other countries (Faccio, 2010). Resource dependence theory stresses that firms must face demands from different external actors and therefore, firms need to adapt to uncertainty in the environment by either manipulate it or try to influence it to obtain critical resources (Oliver, 1991; Pfeffer & Salancik, 1978; Singh, House, & Tucker, 1986). Overall, resources and how they are managed will lead to improve both performance and advantage over competitors (Oliver & Holzinger, 2008;

Pennings, Lee, & van Wittelloostuijn, 1998). Former government officials are here a resource since they link the firm and the political environment. Relationships with the government are no longer viewed as a cost but as an opportunity. Firms are politically connected if one of their top officers is a former government official (Faccio, 2006). Therefore, the strategy is to hire FGOs as outsiders, non-managerial members of the firm, because they bring knowledge and, most importantly, links with the political environment, which the firm can use for its own benefit. As Oliver and Holzinger (2008) posit, this is because political environments have become more complex and influential, forcing firms (large firms) to take action since the free-rider option is no longer effective enough. In particular, FGOs, firms become proactive in the political environment by using strategic political management. Corporate political activity, attempting to shape government policy to be favourable to the firm, mostly focuses on the relationship between the firm's political connections and its performance (Hillman, Zardkoohi, & Bierman, 1999; Yarbrough, Abebe, & Dadanlar, 2017). There is then evidence of the relationship between board's political connections and firm performance in high-regulation industries (Houston & Ferris, 2015; Yarbrough et al., 2017). Even though the majority of studies show a positive correlation between corporate political activity and firm performance, we still have to note there are a number of studies that contradict these findings (Hersch, Netter, & Pope, 2008; Tu, Lin, & Liu, 2013; Woon Leong, 2019).

One of the advantages of the appointment of a former government official to the board of directors is that they, based on their knowledge, can increase the firms' opportunities to invest in home markets (Fernández-Méndez, García-Canal, & Guillén, 2018). On the other hand, Political connections also have costs for the firm. For example, low-quality accounting has links that may provide access to financing with low-quality accounting information (Pascual-Fuster & Crespí-Cladera, 2018), and political connections negatively affect non-financial firms in Poland (Jackowicz, Kozłowski, & Mielcarz, 2014), making Central European economies exceptional cases.

Social capital is the people we know, contacts, through whom we receive opportunities to use our financial and human capital (Burt, 1992). But social capital is country-specific (Fernández-Méndez et al., 2018). Human capital is defined as "an individual's expertise, experience, knowledge, reputation, and skills" (Lester et al., 2008, p. 1001). Social capital refers to "the sum of actual and potential resources embedded within, available through, and derived from, the network of relationships possessed by that individual" (Nahapiet & Ghoshal, 1998, p. 243). It requires an investment of both economic and cultural resources (Portes, 1998). Furthermore, it is not the person itself but those he or she is related to the real source of his or her advantage (Portes, 1998). Likewise, when a high level of social capital is achieved there is a motivation to maintain those relationships (Kostova & Roth, 2003). Social capital has four benefits (Pfeffer & Salancik, 1978) related to resource dependence theory: (1) Advise and counselling, which are linked to the firm's performance (Westphal, 1999). Appointments to boards facing strategically similar environments enhance the directors' ability to advise management (Haynes & Hillman, 2010); (2)

the provision of firm legitimacy and reputation (Daily & Schwenk, 1996; Hambrick & D'Aveni, 1992; Yeo, Pochet, & Alcouffe, 2003); (3) social capital provides channels of communication and conduits of information between the firm and external organisations which provides the board with strategic information otherwise unavailable (Hillman & Dalziel, 2003); access to broader sources of information improves information's quality, relevance, and timelines (Kim & Cannella, 2008; Kor & Sundaramurthy, 2008; Oh, Labianca, & Chung, 2006); and (4) social capital helps to obtain resources outside the firm (Hillman & Dalziel, 2003), being financial resources one of the most important. As Adams et al., (2010) explain, when directors have links or are affiliated with banks lending to the firm, the firm's overall debt ratio is lower. The greater the uncertainty in the firm's environment, the more likely the firm will rely on managerial networking to reduce this uncertainty (Acquaah, 2007), all of which improve performance. According to Valenti and Horner (2010), board social capital encompasses two types of relationships: internal social capital, which are ties with persons within the firm; and external social capital, which are ties with persons outside the firm. Personal contacts with people outside the organisation are useful to deal with uncertainty (Granovetter, 1985; Hillman & Dalziel, 2003).

Hillman et al., (2000) classify directors in three different groups: business experts, support specialists, and community influentials. Business experts serve on other large boards. They provide skills, knowledge, and communication channels with other firms and increase the firm's legitimacy. Support specialists lack general management experience, but they provide expertise in specific areas, capital markets, law, insurance and public relations, and do not form the foundation on which the strategy is built. Community influentials have links with other firms, not including competitors or suppliers. The resources they supply do not stem from direct managerial experience but from knowledge, experience and connections to community groups and organisations. In this group, Hillman et al., (2000)include FGOs. They provide valuable non-business perspectives and they serve as vehicles of co-optation for the organisation.

Managers' social ties, contacts, and networks will, in turn, affect firms' strategic choices and performance (Peng & Luo, 2000). Resource dependence theory explains that the greater the environmental uncertainty, the more likely it is that firms will rely on managerial ties when entering exchange relationships (Pfeffer & Salancik, 1978). It follows that boards will choose future members with strong external ties with the political environment to be able to minimise the effect changes in the firm's political environment. When selecting an outsider to the board, it will choose a person with strong ties with this particular environment. Therefore, FGOs become a desirable option. Furthermore, FGOs play relevant and active roles on the board (Pascual-Fuster & Crespí-Cladera, 2018). Resource dependence theory (Pfeffer and Salancik, 1978) believes that outside directors are critical to the external environment. "...one would expect that as the potential environmental pressures confronting the organisation increased, the need for outside support would increase as well." (Pfeffer & Salancik, 1978, p. 168), which is true for larger firms since they have to face more complicated environments. Therefore, outsiders provide information and personal links to outside groups, which may help the firm to achieve its goals and to adapt, if necessary, to changes in the environment. Moreover,

related to the first hypothesis, FGOs are, due to their educational background, community influentials (links to outside groups), the second hypothesis states: Keim and Hillman (2008) list three possible responses to public policy: (1) passive reaction, where managers react by adjusting their activities and plans to new rules and legislations post-hoc, (2) positive anticipation, where managers monitor the formation of government policy to anticipate and adjust their strategic planning within the firm, and (3) proactive public policy shaping, where firms, anticipate changes as well as try to shape policy and institutions to their own advantage. This paper argues that including FGOs as board members signals that firms are involved in either positive anticipation, that is, FGOs through their external communication channels have access to better and timely information the firm can use in their own benefit; or firms are involved in proactive public policy shaping, that is, FGOs due to their links with their political parties, are in a good position to help firms to shape future public policy.

However, when do firms get involved in government policy? Previously, most firms adopted a free-rider strategy and never became politically active since firm relations with the government were viewed as a cost (Oliver & Holzinger, 2008). However, this behaviour has changed. In the U.S., the number of public company firms which include FGOs, has increased from 14% in 1973 to 53% in 1998. These numbers cannot be ignored. Such an increase indicates that FGOs are valuable resource firms pursue and use (Lester et al., 2008). As Keim and Hillman (2008) show, the main contingency factor is the importance of the issue and how it affects the firm. For issues with relatively little impact on the firm, managers may choose passive reaction. As the level of importance increases, managers may choose to anticipate political decisions. Issues that may affect operations or future plans significantly may be dealt with a proactive public policy.

Former government officials are more prevalent in firms where sales to government, exports, and lobbying are more significant (Agrawal & Knoeber, 2001). Former government officials can provide valuable advice and counsel regarding the public policy environment of a firm, aid the firm with their knowledge of government procedures and their insight in predicting government actions, improve financial performance, create communication channels to existing government officials, provide valuable non-business perspectives on specific issues, reduce transaction costs (Agrawal & Knoeber, 2001; Hillman, 2005; Hillman et al., 2000; Hillman et al., 1999; Lester et al., 2008; Peng & Luo, 2000).

Political institutions promote economic exchanges by supporting an infrastructure of intermediations that increases the transparency of economic transactions, but, at the same time, political institutions regulate economic exchanges by circumscribing and even preventing certain types of economic transactions from occurring, as happen in highly regulated sectors. Under such circumstances, political intervention constrains managerial autonomy. Firms have to face a powerful stakeholder with a political/social agenda that may hamper managerial discretion and ability to satisfy other stakeholders (Finkelstein & Boyd, 1998). Moreover, the uncertainty associated with regulation changes can reduce the firm's profitability (Kingsley, Bergh, & Bonardi, 2012). Sectors become highly regulated because they control strategic resources for countries (Kaczmarek, Kimino, & Pye, 2014). Government regulation creates uncertainty and firms create linkages with governments

through former politicians (Hillman, 2005). These constraints could come not only by government regulation but also by government involvement in the corporate governance of individual firms through ownership and board ties (Okhmatovskiy, 2010). Regulation affects firms in different ways. For example, highly regulated environments impact bank merger activities (Brewer, Jackson, & Jagtiana, 2000). Regulation or the absence of such can change the firm's focus from market competition to political competition (Helland & Sykuta, 2004). Changes in the regulatory environment will force organisations to institute new strategies (Sherman, Kashlak, 1998). That explains the vital role that board members could play. They could represent "the man of the government at firms" but, inversely, they can lobby politics and regulations according to firms' interests. Pugliese et al., (2014: 1191) state, "…Firms operating in regulated industries are subject to compliance to strict norms and rules affecting various areas of a corporation's life" and, at the same time, regulation limits the number of strategic options firms have." Highly regulated sectors have traditionally been the utilities sector, electricity, where the state regulates their pricing and even profits (Agrawal and Knoeber, 2001), banking, and financial services (Edwards, 1977; Okhmatovskiy, 2010), and chemicals (Blau et al.,2000). Regulated firms are those whose main activity are in theses sectors, event though they might be diversified.

Some studies analyse the positive and negative effects of regulation and former government officials on the board. On the one hand, some studies have suggested that regulated firms are less actively monitored by shareholders than firms in competitive markets (Helland & Sykuta, 2004)or that politically connected acquirers receive preferential treatment in China (Tu et al., 2013). On the other hand, hiring a former government official may bring scrutiny to the firm. Spiller (1990) finds that employment can be perceived as a reward for favourable regulatory treatment, and individuals are likely to abuse their political connections in China (Tu et al., 2013).

The two hypotheses we propose are related to the number of FGOs in the board. On the one hand, firms in highly regulated sectors will have many FGOs in their boards. On the other hand, larger firms, due to the increasing uncertainty in their environments, will also have a more significant number of FGOs in their boards.

H_1: The number of former government officials will increase in highly regulated sectors

H_2: The number of former government officials, due to environmental uncertainties will increase with firm size

Methodology and Sample

The paper will analyse firms in the Spanish Stock Exchange. The regulating institution for the several stock markets in Spain is called Comisión Nacional del Mercado de Valores (CNMV). Our first step was to identify the firms for the sample. CNMV produces a yearly report in which firms are classified according to their capitalisation levels (from most capitalised to least capitalised, that is, their size). This annual report was used to select the sample of firms for both years. CNMV has a classification system, sector and sub-sector. We have chosen the year 2004, first time it was compulsory for firms to provide corporate governance information, 2010 and 2015.

The result was 181 firms in 2004, 153 firms in 2010, and 137 firms in 2015. Once a list of all firms had been made, we obtained, also from CNMV, their Corporate Government Annual Report. CNMV requires publicly listed firms to submit this report yearly with specific information about their corporate governance, the composition of the board, and board members.

On the political side, the next step was to create a database with the names of all political officeholders since 1977 to 2015. Political officeholders are elected national officials, including members of parliament, members of regional parliaments, senators, and secretaries of State. The Spanish Parliament's web page provided information about members of parliament (name, education, background, political party affiliation), the Spanish Senate's web page provided the same information for senators, and we were provided with a list of former secretaries of State from Moncloa Palace communication office (official residence for the Prime Minister of Spain since 1977) in order to obtain the names of these FGOs from 1977 to 2015. By merging the two databases, we identified which board members were also FGOs.

Finally, we will use IBM SPSS statistical package for the multivariable regression analysis. The dependent variable is FGOs, the number of former government officials in the board of directors. The independent variables are Size, the size of the firm as for their capitalisation level according to the CNMV report; Sector, the main activity sector for the firm; Regulated_Sector, whether the sector is highly regulated or not. It takes the value of 1 if so and 0 if not; Board_Members, the number of board members in the board of directors as stated in the firm's Corporate Government Annual Report.

Results

The following tables show the results for the multivariable analysis for the years 2004, 2010, and 2015.

Table 1. Correlation Matrix, y

	Variables	Mean	SD	1	2	3	4	5
1	FOGs	0,34	0,669	1,000				
2	Size	3,59	1,619	-0,339**	1,000			
3	Sector	28,56	16,641	-0,082	0,358**	1,000		
4	Regulated_sector	0,24	0,430	0,119	-0,136*	-0,165*	1,000	
5	Board_Members	9,65	4,382	0,425**	-0,654**	-0,147*	0,151*	1,000

Adapted from SPSS output. N = 181. * Significant at $p < 0.05$, ** Significant at $p < 0.01$

Table 2. ANOVA analysis, year 2004.

ANOVAᵃ

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15,306	4	3,826	10,339	.000ᵇ
	Residual	65,136	176	0,370		
	organisation	180				

a. Dependent Variable: FGOs

b. Predictors: (Constant), Board_Members, Sector, Regulated_sector, Size

Adapted from SPSS output

The F-ratio tests whether the overall regression model is a good fit. Table 2 shows that the independent variables statistically significantly predict the dependent variable and therefore, the regression model is a good fit of the data.

Table 3. Model coefficients for the multivariable analysis, year 2004.

Coefficientsᵃ

Model B		Unstandardised Coefficients		Standardised Coefficients	t	Sig. Lower Bound	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-0,049	0,247		-0,200	0,842	-0,537	0,438
	Size	-0,046	0,040	-0,111	-1,165	0,246	-0,124	0,032
	Regulated_sector	0,085	0,108	0,055	0,787	0,432	-0,128	0,298
	Sector	0,001	0,003	0,018	0,	organisa-tions005		0,007
	Board_Members	0,053	0,014	0,347	3,819	0,000	0,026	0,080

a. Dependent Variable: FGOs

Adapted from SPSS output

The unstandardised coefficients, B, indicate how much the dependent variable, FGOs, varies with an independent variable when all other independent variables are held constant. Only Board_Members, 0,000, is statistically significant. The rest of the independent variables are not statistically significant to the prediction, $p < 0,05$.

Table 4. Model Summary for the multivariable regression analysis, 2004

Model Summary

Model	R	R-Squared	Adjusted R Squared	Std. Error of the Estimate
1	.436[a]	0,190	0,172	0,608

a. Predictors: (Constant), Board_Members, Sector, Regulated_sector, Size

Adapted from SPSS output

The value of R is the multiple correlation coefficient, which measures the quality of the prediction of the dependent variable. A value of 0,436 is a moderate level of prediction. R Square represents the R^2 value, which is the coefficient of determination. This value is the proportion of variance in the dependent variable that can be explained by the independent variables.

Table 5. Correlation Matrix, year 2010.

	Variables	Mean	SD	1	2	3	4	5
1	FOGs	0,34	0,669	1,000				
2	Size	3,59	1,619	-0,351**	1,000			
3	Sector	28,56	16,641	0,019	0,107	1,000		
4	Regulated_sector	0,24	0,430	0,114	-0,178*	-0,231**	1,000	
5	Board_Members	9,65	4,382	0,314**	-0,596**	-0,068	0,163*	1,000

Adapted from SPSS output. N = 153. * Significant at $p < 0.05$, ** Significant at $p < 0.01$

Table 6. ANOVA analysis, year 2010.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18,498	4	4,624	6,363	.000b
	Residual	107,554	148	0,727		
	Total	126,052	152			

a. Dependent Variable: FGOs

b. Predictors: (Constant), Board Members, Sector, Regulated sector, Size

Adapted from SPSS output

Table 6 shows that the independent variables statistically significantly predict the dependent variable and therefore, the regression model is a good fit of the data.

Table 7. Model coefficients for the multivariable analysis, year 2010.

Coefficients[a]

		Unstandardized Coefficients		Standardised Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	0,427	0,393		1,087	0,279	-0,350	1,204
	Size	-0,139	0,052	-0,253	-2,660	0,009	-0,242	-0,036
	Regulated_ sector	0,124	0,165	0,060	0,753	0,453	-0,202	0,450
	Sector	0,004	0,005	0,071	0,905	0,367	-0,005	0,014
	Board_ Members	0,037	0,022	0,158	1,667	0,098	-0,007	0,080

a. Dependent Variable: FGOs

Adapted from SPSS

The unstandardised coefficients, B, indicate how much the dependent variable, FGOs, varies with an independent variable when all other independent variables are held constant. The variable Size, with a sig. value of 0,009, is statistically significant. The rest of the independent variables are not statistically significant to the prediction, $p < 0,05$. The second hypothesis is that the number of former government officials, due to environmental uncertainties, increasing with firm size, is then validated.

Table 8. Model Summary for the multivariable regression analysis, 2010

Model Summary

Model	R	R-Squared	Adjusted R Squared	Std. Error of the Estimate
1	.383[a]	0,147	0,124	0,852

a. Predictors: (Constant), Board_Members, Sector, Regulated_sector, Size

Adapted from SPSS output

The value of R is the multiple correlation coefficient, which measures the quality of the prediction of the dependent variable. A value of 0,383 is a moderate level of prediction. R Square represents the R^2 value, which is the coefficient of determination. This value is the proportion of variance in the dependent variable that the independent variables can explain.

Table 9. Correlation Matrix, year 2015.

	Variables	Mean	SD	1	2	3	4	5
1	FOGs	0,34	0,669	1,000				
2	Size	3,59	1,619	-0,377**	1,000			
3	Sector	28,56	16,641	-0,051	0,064	1,000		
4	Regulated_sector	0,24	0,430	0,188*	-0,172*	-0,229**	1,000	
5	Board_Members	9,65	4,382	0,398**	-0,631**	0,006	0,173*	1,000

Adapted from SPSS output. N = 137. * Significant at $p < 0.05$, ** Significant at $p < 0.01$

Table 10. ANOVA analysis, year 2015.

ANOVA[a]

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17,964	4	4,491	8,068	.000b
	Residual	73,481	132	0,557		
	Total	91,445	136			

a. Dependent Variable: FGOs

b. Predictors: (Constant), Board_Members, Sector, Regulated_sector, Size

Adapted from SPSS output

The F-ratio tests whether the overall regression model is a good fit. Table 10 shows that the independent variables statistically significantly predict the dependent variable and therefore, the regression model is a good fit of the data.

Table 11. Model coefficients for the multivariable analysis, year 2015.

Coefficients[a]

		Unstandardized Coefficients		Standardised Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	0,207	0,399		0,518	0,605	-0,583	0,996
	Size	-0,128	0,066	-0,196	-1,940	0,055	-0,259	0,003
	Sector	-0,001	0,004	-0,016	-0,195	0,846	-0,009	0,008
	Regulated_ sector	0,195	0,150	0,106	1,301	0,196	-0,102	0,493
	Board_ Members	0,059	0,023	0,256	2,527	0,013	0,013	0,106

a. Dependent Variable: FGOs

Adapted from SPSS

The unstandardised coefficients, B, indicate how much the dependent variable, FGOs, varies with an independent variable when all other independent variables are held constant. Only Board_Members, 0,013, is statistically significant. The second hypotheses, The number of former government officials due to environmental uncertainties will increase with firm size, is then validated with a sig. of 0,055. The rest of the independent variables are not statistically significant to the prediction, $p < 0,05$.

Table 12. Model Summary for the multivariable regression analysis, year 2015.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimates
1	.443a	0,196	0,172	0,746

a. Predictors: (Constante), Board_Members, Sector, Regulated_sector, Size

Adapted from SPSS output

The value of R is the multiple correlation coefficient, which measures the

quality of the prediction of the dependent variable. A value of 0,443 is a moderate level of prediction. R Square represents the R^2 value, which is the coefficient of determination. This value is the proportion of variance in the dependent variable that the independent variables can explain.

Unfortunately, the results show no support for the first hypotheses, the number of former government officials will increase in highly regulated sectors, for any of the years analysed. As for the second hypotheses, the number of former government officials, due to environmental uncertainties, will increase with firm size, we find support for the years 2010 nd 2015.

Discussion and Conclusion

Firms need resources and resource dependence theory (Pfeffer & Salancik, 1978) have shown these resources include people with valuable knowledge. The theory suggests that former government officials are resource firms can use in order to coerce the environment. They provide a link between the firm and the political environment, which has become more complex (Oliver & Holzinger, 2008). The resources former government officials bring to the firm are increased legitimacy (Pfeffer & Salancik, 1978), lower transaction costs (Hillman et al., 2000; Williamson, 1984), better advice (Lorsch & MacIver, 1989; Mintzberg, 1983), provide better access to capital (Mizruchi & Stearns, 1988), lower debt ratio (Adams et al., 2010), better access to information (Ferris, Houston, & Javakhadze, 2016), and better understanding of home markets (Fernández-Méndez et al., 2018).

There is also evidence of the relationship between board's political connections and firm performance in high-regulation industries (Houston & Ferris, 2015; Yarbrough et al., 2017). Sectors become highly regulated because they control strategic resources for countries (Kaczmarek et al., 2014). Government regulation creates uncertainty and firms create linkages with governments through former politicians (Hillman, 2005). Regulation affects firms in different ways: highly regulated environments have an impact on bank merger activities (Brewer et al., 2000), it can change the focus of the firm from market competition to political competition (Helland & Sykuta, 2004), changes in the regulatory environment will force organisations to institute new strategies (Sherman et al., 1998), and regulated firms are less actively monitored by shareholders than firms in a competitive markets (Helland & Sykuta, 2004).

The results show no support for the first hypotheses. The number of former government officials will increase in highly regulated sectors, for any of the years analysed. Two of the main advantages of former government officials are their ability to interpret legislation (Luo, 2003), and they have better access to information (Ferris et al., 2016). On their own, this should be enough for firms to consider including former government officials in their board. Nevertheless, this is not the case in Spanish firms in the years analysed.

As for the second hypotheses, the number of former government officials, due to environmental uncertainties will increase with firm size. We find support for the years

2010 and 2015. Resource dependence theory stresses that firms must face demands from different external actors and therefore, firms need to adapt to uncertainty in the environment by either manipulate it or try to influence it to obtain critical resources (Oliver, 1991; Pfeffer & Salancik, 1978; Singh et al., 1986). Overall, resources and how they are managed will improve both performance and advantage over competitors (Oliver & Holzinger, 2008; Pennings et al., 1998). In this case, Spanish firms behave as expected according to the theory.

The analysis of the results allows us further insights into the relationship between the number of former government officials in highly regulated sectors and larger firms. Our research presents a number of contributions. Mainly, board behaviour and composition are different in Spanish firms. This is an example of the difference of the continental model with the Anglo-American model. The managerial implications relate to the difference between the theoretical framework used and the reality of Spanish firms. According to Resource Dependence Theory, we would expect a larger number of former government officials in both highly regulated industries and in larger firms. Further analysis is necessary to understand these differences better.

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