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Political Connections and Government Contracting: An International Analysis of Procurement Decisions and Firm Value

Finance Working Paper N° 976/2024
April 2024

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Abstract

We examine whether political connections influence public procurement award decisions made by government bodies worldwide. We find that politically connected firms are more likely to receive government contracts and larger value contracts. Focusing on defense contracts, where the strength of politically connected social ties can be more directly assessed, we find that employing former military personnel from the contract-awarding country in management increases the value of awarded contracts by around 40%. This effect is more pronounced with high-ranking ex-military personnel (88% increase) compared to lower-ranking ones (26% increase). Moreover, our analysis reveals that political connections have a stronger impact on government contracting for foreign-incorporated firms (54% increase in contract value) than on domestic firms (29% increase). Financial and institutional development significantly moderate the effects of political connections. We also observe that politically connected government contracting positively impacts firm value in less developed countries but negatively in more developed ones. Furthermore, the effect on firm value is stronger for foreign contractors than local ones. Lastly, our study demonstrates that politically connected government contracting distorts firms' capital allocation efficiency, particularly for local contractors in developed countries. Our main findings remain robust across various variable definitions, estimation techniques, and adjustments for potential endogeneity.

Keywords: Contracting, Political connection, Valuation, Investment

JEL Classifications: G30, G32, G38

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ABSTRACT

We examine whether political connections influence public procurement award decisions made by government bodies worldwide. We find that politically connected firms are more likely to receive government contracts and larger value contracts. Focusing on defense contracts, where the strength of politically connected social ties can be more directly assessed, we find that employing former military personnel from the contract-awarding country in management increases the value of awarded contracts by around 40%. This effect is more pronounced with high-ranking ex-military personnel (88% increase) compared to lower-ranking ones (26% increase). Moreover, our analysis reveals that political connections have a stronger impact on government contracting for foreign-incorporated firms (54% increase in contract value) than on domestic firms (29% increase). Financial and institutional development significantly moderate the effects of political connections. We also observe that politically connected government contracting positively impacts firm value in less developed countries but negatively in more developed ones. Furthermore, the effect on firm value is stronger for foreign contractors than local ones. Lastly, our study demonstrates that politically connected government contracting distorts firms' capital allocation efficiency, particularly for local contractors in developed countries. Our main findings remain robust across various variable definitions, estimation techniques, and adjustments for potential endogeneity.

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1. Introduction

Politically connected government contracting exerts significant global influence, extending beyond national borders and impacting economic, political, and social landscapes. This phenomenon can distort markets and escalate costs while fostering corruption and policy distortions. It may also erode public trust and shape international trade dynamics as well as regional stability. Particularly in military contracts, political connections can significantly impact defense capabilities and geopolitical balances. Addressing these challenges requires a holistic approach and a deeper understanding of how firm-level political connections influence government procurement award decisions worldwide.

A growing body of literature in political economy examines the impact of political connectedness on firm policies and outcomes and offers mixed evidence. On the one hand, prior research shows that ties with governments benefit firms, for example, in corporate acquisition activities and in accessing capital markets (Claessens, Feijen, and Laeven, 2008). On the other hand, political networking could be a source of agency problems and encourage managerial entrenchment (Aggarwal, Meschke, and Wang, 2012; Shleifer and Vishny, 1994). We expand this literature by examining whether political connections, measured by former government employment of firm managers and directors, influence the public procurement award decisions in a multi-country setting and whether political connections-induced government contracting is value-enhancing for firms. Political connections are widespread and prominent in global markets (Faccio, 2006). The international context allows us to examine the role of financial, institutional, and cultural factors, as well as the distinction between foreign and local political ties, in shaping the effects of political affiliations on corporate outcomes. Through this broader perspective, we can offer a nuanced understanding of how political connections shape firms' experiences in the global procurement landscape.

Considering the significant influence of government contracting on market dynamics and the socioeconomic influence of government contractors, it is crucial to scrutinize the corporate conduct of these

companies. For example, in January 2018, one of the UK government's largest strategic suppliers, Carillion PLC, was forced to liquidate due to losses in public contracts and unfulfilled debts of around £1.5 billion. Carillion PLC held 450 government contracts, employed 43,000 staff worldwide, and left behind around £2.6 billion in pension liabilities. The UK government was forced to pay the firm's employees and small business partners. Analysts blamed the absence of reliable information and short-termism in the decision-making of entrenched managers.[1]

The political capital hypothesis views firms' political spending as investments in firms' future opportunity sets and returns. In support of this hypothesis, Cooper, Gulen, and Ovtchinnikov (2009) find a positive relationship between contributions and future returns. Access to government resources is the most crucial channel through which political connections may affect the firms. Faccio, Masulis, and McConnell (2006) show that political connections increase the probability of receiving government bailouts. Duchin and Sosyura (2012) find that politically connected firms were more likely to be funded under the Troubled Asset Relief Program (TARP) and performed worse than non-connected firms. Heitz, Wang, and Wang (2021) find that politically connected firms encounter less environmental regulatory enforcement and penalties. Goldman, Rocholl, and So (2013) document that boards connected to the winning party add value to U.S. public firms by amplifying their access to federal government contracts. Brogaard, Denes, and Duchin (2021) show that politically connected firms renegotiate government contracts more successfully. Canayaz, Martine, and Ozsoylev (2019) argue that some government employees could favor certain companies in a contract-allocating process to gain future employment with them. Ferris, Houston, and Javakhadze (2019) document that firms making greater political contributions receive government contracts with better terms. In analyzing government resource allocations in South Korea, Schoenherr (2018) provides evidence that private firms connected to elected government officials receive more resources and perform worse in fulfilling the contracts. Witko (2011) and Eichholtz and Floroiu (2017) also find that

[1] https://www.theconstructionindex.co.uk/news/view/carillion-report-the-summary

corporate political contributions increase the probability of receiving a U.S. government procurement contract. Eichholtz and Floroiu (2017) show that each U.S. dollar spent on political donations is associated with a $410 increase in marginal procurement awards. Given this evidence, we propose that politically connected firms have a competitive advantage in government procurement decisions over firms without political connections. Thus, we suggest that political connections increase the probability of receiving a government contract.

Next, we will investigate how financial and institutional development, the cultural backdrop of the awarding nation, and the foreign status of contractors influence the relationship between political affiliations and government contract allocations. Government bodies in countries with weaker institutions are more likely to use their power to allocate government contracts through social networks. Following this intuition, the financial and institutional development of the awarding country could significantly moderate the proposed effects. The cultural differences among the awarding countries can shape attitudes towards cronyism, nepotism, favoritism, and ethical standards, thereby affecting the extent to which firms' political connections impact their chances of securing government contracts. The information asymmetry issues between the government and awarded firms are more likely to be greater for foreign firms with no residence in awarding countries compared to their local peers. Thus, the effect of political connections should be more pronounced for foreign firms.

Next, we examine the valuation implication of firms' government contracting activity induced by political connections. From the political capital perspective (Eichholtz and Floroiu, 2017; Goldman, Rocholl, and So, 2013), political connections-induced government contracting could enhance the firm value. Alternatively, given the evidence by Aggarwal, Meschke, and Wang (2012) that political contributions are associated with lower excess returns (suggesting that political donations are signs of agency problems), government contracting, induced by political connections, could have a negative valuation impact. This prediction is constant with Jia, Zhao, Zheng, and Lu (2022) findings that politically

connected firms may engage in politically desirable but not economically efficient tasks, such as establishing a new subsidiary in a connected politicians' location or hiring unneeded labor. Zhang, Marquis, and Qiao (2016) show that whether political connections have a "buffering" effect, protecting firms from regulatory forces, or a "binding" effect, exposing firms to government expropriation, is contingent on the institutional environment. Thus, we argue that the valuation effect of government contracting induced by political connections could be conditional on a country's development status. In addition, the threat of local government regulatory pressure and political exploitations might not be a concern for foreign firms, but it could be an issue for domestic corporations. Consequently, valuation effects could be different for foreign contractors.

Furthermore, politically connected government contractors may use corporate resources to obtain and fulfill government contracts, which could distort investment efficiency and growth. For example, Cohen and Malloy (2016) show that government contractors grow slower. Colonnelli et al. (2022) find that firms experience a decrease in procurement government contracts following revelations of corrupt practices in assigning these contracts. However, exposed firms change their growth strategy and increase capital investments post-exposure.

We test these propositions in a multi-country setting by analyzing the public procurement awards of 27 countries worldwide between 2009 and 2017. Our findings are as follows. First, we find robust evidence of the positive impact of political connections on the likelihood of receiving a government contract. In addition, politically connected firms win more contracts per year, and the contract values, on average, are larger. The effect is also economically significant. That is, having a past employee of the awarding government as a manager or director is associated with a 31.3% increase in the value of awarded contracts. Employing each additional politically connected individual is associated with a 6.3% increase in the contract value (contract-level results). In addition, using a past government worker is associated with a 6.0% increase in the likelihood of receiving a government contract, and hiring each additional politically

connected executive or director is associated with a 3.9% increase in the probability of obtaining a contract (firm-level results). Examining the subset of defense contracts, we show that government connections with greater influence, as indicated by higher-ranking military experience, are associated with a more substantial increase in the value of these defense contracts.

Second, we show that a country's financial and institutional development affects the relationship between political connections and government procurement decisions. The documented effects are stronger in countries with weaker financial markets and institutional development. Our findings are also economically meaningful. For example, the impact of political connections on contract value drops to 9.2% (from 63.4%) with one standard deviation increase in government effectiveness.

Third, our analysis reveals that cultural differences across countries, as measured by Hofstede's cultural dimensions, affect the association between political affiliations and government contracting decisions, with a more pronounced effect of political connections observed in countries characterized by higher levels of power distance, collectivism, uncertainty avoidance, restraint, and secrecy.

Fourth, our analysis of the relationship between political connections and government procurement decisions for domestic versus foreign firms shows that the effect is more potent for foreign-incorporated firms than domestic-incorporated firms. Having a past employee of the awarding government as a manager or director is associated with approximately a 54% increase in the value of awarded contracts for foreign firms compared to a 29% increase for domestic firms.

Fifth, our investigation of the impact of government contracting induced by political connections on firm value reveals opposing valuation impacts in well- and less-developed countries. Although contracts awarded by governments in well-developed countries are value-enhancing to firms, government contracts induced by political connections are value-destroying in these countries. Contrarily, government contracts in less-developed countries have negative valuation implications, while government contracts influenced by political connections are positively associated with firm value. For foreign firms, political connections

induced by government contracting enhance value in both well- and less-developed countries, with a more significant impact in well-developed countries.

Finally, using the investment-Q sensitivity framework (McLean, Zhang, and Zhao 2012), we document that politically connected government contracting distorts a firm's capital allocation efficiency, especially for local firms in developed countries. In line with the resource-dependence perspective, these firms allocate scarce resources to obtaining and fulfilling government obligations, leading to missed market opportunities and underinvestment.

We address potential endogeneity concerns using death and retirement of politically connected ties for identification (Fracassi and Tate, 2012). We implement the first difference and the "stacked" difference-in-difference approaches (Gormley and Matsa, 2011). We further address the dynamic endogeneity concerns by estimating the fixed effect regressions with first-order autocorrelated errors. Finally, we use adopting the new EU procurement directive as an exogenous shock in a difference-in-difference setting. Our results provide strong support for the main findings.

Our paper makes several significant contributions to literature. Prior studies document the influence of political contributions on various aspects of government contracting (Brogaard, Denes, and Duchin, 2021; Eichholtz and Floroiu, 2017; Ferris, Javakhadze, and Houston, 2019; Goldman, Rocholl, and So, 2013; Schoenherr, 2019; Witko, 2011). In this study, we add to this literature by examining whether political connections, measured by former government employment of firm managers or directors, influence the public procurement award decisions in a multi-country setting. This setting allows us to investigate the further dimensions of the relationship between political connections and public procurement award decisions, such as the impact of country development, cultural differences, and contractor foreignness, which is not feasible in a single-country setting.

Next, we contribute to the literature examining the role of political networks in corporations worldwide. Faccio (2006) demonstrates that firms strategically utilize political connections to secure debt

financing, minimize tax obligations, and enhance market share, particularly in countries with higher levels of corruption. The enhanced access of politically connected firms to low-cost debt financing can be attributed to the increased chance of receiving government bailouts in financial distress (Faccio, Masulis, and McConnell, 2006). Boubakri, Mansi, and Saffar (2016) show that the heightened probability of government bailouts also incentivizes politically connected firms to undertake riskier investments, especially in countries with weaker institutions. Furthermore, politically connected firms tend to manifest lower earnings quality, characterized by less accurate analyst forecasts, and reduced voluntary disclosure, particularly in countries with high corruption levels and efficient stock markets (Hung, Kim, & Li, 2018; Chaney, Faccio, & Parsley, 2011; Chen, Ding, & Kim, 2010). Sojli and Tham (2017) provide evidence that foreign political ties can mitigate the liability of foreignness, facilitating better access to government contracts and enhancing firm value. We complement this stream of research by investigating the significance of political connections for both local and foreign firms in securing government contracts and analyzing how country-specific characteristics influence this relationship and its impact on firm valuation.

Finally, we also supplement prior research examining the potential effects of government contracting on firm policies and outcomes. Claessens, Feijen, and Laeven (2008) show that political connections improve Brazilian firms' access to capital and stock returns. Cohen, Coval, and Malloy (2011) find that government spending significantly dampens firms' investment activity. Cohen and Malloy (2016) show that government contractors invest less in capital expenditures and innovations, resulting in lower sales growth. Samuels (2021) finds that government contracting improves firms' external reporting quality and information environment due to greater government monitoring and scrutiny. Mills, Nutter, and Schwab (2013) show that government contractor firms are subject to high political costs and sensitivities. As a result, these firms have lower total CEO compensation but a higher fraction of cash in compensation, leading to lower long-term CEO wealth performance sensitivity. Houston, Maslar, and Pukthuanthong (2018) find that higher government sales of firms lead to a higher cost of debt due to the increased cash

flow volatility related to short-term government contracts. However, political connections moderate this effect, resulting in politically connected government contractors having a lower debt financing cost due to the reduced risk of contract renewals. We add to this line of literature by examining the impact of political connections and government contracting on firms' valuation and capital allocation efficiency in an international setting.

The rest of the paper is organized as follows: **Section 2** develops our hypotheses; **Section 3** summarizes the data and describes variables; **Section 4** examines the relationship between political connections and government contracting; **Section 5** investigates the moderating role of country development and contractor origin in the relationship above; **Section 6** analyzes the valuation of politically connected government contractors; **Section 7** examines the capital allocation efficiency of politically connected government contracting; **Section 8** concludes the paper.

2. Hypothesis Development

In this section, we develop testable hypotheses regarding the impact of political connections on government procurement decisions and the effect of political connections-induced government contracting on firm valuation.

Several studies established the role of political connections in allocating government procurement contracts. Akey (2015) shows that firms deliberately hire former government employees to build political networks in the United States. Political connections of firms with government bodies reduce information asymmetry and enhance the information flow between the parties. Political links may also lead to greater government contract allocation due to the lower due diligence related to heightened trust and group thinking. Hiring an ex-employee of the government might positively affect the government award decisions in favor of firms through the human capital transfer channel. Government ex-employees might possess

specialized knowledge of the government contracting procedure. Consistent with these argumentations, we propose the following hypothesis:

H1: Political connectedness is positively associated with corporate government contracting.

We scrutinize this hypothesis based on several testable predictions. We predict that politically connected firms, on average, receive larger contracts in U.S. dollars and have a higher probability of receiving a government contract.

Next, we propose that country-level financial and institutional development could influence the relationship between political connections and government contracting. Information asymmetry between the government and awarded firms is one of the critical drivers of this relationship. Countries with more developed financial markets and institutions tend to have better financial reporting quality and other market mechanisms to mitigate information asymmetries. Furthermore, government bodies in countries with weaker institutions are more likely to use their power to allocate government contracts through their social network channel. Countries with developed institutions are more likely to have less complicated government contracting procedures mitigating the importance of the human capital transfer channel. Consequently, we propose the following hypothesis:

H2: The association between political connectedness and corporate government contracting is more vital in countries with weaker financial markets and institutional development.

Next, we propose that the national culture, captured by the Hofstede cultural dimensions, influences the association between political connectedness and government contracting. Hofstede (1980) defines culture as "the shared mental programming that sets apart one group or category of people from another." Prior research demonstrates that national cultural values shape various managerial decisions, such as the use of external financing, reporting practices, choice of entry mode, and their effectiveness (Panagopoulos, Menguc, and Mullins, 2023; Rockstuhl et al., 2023; Boubakri and Saffar, 2016; Kogut and Singh, 1988).

Moreover, various cultural dimensions may influence preferences for favoritism and cronyism (Im and Chen, 2020; Everett, Faber, and Crockett, 2015; Khatri and Tsang, 2003; Chen, Brockner, and Chen, 2002). We argue that the cultural differences among the awarding countries are likely to mold government agents' attitudes towards favoritism, preferential treatment, and moral standards, thus impacting the degree to which firms' political connections influence their likelihood of obtaining government contracts.

H4: The association between political connectedness and corporate government contracting is significantly impacted by the national cultural attributes of the awarding country.

We also suggest that contractors' local presence in the awarding country could impact the relationship between political connections and government contracting. Information asymmetry between the government and awarded firms is more likely to be greater for foreign firms with no residence in awarding countries compared to their local peers. Given that information asymmetry is one of the critical channels determining the extent to which political connectedness influence government contracting decisions, we propose the following hypothesis:

H4: The association between political connectedness and corporate government contracting is stronger for foreign firms than for local firms.

Next, we argue that political connection-induced government contracting could have implication for firm valuation. On the one hand, the political capital hypothesis suggests that political connections may enhance firm value by empowering connected firms to receive larger government contracts with more favorable terms and a greater likelihood of renegotiation (Brogaard, Denes, and Duchin, 2021; Ferris, Houston, and Javakhadze, 2019; Eichholtz and Floroiu, 2017; Goldman, Rocholl, and So, 2013). On the other hand, the agency theory of political connections suggests that managers of connected firms may sacrifice corporate resources to gain personal favors from government representatives (Masulis and Reza, 2015; Aggarwal, Meschke, and Wang, 2012; Faccio, 2010; Faccio, 2006; Shleifer and Vishny, 1994).

Connected politicians may use their bargaining power to receive political favors at the cost of connected firms (Jia, Zhao, Zheng, and Lu, 2022).

Furthermore, political connections may serve as a co-optation mechanism pressuring connected firms to meet government requirements and exposing them to government expropriation (Marquis and Qian, 2014; Boubakri, Cosset, and Saffar, 2008). Zhang, Marquis, and Qiao (2016) shows that firms' industrial and regional institutional environment determines the effect of political connections on firm outcomes. The study finds that political connections buffer government pressure in less market-oriented regions but expose connected firms to government exploitations in more market-oriented regions. We propose that political connection is a valuable tool in dealing with government bodies in less developed countries with weaker institutions to help overcome political economic frictions. In contrast, political connections with government bodies of more developed countries that poses greater bargaining power may magnify agency concerns.

H5a: Government contracting induced by political connections is negatively associated with the firm value for contracts awarded by government bodies in more developed countries.

H5b: Government contracting induced by political connections is positively associated with the firm value for contracts awarded by government bodies in less developed countries.

Next, we also argue that the impact of political connection-induced government contracting on firms' performance varies across domestic and foreign firms. We suggest that the peril of government regulatory pressures and political exploitations is less of a concern for foreign registered firms, and propose the following hypothesis:

H6: Government contracting induced by political connections is positively associated with the firm value for foreign contractors.

Next, we postulate that political connections, through government contracting mechanism, could affect corporate investment efficiency (as measured by the investment sensitivity to Q). We expect that government contracting can reduce investment sensitivity to Q for politically connected firms in several ways. First, politically connected government contractors may allocate their scarce corporate resources for obtaining and fulfilling government contracts, therefore missing the opportunities outside of the network. Second, politically connected government contractors may be subject to less market competition compared to the other firms. Third, government spending, through resource diversion channel, discourages corporate risk-taking significantly reducing R&D investments and corporate innovation output through resource diversion channel. Finally, government-contracting firms have lower CEO pay-per-performance sensitivity, which may also lead to underinvestment (Hadley, 2016). Thus, we postulate the following hypothesis:

H7: Politically connected government contracting distorts a firm's investment efficiency.

3. Data, Variable Measurement, and Summary Statistics

3.1. Data Sources

We combine three sources of government procurement contracts data between 2009 and 2017. First, we obtain public procurement data for European countries from the Tenders Electronic Daily (TED) database published in the EU Open Data Portal[2] access point by the EU institutions, agencies, and other bodies. TED is the online version of the "Supplement to the Official Journal" of the EU. The data covers government procurement contracts for the European Economic Area (EEA), Switzerland, and the Republic of North Macedonia. Second, government procurement contracts for Australia are obtained from the Historical Australian Government Contract dataset from Australia's Public Data Portal.[3] Third, government

[2] European Union's (EU) the Tenders Electronic Daily (TED) data: https://data.europa.eu/euodp/en/data/dataset/ted-csv

[3] Australia's Public Data Portal's Historical Australian Government Contract data: https://data.gov.au/dataset/ds-dga-5c7fa69b-b0e9-4553-b8df-2a022dd2e982/details

procurement contracting data for Canada come from the Contract History data set obtained from the Open Data Canada Portal.[4]

All three datasets include the essential fields from awarded procurement contracts, such as which government body bought from what company, the value of the awarded contract, and other information regarding the procedure and award criteria used. We identify GVKEYs for the firms awarded government contracts using fuzzy matching and hand-matching techniques. We removed eight countries with less than 100 matched contracts from the final sample. Our analysis is based on the remaining 27 developed countries.

Financial and accounting data for the awarded and control firms come from the CRSP and COMPUSTAT data sets. We obtain share price and outstanding shares data from the CRSP data set for the North American firms and from the COMPUSTAT GLOBAL data set for all other firms. We draw accounting information for all firms from the COMPUSTAT. Employment, characteristics, and social network data of the firms' board or management team is from the BoardEx database provided by Management Diagnostic Limited.

We obtain country-level macroeconomic variables from the World Development Indicators database of the World Bank.[5] The rule of law, government effectiveness, political stability, regulatory quality, voice and accountability, and economic freedom indices come from the Worldwide Governance Indicators dataset. Corruption Perception Index (CPI) data comes from Transparency International.[6]

[4]Canada's Open Data Canada Portal's Contract History data:
https://open.canada.ca/data/en/dataset/53753f06-8b28-42d7-89f7-04cd014323b0
[5] World Bank's World Development Indicators database:
https://datacatalog.worldbank.org/dataset/world-development-indicators
[6] Transparency International's the Corruption Perception Index data for 2017:
https://www.transparency.org/news/feature/corruption_perceptions_index_2017#research

3.2. Measuring political connections

We construct a dummy variable indicating whether a firm has a former government employee on its board or management team (PC) and the number of former government employees on the firms' board or management team ($PC\ Number$), using the Boardex database. Internet Appendix A1[7] outlines specifically how we identify the firm directors and managers with former employments for the central governments and militaries of the awarding countries. For our contract-level analysis, we consider the awarded firms' political connections with the government of the awarding country(PC). For firm-level analysis, we consider the firms' political connections with any of the 27 awarding countries in our sample. We construct the secondary measures of political connections such as the ratio of the $PC\ Number$ to the number of managers of the firm covered in the BoardEx database ($PC\ Percentage$) and the total number of years of former government experience of firms' board or management team ($PC\ Length$); For our contract-level analysis, we construct an additional political connections measure which is the ratio of the number of former employees of awarding government on firms' board or management team to the number of former employees of all 27 awarding governments on firms' board or management team (*PC Ratio*).[8] All variables are defined in Appendix 1.

3.3. Summary Statistics

We use the contract-level and firm-level samples to analyze the impact of political connections on government contracting decisions. The final contract-level sample includes 270,143 public procurement contracts awarded by 27 countries from 2009 to 2017. Following the prior literature, we exclude the financial services and utility firms. Appendix 2 presents country-level descriptive statistics.

Panel A of Table 1 presents the descriptive statistics for the contract-level sample. The average contract value is about 742 thousand USD, and the median contract value is 55 thousand USD. About 45%

[7] We note that the internet appendices are not included in the manuscript for brevity but are available upon request.
[8] Consistent with our hypothesis 1, we expect a positive association between government contracting and all our proxies of connectedness.

of all contracts are awarded through a competitive bidding procedure. 16.3% of all contracts are awarded to politically connected firms. Politically connected firms, on average, have 2.54 (=0.421/0.163) employees with previous government employment for the awarding government. The median aggregate tenure of the firms' connected employees for the awarding government is 14 years.

INSERT Table 1

We aggregate the contract-level variables by firms annually to obtain the panel of 61,341 firm-year observations. Panel B of Table 1 presents the descriptive statistics for the firm-level sample. About 8.9% of the firms received contracts in a given year. On average, firms received close to four contracts with a total value of 8.3 million USD per year. About 17.7% of the firms are politically connected to at least one of the sample governments.

4. Political Connections and Contracting Activity

In this Section, we examine the relationship between political connections and government procurement activity.

4.1. Univariate analysis

Panel A of **Table 2** compares the government contracting activities of politically connected firms with those of politically non-connected firms using contact-level data. The politically connected contractors receive larger contracts in terms of USD values and the percentage of annual sales compared to non-connected contractors.

Panel B of Table 2 compares the government contracting activities of politically connected and non-connected firms using firm-level data. On average, 21.2% of firms with political connections received at least one government procurement contract, while only 6.2% of firms without political connections received one. However, politically connected firms differ significantly from non-connected firms in all observable firm characteristics.

To obtain a more comparable sample of firms, we match the politically connected firms with a control group of non-connected firms based on the observable firm characteristics, industry, headquarters location, and year using Propensity Score Matching (PSM).[9] Panel C of Table 2 compares government contracting activities using the matched sample of politically connected and non-connected firms. The difference in all contracting variables, including the likelihood of receiving a government contract, remains significant and large in economic magnitude. Based on univariate analysis, politically connected firms are more likely to receive a government contract and receive more contracts per year in terms of the number of contracts, the total USD value, the average USD value, and the percentage of sales.

INSERT Table 2

4.2. Contract-level regressions

To analyze whether the political connections are associated with the government contracting activity, we estimate the following regression model using ordinary least squares (OLS) estimates.

$$Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 Polit_{j,i,t-1} + \beta_2 Ln(TA)_{j,i,t-1} + \beta_3 BM_{j,i,t-1} + \tag{1}$$
$$\beta_4 \frac{CAPX}{Sales}_{j,i,t-1} + \beta_5 \frac{R\&D}{Sales}_{j,i,t-1} + \beta_6 ROA_{j,i,t-1} + \beta_7 HHI_{j,i,t-1} + \beta_8 Board\ size_{j,i,t-1} +$$
$$\beta_9 Management\ size_{j,i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t}$$

The dependent variable in these regressions is *Ln (Contract value)* - the natural log of value of contract *j* awarded for firm *i* in year *t*. The key explanatory variables of interests are political connections (*Polit*) which measures include *PC* - an indicator variable that equals one if a firm employs at least one ex-employee of the contract awarding governments, and zero otherwise and *PC Number* - the number of the ex-employees for the contract-awarding governments currently employed by the firm.[10]

[9] Internet Appendix A2 compares characteristics of politically connected and non-connected firms before matching (Panel A) and after matching (Panel B) and presents the descriptive statistics of the PSM sample (Panel C). The significant differences in observable firm characteristics are eliminated after the matching. The PSM therefore appears effective in forming a balanced sample.

[10] We report results using alternative *Polit* measures, *PC Percentage* - the number of years past since the last year of the government employment of the firm's employee with the most recent ex-government employment, *PC Ratio* - the ratio of the number of ex-employees for the contract-awarding governments currently employed by the firm to

Following the literature on government contracting (Ferris, Houston, and Javakhadze, 2019; Goldman, Rocholl, and So, 2013), we control for the vector of observable firm characteristics. *Ln(AT)* is the natural log of total assets. *BM* is the book-to-market ratio. *CAPEX/Sales* is capital expenditure divided by total sales. *R&D/Sales* is research and development expenditures divided by total sales. *ROA* is operating income divided by total assets. *HHI* is Herfindahl-Hirschman Index for the firm's primary two-digit SIC code in the firm's headquarters country. *Board size* is the number of directors on the firm's board. *Management size* is the number of managers and directors of the firm covered in the BoardEx database. The regressions include industry, year, and awarding country (β_c) fixed effects. We clustered standard errors at the awarding country level.[11]

Table 3 presents the results of the multivariate regressions. Consistent with Hypothesis 1, we find a significant positive relationship between the USD value of awarded contracts and the political connections indicator regardless of the model specifications. Having a past employee of the awarding government as a manager or board member is associated with a 31.3% increase in the USD value of awarded contracts after controlling for observable firm characteristics, as well as industry, year, and awarding country fixed effects, as reported in Columns (5). Employing each additional politically connected manager or board member is associated with a 6.3% increase in the contract value, reported in Column (10)[12]. Overall, the results in this section provide support to our hypothesis 1.

INSERT Table 3

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the number of ex-employees for the all 27 governments currently employed by the firm, and *PC Length* - the total number of years of the government employment of the firm's ex-government employees, and alternative dependent variable *Contract Value/Sales* - the contract value as percentage of awarded firm annual sales in Internet Appendix A3. The findings remain consistent.

[11] The results remain qualitatively similar when we cluster standard errors at the firm level.

[12] We address the concern that our results are mainly attributable to countries with a large (small) number of observations by using the weighted least squares methodology, with weights equal to the inverse of the number of observations (the number of observations) in each country. We present the results of this analysis in Internet Appendix A4 and find supportive evidence of our main conjecture.

4.3. Firm-level regressions

To analyze the impact of political connections on the likelihood of receiving a government contract and on the magnitude of received government contracts, we estimate the following regression on the full sample and propensity-score matched sample using the firm-level model:

$$Contract_{i,t} = \beta_0 + \beta_1 Polit_{i,t-1} + \theta Controls_{i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t} \quad (2)$$

Table 4 reports the results of the estimated regressions. The dependent variable in Columns (1)-(2) is *Contract* - the indicator variable that equals one if firm *i* received a contract in year *t*, and a zero otherwise, and in Columns (3)-(4) - is the natural logarithm of the number of contracts. The key explanatory variables of interest are political connections (*Polit*) measures. We find that political connections are associated with a higher likelihood of receiving a government contract. The relationship between political connections measures and the secondary measure of political connections - the natural log of the number of all government contracts awarded to a firm by sample countries in year t, is also significant, with the signs predicted by hypothesis 1. Employing a past government worker is associated with a 6.0% increase in the likelihood of receiving a government contract, as reported in Columns (1). Hiring each additional politically connected manager or board member is associated with a 3.9% increase in the probability of receiving a contract, as reported in Column (2). The results are qualitatively similar using the PSM sample, reported in Columns (5)-(8). These findings support our hypothesis 1 that firms with political connections face more favorable government procurement decisions.[13]

INSERT Table 4

[13] We report results using alternative measures of *Polit* - *PC Percentage*, *PC Ratio*, and *PC Length* in Internet Appendix A5, and results using alternative contracting measures *Ln (Number of Contracts)* and *Contract value/Sales* in Internet Appendix A6. Politically connected firms receive greater number of contracts per year and contracts accounts for greater percentage of their annual sales.

4.4. Mitigating Endogeneity concerns

In this section, we address several endogeneity concerns. First, the decision to award a government contract to a particular firm may be impacted by whether the firm received a government contract in previous years, raising dynamic endogeneity concerns. To address the dependence of firm-year observations within a group, we estimate the following regression equation that includes firm fixed effects and the lagged dependent variable, reported in Table 5.

$$Contract_{i,t} = \beta_0 + \beta_1 Polit_{i,t-1} + \beta_2 Contract_{i,t-1} + \theta Controls_{i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t} \quad (3)$$

However, this could cause another econometric problem related to the possible autocorrelation across time. Following Aivazian, Booth, and Cleary (2006), we adjust for the possible autocorrelated errors estimating fixed effects with first-order autocorrelated errors, reported in Columns (9) and (10).

We find that the positive relationship between political connections and the likelihood of receiving a government contract remains significant after controlling for the firm, industry by year, and country by year fixed effects, as well as the lagged dependent variable, reported in Columns (1) – (4). The positive relationship persists using fixed effect estimates and adjusting for the autocorrelated errors, reported in Columns (5) – (10).[14]

INSERT Table 5

Second, the decision to hire a past government employee can be endogenous. Although we control for the observable and unobservable firm characteristics by including control variables and fixed effects, it is possible that some unobserved heterogeneity simultaneously determines both the firms' hiring decisions

[14]We report the regression results estimated using the propensity-score-matched sample in Internet Appendix A7. To further address dynamic endogeneity concerns, we estimate our firm-level regressions using subsample of firms with no prior political connections and subsample of firms with no prior government contracts, reported in Internet Appendix A8. Our findings remain robust.

of past government employees and the governments' awarding decisions of public procurement contracts. We address this endogeneity concern following Fracassi and Tate's (2012) death and retirement events for identification framework. First, we identify the subsample of firms where at least one politically connected employee retired over the age of 65 or died in year t and the subsample of firms with two or fewer politically connected employees in year t-1 with at least one retired over the age of 65 or died in year t. Then, we estimated the following regression on these subsamples using OLS to analyze whether an exogenous change in a firm's political connections reduces its likelihood of receiving a contract.

$$\Delta Contract_{i,t-1\ to\ t+1} = \beta_0 + \beta_1 \Delta Polit_{i,t-1\ to\ t+1} + \theta \Delta Controls_{i,t-1\ to\ t+1} + Year\ FE \quad (4)$$

The dependent variable is the change in the *Contract* indicator of firm *i* from year t-1 to year t+1. The key variable of interest is the change in political connections, *ΔPolit*, estimated as the change in $PC\ number$ - the number of the ex-government-employees currently employed by the firm *i,* from year t-1 to year t+1. Table 6 reports the impact of exogenous changes in $PC\ number$ on the probability of contract awards. We document a significant effect of the exogenous reduction in the number of PCs on the likelihood of receiving a contract for the subsample of all firms, reported in Columns 1 to 4. The impact is more prominent in economic magnitude and statistically significant for a subsample of firms with no more than two past government employees, of which at least one retired or died. These findings confirm our main results regarding the causal impact of political connections on government procurement decisions.

INSERT Table 6

We also use Gormley and Matsa's (2011) "stacked" difference-in-difference approach to analyze further the impact of the exogenous shock in a firm's political connections on its likelihood of receiving a government contract award. First, we identify the exposed firms with at least one politically connected employee who retired over 65 or died in year *t*. Second, for each year *t*, we construct a cohort of exposed

and unexposed firms using firm-year observations for the two years before and after the listing. Then, we pool the firm-year observations across all cohorts and estimate the following regression equation:

$$Contract_{i,t} = \beta_0 + \beta_1 Exposure_{i,t,h} + \theta Controls_{i,t,h} + Firm_{Cohort}FE + Year_{Cohort}FE + \varepsilon_{i,t,h} \quad (5)$$

The dependent variable *Contract* is an indicator variable that equals one if firm *i* received a contract in a year *t* and a cohort *h*, and zero otherwise. The key variable of interest *Exposure* is an indicator variable that equals 1 for years *t+1* and *t+2* if firm *i* in cohort *h* is exposed in year *t*, and zero otherwise. The regressions also include firm-cohort fixed effects to account for the fixed differences between firms and year-cohort fixed effects to account for possible time trends. Firms can be in the control group in each cohort only until it is exposed to the shock. We estimate the regression above by selecting a control group from the full sample and PSM sample of firms, as well as among all firms or only politically connected firms.

Table *7* reports the results of the stacked difference-in-difference analysis. We find that the exogenous shock in a firm's political connections reduces its likelihood of receiving a government contract award in the following years. This result is robust to the control sample selection procedure and the model specification.

INSERT Table 7

Finally, we use the adoption of the new procurement directive by the European Parliament as an exogenous shock to analyze the causal impact of political connections on government procurement decisions. The EU laws set out minimum harmonized public procurement rules for the EEA countries.[15] The purpose of the procurement rules is to ensure the free movement of services and goods through competition within the EU. The European Parliament voted to revise the public procurement rules through

[15] The European Parliament adopted the public procurement rules pursuant to the Directives 2004/17/EC and 2004/18/EC of the European Parliament and of the Council of March 31st, 2004.

Directive 2014/24/EU on January 24th, 2014.[16] The new Directive removed and replaced some of the outdated constraints with new features to simplify, modernize, and improve the efficiency of the procurement processes while preserving transparency and competition among bidders. The changes enabled contracting authorities to run procurement processes quicker with fewer barriers and allowed suppliers to make bids faster, cheaper, and less bureaucratic.[17]

The new directive is expected to strengthen the relationship between the number of bidders and the contract values awarded by the EEA government bodies. As the tenders become more competitive but the government authorities face less red tape in procurement processes, we expect the impact of political connections on government procurement decisions to increase. We test these predictions by estimating the following difference-in-difference regression equation using the contract-level sample.

$$Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 EU_j \times Polit_{j,i,t-1} \times Post\ EU\ Directive_{j,t} + \beta_2 EU_j \times Polit_{j,i,t-1} + \beta_2 Polit_{j,i,t-1} \times Post\ EU\ Directive_{j,t} + \beta_3 EU_j \times Post\ EU\ Directive_{j,t} + \beta_4 Polit_{j,i,t-1} + \beta_5 EU_j + \beta_1 Post\ EU\ Directive_{j,t} + \theta Controls_{j,i,t-1} + Firm\ FE + IndYear\ FE + Cntr\ FE + \varepsilon_{i,t} \quad (6)$$

Table 8 reports the results of the estimated regressions. We find that the positive relationship between the number of offers and the contract value improves after the new EU directive, reported in Columns (1) – (2). We also find that the impact of political connections on awarded government contract value becomes greater with an increase in the number of bidders, reported in Columns (3) – (4). We show that contracting authorities in the EEA countries allocate larger contract values to the politically connected firms after the adoption of the new EU directive, as reported in Columns (5) – (6).

INSERT Table 8

[16] The European Parliament and the Council of 26 February 2014 on public procurement adopted Directive 2014/24/EU repealing Directive 2004/18/EC.

[17] According to "A Brief Guide to the 2014 EU Public Procurement Directives" by Crown Commercial Service.

4.5. Political influence channel

In this Section, we explore the mechanisms by which politically connected individuals use their influence over contract award decisions. Our objective is to investigate whether individuals with higher-ranking past government positions possess greater power in this regard. We narrow our analysis to a subset of government contracts related to defense activities and examine the impact of military affiliations, aiming for a more direct examination of the nexus between political connections and government contract awards. We chose to concentrate on defense contracts and military ties because identifying this direct channel and ranking past government positions in other domains may be practically challenging. While the nature of defense contracts and military experience is unique, this analysis provides valuable additional support for our primary hypothesis.

To examine the impact of military affiliations on government contract decisions, we estimate equation (1) within defense and non-defense subsets of government contracts, substituting political connections measures with military connection variables. Specifically, we create a binary variable to indicate whether a firm has former military personnel from the contract-awarding country on its board or management team (*MC*), as well as a variable (*MC Number*) representing the count of such former military personnel in these positions. Additionally, we construct high and low rank military connection variables to capture the potential level of influence that individuals with military ties may bear.

Table 9 reports the results of these regressions. In line with the political influence mechanism, we observe a significant positive correlation between the USD value of awarded contracts and the military connection variables within the defense contracts subset, while no such correlation exists within the non-defense contracts subset. Having former military personnel of the contract-awarding county on board or management team is associated with a 39.6% increase in the value of awarded defense contracts, reported in Column (1). This impact is more pronounced for high-ranking ex-military personnel. Employing high-

ranking former military personnel is associated with an 87.6% increase in the value of defense contracts awarded, compared to 26.2% for their low-ranking counterparts, reported in Column (5).

INSERT Table 9

4.6. Moderating effects

In this Section, we examine whether the awarding country's financial and institutional development and the contractors' local presence moderate the relationship between political connections and government procurement activity.

4.6.1. Financial and Institutional Development

To examine the impact of the financial market and institutional development of the awarding government on the relationship between political connections and contract values, we add interaction terms, $PC_{j,i,t-1} \times FD_{j,i,t-1}$ or $PC_{j,i,t-1} \times ID_{j,i,t-1}$, and respective main effects to equation (1). The key variables of interest in these regressions are the interaction terms between PC indicator and the awarding government financial and institutional development measures.

We constructed the financial development index (FD) following the well-established literature on the financial development (Demirguc-Kunt & Levine, 1996; Love, 2003; Khurana, Martin, & Pereira, 2006). We use country-level Rule of Law, Government Effectiveness, Political Stability, Regulatory, Voice and Accountability, and Economic Freedom Indices obtained from the Worldwide Governance Indicators dataset to proxy for institutional development of the country. The Corruption Perception Index (CPI) is obtained from Transparency International and measures the perception of corruption in a country.

Table 10 presents the results of the multivariate regressions. Consistent with hypothesis 2, we find that the financial and institutional development of the awarding country mitigates the positive relationship between political connections and contract values. Government effectiveness and CPI have the strongest impact on mitigating the influence of political connections on government contracting decisions, while the mitigating effects of financial development and political stability are the weakest. The impact of political

connections on government contract values drops from 63.4% to 9.2% with one standard deviation increase in government effectiveness, as reported in Column (3).[18]

INSERT Table 10

4.6.2. Cultural Dimensions

To investigate how the cultural attributes of the awarding country influence the dynamic between the political connectedness and government contracting activities, we introduce interaction terms, represented as $PC_{j,i,t-1} \times Culture_j$, into equation (1). We capture cultural heterogeneity utilizing Hofstede's six national culture dimension measures: power distance index (PDI), uncertainty avoidance index (UAI), individualism (IDV), masculinity (MAS), long-term orientation (LTO), and indulgence versus restraint (IVR),[19] as well as an additional dimension derived from the Hofstede measures: the Secrecy (SEC)[20] (Hofstede, 1980, 1991; Gray, 1988).

Table 11 reports the results of these regressions. In line with hypothesis 3, our findings highlight a significant influence of the national cultural attributes of the awarding country on the correlation between political affiliation and contract values. Notably, five out of seven interaction terms demonstrate statistical significance. We find that the firms are more likely to leverage their political influence to secure government contracts in countries characterized by elevated levels of power distance, collectivism, uncertainty avoidance, restraint, and secrecy. We note that masculinity and long-term orientation do not exert a significant impact on this dynamic.

[18] We report the results of regressions using *PC Number* to measure political connectedness in Internet Appendix A9 and find qualitatively similar results.

[19] The initial work of Hofstede (1980) introduces the first four cultural dimensions: power distance index (PDI), uncertainty avoidance index (UAI), individualism (IDV), and masculinity (MAS). Hofstede (1991) adds the fifth dimension of long-term orientation (LTO). The last dimension, indulgence versus restraint (IVR) was added by Hofstede, Hofstede, and Minko (2010).

[20] Gray (1988) developed a cultural accounting measure of secrecy versus transparency based on the original Hofstede dimensions. Following Hope et al. (2008), we calculate the Secrecy (SEC) measure as SEC = UAI + PDI – IDV, and alternatively, as SEC1 = UAI + PDI – IDV – MAS.

INSERT Table 11

4.6.3. Local vs. Foreign Firms

To analyze the impact of political connections on the magnitude of received government contracts, we estimate the regression equation (1) on subsamples of government contracts awarded to local and foreign firms. We define government contractors as local firms if they are headquartered or have local offices in the awarding government's country and as foreign firms otherwise.

Table 12 presents the results of these regressions. We find that political connections significantly influence government contracting decisions for foreign firms more than local firms, supporting hypothesis 4. Having a past employee of the awarding government as a manager or board member is associated with a 29.6% increase in the government contract value among local firms and a 54.3% increase in the government contract value for foreign firms. This finding suggests that political connections are more valuable in building trust and reducing the need for due diligence in environments with greater information asymmetry.

INSERT Table 12

5. Value of political connection-induced contracting

In this Section, we investigate the impact of political connections-induced government contracting on firm valuation.

5.1. Valuation across countries

We analyze the valuation impact of political connections-induced government contracting using Fama and French's (1998) framework. This approach determines the marginal value of political connections-induced government contracting. Specifically, we estimate the following regression using OLS:

$$Value_{j,i,t} = \beta_0 + \beta_1 Ln(\widehat{Contract\ value})_{j,i,t} + \beta_2 Earnings_{j,i,t} + \beta_3 \Delta Earnings_{j,i,t} + \quad (7)$$

$$\beta_4 \Delta Earnings_{j,i,t+1} + \beta_5 \Delta Net\ assets_{j,i,t} + \beta_6 \Delta Net\ assets_{j,i,t+1} + \beta_7 R\&D_{j,i,t} + \beta_8 \Delta R\&D_{j,i,t} +$$

$$\beta_9 \Delta R\&D_{j,i,t+1} + \beta_{10} Interest_{j,i,t} + \beta_{11} \Delta Interest_{j,i,t} + \beta_{12} \Delta Interest_{j,i,t+1} + \beta_{13} Dividends_{j,i,t} +$$

$$\beta_{14} \Delta Dividends_{j,i,t} + \beta_{15} \Delta Dividends_{j,i,t+1} + \beta_{16} \Delta Value_{j,i,t+1} + Firm\ FE +$$

$$Industry\ x\ Yeat\ FE + Country\ x\ Year\ FE + \varepsilon_{i,t}$$

The dependent variable is *Value*, which is the market value of equity plus total debt. *Earnings* is earnings before interest and taxes. *Net assets* is total assets minus cash. *R&D* is research and development expense. *Interest* is in interest expenses. *Dividends* is common cash dividends. All variables (except *PC, Contract, Ln(Total Contract Value)* and *Leverage*) are scaled by net assets. $\Delta X_{i,t}$ indicates the change in variable X from year t−1 to t. $\Delta X_{i,t+1}$ the change in variable X from year t to t+1. The variable of interests, *Predicted Ln (Contract Value)* are the predicted values from the regression of *Ln (Contract Value)* on the number of the ex-employee for the contract awarding governments currently employed by the firm (*PC Number*).

We estimate the regression equation (7) on the full sample and the subsamples of government contracts awarded by countries with above or below median GDP per capita. **Table 13** reports the results of these regressions. First, we examine the direct valuation impact of government contracts, *Ln (Contract Value),* in Columns (1) to (3). We find no valuation impact of government contracting in the full sample, a significantly positive impact for contracts awarded by well-developed countries, and a significantly negative impact for contracts awarded by less-developed countries.

Next, we analyze the marginal value of government contracts induced by political connections, *Predicted Ln (Contract Value),* in Columns (4) to (6). We find no significant relationship between the political connection-induced government contracting and firm value in the full sample. The political connection-induced government contracting distorts the firm value in well-developed countries, supporting the "binding" effect suggested in hypothesis 5a, and enhances the firm value in less-developed countries,

supporting the "buffering" effect suggested in hypothesis 5b. The findings are economically significant. One standard deviation increase in *Predicted Ln (Contract Value)* is associated with a 1.6% (= [0.235 x (-0.110) / 1.591]) reduction in the firm value relative to the median firm value in well-developed countries and 1.1% (= [0.235 x (-0.072) / 1.591]) reduction in the firm value relative to the median firm value in well-developed countries, as reported in Column (4) and (5).

INSERT Table 13

Thus, changes in government contracting attributable to political connections are costly to shareholders of firms dealing with government bodies of well-developed counties, exposing firms to government expropriation and implying that politically connected managers may sacrifice corporate resources to gain personal favors from government representatives. On the other hand, political connections are valuable to firms dealing with government bodies in less-developed counties, protecting firms from regulatory forces and allowing managers to expropriate government resources through political favors.

5.2. Valuation for local vs. foreign firms

To examine whether the valuation impactions of political connections-induced government contracting varies between local and foreign firms, we estimate the regression equation (7) on subsamples of contracts awarded to local and foreign firms. Table 14 reports the results of these regressions. We find that government contracting induced by political connections is value-destroying for local firms in well-developed countries and value-enhancing for local in less-developed countries, reported in Columns (2) and (3). However, for foreign contractors, political connections-induced government contracting is value enhancing for both government contracts of well- and less-developed countries, with a significantly greater economic magnitude for contracts awarded by well-developed countries, reported in Columns (4) to (6). This finding suggests that foreign firms are not subject to the binding effects of political exploitation and may utilize their political capital to access government resources.

INSERT Table 14

5.3. Investment efficiency channel

Next, we examine the impact of political connections-induced government contracting on firms' capital allocation efficiency as one of the channels through which politically connected contracting may impact firm valuation.

We follow the seminal investment-Q framework of Mclean, Zhang, and Zhao (2012) to analyze the impact of political connections-induced government contracting on firms' capital allocation efficiency. First, we estimate the following regression using OLS on a sample of all firms and subsamples of politically connected and non-connected firms.

$$Invest_t = \beta_0 + \beta_1 Q_{j,i,t-1} \times Ln(\widehat{Contract}\ value)_{j,i,t} + \beta_2 CF_{j,i,t} \times \quad (8)$$

$$Ln(\widehat{Contract}\ value)_{j,i,t} + \beta_3 Ln(\widehat{Contract}\ value)_{j,i,t} + \beta_4 Q_{j,i,t-1} + \beta_5 CF_{j,i,t} + Firm\ FE +$$

$$Industry\ x\ Yeat\ FE + Country\ x\ Year\ FE + \varepsilon_{i,t}$$

The dependent variable in the regressions is *INVEST* for firm *i* in year *t*, measured as the yearly growth in PPE and inventories plus R&D spending, all scaled by the lagged book value of total assets. Q is measured as the market value of equity minus the book value of equity plus the book value of total assets, all scaled by the book value of total assets. CF is measured as net income plus depreciation and amortization, all scaled by the lagged book value of total assets. The regressions control for the firm, industry by year, and headquarter location country by year fixed effects.

We estimate the regressions on subsamples split based on the economic development of the awarding country and the locality of the contractors. 3 presents the results of these regressions. Table 15 reports the results of these regressions. We find that investments of firms with greater government contracts induced by political connections are less sensitive to Q and more sensitive to cash, supporting hypothesis 7. One standard deviation increase in *Predicted Ln (Contract Value)* is associated with 2.1% (= [0.235 x (-0.032) / 0.360]) lower sensitivity to Q and 2.3% (= [0.235 x (-0.314) / (-3.244)]) greater sensitivity to cash, reported in Column (1). This is consistent with the agency theory explanation of the political connections

that managers of politically connected government contractors allocate limited corporate resources to obtaining and fulfilling government contracts while missing market opportunities.

This effect is mainly driven by contracts awarded by governments in well-developed countries and local contractors, reported in Columns (2) and (5), suggesting a stronger "binding" effect for local firms in well-developed countries. We find no significant impact of political connections-induced government on capital allocation efficiency for foreign contractors, reported in Columns (7) to (9). These findings suggest that distortions to capital allocation efficiency are one of the channels through which politically connected government contracting impact firm valuation.

INSERT Table 15

6. Conclusion

Government contracting influenced by political connections has far-reaching socio-economic and political consequences across borders. Examining its dynamics at the firm level is crucial for gaining a clearer understanding of the challenges posed by this phenomenon. In this study, we examine the effect of the political connections of a firm on government contracting activity and its implications for firm valuation in an international setting. Using the death and retirement of connected ties as well as the adoption of the new procurement directive by the European Parliament for identification, we provide strong evidence that political connectedness matter for government contracting.

We document that politically connected firms are more likely to receive government contracts and receive more government contracts per year in terms of U.S. dollar value in a multinational setting. We find evidence that the country-level financial and institutional development and cultural attributes, as well as contractors' location moderate the relation between political connections and government contracting. Specifically, the effect is stronger for firms in underdeveloped financial markets, in countries with greater power distance, collectivism, uncertainty avoidance, restraint, and secrecy, and for foreign firms with no local presence. Next, we investigate the valuation implications of political connections-induced government

contracting and find that, for local firms, politically connected government contracting is value-enhancing in less-developed countries and value-destroying in well-developed countries. For foreign firms, political connection-induced government contracting is more valuable when contracts are awarded by governments in well-developed countries. Finally, we show that politically connected government contracting distorts the capital allocation efficiency of local firms, especially in well-developed countries.

Our findings carry significant implications for the existing literature on political connections and government contracting. They also emphasize the need for policymakers to strengthen regulatory frameworks and oversight mechanisms to mitigate the challenges posed by politically connected contracting. First, as governments worldwide allocate substantial funds to contracts, our research highlights that the potential for quid pro quo arrangements is shaped by a country's institutional and financial maturity. This variation emphasizes the importance of considering the broader national context when evaluating political connections and their effects on contracting practices. Second, our findings suggest that government contracting driven by political connections can negatively impact firm policies and valuation, especially in well-developed countries. This dynamic can exacerbate agency conflicts within firms and lead to the erosion of shareholder value. Such practices may prompt suboptimal decision-making that prioritizes personal or political interests over the long-term health and profitability of the firm. These negative spillover effects can impede overall performance by diverting resources away from productive investments, innovation, and growth opportunities. Therefore, policymakers and regulatory bodies should consider stricter oversight and enforcement measures to ensure that government contracting processes prioritize merit and transparency, ultimately safeguarding the interests of shareholders and other stakeholders.

Appendix

Appendix 1: Variable definitions

Abbreviation	Description
Contracting Variables	
Ln(Contract Value)	*Ln(Contract Value)* is the natural log of the awarded contract value in USD.
Contract Value / Sales (%)	*Contract Value / Sales (%)* is the ratio of the awarded contract value to the total annual sales of the firm.
Contract	$Contract$ is an indicator variable that equals one if a firm received a contract in a year, and zero otherwise.
Ln(Number of contracts)	$Ln(Number\ of\ contracts)$ is the natural log of total number of all contracts awarded to a firm in a year
Ln (Total contracts value)	*Ln* $(Total\ contracts\ value)$ is the natural log of total USD value of all contracts awarded to a firm in a year
Ln(Average contracts value)	$Ln(Average\ contracts\ value)$ is the natural log of mean USD value of all contracts awarded to a firm in a year
Total contracts value/sales (%)	$Total\ contracts\ value/sales$ is the total value of contracts awarded to a firm in a year as a percentage of the firm's total annual sales.

Number of offers	*Number of offers* is the number of tenders received for the awarded government contract.
Local	*Local* is an indicator variable that equals one if the contract is awarded to a firm incorporated at the awarding country, and zero otherwise.
Foreign	*Foreign* is an indicator variable that equals one if the contract is awarded to a firm incorporated outside of the awarding country, and zero otherwise.
Defense	*Defense* is an indicator variable that equals one if a firm received a defense contract in a year, and zero otherwise. Identification of defense contracts is described in more detail in the Internet online Appendix A10.
Political Connection Variables	
PC	For the contract-level sample, *PC* is an indicator variable that equals one if the contract awarded firm employs at least one ex-employee of the contract awarding government, zero otherwise. For the firm-level sample, *PC* is an indicator variable that equals one if a firm employs at least one ex-employee of the 27 governments in our sample, and zero otherwise. Identification of former government employment is described in more detail in the Internet Appendix A1.
PC Number	For the contract-level sample, *PC Number* is the number of the ex-employee of the contract awarding government currently employed by the contract awarded firm. For the firm-level sample, *PC Number* is the number of the ex-employees for all of the 27 governments currently employed by the firm.
PC Percentage	For the contract-level sample, *PC Percentage* is the ratio of the ex-employee of the contract awarding government currently employed by the contract awarded firm to the number of managers of the firm covered in the BoardEx database. For the firm-level sample, *PC Percentage* is the ratio of the ex-employee for all 27 governments currently employed by the firm to the number of managers of the firm covered in the BoardEx database.
PC Ratio	*PC Ratio* is the ratio of the number of the ex-employees of the contract awarding governments currently employed by the firm to the number of the ex-employee for all of the 27 governments currently employed by the firm.
Ln(PC Length)	*Ln(PC Length)* is the natural log of the total number of years of the government employment of the firm's ex-government employee. *Ln(PC Length)* is calculated based on the employment for the contract awarding government for the contract-level sample and based on the employment for either of the 27 governments for the firm-level sample.
MC	*MC* is an indicator variable that equals one if a firm employs at least one ex-military o of the contract awarding governments, and zero otherwise. Identification of former military experience is described in more detail in the Internet Appendix A11.
MC Number	*MC Number* is the number of the ex- military employees for the contract awarding governments currently employed by the firm;

High Rank MC	*High Rank MC* is an indicator variable that equals one if a firm employs at least one high rank ex-military personnel of the contract awarding governments, and zero otherwise. Identification of high rank military experience is described in more detail in the Internet Appendix A11.
High Rank MC Number	*High Rank MC Number* is the number of the high rank ex-military personnel of the contract awarding governments currently employed by the firm.
Low Rank MC	*Low Rank MC* is an indicator variable that equals one if a firm employs at least one non-high rank ex-military personnel of the contract awarding governments, and zero otherwise.
Low Rank MC Number	*Low Rank MC Number* is the number of the non-high rank ex-military personnel of the contract awarding governments currently employed by the firm.
Firm-level control variables	
Ln(AT)	The natural log of total assets
BM	Book-to-market ratio is the book value of assets, minus the book value of liabilities, minus the book value of preferred stock, all divided by the market value of equity.
CAPEX/Sales	Capital expenditure divided by total sales
R&D/Sales	Research and development expenditures divided by total sales. If R&D is a blank, we set it equal to 0.
ROA	Return on assets (ROA) is operating income divided by total assets.
HHI	Herfindahl-Hirschman Index (HHI) for the firm's primary two-digit Standard Industrial Classification (SIC) code in the firm's headquarter country during the year. HHI is the sum of the squared market shares of each firm whose primary two-digit SIC code and headquarters location are the same during the year.
Board size	Number of directors in the firm's board
Management size	Number of managers and directors of the firm covered in the BoardEx database.
Investment	Investment is the sum of the yearly growth in property, plant, and equipment, growth in inventory, and R&D spending, all divided by total assets.
Q	*Tobin's Q* is the market value of equity, minus the book value of equity, plus the book value of assets, all divided by total assets.
CF	*Cash Flow (CF)* is net income plus R&D, plus depreciation and amortization, all divided total assets.
Value	*Value* is the market value of equity plus book value of total debt
Earnings	*Earnings* is the earnings before interest and taxes.
Net assets	*Net assets* is the total assets minus cash.
Interest	*Interest* is the interest expenses.
Dividends	*Dividends* is the common cash dividends.
Country-level measures	
STKMKT	Stock market development, Index1 from Demirguc-Kunt and Levine (1996), is the sum of standardized indices of market capitalization to GDP, total value traded to GDP, and total value traded to market capitalization.

FININT	Financial intermediary development, Findex1 from Demurguc-Kunt and Levine (1996), is the sum of standardized indices of liquid liabilities to GDP and domestic credit to private sector to GDP.
FD	Financial development is the sum of STKMKT and FININT.
Government effectiveness index (-2.5 weak; 2.5 strong)	The index "captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies,"[21] and retrieved from the Worldwide Governance Indicators.
Rule of law index (-2.5 weak; 2.5 strong)	The index captures "perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence," and is retrieved from the Worldwide Governance Indicators.
Political stability index (-2.5 weak; 2.5 strong)	The index captures "perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. The index is an average of several other indexes from the Economist Intelligence Unit, the World Economic Forum, and the Political Risk Services, among others," and is retrieved from the Worldwide Governance Indicators.
Regulatory quality index (-2.5 weak; 2.5 strong)	The index captures "perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development," and is retrieved from the Worldwide Governance Indicators.
Corruption Perceptions Index (0 highly corrupt; 100 no corruption)	This index captures 'perceived levels of public sector corruption according to experts and businesspeople,"[22] and is retrieved from the Transparency International.
Voice and accountability index (-2.5 weak; 2.5 strong)	The index captures "perceptions of the extent to which the citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media," and is retrieved from the Worldwide Governance Indicators.
Economic freedom, overall index (0 minimum freedom; 100 maximum freedom)	"The index has ten components grouped into four broad categories: Rule of Law; Limited Government; Regulatory Efficiency and Open Markets," and is retrieved from the Worldwide Governance Indicators.
Power Distance (PDI)	Hofstede's (1980) Power Distance index (PDI) assesses the degree to which a society accepts and maintains hierarchical power structures and inequalities. Cultures with high power distance scores tend to respect and expect authority and hierarchy, while cultures with low scores emphasize equality and seek to minimize power differentials.
Individualism vs. Collectivism (IDV)	Hofstede's (1980) Individualism (IDV) dimension measures how much a society values individual freedom, autonomy, and self-reliance over collective identity and group harmony. Personal interests and achievements are prioritized in cultures with high individualism scores, while cultures with low scores emphasize group cohesion and interdependence.

[21] https://www.theglobaleconomy.com/indicators_list.php
[22] https://www.transparency.org/en/news/corruption-perceptions-index-2017#

Masculinity vs. Femininity (MAS)	Hofstede's (1980) Masculinity (MAS) dimension measures the extent to which a culture values traditional masculine traits such as competitiveness, assertiveness, and achievement versus feminine characteristics such as nurturance, cooperation, and quality of life. Cultures with high masculinity scores prioritize competitiveness and success, while those with low scores emphasize collaboration and quality of life.
Uncertainty Avoidance (UAI)	Hofstede's (1980) Uncertainty Avoidance Index (UAI) measures how much a society tolerates ambiguity, uncertainty, and risk daily. Cultures with high UAI scores tend to have a low tolerance for ambiguity and seek structured, rule-based systems to minimize uncertainty. In contrast, those with low scores are more comfortable with ambiguity and are open to unstructured situations.
Long-Term Orientation vs. Short-Term Orientation (LTO)	Hofstede's (1991) Long-Term Orientation (LTO) dimension evaluates a society's orientation toward time and focuses on long-term goals and values versus short-term gains and traditions. Cultures with high LTO scores prioritize long-term planning and perseverance, while low scores emphasize immediate results and stability.
Indulgence vs. Restraint (IND)	Hofstede's Indulgence vs. Restraint (IND) dimension assesses a society's attitude toward enjoying life and having fun versus controlling one's desires and impulses. Cultures with high IND scores tend to be more permissive, allowing for personal enjoyment and self-expression, while those with low scores emphasize self-discipline and restraint of gratification (Hofstede, Hofstede, and Minko, 2010).
Secrecy vs. Transparency (SEC)	The Secrecy (SEC) dimension of national culture is derived from the raw Hofstede cultural dimensions, calculated as SEC = UAI + PDI – IDV (Hope et al., 2008). A high SEC score indicates a lower level of transparency.
Alternative Secrecy (SEC1)	SEC1 is an alternative measure of secrecy, calculated as SEC1 = UAI + PDI – IDV – MAS, following Hope et al. (2008).

Appendix 2: Sample Construction and Descriptive Statistics

This table presents the sample statistics by country. The initial sample includes 5,559,795 government procurement contracts from 35 countries between 2009 and 2017. We used fuzzy-matching tools to match the names of government contractors with COMPUSTAT and BOARDEX datasets. We could only identify GVKEYs for 7.17% of the contract-awarded firms with no important missing values. We drop eight countries with less 100 contract awards matched for the entire sample period. Following the prior literature, we drop financial services and utility firms. We drop the contracts with missing contract values or less than 1,000 USD values. Our final sample includes 270,143 public procurement contracts from 27 countries. This table presents the number of firms, number of contracts awarded, and average contract value for our sample countries.

Country	Firms	Contracts	Contract Value (in million USD)	
			Mean	Std. Dev.
Australia	319	89,657	0.38	1.85
Austria	115	769	1.96	3.94
Belgium	214	2,220	1.88	4.60
Canada	225	12,438	0.76	2.81
Croatia	33	520	0.46	1.97
Czechia	140	3,439	0.76	2.20
Denmark	152	1,444	3.65	6.31
Estonia	40	257	1.54	3.12
Finland	147	1,492	3.83	6.02
France	460	36,817	0.85	2.83
Germany	258	5,662	1.22	3.07
Hungary	66	882	1.26	4.22
Ireland	96	432	2.92	5.43
Italy	269	18,493	0.83	2.73
Lithuania	33	130	1.14	3.27
Luxembourg	52	142	3.24	6.32
Netherlands	135	1,079	2.77	5.42
Norway	156	1,966	4.21	6.35
Poland	203	65,916	0.21	1.24
Portugal	110	2,556	0.34	1.64
Romania	82	1,988	0.62	2.09
Slovakia	49	352	2.62	4.76
Slovenia	62	1,022	0.46	1.47
Spain	232	13,872	1.00	2.66
Sweden	167	1,580	5.08	7.02
Switzerland	91	869	4.03	5.88
United Kingdom	411	4,149	6.29	8.35

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Table 1: Descriptive statistics

This table presents the descriptive statistics for the contract level sample in Panel A and the descriptive statistics for the contract level sample in Panel B. All the variables are described in Appendix 1. All continuous variables are winsorized at the 1% and 99% levels.

Panel A: Contract level sample

Variable	N	Median	Mean	Std	Min	Max
Contracting variables						
Contract Value$_{j,i,t}$ (in million USDs)	270,143	0.055	0.742	2.797	0.001	9,157.5
Ln(Contract Value)$_{j,i,t}$	270,143	10.918	11.165	2.027	7.203	16.910
Contract Value/Sales$_{j,i,t}$ (%)	270,143	0.001	0.014	0.056	0.000	23.570
Competitive $_{j,i,t}$	242,073	0.000	0.450	0.498	0.000	1.000
Political connection variables						
PC$_{j,i,t}$	270,143	0.000	0.163	0.371	0.000	1.000
PC Number$_{j,i,t}$	270,143	0.000	0.421	1.320	0.000	8.000
PC Percentage$_{j,i,t}$	270,143	0.000	0.010	0.032	0.000	0.444
PC Ratio$_{j,i,t}$	270,143	0.000	0.119	0.300	0.000	1.000
PC Length$_{j,i,t}$	43,112	14.000	22.834	24.567	1.000	46.000
Control variables						
Ln(TA)$_{j,i,t}$	270,143	9.922	9.464	1.795	4.525	12.174
BM$_{j,i,t}$	270,143	0.387	0.463	0.315	0.001	1.760
CAPX/Sales$_{j,i,t}$	270,143	0.033	0.037	0.028	0.001	0.167
R&D/Sales$_{j,i,t}$	270,143	0.051	0.063	0.061	0.000	0.264
ROA$_{j,i,t}$	270,143	0.087	0.095	0.052	-0.044	0.252
HHI$_{j,i,t}$	270,143	0.129	0.244	0.246	0.035	1.000
Board size$_{j,i,t}$	270,143	13.000	12.683	3.764	4.000	24.000
Management size$_{j,i,t}$	270,143	71.000	105.391	111.754	8.000	746.000

Panel B: Firm level sample

Variable	N	Median	Mean	Std	Min	Max
Contracting Variables						
Contract$_{i,t}$	61,341	0.000	0.089	0.284	0.000	1.000
Number of contracts$_{i,t}$	61,341	0.000	3.957	37.397	0.000	843.000
Total Contracts Value $_{i,t}$ (in million USD)	61,341	0.000	8.261	97.666	0.000	2,404.599
Mean Contracts Value $_{i,t}$(in million USD)	61,341	0.000	0.403	5.192	0.000	134.704
Total Contract Value/Sales$_{j,i,t}$(%)	61,341	0.000	0.103	0.610	0.000	5.121
Political connection variables						
PC$_{i,t}$	61,341	0.000	0.177	0.382	0.000	1.000
PC Number$_{i,t}$	61,341	0.000	0.312	0.842	0.000	9.000
PC Percentage$_{i,t}$	61,341	0.012	0.040	0.000	0.000	3.000
PC Length$_{,i,t}$	10,852	7.000	11.960	12.622	1.000	44.000
Control Variables						
Ln(TA)$_{i,t}$	61,341	6.105	6.146	2.179	2.325	12.132
BM$_{i,t}$	56,126	0.565	0.767	0.671	0.045	3.039

$CAPX/Sales_{j,i,t}$	61,341	0.035	0.107	0.197	0.001	0.854
$R\&D/Sales_{i,t}$	61,341	0.000	0.053	0.109	0.000	0.419
$ROA_{i,t}$	61,308	0.060	0.031	0.147	-0.375	0.311
$HHI_{i,t}$	61,341	0.124	0.205	0.212	0.035	1.000
Board $size_{i,t}$	61,341	8.047	3.360	7.000	0.000	18.000
Management $size_{i,t}$	61,341	26.707	22.645	20.000	2.000	143.000
$Invest_{i,t}$	60,860	0.030	0.074	0.174	-0.287	0.971
$Q_{i,t}$	58,563	1.365	1.923	1.732	0.470	11.631
$CF_{i,t}$	60,205	0.090	0.072	0.202	-0.967	0.599
$Value/TA_{i,t}$	59,408	1.264	2.506	4.251	0.231	31.412
$Earnings/TA_{i,t}$	60,797	0.065	-0.042	0.518	-3.589	0.549
$R\&D/TA_{i,t}$	60,843	0.000	0.076	0.234	0.000	1.729
$Interest/TA_{i,t}$	60,843	0.008	0.017	0.030	0.000	0.215
$Dividends/TA_{i,t}$	60,843	0.000	0.016	0.035	0.000	0.222

Table 2: Univariate Analysis - The impact of political connections on government contracting decisions

This table presents the comparison of contracts awarded to firms with and without political connections in contract-level sample, firm-level sample, and propensity-score matched sample, in Panels A, B, and C, respectively. All variables are defined in Appendix 1. The continuous variables are winsorized at the 1% and 99% levels. T-tests and p-values are for tests of the differences in means between the politically connected and non-connected contactors.

Panel A: Contract-level Sample

	Firms with NO Political Connections in year t-1		Firms with Political Connections in year t-1		Difference		
	N	Mean	N	Mean	Δ	t-Stat	p-Val
Contract Value$_{j,i,t}$ (in million USDs)	227,031	0.606	43,112	1.460	-0.854	-58.48	0.000
Ln(Contract Value)$_{j,i,t}$	227,031	11.018	43,112	11.938	-0.918	-87.51	0.000
Contract Value$_{j,i,t}$ (% of sales)	227,031	0.012	43,112	0.026	-0.014	-48.70	0.000
Competitive $_{j,i,t}$	203,624	0.425	39,263	0.581	-0.155	-57.01	0.000

Panel B: Firm-level sample

	Firms with NO Political Connections in year t-1		Firms with Political Connections in year t-1		Difference		
	N	Mean	N	Mean	Δ	t-Stat	p-Value
Contract$_{i,t}$	50,489	0.062	10,852	0.212	-0.149	-50.58	0.000
Number of contracts$_{i,t}$	50,489	1.978	10,852	13.164	-11.187	-28.46	0.000
Total Contracts Value $_{i,t}$ (in million USD)	50,489	2.998	10,852	32.747	-8.261	-28.98	0.000
Mean Contracts Value $_{i,t}$(in million USD)	50,489	0.210	10,852	1.301	-1.092	-19.93	0.000
Total Contract Value/Sales$_{j,i,t}$	50,489	0.066	10,852	0.277	-0.211	-33.05	0.000

Panel C: Propensity-score-matched sample

	Firms with NO Political Connections in year t-1		Firms with Political Connections in year t-1		Difference		
	N	Mean	N	Mean	Δ	t-Stat	p-Value
Contract$_{i,t}$	8,133	0.116	8,133	0.177	-0.061	-11.03	0.000
Number of contracts$_{i,t}$	8,133	5.632	8,133	9.747	-4.115	-4.20	0.000
Total Contracts Value $_{i,t}$ (in million USD)	8,133	9.842	8,133	22.349	-12.508	-5.29	0.000
Mean Contracts Value $_{i,t}$(in million USD)	8,133	0.767	8,133	1.260	-0.493	-2.66	0.000
Total Contract Value/Sales$_{j,i,t}$	8,133	0.210	8,133	0.340	-0.130	-6.07	0.000

Table 3: Contract-level regressions - The impact of political connections on government contracting decisions

This table reports the results of the following regression estimated using the contract-level sample. $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 Polit_{j,i,t-1} + \gamma Z_{i,t-1} + \varepsilon_{i,t}$. The dependent variable is *Ln(Contract value)* - the natural log of USD value of the government contract *j* awarded to firm *i* in year *t* in all Columns. Political connections, *Polit*, are measures by *PC* - an indicator variable that equals one if a firm employs at least one ex-employee of the contract awarding governments, and zero otherwise, and *PC Number* - the number of the ex-employees for the contract awarding governments currently employed by the firm. Control variables (*Z*), defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics, based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
$PC_{j,i,t-1}$	0.919*	0.801**	0.798**	0.261***	0.313***					
	(1.928)	(2.508)	(2.492)	(3.264)	(4.745)					
PC Number$_{i,i,t-1}$						0.175***	0.158***	0.158***	0.057**	0.063***
						(2.933)	(3.567)	(3.712)	(2.708)	(2.874)
Observations	270,143	265,119	265,119	265,116	265,116	270,143	265,119	265,119	265,116	265,116
R-squared	0.028	0.050	0.050	0.136	0.253	0.013	0.041	0.042	0.135	0.252
Controls	NO	YES	YES	YES	YES	NO	YES	YES	YES	YES
Year FE	NO	NO	YES	YES	YES	NO	NO	YES	YES	YES
Industry FE	NO	NO	NO	YES	YES	NO	NO	NO	YES	YES
Country FE	NO	NO	NO	NO	YES	NO	NO	NO	NO	YES

Table 4: Firm-level Regressions - The impact of political connections on government contracting decisions

This table reports the results of the following regression estimated using the firm-level sample: $Contract_{i,t} = \beta_0 + \beta_1 Polit_{i,t-1} + \gamma Z_{i,t-1} + \varepsilon_{i,t}$.The dependent variables are: *Contract* - a binary variable that equals one if firm received at least one government contract in year t, and zero otherwise, *and Ln(Contract value)* - the natural log of total USD value of all government contracts awarded to a firm by sample countries in year t. Columns (1) - (4) reports the results for the full sample and Columns (5) - (8) reports the results for the PSM sample. *PC* is an indicator variable that equals one if a firm employs at least one ex-employee of the 27 governments in our sample, and zero otherwise. *PC Number* is the number of the ex-employee for all of the 27 governments currently employed by the firm. Control variables (*Z*), defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	Full Sample				PSM Sample			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	$\text{Contract}_{i,t}$		$\text{Ln(Contract Value)}_{i,t}$		$\text{Contract}_{i,t}$		$\text{Ln(Contract Value)}_{i,t}$	
$PC_{i,t-1}$	0.060***		1.026***		0.034***		0.560***	
	(4.214)		(4.021)		(3.567)		(3.526)	
$PC\ Number_{i,t-1}$		0.039***		0.706***		0.028***		0.481***
		(5.266)		(5.600)		(4.127)		(4.407)
Observations	55,792	55,792	55,792	55,792	16,266	16,266	16,266	16,266
R-squared	0.170	0.174	0.186	0.193	0.189	0.192	0.206	0.210
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES

Table 5: Endogeneity concerns - Firm fixed effects, lagged dependent variable, and autoregressive errors

This table reports the results of the following regression estimated using the firm-level sample: $Contract_{i,t} = \beta_0 + \beta_1 Polit_{i,t-1} + \beta_2 Contract_{i,t-1} + \gamma Z_{i,t-1} + \varepsilon_{i,t}$. Panel A reports the results for the full sample. Panel B reports the results for the PSM sample. The dependent variable is *Contract*, binary variable that equals one if firm received at least one government contract in year t, and zero otherwise, in all Columns. Columns (3), (4), and (7) – (10) include lagged dependent variable. Columns (1) – (4) are estimated using LSDV model with firm, Industry by year, and country by year fixed effects. Columns (5) – (8) are estimated as fixed effect model with firm and year fixed effects. Columns (9) – (10) are estimated as fixed effects with first order autoregression correction. Control variables (*Z*), defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1) LSDV	(2) LSDV	(3) LSDV	(4) LSDV	(5) LSDV	(6) LSDV	(7) FE	(8) FE	(9) FE-AR	(10) FE-AR
$PC_{i,t-1}$	0.010***		0.008**		0.010***		0.008**		0.011**	
	(2.684)		(2.078)		(2.721)		(2.152)		(2.277)	
PC Number$_{i,t-1}$		0.006***		0.005		0.005***		0.004**		0.005**
		(3.398)		(1.566)		(3.015)		(2.053)		(2.007)
Contract$_{i,t-1}$			0.004	0.004			0.006	0.006	-0.263***	-0.263***
			(0.842)	(0.199)			(1.250)	(1.227)	(-49.181)	(-49.212)
Observations	54,860	54,860	48,242	48,242	55,792	55,792	49,142	49,142	40,418	40,418
R-squared	0.821	0.821	0.830	0.830	0.001	0.001	0.001	0.001	0.612	0.606
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	NO	NO	NO	NO	YES	YES	YES	YES	YES	YES
Industry x Year FE	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO
Country x Year FE	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO

Table 6: Endogeneity concerns - The impact of exogenous changes in PC on the probability of contract awards

This table reports the results of the following regression: $\Delta Contract_{i,t-1\ to\ t+1} = \beta_0 + \beta_1 \Delta Polit_{i,t-1\ to\ t+1} + \beta_2 \Delta Ln(TA)_{i,t-1\ to\ t+1} + \beta_3 \Delta BM_{i,t-1\ to\ t+1} + \beta_4 \Delta \frac{CAPEX}{Sales}_{\cdot i,t-1\ to\ t+1} + \beta_5 \Delta \frac{R\&D}{Sales}_{\cdot i,t-1\ to\ t+1} + \beta_6 \Delta ROA_{i,t-1\ to\ t+1} + \beta_7 \Delta HHI_{i,t-1\ to\ t+1} + Year\ FE + \varepsilon_{i,t}$ .The dependent variable in all regressions is $\Delta Contract_{i,t-1\ to\ t+1}$, the change in the binary variable of contract award from year t-1 to year t+1. *Ln(AT)* is the natural log of total assets. *BM* is the book-to-market ratio. *CAPEX/Sales* is capital expenditure divided by total sales. *R&D/Sales* is research and development expenditures divided by total sales. *ROA* is operating income divided by total assets. *HHI* is Herfindahl-Hirschman Index for the firm's primary two-digit SIC code in the firm's headquarter country. $\Delta X_{I,t-1\ to\ t+1}$ represents the change in the variable from year t-1 to year t+1. Columns (1) – (4) reports results for all firms with at least one politically connected directors retired over 65 or died in year t. Columns (5) – (8) reports results for the subsample of firms with 2 or less politically connected directors in year t-1 and at least one retired over 65 or died in year t. Control variables, defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size) and are estimated as changes from t-1 to t+1. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	All firms with at least one politically connected directors retired over 65 or died in year t				Firms with 2 or fewer politically connected directors in year t-1 and at least one retired over 65 or died in year t			
ΔPC number $_{i,t-1\ to\ t+1}$	0.013***	0.018***	0.009	0.006	0.048***	0.051***	0.048***	0.047**
	(2.794)	(4.531)	(1.115)	(0.962)	(3.858)	(3.582)	(2.973)	(2.329)
Observations	737	737	698	694	392	392	371	366
R-squared	0.004	0.052	0.054	0.082	0.023	0.144	0.125	0.201
Controls	NO	NO	YES	YES	NO	NO	YES	YES
Year FE	NO	YES	NO	YES	NO	YES	NO	YES

Table 7: Endogeneity concerns - The impact of exogenous changes in PC on the probability of contract awards using DiD approach

This table reports the results of the following regression: $Contract_{i,t} = \beta_0 + \beta_1 Exposure_{i,t,h} + \beta_2 Ln(TA)_{i,t,h} + \beta_3 BM_{i,t,h} + \beta_4 \frac{CAPX}{Sales}_{i,t,h} + \beta_5 \frac{R\&D}{Sales}_{i,t,h} + \beta_6 ROA_{i,t,h} + \beta_7 HHI_{i,t,h} + Firm_{Cohort}FE + Year_{Cohort}FE + \varepsilon_{i,t,h}$. The dependent variable in all Columns is *Contract* indicator variable that equals one if firm *i* received a contract in a year *t* and a cohort *h*, and zero otherwise. The variable of interest is *Exposure,* an indicator variable that equals 1 for years *t+1* and *t+2* if firm *i* in cohort *h* is exposed in year *t*, and zero otherwise. The control sample of unexposed firms are chosen from the full sample of firms in Columns (1) – (4) and from the PSM sample of firms in Columns (5) – (8). The control sample of unexposed firms in Columns (3) - (4) and (7) - (8) are chosen from politically connected firms only. All Columns include firm- and year-cohort fixed effects. Control variables, defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the headquarter location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	ALL	ALL	ALL with PC=1	ALL with PC=1	PSM	PSM	PSM with PC=1	PSM with PC=1
Exposure	-0.024**	-0.020**	-0.033**	-0.026**	-0.024**	-0.024**	-0.024**	-0.024**
	(-2.382)	(-2.166)	(-2.593)	(-2.334)	(-2.401)	(-2.345)	(-2.106)	(-2.033)
Observations	124,803	116,979	18,442	17,710	26,098	26,098	13,491	13,491
R-squared	0.849	0.852	0.881	0.879	0.874	0.874	0.876	0.876
Controls	NO	YES	No	YES	NO	YES	NO	YES
Year-Cohort FE	YES	YES	YES	YES	YES	YES	YES	YES
Firm-Cohort FE	YES	YES	YES	YES	YES	YES	YES	YES

Table 8: Endogeneity concerns - The impact of the new procurement directive in the EU on the relationship between the PC and contract values

This table reports the results of the following regression estimated using the firm-level sample: $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 EU_j \times Polit_{j,i,t-1} \times Post\ EU\ Directive_{j,t} + \beta_2 EU_j \times Polit_{j,i,t-1} + \beta_2 Polit_{j,i,t-1} \times Post\ EU\ Directive_{j,t} + \beta_3 EU_j \times Post\ EU\ Directive_{j,t} + \beta_4 Polit_{j,i,t-1} + \beta_5 EU_j + \beta_1 Post\ EU\ Directive_{j,t} + \gamma Z_{i,t-1} + \varepsilon_{i,t}$. The dependent variables are *Ln(Contract value)* - the natural log of USD value of the government contract *j* awarded to firm *i* in year *t* in all Columns. Columns (1) - (4) report the results for the sample of contracts awarded by the EEA countries only. Columns (5) and (6) report the results for the full sample of contracts. Political connections, *Polit*, are measures by *PC* - an indicator variable that equals one if a firm employs at least one ex-employee of the contract awarding governments, and zero otherwise. *Number of offers*- is the number of tenders received for the government contract awarded. *EU*- the binary variable that equals one if the contract awarded by EEA country, and zero otherwise. *Post EU Directive*- the binary variable that equals one if the contract awarded after the adoption of the new directive in 2014, and zero otherwise. All contracts awarded in 2014 are excluded from regressions. Control variables (*Z*), defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics, based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	EEA contracts	EEA contracts	EEA contracts	EEA contracts	All contracts	All contracts
$\text{Number of offers}_{j,t} \times \text{Post directive}_{j,t}$	0.017**	0.017***				
	(2.688)	(3.639)				
$\text{Number of offers}_{j,t} \times \text{PC}_{i,t-1}$			0.015***	0.016***		
			(3.828)	(2.985)		
$\text{PC}_{i,t-1} \times \text{EU}_j \times \text{Post directive}_{j,t}$					0.360***	0.347***
					(3.959)	(3.195)
$\text{Number of offers}_{j,t}$	0.010***	0.006	0.015***	0.011**		
	(3.262)	(1.370)	(2.931)	(2.533)		
$\text{Post directive}_{j,t}$	-0.091*				0.105	
	(-1.753)				(0.705)	
$\text{PC}_{i,t-1}$			-0.091	0.061	0.199*	0.078
			(-0.694)	(0.477)	(1.909)	(1.632)
EU_j					0.977***	-0.446***
					(3.616)	(-3.534)
$\text{PC}_{j,i,t-1} \times \text{EU}_j$					-0.136	0.043
					(-0.914)	(0.525)
$\text{PC}_{j,i,t-1} \times \text{Post directive}_{j,t}$					-0.246**	-0.159**
					(-2.248)	(-2.566)
$\text{EU}_{j,i,t-1} \times \text{Post directive}_{j,t}$					-0.200	0.009
					(-1.468)	(0.100)
Observations	123,602	123,589	123,602	123,589	234,916	234,906
R-squared	0.409	0.457	0.408	0.456	0.299	0.353
Controls	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES
Awarding Country FE	NO	YES	NO	YES	NO	YES
Industry-Year FE	NO	YES	NO	YES	NO	YES

Table 9: The impact of military connections on defense contracting decisions

This table reports the results of the following regression estimated using the contract-level sample. $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 Military_{j,i,t-1} + \gamma Z_{i,t-1} + \varepsilon_{i,t}$. The dependent variable is *Ln(Contract value)* - the natural log of USD value of the government contract *j* awarded to firm *i* in year *t* in all Columns. Military connections, *Miliatry*, are measures by *MC* - an indicator variable that equals one if a firm employs at least one ex-military o of the contract awarding governments, and zero otherwise; *MC Number* - the number of the ex- military employees for the contract awarding governments currently employed by the firm; *High Rank MC* - an indicator variable that equals one if a firm employs at least one high rank ex-military personnel of the contract awarding governments, and zero otherwise; *High Rank MC Number* - the number of the high rank ex-military personnel of the contract awarding governments currently employed by the firm; *Low Rank MC* - an indicator variable that equals one if a firm employs at least one non-high rank ex-military personnel of the contract awarding governments, and zero otherwise; *Low Rank MC Number* - the number of the non-high rank ex-military personnel of the contract awarding governments currently employed by the firm. The regressions include sample of defense contracts in Columns (1), (2), (5), and (7) and non-defense related contracts in Columns (3) and (4). Control variables (*Z*), defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics, based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Defense	Defense	Non-defense	Non-defense	Defense	Defense
$MC_{j,i,t-1}$	0.396**		0.109			
	(2.315)		(0.813)			
$MC\ Number_{i,i,t-1}$		0.284**		0.093		
		(2.766)		(1.140)		
$High\ Rank\ MC_{i,i,t-1}$					0.876**	
					(2.660)	
$Low\ Rank\ MC_{i,i,t-1}$					0.262**	
					(2.419)	
$High\ Rank\ MC\ Number_{i,i,t-1}$						0.682**
						(2.223)
$Low\ Rank\ MC\ Number_{i,i,t-1}$						0.191***
						(3.855)
Observations	34,775	34,775	230,339	230,339	34,775	34,775
R-squared	0.166	0.166	0.269	0.269	0.167	0.166
Controls	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES

Table 10: Moderating effects of financial market and institutional development

This table reports the results of the following regression estimated using the contract-level sample: $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 Polit_{j,i,t-1} + \beta_2 Polit_{j,i,t-1} \times FD\ or\ ID + \beta_3 FD\ or\ ID + \gamma Z_{i,t-1} + \varepsilon_{i,t}$. The dependent variable is *Ln(Contract value),* the natural log of USD value of the government contract *j* awarded to firm *i* in year *t*. Political connections, *Polit*, is measured by *PC* - an indicator variable that equals one if a firm employs at least one ex-employee of the contract awarding governments, and zero otherwise. Financial or institutional development variables, *FD* or *ID*, used for interaction with PC variable in each Column, are presented in column headers. Financial and institutional development variables are defined in Appendix 1. These variables are standardized. Control variables (*Z*), defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Log (GDP per capita)	FD	Rule of Law	Gov. Eff.	Pol. Stability	Reg. quality	Voice and Acc.	CPI	Econ. Freedom
$PC_{j,i,t-1}$	0.584***	0.448***	0.634***	0.655***	0.315***	0.523**	0.534***	0.592***	0.418**
	(4.304)	(2.935)	(4.490)	(4.996)	(3.659)	(2.651)	(4.067)	(4.051)	(2.274)
$PC_{j,i,t-1} \times FD\ or\ ID_{j,i,t-1}$	-0.485***	-0.307	-0.542***	-0.596***	-0.170*	-0.420***	-0.429***	-0.551***	-0.307**
	(-3.933)	(-1.708)	(-5.009)	(-4.735)	(-2.017)	(-3.397)	(-4.689)	(-6.071)	(-2.582)
$FD\ or\ ID_{j,i,t-1}$	-0.774*	-0.269***	0.106	-0.123	-0.009	0.231*	0.134	-0.091	-0.172
	(-1.827)	(-3.056)	(0.553)	(-1.112)	(-0.243)	(1.913)	(1.369)	(-0.912)	(-1.370)
$Ln(GDP\ per\ capita)_{i,t-1}$		-0.231	-0.757*	-0.652*	-0.706	-0.823**	-0.515	-0.526	-0.223
		(-0.674)	(-1.960)	(-1.750)	(-1.602)	(-2.404)	(-1.083)	(-1.438)	(-0.690)
Observations	265,116	207,101	265,116	265,116	265,116	265,116	265,116	264,776	265,116
R-squared	0.256	0.233	0.257	0.257	0.254	0.257	0.256	0.256	0.256
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES	YES

Table 11: Moderating effects of the cultural dimensions

This table reports the results of the following regression estimated using the contract-level sample: $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 Polit_{j,i,t-1} + \beta_2 Polit_{j,i,t-1} \times Culture_j + \gamma Z_{i,t-1} + \varepsilon_{i,t}$. The dependent variable is *Ln(Contract value),* the natural log of USD value of the government contract *j* awarded to firm *i* in year *t*. Political connections, *Polit*, is measured by *PC* - an indicator variable that equals one if a firm employs at least one ex-employee of the contract awarding governments, and zero otherwise. Hofstede cultural dimension variables, *Culture*, used for interaction with PC variable in each Column, are presented in column headers. Cultural dimension variables are defined in Appendix 1. These variables are standardized. Control variables (*Z*), defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PDI	IDV	MAS	UAI	LTO	IVR	SEC	SEC1
$PC_{j,i,t-1}$	0.413**	0.452***	0.306***	0.436**	0.315***	0.522***	0.451**	0.407**
	(2.480)	(2.982)	(4.065)	(2.655)	(3.404)	(2.916)	(2.550)	(2.483)
$PC_{j,i,t-1} \times Culture_j$	0.279**	-0.337***	-0.025	0.304**	0.109	-0.402***	0.332**	0.281**
	(2.120)	(-3.620)	(-0.271)	(2.544)	(1.379)	(-3.700)	(2.746)	(2.444)
$Ln(GDP\ per\ capita)_{i,t-1}$	-0.721*	-0.737*	-0.720*	-0.729*	-0.710	-0.742*	-0.730*	-0.722*
	(-1.759)	(-1.793)	(-1.716)	(-1.779)	(-1.701)	(-1.806)	(-1.786)	(-1.766)
Observations	265,116	265,116	265,116	265,116	265,116	265,116	265,116	265,116
R-squared	0.255	0.255	0.254	0.255	0.254	0.256	0.256	0.255
Controls	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES

Table 12: The impact of political connections on government contracting decisions for local versus foreign contractors

This table reports the results of the following regression estimated using the contract-level sample. $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 Polit_{j,i,t-1} + \gamma Z_{i,t-1} + \varepsilon_{i,t}$. The dependent variables in all Columns are *Ln(Contract value)* - the natural log of USD value of the government contract *j* awarded to firm *i* in year *t*. Political connections, *Polit*, are measures by *PC* - an indicator variable that equals one if a firm employs at least one ex-employee of the contract awarding governments, and zero otherwise and *PC Number* - the number of the ex-employees for the contract awarding governments currently employed by the firm. The regressions include sample of contracts awarded to local firms in Columns (1) and (3) and contracts awarded to foreign firms in Columns (2) and (4). The difference in *Polit* row reports the difference between the coefficients for *Polit* measures estimated using subsamples of Local and Foreign firms and the p-values of the difference. All variables are standardized and comparable across models. Control variables (*Z*), defined in Appendix A, include Ln(TA), BM, CAPEX/Sales, R&D/Sales, ROA, HHI, Ln(Board Size), and Ln(Mgmt size). All continuous variables are winsorized at the 1% and 99% levels. T-statistics, based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)
	Local	Foreign	Local	Foreign
$PC_{j,i,t-1}$	0.296***	0.543***		
	(4.223)	(3.289)		
PC Number$_{i,i,t-1}$			0.055**	0.246
			(2.453)	(1.502)
Difference in *Polit*	-0.247*		-0.191	
	(0.084)		(0.124)	
Observations	244,425	20,686	244,425	20,686
R-squared	0.269	0.254	0.268	0.253
Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Country FE	YES	YES	YES	YES

Table 13: Value of political connected government contracting

This table reports the results of the following regressions: $Value_{i,t} = \beta_0 + \beta_1 \widehat{Contract}_{i,t} + \beta_2 Earnings_{i,t} + \beta_3 \Delta Earnings_{i,t} + \beta_4 \Delta Earnings_{i,t+1} + \beta_5 \Delta Net\ assets_{i,t} + \beta_6 \Delta Net\ assets_{i,t+1} + \beta_7 R\&D_{i,t} + \beta_8 \Delta R\&D_{i,t} + \beta_9 \Delta R\&D_{i,t+1} + \beta_{10} Interest_{i,t} + \beta_{11} \Delta Interest_{i,t} + \beta_{12} \Delta Interest_{i,t+1} + \beta_{13} Dividends_{i,t} + \beta_{14} \Delta Dividends_{i,t} + \beta_{15} \Delta Dividends_{i,t+1} + \beta_{16} \Delta Value_{i,t+1} + Firm\ FE + Industry\ x\ Yeat\ FE + Country\ x\ Year\ FE + \varepsilon_{i,t}$. Columns (1) and (4) report the results for the entire sample. Columns (2) and (5) reports the results for the subsample of government contracts awarded by counties with above median GDP per capita. Columns (3) and (6) reports the results for the subsample of government contracts awarded by counties with below median GDP per capita. The dependent variable in all Columns is *Value*, which is market value of equity plus total debt. *Ln(Contract value)* is the natural log of USD value of the government contract *j* awarded to firm *i* in year *t*. $Ln(\widehat{Contract\ value})_{j,i,t}$ is the predicted natural log of USD value of contract awarded to a firm, are the predicted values from the regression of each variable on $PC\ Number_{i,t-1}$ - the number of the ex-employees for the contract awarding governments currently employed by the firm. *Earnings* is earnings before interest and taxes. *Net assets* are total assets minus cash. *R&D* is research and development expense. *Interest* is in interest expenses. *Dividends* is common cash dividends. All variables (except *PC, Contract, Ln(Total Contract Value)* and *Leverage*) are scaled by net assets. $\Delta X_{i,t}$ indicates the change in variable X from year t−1 to t. $\Delta X_{i,t+1}$ the change in variable X from year t to t+1. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the headquarter location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	All	High GDP	Low GDP	All	High GDP	Low GDP
	(1)	(2)	(3)	(4)	(5)	(6)
$\text{Ln(Contract value)}_{j,i,t}$	-0.000	0.002**	-0.002*			
	(-0.697)	(2.667)	(-1.925)			
$\text{Ln}(\widehat{\text{Contract}}\ \text{value})_{j,i,t}$				-0.025	-0.110*	0.072**
				(-0.544)	(-1.962)	(2.527)
$\text{Earnings}_{i,t}$	5.457***	6.040***	5.192***	5.462***	6.094***	5.201***
	(17.140)	(46.478)	(7.658)	(16.958)	(41.747)	(7.766)
$\Delta\text{Earnings}_{i,t}$	-0.916	-1.646***	-0.146	-0.915*	-1.648***	-0.162
	(-1.705)	(-3.598)	(-0.336)	(-1.706)	(-3.601)	(-0.373)
$\Delta\text{Earnings}_{i,t+1}$	4.549***	4.977***	3.708***	4.553***	5.003***	3.706***
	(20.513)	(29.551)	(9.118)	(20.039)	(30.774)	(9.121)
$\Delta\text{Net assets}_{i,t}$	0.262***	0.221***	0.255***	0.262***	0.222***	0.256***
	(6.852)	(7.197)	(5.622)	(6.858)	(7.092)	(5.675)
$\Delta\text{Net assets}_{i,t+1}$	0.540***	0.591***	0.447***	0.539***	0.584***	0.449***
	(6.681)	(12.911)	(5.603)	(6.766)	(13.763)	(5.606)
$\text{R\&D}_{i,t}$	4.317***	0.364	7.778***	4.305***	0.267	7.789***
	(3.741)	(0.536)	(5.662)	(3.661)	(0.371)	(5.663)
$\Delta\text{R\&D}_{i,t}$	-1.093***	0.714**	-1.168***	-1.088***	0.761**	-1.184***
	(-3.038)	(2.430)	(-2.855)	(-3.114)	(2.535)	(-2.864)
$\Delta\text{R\&D}_{i,t+1}$	3.126***	1.401	5.289***	3.119***	1.363	5.295***
	(2.946)	(1.496)	(4.637)	(2.913)	(1.436)	(4.643)
$\text{Interest}_{i,t}$	3.056	2.027*	4.009	3.152	2.880**	3.980
	(0.844)	(1.970)	(0.529)	(0.871)	(2.324)	(0.521)
$\Delta\text{Interest}_{i,t}$	3.163**	1.256	3.939**	3.124*	0.822	3.862**
	(2.106)	(0.682)	(2.571)	(1.982)	(0.389)	(2.589)
$\Delta\text{Interest}_{i,t+1}$	1.127	-4.810	9.182	1.271	-3.615	9.047
	(0.191)	(-1.597)	(1.535)	(0.225)	(-1.553)	(1.499)
$\text{Dividends}_{i,t}$	5.654***	5.610***	3.206**	5.670***	5.680***	3.161**
	(12.913)	(17.536)	(2.503)	(12.372)	(20.420)	(2.469)
$\Delta\text{Dividends}_{i,t}$	-1.149	0.125	-3.117**	-1.161	0.092	-3.040**
	(-0.856)	(0.092)	(-2.704)	(-0.877)	(0.068)	(-2.564)
$\Delta\text{Dividends}_{i,t+1}$	-2.378**	-1.450***	-4.797**	-2.361**	-1.341***	-4.768**

	(-2.225)	(-4.370)	(-2.148)	(-2.217)	(-5.012)	(-2.108)
$\Delta Value_{i,t+1}$	-0.283***	-0.288***	-0.275***	-0.283***	-0.290***	-0.275***
	(-23.385)	(-12.161)	(-34.257)	(-22.753)	(-11.243)	(-34.043)
Observations	243,720	112,863	130,765	243,720	112,863	130,765
R-sq.	0.913	0.909	0.924	0.913	0.909	0.924
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Table 14: Value of political connected government contracting for local vs. foreign firms

This table reports the results of the following regressions: $Value_{i,t} = \beta_0 + \beta_1 \widehat{Contract}_{i,t} + \beta_2 Earnings_{i,t} + \beta_3 \Delta Earnings_{i,t} + \beta_4 \Delta Earnings_{i,t+1} + \beta_5 \Delta Net\ assets_{i,t} + \beta_6 \Delta Net\ assets_{i,t+1} + \beta_7 R\&D_{i,t} + \beta_8 \Delta R\&D_{i,t} + \beta_9 \Delta R\&D_{i,t+1} + \beta_{10} Interest_{i,t} + \beta_{11} \Delta Interest_{i,t} + \beta_{12} \Delta Interest_{i,t+1} + \beta_{13} Dividends_{i,t} + \beta_{14} \Delta Dividends_{i,t} + \beta_{15} \Delta Dividends_{i,t+1} + \beta_{16} \Delta Value_{i,t+1} + Firm\ FE + Industry\ x\ Yeat\ FE + Country\ x\ Year\ FE + \varepsilon_{i,t}$. Columns (1) - (3) report the results for the sample of contracts awarded to local firms. Columns (4) - (6) report the results for the sample of contracts awarded to local firms. The dependent variable in all Columns is *Value*, which is market value of equity plus total debt. *Ln(Contract value)* is the natural log of USD value of the government contract *j* awarded to firm *i* in year *t*. $Ln(\widehat{Contract\ value})_{j,i,t}$ is the predicted natural log of USD value of contract awarded to a firm, are the predicted values from the regression of each variable on $PC\ Number_{i,t-1}$ - the number of the ex-employees for the contract awarding governments currently employed by the firm. *Earnings* is earnings before interest and taxes. The control variables are the same as those in Table 13. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the headquarter location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	Local Firms			Foreign Firms		
	All	High GDP	Low GDP	All	High GDP	Low GDP
	(1)	(2)	(3)	(4)	(5)	(6)
$\text{Ln}(\widehat{\text{Contract}}\ \text{value})_{\text{j,i,t}}$	-0.034	-0.119*	0.070*	0.484*	2.078***	0.394*
	(-0.627)	(-1.874)	(2.023)	(1.814)	(14.166)	(1.861)
Observations	224,560	103,878	120,608	19,055	8,911	10,066
R-sq.	0.910	0.906	0.921	0.951	0.960	0.954
Controls	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	NO	YES	NO	YES	NO

Table 15: Political connected government contracting and investment efficiency

This table reports the results of the following regression: $Invest_t = \beta_0 + \beta_1 Q_{i,t-1} x\ Contract_{i,t} + \beta_2 CF_{i,t}\ x\ Contract_{i,t} + \beta_3 Contract_{i,t} + \beta_4 Q_{i,t-1} + \beta_5 CF_{i,t} + Firm\ FE + Industry\ x\ Yeat\ FE + Country\ x\ Year\ FE + \varepsilon_{i,t}$. The dependent variable in all Columns is *INVEST*, which is measured as the yearly growth in PPE and inventories plus R&D spending, all scaled by the lagged book value of total assets. *Q* is measured as the market value of equity minus the book value of equity plus the book value of total assets, all scaled by the book value of total assets. *CF* is measured as net income plus depreciation and amortization, all scaled by the lagged book value of total assets. Political connections are measured by *PC,* an indicator variable that equals one if the firm employs at least one ex-employee of a government. *Contract* is the indicator variable that equals one if the firm received a government contract and zero otherwise. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the headquarter location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		All			Local			Foreign	
	All	Above median GDP	Below median GDP	All	Above median GDP	Below median GDP	All	Above median GDP	Below median GDP
$Q_{i,t-1} \times Ln(\widehat{Contract}\ value)_{j,i,t}$	-0.032**	-0.053***	-0.012	-0.036**	-0.059***	-0.021**	0.012	-0.007	0.021
	(-2.497)	(-4.341)	(-1.125)	(-2.775)	(-4.824)	(-2.255)	(0.702)	(-0.163)	(0.870)
$CF_{i,t} \times Ln(\widehat{Contract}\ value)_{j,i,t}$	0.314*	0.518***	0.095	0.326*	0.568***	0.111	0.188	-0.903	0.195
	(1.961)	(3.728)	(1.493)	(2.003)	(4.184)	(1.646)	(0.747)	(-1.043)	(0.547)
$Ln(\widehat{Contract}\ value)_{j,i,t}$	0.002	0.018**	0.004	0.007	0.021**	0.013*	-0.021	0.195	-0.038**
	(0.587)	(2.649)	(0.411)	(1.268)	(2.757)	(1.911)	(-0.905)	(1.185)	(-2.036)
$Q_{i,t-1}$	0.360**	0.598***	0.143	0.407***	0.663***	0.245**	-0.128	0.094	-0.220
	(2.573)	(4.456)	(1.193)	(2.849)	(4.941)	(2.316)	(-0.657)	(0.185)	(-0.836)
$CF_{i,t}$	-3.244*	-5.476***	-0.864	-3.376*	-6.033***	-1.051	-1.736	10.617	-1.857
	(-1.831)	(-3.516)	(-1.228)	(-1.874)	(-3.961)	(-1.414)	(-0.622)	(1.111)	(-0.469)
Observations	264,336	126,804	137,382	243,772	116,803	126,828	20,396	9,871	10,386
R-squared	0.819	0.842	0.832	0.821	0.846	0.833	0.892	0.925	0.895
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry x Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Country x Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES

Internet Appendix

Political Connections and Government Contracting: An International Analysis of Procurement Decisions and Firm Value

Appendix A1: Identification of former government employment

This table describes how we identify former government employment of the firm managers and directors using the Boardex database. A firm director or manager is considered a former government employee for an awarding country if the director or the manager's previous employment history includes an employment record that meets the following three conditions:

1. HOCOUNTRYNAME = The awarding country for the contract-level sample or either one of the sample counties for the firm-level sample.
2. ORGTYPE = "Government" or "Armed Forces"
3. COMPANYNAME =Include one of the following key words:

Abgeordnetenhaus	Department of	Ministerie	National Guard
Administration	Federal	Ministerio	NATO
Air Force	Forces	Ministério	Navy
Armed Forces	Foreign Affairs	Ministerium	Parlamento
Army	Government (	Ministerstvo	Parliament
Bundesministerium	Government of	Ministerstwo	President
Bundestag	Homeland	Ministra	Republic of
Chamber of Representatives	House of Representatives	Ministro	Royal Palace
Coast Guard	Landtag	Ministry	Senate
Congress	Minister	Ministry of	Staatsministerium
Defense	Ministere	Minstry	United Nation

Appendix A2: Propensity score matching analysis

This table presents the comparison of control variables of firms with and without political connections in firm-level sample and propensity-score matched (PSM) sample, in Panels A and B, respectively. Descriptive statistics of PSM sample are presented in Panel C. All variables are defined in Appendix A. The continuous variables are winsorized at the 1% and 99% levels. T-tests and p-values are for tests of the differences in means between the politically connected and non-connected contactors.

Panel A: Firm-level sample

	Firms with NO Political Connections in year t-1		Firms with Political Connections in year t-1		Difference		
	N	Mean	N	Mean	Δ	t-Stat	p-Value
$Ln(TA)_{i,t}$	50,489	5.906	10,852	7.261	-1.354	-60.46	0.000
$BM_{i,t}$	45,657	0.769	10,469	0.754	0.015	2.09	0.036
$CAPEX/Sales_{i,t}$	50,489	0.108	10,852	0.105	0.002	1.18	0.239
$R\&D/Sales_{i,t}$	50,489	0.055	10,852	0.044	0.011	9.32	0.000
$ROA_{i,t}$	50,458	0.027	10,850	0.047	-0.020	-13.11	0.000
$HHI_{i,t}$	50,489	0.181	10,852	0.321	-0.140	-64.38	0.000

Panel B: Propensity-score-matched sample

	Firms with NO Political Connections in year t-1		Firms with Political Connections in year t-1		Difference		
	N	Mean	N	Mean	Δ	t-Stat	p-Value
$Ln(TA)_{i,t}$	8,133	6.722	8,133	6.731	-0.009	0.28	0.787
$BM_{i,t}$	8,133	0.761	8,133	0.762	-0.001	-0.07	0.945
$CAPEX/Sales_{i,t}$	8,133	0.111	8,133	0.110	0.001	0.27	0.788
$R\&D/Sales_{i,t}$	8,133	0.049	8,133	0.049	0.000	0.22	0.826
$ROA_{i,t}$	8,133	0.043	8,133	0.046	-0.002	-1.15	0.249
$HHI_{i,t}$	8,133	0.287	8,133	0.283	0.004	1.02	0.301

Panel C: Descriptive Statistics of Propensity-score-matched sample

Variable	N	Median	Mean	Std. Dev.	Min	Max
Contracting Variables						
$Contract_{i,t}$	16,266	0.000	0.146	0.353	0.000	1.000
Number of $contracts_{i,t}$	16,266	0.000	7.689	62.058	0.000	1,248.000
Total Contracts Value $_{i,t}$ (in million USD)	16,266	0.000	16.096	150.957	0.000	3,118.250
Mean Contracts Value $_{i,t}$(in million USD)	16,266	0.000	1.014	11.810	0.000	223.091
Total Contracts Value/Sales $_{i,t}$ (%)	16,266	0.000	0.275	1.372	0.000	12.322

Political connection variables						
$PC_{j,i,t}$	16,266	0.500	0.500	0.500	0.000	1.000
PC $Number_{j,i,t}$	16,266	0.732	0.957	0.500	0.000	0.500
PC $Percentage_{i,t}$	16,266	0.032	0.049	0.001	0.000	0.500
PC $Distance_{i,t}$	8,133	14.000	15.822	11.040	0.000	48.000
PC $Length_{,i,t}$	8,133	6.000	9.85	11.375	1.000	48.000
Control Variables						
$Ln(TA)_{i,t}$	16,266	6.727	2.042	6.71	2.325	12.132
$BM_{i,t}$	16,266	0.761	0.662	0.557	0.045	3.039
$CAPX/Sales_{j,i,t}$	16,266	0.111	0.197	0.038	0.001	0.854
$R\&D/Sales_{i,t}$	16,266	0.049	0.105	0.000	0.000	0.419
$ROA_{i,t}$	16,266	0.044	0.125	0.065	-0.375	0.311
$HHI_{i,t}$	16,266	0.285	0.246	0.220	0.035	1.000
Board $size_{i,t}$	16,266	8.707	3.488	8.000	3.000	18.000
Management $size_{i,t}$	16,266	32.533	34.652	23.000	4.000	238.000
$Invest_{i,t}$	16,135	0.056	0.139	.024	-0.272	0.721
$Q_{i,t}$	16,264	1.768	1.414	1.334	0.498	9.726
$CF_{i,t}$	15,877	0.089	0.141	.091	-0.488	0.515
$Value/TA_{i,t}$	16,013	2.126	3.424	1.191	.254.000	25.966
$Earnings/TA_{i,t}$	16,117	0.013	0.322	0.071	-2.191	0.466
$R\&D/TA_{i,t}$	16,129	0.057	0.167	0.000	0.000	1.222
$Interest/TA_{i,t}$	16,129	0.013	0.014	0.009	0.000	0.078
$Dividends/TA_{i,t}$	16,129	0.018	0.033	0.000	0.000	0.201

Appendix 3: Contract-level regressions - Alternative measures of government contracting and connectedness.

This table reports the results of the following regression estimated using the contract-level sample. $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 Polit_{j,i,t-1} + \beta_2 Ln(TA)_{j,i,t-1} + \beta_3 BM_{j,i,t-1} + \beta_4 \frac{CAPX}{Sales}_{j,i,t-1} + \beta_5 \frac{R\&D}{Sales}_{j,i,t-1} + \beta_6 ROA_{j,i,t-1} + \beta_7 HHI_{j,i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t}$.The dependent variable in Panel A is *Contract value / Sales* - the value of government contract *j* as percentage of the awarded firm *i*'s total sales in year *t*. The dependent variable in Panel B is *ln(Contract value)* - the natural log of USD value of the government contract *j* awarded to firm *i* in year *t.* Political connections, *Polit*, are measures *PC Percentage* - the ratio of the ex-employee of the contract awarding government currently employed by the c firm to the number of the firm managers covered in the BoardEx database, *PC Ratio* - the ratio of the number of the ex-employees of the contract awarding governments employed by the firm to the number of the ex-employee for all of the 27 governments employed by the firm, and *PC Length* - the total number of years of the government employment of the firm's ex-government employees. *Ln(AT)* is the natural log of total assets. *BM* is the book-to-market ratio. *CAPEX/Sales* is capital expenditure divided by total sales. *R&D/Sales* is research and development expenditures divided by total sales. *ROA* is operating income divided by total assets. *HHI* is Herfindahl-Hirschman Index for the firm's primary two-digit SIC code in the firm's headquarter country. *Board size* is the number of directors in the firm's board. *Management size* is the number of managers and directors of the firm covered in the BoardEx database. All continuous variables are winsorized at the 1% and 99% levels. T-statistics, based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

Panel A: Alternative measures of government contracting and connectedness					
	(1)	(2)	(3)	(4)	(5)
	$\text{Contract Value/Sales}_{j,i,t}$				
$PC_{j,i,t-1}$	0.003				
	(1.525)				
$\text{PC Number}_{j,i,t-1}$		0.001**			
		(2.667)			
$\text{PC Percentage}_{j,i,t-1}$			0.080***		
			(2.925)		
$\text{PC Ratio}_{j,i,t-1}$				0.005**	
				(2.539)	
$\text{Ln(PC Length)}_{j,i,t-1}$					0.008***
					(5.631)
$\text{Ln(TA)}_{i,t-1}$	-0.012***	-0.012***	-0.012***	-0.012***	-0.012**
	(-5.313)	(-5.321)	(-5.155)	(-5.260)	(-2.778)
$BM_{i,t-1}$	0.007***	0.007***	0.006***	0.007***	0.009*
	(3.170)	(2.958)	(2.862)	(3.016)	(2.079)
$\text{CAPEX/Sales}_{i,t-1}$	0.079	0.079	0.086	0.080	0.046
	(1.419)	(1.447)	(1.610)	(1.436)	(0.927)
$\text{R\&D/Sales}_{i,t-1}$	0.029	0.028	0.029	0.029	0.179***
	(1.378)	(1.387)	(1.451)	(1.443)	(3.028)
$ROA_{i,t-1}$	-0.044*	-0.045*	-0.044*	-0.044*	0.047

	(-1.827)	(-1.866)	(-1.802)	(-1.809)	(1.334)
$HHI_{i,t-1}$	0.017***	0.018***	0.018***	0.017***	-0.028*
	(3.601)	(3.602)	(3.684)	(3.500)	(-1.795)
$Ln(Board\ Size)_{i,t-1}$	-0.007	-0.007*	-0.008*	-0.007*	-0.014
	(-1.692)	(-1.757)	(-1.754)	(-1.720)	(-1.642)
$Ln(Management\ size)_{i,t-1}$	0.006***	0.006***	0.007***	0.006***	-0.012
	(4.234)	(4.356)	(4.968)	(4.542)	(-1.608)
Constant	0.109***	0.110***	0.109***	0.109***	0.193***
	(5.005)	(5.047)	(4.774)	(4.871)	(6.034)
Observations	265,116	265,116	265,116	265,116	41,911
R-squared	0.238	0.239	0.240	0.239	0.282
Year FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES

Panel B: Alternative measures of connectedness

	(1)	(2)	(3)
	$Ln(Contract\ Value)_{j,i,t}$		
PC Percentage$_{j,i,t-1}$	3.831***		
	(4.450)		
PC Ratio$_{j,i,t-1}$		0.380***	
		(4.850)	
$Ln(PC\ Length)_{j,i,t-1}$			0.123***
			(3.023)
$Ln(TA)_{i,t-1}$	0.074***	0.084***	0.120
	(3.621)	(4.862)	(1.168)
$BM_{i,t-1}$	0.008	0.027	-0.274
	(0.093)	(0.319)	(-1.421)
$CAPEX/Sales_{i,t-1}$	-2.478**	-2.753**	-1.499
	(-2.088)	(-2.162)	(-0.984)
$R\&D/Sales_{i,t-1}$	1.294	1.354	-3.585
	(0.924)	(0.968)	(-1.409)
$ROA_{i,t-1}$	-0.322	-0.292	-0.702
	(-0.704)	(-0.629)	(-0.510)
$HHI_{i,t-1}$	-0.006	-0.047	0.028
	(-0.043)	(-0.334)	(0.074)
$Ln(Board\ Size)_{i,t-1}$	0.040	0.053	-0.207
	(0.364)	(0.510)	(-0.608)

$\text{Ln(Management size)}_{i,t-1}$	-0.025	-0.048	-0.044
	(-0.319)	(-0.618)	(-0.314)
Constant	10.470***	10.438***	11.572***
	(23.414)	(23.292)	(17.061)
Observations	265,116	265,116	41,911
R-squared	0.254	0.253	0.338
Year FE	YES	YES	YES
Industry FE	YES	YES	YES
Country FE	YES	YES	YES

Appendix A4: Weighted Least Squares Regressions – Robustness Checks

This table reports the results of the following regression estimated using the contract-level sample: $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 PC_{j,i,t-1} + \beta_2 Ln(TA)_{j,i,t-1} + \beta_3 BM_{j,i,t-1} + \beta_4 CAPEX/Sales_{j,i,t-1} + \beta_5 R\&D/Sales_{j,i,t-1} + \beta_6 ROA_{j,i,t-1} + \beta_7 HHI_{j,i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{j,i,t}$ The dependent variable is *Ln(Contract value),* the natural log of USD value of the government contract *j* awarded to firm *i* in year *t*, in Columns (1) - (4) and *Contract value / Sales,* the value of government contract *j* as percentage of the awarded firm *i*'s total sales in year *t*, in Columns (5) - (8). Columns (1), (3), (5), and (7) are estimated using WLS (Weighted Least Squares), where weights are one divided the total number of contacts in the sample awarded by each government. Columns (2), (4), (6), and (8) are estimated using WLS model, where weights are the total number of contacts in the sample awarded by each government. *PC* is an indicator variable that equals one if a firm employs at least one ex-employee of the contract awarding governments, and zero otherwise. *PC Number* is the number of the ex-employees for the contract awarding governments currently employed by the firm. *Ln(AT)* is the natural log of total assets. *BM* is the book-to-market ratio. *CAPEX/Sales* is capital expenditure divided by total sales. *R&D/Sales* is research and development expenditures divided by total sales. *ROA* is operating income divided by total assets. *HHI* is Herfindahl-Hirschman Index for the firm's primary two-digit SIC code in the firm's headquarter country. Columns (2) includes firm and year fixed effects. *Board size* is the number of directors in the firm's board. *Management size* is the number of managers and directors of the firm covered in the BoardEx database. Columns (3) - (10) include year, industry, and headquarter location country fixed effects. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	$\text{Ln(Contract Value)}_{j,i,t}$				$\text{Contract Value/Sales}_{j,i,t}$			
	(ω=1/N)	(ω=N)	(ω=1/N)	(ω=N)	(ω=1/N)	(ω=N)	(ω=1/N)	(ω=N)
$PC_{j,i,t-1}$	0.142**	0.311***			0.013***	0.004***		
	(2.248)	(4.306)			(4.183)	(3.510)		
$PC\ Number_{i,i,t-1}$			0.047**	0.069***			0.004***	0.001**
			(2.245)	(7.157)			(4.307)	(2.436)
$Ln(TA)_{i,t-1}$	0.034	0.078**	0.032	0.064*	-0.027***	-0.008***	-0.027***	-0.008***
	(0.956)	(2.399)	(0.900)	(1.976)	(-15.991)	(-9.925)	(-16.146)	(-10.241)
$BM_{i,t-1}$	-0.072	0.065	-0.074	0.056	0.014***	0.007***	0.014***	0.007***
	(-1.132)	(0.928)	(-1.173)	(0.765)	(4.608)	(2.851)	(4.508)	(2.864)
$CAPEX/Sales_{i,t-1}$	-2.361**	-2.545**	-2.331**	-2.843***	0.024	0.116	0.027	0.113
	(-2.034)	(-2.363)	(-2.002)	(-2.945)	(0.494)	(1.623)	(0.553)	(1.624)
$R\&D/Sales_{i,t-1}$	2.467***	1.769	2.462***	1.738	0.125***	0.016	0.125***	0.016
	(2.705)	(1.675)	(2.698)	(1.669)	(4.052)	(1.056)	(4.040)	(1.081)
$ROA_{i,t-1}$	-1.285**	0.011	-1.302**	-0.098	-0.079***	-0.015	-0.080***	-0.016
	(-2.255)	(0.030)	(-2.282)	(-0.273)	(-3.237)	(-0.752)	(-3.288)	(-0.849)
$HHI_{i,t-1}$	0.311***	-0.106	0.320***	-0.071	0.021***	0.012***	0.022***	0.012***
	(2.946)	(-0.623)	(3.037)	(-0.430)	(3.962)	(4.776)	(4.052)	(4.704)

$\text{Ln(Board Size)}_{i,t-1}$	0.206*	-0.011	0.200*	-0.040	-0.011**	-0.009***	-0.012**	-0.009***
	(1.867)	(-0.145)	(1.822)	(-0.504)	(-2.095)	(-4.707)	(-2.164)	(-4.728)
$\text{Ln(Management size)}_{i,t-1}$	-0.126**	0.035	-0.125**	0.054	0.011***	0.005**	0.011***	0.005**
	(-2.078)	(0.334)	(-2.049)	(0.505)	(4.156)	(2.458)	(4.199)	(2.577)
Constant	10.111***	9.506***	10.122***	9.597***	0.114***	0.019	0.115***	0.020
	(32.699)	(20.980)	(32.524)	(21.246)	(5.475)	(1.104)	(5.402)	(1.196)
Observations	265,119	265,119	265,119	265,119	265,119	265,119	265,119	265,119
R-squared	0.379	0.140	0.379	0.139	0.332	0.134	0.331	0.134
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES

Appendix A5: Firm-level Regressions - Alternative measures of connectedness and contracting

This table reports the results of the following regression estimated using the firm-level sample: $Contract_{i,t} = \beta_0 + \beta_1 Polit_{i,t-1} + \beta_2 Ln(TA)_{i,t-1} + \beta_3 BM_{i,t-1} + \beta_4 \frac{CAPX}{Sales}_{i,t-1} + \beta_5 \frac{R\&D}{Sales}_{i,t-1} + \beta_6 ROA_{i,t-1} + \beta_7 HHI_{i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t}$.The dependent variables are: *Contract* - a binary variable that equals one if firm received at least one government contract in year t, and zero otherwise, *and Ln(Contract value)* - the natural log of total USD value of all government contracts awarded to a firm by sample countries in year t. Columns (1) - (4) reports the results for the full sample and Columns (5) - (8) reports the results for the PSM sample. *PC Percentage* - the ratio of the ex- government employee currently employed by the firm to the number of managers of the firm covered in the BoardEx database. *PC Length* is the total number of years of the government employment of the firm's ex-government employees. *PC* is an indicator variable that equals one if a firm employs at least one ex-employee of the 27 governments in our sample, and zero otherwise. *PC Number* is the number of the ex-employee for all of the 27 governments currently employed by the firm. *Ln(AT)* is the natural log of total assets. *BM* is the book-to-market ratio. *CAPEX/Sales* is capital expenditure divided by total sales. *R&D/Sales* is research and development expenditures divided by total sales. *ROA* is operating income divided by total assets. *HHI* is Herfindahl-Hirschman Index for the firm's primary two-digit SIC code in the firm's headquarter country. *Board size* is the number of directors in the firm's board. *Management size* is the number of managers and directors of the firm covered in the BoardEx database. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

VARIABLES	Full Sample				PSM Sample			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	$Contract_{i,t}$		$Ln(Contract\ Value)_{i,t}$		$Contract_{i,t}$		$Ln(Contract\ Value)_{i,t}$	
$PC\ Percentage_{i,t-1}$	0.437***		7.619***		0.427***		7.120***	
	(3.631)		(3.909)		(2.848)		(3.167)	
$Ln(PC\ Length)_{i,t-1}$		0.025**		0.446***		0.026**		0.446***
		(2.525)		(3.025)		(2.755)		(3.252)
$Ln(TA)_{i,t-1}$	0.022***	0.028***	0.384***	0.573***	0.020***	0.020**	0.392***	0.424**
	(4.845)	(2.946)	(4.817)	(3.509)	(3.433)	(2.071)	(4.048)	(2.648)
$BM_{i,t-1}$	-0.004	-0.009	-0.068	-0.198	-0.006	-0.011	-0.111	-0.208
	(-1.176)	(-0.734)	(-1.032)	(-0.942)	(-0.705)	(-1.016)	(-0.799)	(-1.165)
$CAPEX/Sales_{i,t-1}$	-0.035**	-0.069	-0.531**	-1.121	-0.054**	-0.056	-0.801*	-0.875
	(-2.617)	(-1.697)	(-2.216)	(-1.559)	(-2.142)	(-1.496)	(-1.906)	(-1.378)
$R\&D/Sales_{i,t-1}$	-0.043	-0.058	-0.828	-1.233	-0.074	0.008	-1.310	-0.246
	(-0.723)	(-0.361)	(-0.961)	(-0.492)	(-0.629)	(0.058)	(-0.742)	(-0.111)
$ROA_{i,t-1}$	0.034	0.120	0.294	1.156	0.106	0.160	1.301	1.899
	(0.997)	(0.969)	(0.511)	(0.565)	(1.439)	(1.408)	(1.061)	(1.021)
$HHI_{i,t-1}$	0.018	-0.008	0.298	-0.221	0.017	0.001	0.239	-0.149
	(1.009)	(-0.272)	(0.966)	(-0.405)	(0.961)	(0.033)	(0.763)	(-0.271)
$Ln(Board\ Size)_{i,t-1}$	-0.032***	-0.072***	-0.520***	-1.270***	-0.058**	-0.044*	-0.892**	-0.707*
	(-4.569)	(-2.979)	(-4.545)	(-3.215)	(-2.393)	(-1.713)	(-2.191)	(-1.707)
$Ln(Management\ size)_{i,t-1}$	0.080***	0.138***	1.284***	2.189***	0.132***	0.134***	2.095***	2.106***

	(8.138)	(4.918)	(8.496)	(5.484)	(4.482)	(3.409)	(4.280)	(3.389)
Constant	-0.231***	-0.340***	-3.942***	-6.058***	-0.304***	-0.352***	-5.385***	-6.231***
	(-11.812)	(-6.001)	(-11.389)	(-6.143)	(-7.133)	(-5.458)	(-6.476)	(-5.609)
Observations	55,792	10,459	55,792	10,459	16,266	8,131	16,266	8,131
R-squared	0.168	0.251	0.183	0.277	0.190	0.228	0.207	0.251
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES

Appendix A6: Firm-level Regressions - Alternative measures of contracting

This table reports the results of the following regression estimated using the firm-level sample: $Contract_{i,t} = \beta_0 + \beta_1 Polit_{i,t-1} + \beta_2 Ln(TA)_{i,t-1} + \beta_3 BM_{i,t-1} + \beta_4 \frac{CAPX}{Sales}_{i,t-1} + \beta_5 \frac{R\&D}{Sales}_{i,t-1} + \beta_6 ROA_{i,t-1} + \beta_7 HHI_{i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t}$.The dependent variables are: The dependent variables are *Contract* - a binary variable that equals one if firm received at least one government contract in year t, and zero otherwise, *Ln(Number of contracts)* - the natural log of number of all government contracts awarded to a firm by sample countries in year t, and *Total contract value / Sales* - the total value of all government contracts awarded to a firm by sample countries divided by the firm's total sales in year t. Panel A reports the results for the full sample. Panel B reports the results for the PSM sample. *PC* is an indicator variable that equals one if a firm employs at least one ex-employee of the 27 governments in our sample, and zero otherwise. *PC Number* is the number of the ex-employee for all of the 27 governments currently employed by the firm. *PC Percentage* - the ratio of the ex- government employee currently employed by the firm to the number of managers of the firm covered in the BoardEx database. *PC Length* is the total number of years of the government employment of the firm's ex-government employees. *PC* is an indicator variable that equals one if a firm employs at least one ex-employee of the 27 governments in our sample, and zero otherwise. *PC Number* is the number of the ex-employee for all of the 27 governments currently employed by the firm. *Ln(AT)* is the natural log of total assets. *BM* is the book-to-market ratio. *CAPEX/Sales* is capital expenditure divided by total sales. *R&D/Sales* is research and development expenditures divided by total sales. *ROA* is operating income divided by total assets. *HHI* is Herfindahl-Hirschman Index for the firm's primary two-digit SIC code in the firm's headquarter country. *Board size* is the number of directors in the firm's board. *Management size* is the number of managers and directors of the firm covered in the BoardEx database. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

Panel A: Full sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Ln(Number of Contracts)$_{i,t}$				Contract Value / Sales$_{i,t}$			
$PC_{i,t-1}$	0.195***				0.089***			
	(3.360)				(3.518)			
PC Number$_{i,t-1}$		0.147***				0.059***		
		(5.028)				(3.503)		
PC Percentage$_{i,t-1}$			1.417***				0.987***	
			(3.319)				(3.002)	
Ln(PC Length)$_{i,t-1}$				0.076**				0.070***
				(2.624)				(3.196)
$Ln(TA)_{i,t-1}$	0.072***	0.066***	0.074***	0.136***	0.018**	0.016**	0.019**	0.037
	(5.032)	(5.629)	(5.435)	(3.965)	(2.357)	(2.361)	(2.398)	(1.686)
$BM_{i,t-1}$	-0.009	-0.010	-0.008	-0.050	-0.008	-0.008	-0.008	-0.053**
	(-0.724)	(-0.766)	(-0.644)	(-1.456)	(-1.212)	(-1.235)	(-1.149)	(-2.209)
CAPEX/Sales$_{i,t-1}$	-0.070	-0.067	-0.074*	-0.195	-0.052*	-0.051*	-0.054*	-0.202**
	(-1.615)	(-1.618)	(-1.755)	(-1.591)	(-1.718)	(-1.731)	(-1.839)	(-2.240)
R&D/Sales$_{i,t-1}$	-0.151	-0.146	-0.148	-0.030	-0.091	-0.088	-0.092	-0.300
	(-1.685)	(-1.691)	(-1.602)	(-0.068)	(-1.027)	(-1.010)	(-1.027)	(-1.413)
$ROA_{i,t-1}$	0.073	0.102	0.069	0.123	-0.001	0.010	-0.001	-0.172

	(0.791)	(1.245)	(0.771)	(0.322)	(-0.017)	(0.125)	(-0.008)	(-0.577)
$HHI_{i,t-1}$	0.111**	0.083	0.116**	0.049	-0.047	-0.058	-0.048	-0.147
	(2.415)	(1.499)	(2.472)	(0.397)	(-0.827)	(-0.946)	(-0.829)	(-1.574)
$Ln(Board\ Size)_{i,t-1}$	-0.087***	-0.090***	-0.089***	-0.280***	-0.052**	-0.053**	-0.055**	-0.147**
	(-3.850)	(-4.120)	(-3.844)	(-3.240)	(-2.513)	(-2.540)	(-2.579)	(-2.168)
$Ln(Management\ size)_{i,t-1}$	0.202***	0.184***	0.228***	0.426***	0.053***	0.047***	0.066***	0.079***
	(6.793)	(5.661)	(6.774)	(6.098)	(4.024)	(3.966)	(4.059)	(3.109)
Constant	-0.745***	-0.649***	-0.818***	-1.415***	-0.057	-0.023	-0.087*	0.046
	(-10.270)	(-9.260)	(-10.782)	(-6.668)	(-1.356)	(-0.640)	(-1.913)	(0.333)
Observations	55,792	55,792	55,792	10,459	55,792	55,792	55,792	10,459
R-squared	0.174	0.184	0.171	0.259	0.085	0.087	0.085	0.194
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES

Panel B: Propensity-score-matched sample

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	$Ln(Number\ of\ Contracts)_{i,t}$				$Contract\ Value\ /\ Sales_{i,t}$			
$PC_{i,t-1}$	0.195***				0.089***			
	(3.360)				(3.518)			
$PC\ Number_{i,t-1}$		0.147***				0.059***		
		(5.028)				(3.503)		
$PC\ Percentage_{i,t-1}$			1.417***				0.987***	
			(3.319)				(3.002)	
$Ln(PC\ Length)_{i,t-1}$				0.076**				0.070***
				(2.624)				(3.196)
$Ln(TA)_{i,t-1}$	0.072***	0.066***	0.074***	0.136***	0.018**	0.016**	0.019**	0.037
	(5.032)	(5.629)	(5.435)	(3.965)	(2.357)	(2.361)	(2.398)	(1.686)
$BM_{i,t-1}$	-0.009	-0.010	-0.008	-0.050	-0.008	-0.008	-0.008	-0.053**
	(-0.724)	(-0.766)	(-0.644)	(-1.456)	(-1.212)	(-1.235)	(-1.149)	(-2.209)
$CAPEX/Sales_{i,t-1}$	-0.070	-0.067	-0.074*	-0.195	-0.052*	-0.051*	-0.054*	-0.202**
	(-1.615)	(-1.618)	(-1.755)	(-1.591)	(-1.718)	(-1.731)	(-1.839)	(-2.240)
$R\&D/Sales_{i,t-1}$	-0.151	-0.146	-0.148	-0.030	-0.091	-0.088	-0.092	-0.300
	(-1.685)	(-1.691)	(-1.602)	(-0.068)	(-1.027)	(-1.010)	(-1.027)	(-1.413)
$ROA_{i,t-1}$	0.073	0.102	0.069	0.123	-0.001	0.010	-0.001	-0.172
	(0.791)	(1.245)	(0.771)	(0.322)	(-0.017)	(0.125)	(-0.008)	(-0.577)
$HHI_{i,t-1}$	0.111**	0.083	0.116**	0.049	-0.047	-0.058	-0.048	-0.147

	(2.415)	(1.499)	(2.472)	(0.397)	(-0.827)	(-0.946)	(-0.829)	(-1.574)
$\text{Ln(Board Size)}_{i,t-1}$	-0.087***	-0.090***	-0.089***	-0.280***	-0.052**	-0.053**	-0.055**	-0.147**
	(-3.850)	(-4.120)	(-3.844)	(-3.240)	(-2.513)	(-2.540)	(-2.579)	(-2.168)
$\text{Ln(Management size)}_{i,t-1}$	0.202***	0.184***	0.228***	0.426***	0.053***	0.047***	0.066***	0.079***
	(6.793)	(5.661)	(6.774)	(6.098)	(4.024)	(3.966)	(4.059)	(3.109)
Constant	-0.745***	-0.649***	-0.818***	-1.415***	-0.057	-0.023	-0.087*	0.046
	(-10.270)	(-9.260)	(-10.782)	(-6.668)	(-1.356)	(-0.640)	(-1.913)	(0.333)
Observations	55,792	55,792	55,792	10,459	55,792	55,792	55,792	10,459
R-squared	0.174	0.184	0.171	0.259	0.085	0.087	0.085	0.194
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES

Appendix A7: Endogeneity concerns - Firm fixed effects, lagged dependent variable, and autoregressive errors using PSM sample

This table reports the results of the following regression estimated using the PSM sample: $Contract_{i,t} = \beta_0 + \beta_1 Polit_{i,t-1} + \beta_2 Contract_{i,t-1} + \beta_3 Ln(TA)_{i,t-1} + \beta_4 BM_{i,t-1} + \beta_5 \frac{CAPX}{Sales}_{i,t-1} + \beta_6 \frac{R\&D}{Sales}_{i,t-1} + \beta_7 ROA_{i,t-1} + \beta_8 HHI_{i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t}$. The dependent variable is *Contract*, binary variable that equals one if firm received at least one government contract in year t, and zero otherwise, in all Columns. Columns (3), (4), and (7) – (10) include lagged dependent variable. Columns (1) – (4) are estimated using LSDV model with firm, Industry by year, and country by year fixed effects. Columns (5) – (8) are estimated as fixed effect model with firm and year fixed effects. Columns (9) – (10) are estimated as fixed effects with first order autoregression correction. All continuous variables are winsorized at the 1% and 99% levels. T-statistics are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1) LSDV	(2) LSDV	(3) LSDV	(4) LSDV	(5) LSDV	(6) LSDV	(7) FE	(8) FE	(9) FE-AR	(10) FE-AR
$PC_{i,t-1}$	0.016**		0.016**		0.018***		0.018***		0.016*	
	(2.503)		(2.473)		(3.027)		(2.993)		(1.834)	
PC Number$_{i,t-1}$		0.007**		0.007		0.008**		0.008**		0.009**
		(2.038)		(1.602)		(2.567)		(2.531)		(1.992)
$Contract_{i,t-1}$			0.034***	0.034			0.032***	0.032***	-0.278***	-0.279***
			(3.637)	(1.235)			(3.638)	(3.640)	(-27.08)	(-27.12)
$Ln(TA)_{i,t-1}$	0.007	0.007	0.006	0.006	0.004	0.003	0.003	0.003	0.017***	0.017***
	(1.355)	(1.308)	(1.282)	(1.384)	(0.874)	(0.800)	(0.745)	(0.671)	(4.591)	(4.534)
$BM_{i,t-1}$	0.0003	0.0004	0.0002	0.0003	-0.0002	-0.0000	0.0002	0.0004	0.0024	0.0025
	(0.0663)	(0.0877)	(0.0568)	(0.104)	(-0.0516)	(-0.00844)	(0.0586)	(0.101)	(0.463)	(0.492)
$CAPEX/Sales_{i,t-1}$	0.0024	0.0028	0.0028	0.0032	0.0014	0.0017	0.0023	0.0026	-0.0024	-0.0021
	(0.146)	(0.168)	(0.170)	(0.338)	(0.0900)	(0.110)	(0.145)	(0.165)	(-0.112)	(-0.0975)
$R\&D/Sales_{i,t-1}$	0.008	0.007	0.010	0.009	0.031	0.030	0.034	0.033	0.061	0.062
	(0.152)	(0.132)	(0.203)	(0.204)	(0.611)	(0.596)	(0.665)	(0.650)	(0.852)	(0.863)
$ROA_{i,t-1}$	0.039	0.039	0.040	0.040**	0.044*	0.043*	0.046*	0.045*	0.035	0.036
	(1.499)	(1.484)	(1.537)	(2.095)	(1.789)	(1.782)	(1.872)	(1.865)	(1.131)	(1.132)
$HHI_{i,t-1}$	0.004	0.005	0.003	0.003	-0.002	0.000	-0.004	-0.002	-0.003	-0.002
	(0.114)	(0.123)	(0.0781)	(0.0800)	(-0.0625)	(0.000759)	(-0.124)	(-0.0619)	(-0.0638)	(-0.0428)
Constant	0.099***	0.100***	0.093***	0.098***	0.108***	0.113***	0.108***	0.112***	0.078***	0.080***
	(2.697)	(2.828)	(2.638)	(2.922)	(3.487)	(3.636)	(3.470)	(3.618)	(5.156)	(5.342)
Observations	14,557	14,557	14,557	14,557	16,266	16,266	16,266	16,266	11,503	11,503
R-squared	0.852	0.852	0.853	0.853	0.001	0.001	0.002	0.002	0.601	0.599
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	NO	NO	NO	NO	YES	YES	YES	YES	YES	YES

Industry x Year FE	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO
Country x Year FE	YES	YES	YES	YES	NO	NO	NO	NO	NO	NO

Appendix A8: Firm-level regressions – Subsample Analysis

This table reports the results of the following regression estimated using the firm-level sample: $Contract_{i,t} = \beta_0 + \beta_1 Polit_{i,t-1} + \beta_2 Ln(TA)_{i,t-1} + \beta_3 BM_{i,t-1} + \beta_4 \frac{CAPX}{Sales}_{i,t-1} + \beta_5 \frac{R\&D}{Sales}_{i,t-1} + \beta_6 ROA_{i,t-1} + \beta_7 HHI_{i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t}$.The dependent variables are: *Contract* - a binary variable that equals one if firm received at least one government contract in year t, and zero otherwise, *Ln(Number of contracts)* - the natural log of number of all government contracts awarded to a firm by sample countries in year t, *Ln(Total contract value)* - the natural log of total USD value of all government contracts awarded to a firm by sample countries in year t, *Ln(Mean value of Contracts)* - the natural log of average USD value of government contracts awarded to a firm by sample countries in year t, and *Total contract value / Sales* - the total value of all government contracts awarded to a firm by sample countries divided by the firm's total sales. Panel A reports the results for the full sample and Panel B reports the results for the PSM sample. Regressions in Column (1) are estimated using Logit model. All other regressions are estimated using OLS model. *PC* is an indicator variable that equals one if a firm employs at least one ex-employee of the 27 governments in our sample, and zero otherwise. *PC Number* is the number of the ex-employee for all of the 27 governments currently employed by the firm. *Ln(AT)* is the natural log of total assets. *BM* is the book-to-market ratio. *CAPEX/Sales* is capital expenditure divided by total sales. *R&D/Sales* is research and development expenditures divided by total sales. *ROA* is operating income divided by total assets. *HHI* is Herfindahl-Hirschman Index for the firm's primary two-digit SIC code in the firm's headquarter country. *Board size* is the number of directors in the firm's board. *Management size* is the number of managers and directors of the firm covered in the BoardEx database. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

Panel A: Sample of firms with no prior PCs in years t-2 and t-3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	$Contract_{i,t}$		$Ln(Number\ of\ Contracts)_{i,t}$		$Ln\ (Total\ value\ of\ Contracts)_{i,t}$		$Ln\ (Mean\ value\ of\ Contracts)_{i,t}$		$\frac{Contract\ Value}{Sales}_{j,i,t}$	
$PC_{i,t-1}$	0.024*		0.096**		0.430**		0.332*		0.015	
	(2.008)		(2.456)		(2.206)		(2.018)		(0.766)	
$PC\ Number_{i,t-1}$		0.022*		0.094**		0.402*		0.306*		0.016
		(1.755)		(2.411)		(1.957)		(1.764)		(0.830)
$Ln(TA)_{i,t-1}$	0.018***	0.018***	0.048***	0.048***	0.289***	0.289***	0.242***	0.242***	0.016**	0.016**
	(4.947)	(4.945)	(6.104)	(6.107)	(4.949)	(4.948)	(4.740)	(4.739)	(2.570)	(2.574)
$BM_{i,t-1}$	-0.006**	-0.006**	-0.011	-0.011	-0.091**	-0.092**	-0.080**	-0.080**	-0.003	-0.003
	(-2.327)	(-2.329)	(-1.405)	(-1.409)	(-2.130)	(-2.133)	(-2.253)	(-2.254)	(-0.526)	(-0.527)
$CAPEX/Sales_{i,t-1}$	-0.019*	-0.019*	-0.022	-0.023	-0.273	-0.274	-0.251	-0.252*	-0.022	-0.022
	(-1.769)	(-1.776)	(-0.804)	(-0.811)	(-1.605)	(-1.613)	(-1.697)	(-1.704)	(-0.921)	(-0.923)
$R\&D/Sales_{i,t-1}$	-0.022	-0.022	-0.107**	-0.107**	-0.436	-0.436	-0.328	-0.328	-0.020	-0.020
	(-0.539)	(-0.539)	(-2.330)	(-2.330)	(-0.795)	(-0.795)	(-0.622)	(-0.622)	(-0.288)	(-0.289)
$ROA_{i,t-1}$	0.036	0.036	0.102**	0.102**	0.417	0.417	0.315	0.315	0.019	0.019
	(1.196)	(1.196)	(2.174)	(2.180)	(0.941)	(0.941)	(0.787)	(0.788)	(0.391)	(0.393)
$HHI_{i,t-1}$	0.002	0.002	0.069	0.069	0.042	0.042	-0.027	-0.027	-0.045	-0.045
	(0.119)	(0.119)	(1.288)	(1.288)	(0.140)	(0.140)	(-0.102)	(-0.102)	(-0.903)	(-0.904)

$Ln(Board\ Size)_{i,t-1}$	-0.014**	-0.014**	-0.017	-0.018	-0.197**	-0.197**	-0.180**	-0.180**	-0.021	-0.021
	(-2.674)	(-2.678)	(-1.209)	(-1.215)	(-2.410)	(-2.416)	(-2.453)	(-2.458)	(-1.577)	(-1.579)
$Ln(Mgmt\ size)_{i,t-1}$	0.047***	0.047***	0.112***	0.111***	0.709***	0.709***	0.597***	0.598***	0.028**	0.028**
	(5.333)	(5.344)	(3.249)	(3.249)	(4.857)	(4.864)	(5.297)	(5.306)	(2.155)	(2.148)
Constant	-0.151***	-0.151***	-0.476***	-0.476***	-2.465***	-2.464***	-1.988***	-1.987***	-0.059*	-0.059*
	(-7.374)	(-7.390)	(-6.484)	(-6.484)	(-7.325)	(-7.336)	(-7.411)	(-7.425)	(-1.903)	(-1.911)
Observations	41,707	41,707	41,707	41,707	41,707	41,707	41,707	41,707	41,707	41,707
R-squared	0.123	0.123	0.130	0.130	0.132	0.132	0.123	0.123	0.052	0.052
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

Panel B: Sample of firms with no prior Contracts in years t-1 and t-2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	$Contract_{i,t}$		$Ln(Number\ of\ Contracts)_{i,t}$		$Ln\ (Total\ value\ of\ Contracts)_{i,t}$		$Ln\ (Mean\ value\ of\ Contracts)_{i,t}$		Contract Value /Sales $_{j,i,t}$	
$PC_{i,t-1}$	0.014***		0.028**		0.210***		0.182***		0.009	
	(4.857)		(2.508)		(4.354)		(4.754)		(1.689)	
$PC\ Number_{i,t-1}$		0.010***		0.025***		0.156***		0.132***		0.005*
		(4.447)		(4.095)		(4.886)		(4.900)		(1.866)
$Ln(TA)_{i,t-1}$	0.003***	0.003***	0.008***	0.007***	0.054***	0.049***	0.046***	0.042***	0.002	0.002
	(2.896)	(2.948)	(3.793)	(4.125)	(3.081)	(3.174)	(2.969)	(3.032)	(1.411)	(1.324)
$BM_{i,t-1}$	-0.002*	-0.002**	-0.004	-0.004	-0.025*	-0.025*	-0.020*	-0.020*	0.001	0.001
	(-2.031)	(-2.080)	(-1.592)	(-1.588)	(-1.877)	(-1.907)	(-1.806)	(-1.846)	(0.281)	(0.280)
$CAPEX/Sales_{i,t-1}$	-0.010***	-0.009***	-0.013***	-0.013***	-0.128***	-0.126***	-0.114***	-0.112***	-0.009*	-0.009*
	(-3.336)	(-3.310)	(-3.413)	(-3.476)	(-3.139)	(-3.137)	(-3.010)	(-3.004)	(-1.752)	(-1.750)
$R\&D/Sales_{i,t-1}$	-0.003	-0.003	-0.004	-0.004	-0.071	-0.067	-0.067	-0.064	0.011	0.011
	(-0.189)	(-0.171)	(-0.210)	(-0.189)	(-0.286)	(-0.267)	(-0.290)	(-0.271)	(0.439)	(0.449)
$ROA_{i,t-1}$	0.012	0.013	0.029	0.033*	0.146	0.168	0.116	0.135	-0.004	-0.003
	(1.332)	(1.548)	(1.651)	(2.031)	(1.063)	(1.298)	(0.963)	(1.175)	(-0.209)	(-0.180)
$HHI_{i,t-1}$	0.000	-0.001	0.011	0.007	-0.030	-0.057	-0.041	-0.064	-0.028**	-0.029**
	(0.024)	(-0.185)	(1.368)	(0.784)	(-0.263)	(-0.497)	(-0.383)	(-0.588)	(-2.209)	(-2.212)
$Ln(Board\ Size)_{i,t-1}$	-0.009**	-0.009**	-0.010	-0.012	-0.130**	-0.137**	-0.120**	-0.126**	-0.020	-0.020
	(-2.569)	(-2.625)	(-1.361)	(-1.517)	(-2.386)	(-2.443)	(-2.382)	(-2.434)	(-1.679)	(-1.679)
$Ln(Mgmt\ size)_{i,t-1}$	0.022***	0.021***	0.038***	0.035***	0.324***	0.312***	0.286***	0.276***	0.014*	0.014*
	(8.193)	(7.824)	(6.441)	(5.933)	(8.604)	(8.261)	(8.759)	(8.461)	(1.806)	(1.820)
Constant	-0.048***	-0.043***	-0.118***	-0.104***	-0.746***	-0.669***	-0.628***	-0.565***	0.012	0.014

	(-7.570)	(-6.341)	(-7.347)	(-8.283)	(-7.870)	(-6.875)	(-7.424)	(-6.370)	(1.209)	(1.280)
Observations	50,044	50,044	50,044	50,044	50,044	50,044	50,044	50,044	50,044	50,044
R-squared	0.066	0.067	0.067	0.069	0.071	0.072	0.065	0.066	0.025	0.025
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

Appendix A9: Moderating effects of financial market and institutional development - Alternative measures of political connections

This table reports the results of the following regression estimated using the contract-level sample: $Ln(Contract\ Value)_{j,i,t} = \beta_0 + \beta_1 Polit_{j,i,t-1} + \beta_2 Polit_{j,i,t-1} \times FD\ or\ ID + \beta_3 Ln(TA)_{j,i,t-1} + \beta_4 BM_{j,i,t-1} + \beta_5 \frac{CAPX}{Sales}_{j,i,t-1} + \beta_6 \frac{R\&D}{Sales}_{j,i,t-1} + \beta_7 ROA_{j,i,t-1} + \beta_8 HHI_{j,i,t-1} + Year\ FE + Industry\ FE + Country\ FE + \varepsilon_{i,t}$. The dependent variable is *Ln(Contract value),* the natural log of USD value of the government contract *j* awarded to firm *i* in year *t*. Political connections, *Polit*, is measured by *PC Number* - the number of the ex-employee for the contract awarding governments currently employed by the firm. Financial or institutional development variables, *FD* or *ID*, used for interaction with PC variable in each Column, are presented in column headers. Financial and institutional development variables are defined in Appendix 1. These variables are standardized. All continuous variables are winsorized at the 1% and 99% levels. T-statistics computed based on the standard errors clustered at the location country level are reported below the coefficients. ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	Log (GDP per capita)	FD	Rule of Law	Gov. Eff.	Pol. Stability	Reg. quality	Voice and Acc.	CPI	Econ. Freedom
$PC\ Number_{j,i,t-1}$	0.055**	0.057**	0.057**	0.066**	0.046*	0.060*	0.037*	0.084**	0.056*
	(2.374)	(2.203)	(2.639)	(2.441)	(1.803)	(1.865)	(1.925)	(2.121)	(1.907)
$PC\ Number_{j,i,t-1} \times FD\ or\ ID$	-0.046*	-0.021	-0.067**	-0.073**	-0.028*	-0.049**	-0.040**	-0.076***	-0.026
	(-1.947)	(-0.807)	(-2.185)	(-2.130)	(-1.998)	(-2.160)	(-2.370)	(-2.824)	(-1.636)
$FD\ or\ ID_{j,i,t-1}$	-0.742*	-0.340**	0.0527	-0.235*	0.0101	0.160	0.148**	-0.186	-0.232**
	(-1.861)	(-2.715)	(0.346)	(-1.868)	(0.211)	(1.536)	(2.242)	(-1.705)	(-2.079)
$Ln(TA)_{i,t-1}$	0.060**	0.085***	0.059**	0.059**	0.057**	0.057**	0.058**	0.056**	0.057**
	(2.629)	(8.215)	(2.622)	(2.619)	(2.445)	(2.495)	(2.593)	(2.469)	(2.473)
$BM_{i,t-1}$	0.013	-0.007	0.009	0.009	0.015	0.002	0.017	-0.003	0.007
	(0.193)	(-0.121)	(0.132)	(0.129)	(0.223)	(0.0305)	(0.245)	(-0.0457)	(0.105)
$CAPEX/Sales_{i,t-1}$	-1.132	-1.353***	-1.158	-1.185	-1.233	-1.202	-1.144	-1.192	-1.192
	(-1.558)	(-3.386)	(-1.605)	(-1.634)	(-1.698)	(-1.662)	(-1.544)	(-1.678)	(-1.634)
$R\&D/Sales_{i,t-1}$	1.143	2.563**	1.137	1.148	1.151	1.163	1.143	1.191	1.165
	(0.814)	(2.364)	(0.809)	(0.811)	(0.826)	(0.840)	(0.820)	(0.857)	(0.840)
$ROA_{i,t-1}$	-0.309	-0.311	-0.270	-0.304	-0.348	-0.328	-0.284	-0.338	-0.388
	(-0.744)	(-0.778)	(-0.623)	(-0.717)	(-0.900)	(-0.750)	(-0.682)	(-0.797)	(-0.924)
$HHI_{i,t-1}$	0.037	-0.035	0.039	0.040	0.018	0.032	0.041	0.040	0.026
	(0.273)	(-0.238)	(0.278)	(0.279)	(0.139)	(0.238)	(0.303)	(0.299)	(0.198)
Constant	10.55***	10.07***	10.57***	10.57***	10.59***	10.59***	10.58***	10.59***	10.60***
	(31.31)	(76.87)	(31.35)	(31.23)	(31.00)	(31.25)	(31.56)	(30.97)	(31.46)
Observations	265,116	207,101	265,116	265,116	265,116	265,116	265,116	264,776	265,116
R-squared	0.252	0.230	0.252	0.253	0.252	0.253	0.252	0.252	0.253

Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Country FE	YES	YES	YES	YES	YES	YES	YES	YES	YES

Appendix A10: Identification of defense contracts

This table describes how we identify the subsample of defense contracts. A government contract is considered a defense contract if the contract meets at least one of the following conditions:

1. Canada data: END_USER_ENTITY_EN="Department of National Defence"
2. Australian data: AGENCY_NAME="Department of Defence"
3. European data: MAIN_ACTIVITY includes “Defence” or CAE_NAME =Include one of the following key words:

Defence	Difesa	Maritime Combat	Wehrverwaltung
ApÄƒrÄƒrii	EjÃ©rcito del Aire	Militar	Wojennego
Apararii	FÃ¶rsvarsmakten	Militare	Wojskowy
apsaugos	Forsvar	MINDEF	Puolustus
dÃ©fense	Forsvaret	obrambo	Weapon
Defeensie	Forsvarsbygg	OBRONY	obrany
Defensa	kariuomenÄ	RÃ¼stung	Militär
Defensie	Landesverteidigung	Reagowania	Wehrbereichsver
Defesa	Mando	Soldier	Armed Force

Appendix A11: Identification of former military experience and high rank military experience

This table describes how we identify the former military employment of the firm managers and directors and categorize their rank. A firm director or manager is considered former military personnel of an awarding country if the director or the manager's previous employment history includes an employment record that meets the following three conditions:

1. HOCOUNTRYNAME = The awarding country for the contract-level sample or either one of the sample counties for the firm-level sample.
2. ORGTYPE = "Armed Forces"
3. COMPANYNAME =Include one of the following key words:

Air Force	Army	Defence	National Guard
Armed Forces	Coast Guard	Forces	Navy

A firm director or manager with a former military experience in an awarding country is considered to have a *High rank military experience* if the director or the manager's previous employment history includes an employment record that meets the following condition, and *Low rank military experience* otherwise:

1. ROLENAME =Include one of the following key words:

Acting General			
Counsel	Chairman	Commander-in-Chief	Honorary President
Adjutant General	Chairman/CEO	Commanding General	Inspector General
Admiral	Chief Executive	Commanding Officer	Lieutenant Colonel
			Lieutenant
Advocate General	Chief of Air Staff	Commodore	Commander
Air Chief Marshal	Chief of Army	Corporate Finance Officer	Lieutenant General
	Chief of Defense	Deputy Commander-in-	
Air Marshall	Staff	Chief	Major
	Chief of General	Deputy Commanding	
Attorney General	Staff	General	Major General
Auditor General	Chief of Naval Staff	Director General	Minister
		First Sea Lord/Chief of	
Brigadier General	Chief of Operations	Naval	Senior Manager - HR
CEO/CFO/COO	Chief of Staff	Founder	Senior VP
CFO	Co-Chairman	Founding Director	Vice Admiral
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