

The Corporate Boardroom's Revolving Door*

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Abstract

Board seats are lucrative part-time positions that allow politicians to cash in on their connections, expertise, and influence while bypassing lobbying regulations and cooling-off periods. In this paper we examine the post-political careers of former politicians and high-level executive appointees, including cabinet secretaries and military leaders, on the boards of directors of American corporations. We then evaluate differences across politicians and industries for predicting the types of politicians who receive board seats and the types of companies that seek out politicians for their boards.

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1 Introduction

For government officials in the U.S., a transition from serving the public to accumulating private wealth is commonplace. Capitol Hill staffers regularly head to K Street where they lobby their former employers in Congress; cabinet members rotate between positions in government and working for private corporations—for example, 45 members who served in senior positions in the Clinton administration in 1998 had joined corporate boards of directors by 2001 (Etzion and Davis 2008); former presidents make tens of millions of dollars giving paid speeches to business associations, chambers of commerce, firms and other groups (Kruse 2015; Nicholas and Ballhaus 2015).

In short, government service can be a conduit for joining the corporate elite—a stepping stone to employment as an executive, advisor or board member for a firm or as a lobbyist working on behalf of a firm. This paper investigates one aspect of this phenomenon by examining patterns of board service among former government officials. Assembling data on a panel of government officials, including former ambassadors, members of the Cabinet, Congress, the Executive Branch, the military, and governors, we characterize the extent to which these government officials serve as directors on corporate boards.

Examining board service provides a window into a number of broader questions for scholars interested in business and government. How are the public sector and private sector “phases” of government officials’ careers linked? Does anticipation of private sector employment influence behavior in the public sector? What are the patterns of post-public sector employment across different types of officials and across different employment options (such as employment as a lobbyist versus employment as a board member)?

This paper lays the groundwork for a larger project that seeks to answer these questions. Here, we develop a framework for measuring board service, we describe the patterns of service across a range of government positions, and we assess the relationship between board service and lobbying. This analysis allows us to begin to characterize both sides of the labor market for former government officials, which is important because demand for their services helps dictate the choices available. We posit that firms’ employment of former officials as directors complements their employment of lobbyists and is part of a broader non-market strategy designed to engage with government. It

also allows firms to circumvent reasonably strict lobbying regulations, which mandate cooling-off periods after government employment.

We employ the data we have assembled to establish several stylized facts. Each one supports the view that board service operates as an alternate channel for former officials to exert influence—either by exploiting connections or employing expertise developed in office to guide business interactions with government. On the part of firms, hiring former officials appears highly strategic. Firms employ former officials soon after they leave office (while their connections and expertise are still fresh); firms with larger market capitalization, and therefore likely more developed strategies for political engagement, employ former government officials at higher rates; there is evidence of matching between a firm’s sector and the type of expertise and connections possessed by the former official hired. Politicians themselves who serve on corporate boards also appear more predisposed to working as lobbyists for lobbying firms. Finally, officials’ rates of board service vary across their type of past employment seemingly in proportion to the value of their knowledge and connections to an industry.

Summarizing the patterns of board service across types of government officials and across sectors of publicly traded firms adds to a large body of research that has evaluated links between business and government. Scholars have evaluated the role of the revolving door in policy-making and documented when corporate political activity has paid off for firms and when it has not.

Despite their prevalence, close links between business and government give rise to concerns over conflicts of interest. Officials who came directly from industry, or who can anticipate the future pay-offs of a transition to the private sector, may make biased policy decisions. In a case study of seven members of the FCC, former employees of regulated industries tended to make decisions that favored the regulated industry (Gormley Jr 1979). Concerns over reputation, which matter when seeking employment, may also lead officials to treat firms more favorably than they should. Leaver (2009) finds that appointed Public Utility Commissioners were less likely to request rate reviews when they held shorter term limits, consistent with a scenario in which officials feared harming their future employment prospects in the private sector.

Corporate political activity that exploits political connections does appear to pay off. The

scholarly consensus is that corporate political connections add value to firms. For example, firms who appointed politically connected directors experienced positive abnormal stock returns following the announcement, and stock prices were also sensitive to whether the politically connected board members had ties to the party currently holding power in Washington (Goldman, Rocholl, and So 2009). These effects work in the other direction as well: firms whose employees left to take up new political appointments in the U.S. Defense Department experienced increases in their stock price of slightly under one percent for a two-day event window (Luechinger and Moser 2014). Help navigating regulation appears to be one driver of firm demand for politically connected individuals. Firms appoint politically connected directors at higher rates when they are subject to greater regulation (Helland and Sykuta 2004) or when political connections might help them navigate changes in the competitive environment due to changes in legislation—for instance, when state governments introduced retail competition in the electricity market (Agrawal and Knoeber 2001). Political connections also seem to facilitate winning government contracts. Following changes in party control of Congress, firms with directors connected to the in-party experienced significant increases in the value of procurement contracts after their party gained control of Congress (Goldman, Rocholl, and So 2013).

Given the value captured by firms from employing former government officials, scholars have scrutinized the financial returns to office captured by former government employees, as well as precisely what personal characteristics are most valuable. Examining lobbyists, Bertrand, Bombardini, and Trebbi (2014) finds more consistent premiums associated with lobbyists' connections than with their issue expertise. Lucrative employment on behalf of firms is also not explained away by preexisting or spurious factors such as education or business experiences that occurred before holding office. Rather, the connections, experience and knowledge gained through government service directly lead to future business opportunities. Palmer and Schneer (2016) finds that holding elected office causes a thirty percentage point increase in rates of board service among candidates for senator and governor.

We know that firms exploit political connections, and that former officials earn a return on the connections and expertise developed from government service. But the state of the literature is

fragmented across disciplines. Scholars in finance and management tend to focus on questions about corporate political strategy—i.e., how valuable are political connections to firms and what precisely do firms value? For example, Lester et al. (2008) show that firms are most interested in former officials’ depth and breadth of human capital and social capital. On the other hand, scholars in political science and political economy have focused more on the government officials themselves—i.e., what return do politicians earn from their service and what skills rationalize the earnings of former elected officials? In this line of the literature, the focus has primarily been on lobbying as the venue through which former government officials profit from the political connections and expertise developed while in office. Comparatively less work in political science has considered alternative mechanisms, such as employment on corporate boards. Our paper, then, is meant to take a step towards filling this gap in the political science literature by providing an overview of board service among former government officials.

2 Data

To measure the board service of former politicians, we assembled a data set of all former politicians and high-level political officials who have served in office since 1992. We chose 1992 as our cutoff date for two reasons. First, the boards data (see below) begins in 2000. Including office holders from too far before that year could include many officials who served on a board before 2000 but not subsequently, and therefore understate our results.¹ Second, 1992 includes the end of the George H.W. Bush Administration, a point when many people left office. By including 1992, the data set includes presidential appointees from four presidential administrations — two Republicans and two Democrats.

We collected the data on former office holders from a variety of sources, including election results, the Biographical Directory of the United States Congress, and agency websites. For each official, we collected basic biographical data including dates of birth and death, gender, and political party (where available). We also collected data on all other high-level offices held by each person

¹We report our results for two time periods: all office holders since 1992 and only office holders since 2000, to perfectly align with the Boardex data.

(including offices held before 1992). By collecting data on political careers, not just the final office held, we can take prior experience into account when analyzing board service. For example, Ken Salazar was elected the Attorney General of Colorado in 1998, U.S. Senator in 2004, and then appointed Secretary of the Interior in 2008, where he served until 2013. When analyzing Salazar's board service after leaving office, we can analyze him as a former legislator, as a former cabinet secretary, and, importantly, both.

There is not a well-defined list of top office holders in American politics. While some positions, such as senators, governors, and cabinet secretaries, may be obvious, others may also be important, especially when analyzing the revolving door and the influence of former politicians. As a result, we cast a relatively wide net; we endeavored to collect a large and broad sample of officials, both elected and appointed.

We began our sample with elected officials: all members of the U.S. House of Representatives and U.S. Senate who have served since 1992. We also include state governors. We then include high-level presidential appointees: all cabinet officials, as well as other top appointees, including National Security Advisors, White House Chiefs of Staff, and directors of the Central Intelligence Agency and National Intelligence.² We also include officials at top independent agencies: the chairmen of the Federal Communications Commission (FCC) and the Securities and Exchange Commission (SEC) as well as all governors of the Federal Reserve. We complete the sample with top officials in the military and foreign policy. For the military, we include the chairmen and vice chairmen of the Joint Chiefs of Staff, as well as the heads of all branches of the military (Chiefs of Staff of the Army and the Air Force, Chief of Naval Operations, Commandant of the Marine Corps, Chief of the National Guard Bureau). For foreign policy, we include ambassadors to all G20 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the European Union). While choosing any set of countries will be somewhat arbitrary, we selected the G20 countries as they all have relatively large economies and prominent ambassadors.³

²The names of the various homeland security and intelligence agency directorships change several times across this period; we include the top directors regardless of title.

³In future work we plan on expanding this sample of ambassadors and exploring connections between service as an ambassador and subsequent service on boards of companies based in the ambassador's former posting.

We merged our sample to a database of board members employed by publicly traded firms from 2000 through 2013. Data on board memberships was provided by BoardEx, a company that collects and organizes data on corporate personnel and relationships and which maintains a comprehensive record of directorships for firms traded on public exchanges in the U.S.⁴ The BoardEx database includes data on thousands of public firms in the United States and other countries, and has panel data for U.S. and foreign public firms for at least the past fourteen years. We manually matched the names of the candidates in our sample to the BoardEx database to determine if these candidates held board positions on public firms traded between 2000 and 2013.⁵

3 Measuring Board Service

Measuring post-political careers is a challenging problem, as the length of such careers vary widely. Some officials serve for a long time, leaving office in their seventies or eighties to fully retire. Others might serve for just a few years, and leave office in their forties or fifties, with decades of potential employment ahead of them. Measurements are further complicated by those who serve in multiple offices sequentially, or those who serve, leave, and then return to the same office.

We employ two different measures of board service.

- *Ever Served*: A binary variable of whether the official ever served on the board of directors of a public company after leaving office. This is our simplest measure, and an official serving on one board for one year is equivalent to another official serving on many different boards over a long time period.
- *Boards per Year*: A continuous variable that accounts for both the number of boards that a former official may serve on as well as the number of years that they serve on boards.

There are several important eligibility criteria necessary for classifying our outcome variables.

For the ever-served measure, we include in the sample every former official who lived past 2000 and

⁴<http://corp.boardex.com>

⁵BoardEx contains complete data of all board members from 2000–2013. In some cases BoardEx includes previous board positions, but this may not be complete for all directors and all companies in earlier years. As a result, we restrict our analysis of board positions to this period. However, we include a larger range of offices and public service (1992–2012) in order to increase the pool of eligible candidates for board positions. For more on the BoardEx data, see Palmer and Schneer (2016).

lived at least one year after leaving office, and who was under the age of 75 when leaving office. For the boards per year variable, we measure the number of years of eligibility based on departing office. For officials who left office prior to 2000 (the start of the Boardex data) we only include years since 2000.⁶

One consideration for eligibility is when officials subsequently hold other offices that preclude them from serving on a corporate board. For instance, Evan Bayh served as the Governor of Indiana from 1989 to 1997, when term limits prevented him from running again; he then won election to the Senate in 1999, where he served for two terms. When examining the board service of governors, we consider Bayh eligible for all years beginning in 2000 (the start of our boards data), even though he spent most of the following years in the Senate, and when examining the board service of senators, we consider Bayh eligible beginning in 2011.

One potential issue with these measures is that officials who have been out of office since 2000 (or earlier) have more opportunities to join boards than those who have very recently left office. Similarly, a cabinet official who left office in 2000 and served on one board in 2001 only will have a much lower boards per year measure than a cabinet official who left office in 2012 and served on one board in 2013 only, despite the fact that we observe equivalent board service for both. To address this issue, we also employ a variant of our two measures that restricts the window of eligibility to the two years after the official leaves office.⁷ By using a two-year window and only looking at officials where we can fully observe their board service in this window, we can eliminate any bias arising from censoring the time period and varying years of eligibility.

4 Variation in Board Service and Lobbying Activity

Table 1 presents overall results by office type for our entire sample.⁸ Across all officials in the sample, 27% have ever served on a board, averaging 0.348 boards per year. However, there is substantial

⁶In some analyses we restrict our sample to only include those who left office after 2000, to perfectly align with the Boardex data and avoid any potential measurement bias due to this censoring.

⁷Due to the Boardex limitations, the sample for these analyses is restricted to officials who left office between 2000 and 2011.

⁸Note that officials who serve in multiple offices and/or across multiple offices are counted as separate officials for each office held.

variability across offices. The highest rates of board service (more than 70% have served on a board) occur among top military officials and the heads of independent agencies (the SEC and FCC). The military is particularly high on both measures; it is the only category where officials average more than one board per year. There is also substantial board service among former senators, governors, members of the cabinet, executive branch officials, and governors of the Federal Reserve. Among these groups, former executive officials and members of the cabinet have the highest rates of service on both measures, with more than half ever serving on a board and cabinet officials averaging nearly one board per year. Ambassadors have slightly lower rates of service overall, but the boards per year measure is similar to the other offices. The largest distinction is among former members of the House of Representatives. Former MCs have substantially lower rates of board service than all of the other offices, with only 11% ever serving on a board, and an average of less than 0.1 boards per year, a value far smaller than any other set of officials.⁹

Table 1: Board Service by Office Type

Office Type	N	Prob. Board	Boards per Year
Ambassador (G20)	121	0.347	0.508
Cabinet	88	0.545	0.923
Congress — House	739	0.106	0.084
Congress — Senate	122	0.443	0.619
Executive Branch	83	0.542	0.762
Federal Reserve	22	0.455	0.349
Governor	160	0.406	0.481
Independent Agency	12	0.417	0.403
Military	40	0.725	1.243
All Officials	1387	0.271	0.348

This empirical pattern—with the highest rates of board service among former military officials, followed by Cabinet Members heading up executive agencies such as Education, Agriculture, Defense, etc. and then former members of the Executive Branch such as Surgeon General and National Security Advisor—appears consistent with the notion that specificity of the skills and

⁹Appendix Table A1 presents results with the sample restricted to official who left office since 2000. The results are substantially identical.

connections developed in office, in conjunction with direct applicability to the business of firms, plays a large role in determining board service rates across offices. The data contrasts with some alternative theories of board service. For example, if prestige associated with employment in a high level government position primarily accounted for future employment as a director, then we would expect to see less variation across office types (at least for office types of relatively equal prestige).

Figure 1 plots board service rates by year for all officials and selected categories. The trends are all generally flat, indicating stable participation rates since 2000. However, the number of eligible officials in our sample increases each year (more officials enter and leave office than the number who leave the sample due to age or death). Thus, while the percentage of officials serving on a board is roughly constant, the number of officials serving is increasing. For example, there are 503 officials in our sample who left office in 2000 or earlier, and who are eligible to serve on a board in 2000. Of these, 101 (20.1%) served on at least one board in 2000, and those who served averaged 2.55 boards per year. In 2013, there are 1,035 officials in our sample who are eligible to serve on a board. 209 (20.0%) served on at least one board in 2013, and those who served averaged 1.8 boards per year.¹⁰

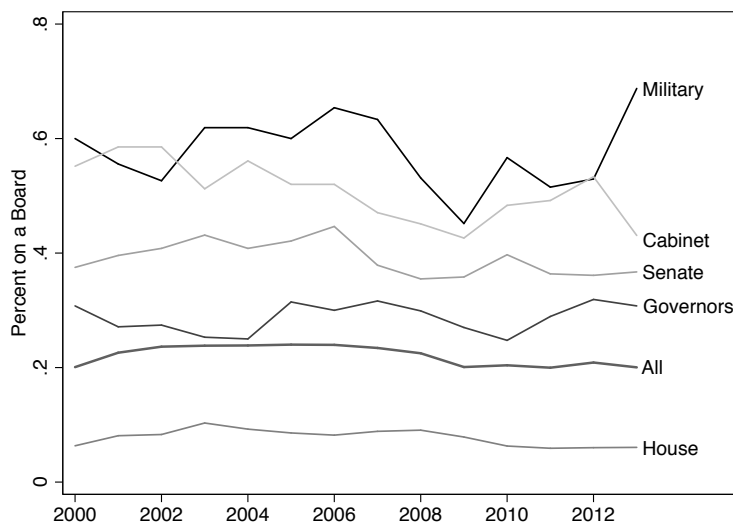


Figure 1: **Board Service Rates by Year.**

¹⁰One possibility for the decline in boards per year for those who serve on boards is that new regulations implemented during this period limit individuals from serving on as many different boards simultaneously as in the past.

As Table 1 and Figure 1 demonstrate, service on a corporate board is a common activity for former officeholders. As a comparison, Figure 2 presents the rates of board service and federal lobbying for the officeholders in our sample. Using lobbying disclosure reports from the Center for Responsive Politics from 2000–2013 (the same time period as our boards data), we calculate the percentage of officeholders in each category who worked as a federal lobbyist.¹¹ Overall, 25% of the officeholders in our sample served on a corporate board of directors, but only 15% ever worked as a federal lobbyist. Lobbying rates are highest among former Representatives, Senators, and independent agency directors. Across all categories, however, only former members of the House lobby at higher rates than they serve on boards of directors. In all of the other groups board service substantially exceeds lobbying. While lobbying may be more common for former congressional staffers and other government workers, among former politicians corporate board service appears to be a more common use of political connections and influence than lobbying.

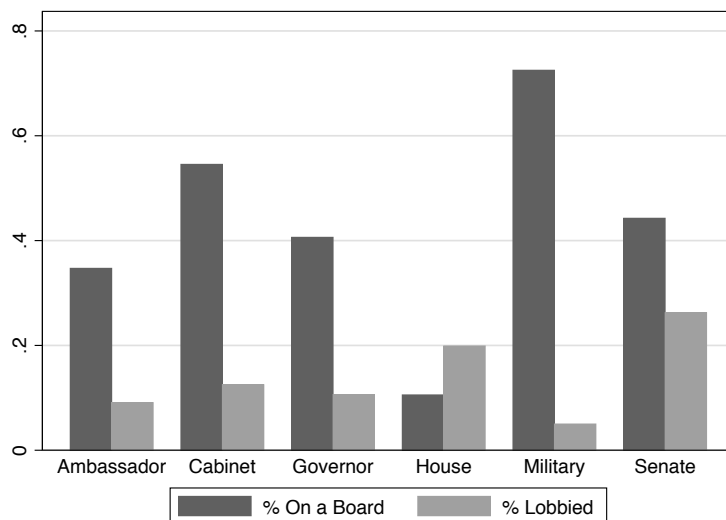


Figure 2: **Comparison of Board Service and Lobbying Activity.**

What is the relationship between serving on a board and lobbying? Our hypothesis is that from both the perspective of the firm and the perspective of a former politician, these are complementary activities. From the perspective of the job-seeker, our view is that former government officials decide

¹¹We define working as a lobbyist as appearing on a lobbying disclosure form for paid work by a lobbying firm. This excludes *pro bono* lobbying and in-house lobbying.

to seek out private sector employment where they can use their connections and expertise, but in many cases they pursue a number of opportunities before settling on a role or roles. Furthermore, because of lobbying restrictions in the first years after leaving office, former officials do not assume roles as official lobbyists right away. We predict that the probability of working as a lobbyist is higher for those former officials who serve on boards. In the same vein, the characteristics that make a former official an attractive board member also make them a good candidate for lobbying.

Table 2: Lobbying as a Function of Board Service

	(1)	(2)	(3)
On a Board	0.0928*** (0.0293)	0.0690** (0.0291)	0.0608** (0.0290)
Category Dummy	Yes	Yes	Yes
Year of Service	No	Yes	Yes
Party Dummy	No	No	Yes
Gender Dummy	No	No	Yes
Observations	1254	1254	1254

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 2 reports results from an OLS regression of an indicator for lobbying on an indicator for board service and controls for job category, first year of service, party, and gender. Across a range of different specifications, we find a positive relationship between board service and lobbying ranging from roughly six to nine percent.¹² That is, among former officeholders, the rate of lobbying is significantly higher among those who serve on a board. The positive relationship between board service and lobbying appears consistent with the notion that officials seek out both board service and lobbying as related opportunities to capitalize on their time in the public sector.

4.1 Time to Board Service

Officials who do accept board seats tend to do so very quickly after leaving office. Unlike lobbying, which has various cooling-off periods (depending on the position), board seats are not regulated by

¹²We obtained similar results when estimating a logit model and then calculating the marginal effects.

federal ethics rules. An official can go from serving in public office one day to serving on a board the next. For example, Senator Mike Johanns (R-NE) retired from the Senate after one term on January 3, 2015 (Johanns had previously served as the Governor of Nebraska and as the Secretary of Agriculture under George W. Bush). Five days later, Johanns joined the board of directors of Deere & Co., the tractor and farm equipment manufacturer. This rapid shift demonstrates the revolving door nature of board seats for high-level public servants (at least in terms of an exit from government service; it is rarer to observe someone who serves on a firm's board of directors to then serve in the House or the Senate, though for other positions in the military and in the Cabinet it appears more common). Officials do not generally leave office, work a variety of other jobs, and then join corporate boards later on in their careers. Rather, they often transition immediately from public governance to private. Lester et al. (2008) argues that firms prefer recently-departed politicians for their boards because they possess higher levels of social and human capital that are valuable to the company.

Table 3 reports board service by category for the first two years after leaving office only. The rates of board service are generally lower than in Table 1 due to the restricted time period, but are still substantial.¹³ Just looking at the first two years after leaving their government role, still more than half of the military officials in the sample and forty-eight percent of members of the cabinet join corporate board seats.

Figure 3 plots the number of years between leaving office and accepting their first board position for the 200 officials in our sample who have left office since 2000 and have served on at least one corporate board. 52% of these officials accepted their first board seat in the same year that they left office, and another 20% accepted in the following year. The steep decline of the curve illustrates the swift rate of accepting board positions (among those who ever choose to do so). The dashed lines plot the number of years to first board position for senators, governors, and cabinet officials.

While the (depreciating) value of human and social capital explains part of the quick transitions that we observe, an additional, complementary explanation is that board service can be performed

¹³This analysis restricts the sample in two important ways. First we restrict to people who left office between 2000 and 2012, in order to match the start of the Boardex data and allow for two years of board service. Second, we only report results for the last office held. If a governor leaves office to become a senator, we only report her in this table as a senator, not in both categories as in Table 1.

Table 3: Board Service by Office Type in First Two Years

Office Type	N	Prob. Board	Boards per Year
Ambassador (G20)	62	0.290	0.492
Cabinet	46	0.478	0.902
Congress — House	333	0.069	0.099
Congress — Senate	59	0.339	0.576
Executive Branch	35	0.314	0.500
Federal Reserve	11	0.182	0.273
Governor	90	0.267	0.328
Independent Agency	6	0.500	0.417
Military	23	0.565	0.891
All Officials	665	0.205	0.319

This table reports board service by office type for the first two years after departing office only. Sample included only those who left office between 2000 and 2012. Results are reported only for the last office held; officials who held multiple offices (either in the same or multiple categories) are only included once.

in lieu of lobbying while that avenue is restricted. Considering the result from Table 2 in conjunction with these results, it would appear many former officials initially accept board positions and then subsequently accept jobs as lobbyists.

Years to First Board Position

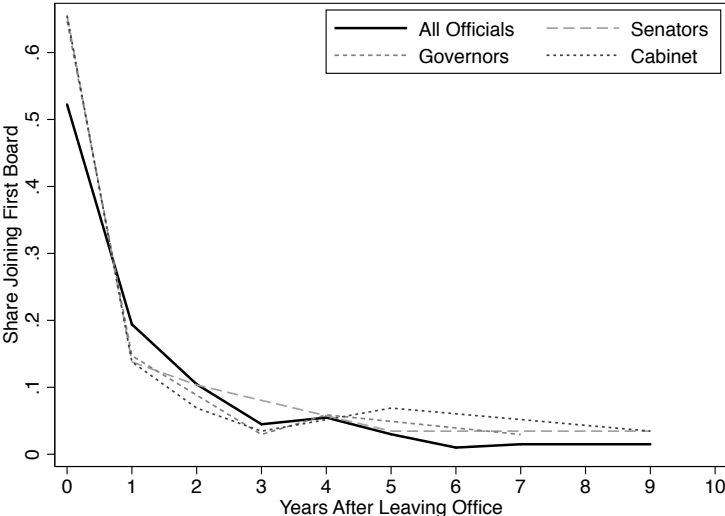


Figure 3: **Years to First Board Position.** This figure shows the years elapsed between leaving office and accepting their first board position for the former officials who served on at least one board. We restrict the sample to officeholders who left office after 2000 to match the BoardEx data (N=200). Year 0 is the year the official left office.

4.2 Partisan Differences in Board Service

We have demonstrated that corporate board service is a common post-political career activity for many former officeholders across a large variety of government positions. In Table 4 we show that this board service is performed by officials from both parties. It is not the case that Republicans, often labeled “the party of business” and who generally receive a larger share of corporate spending on elections, dominate board service. Across all included categories (we exclude some categories due to small sample sizes resulting from the number of officeholders with party affiliations), rates of board service are very similar across the parties. The only significant difference is among former governors. Republican governors are significantly more likely to serve on boards than Democratic governors. In all other cases, we cannot reject the null hypothesis that the rates of service across parties in our sample are equal. We interpret this result as suggesting that firms seek out former officials not based on partisan preference but based on their expertise and connections, which develop for members of both parties.

Table 4: Partisan Differences in Board Service

Office Type	Democrats		Republicans		t-test		
	N	Prob. Board	N	Prob. Board	Diff.	SE Diff.	p
Ambassador (G20)	26	0.500	22	0.500	0.000	0.148	1.000
Cabinet	36	0.500	50	0.600	-0.100	0.109	0.363
Congress — House	379	0.095	359	0.117	-0.022	0.023	0.332
Congress — Senate	57	0.439	62	0.468	-0.029	0.092	0.752
Executive Branch	35	0.543	30	0.600	-0.057	0.125	0.649
Governor	78	0.321	78	0.487	-0.167	0.078	0.034
All Officials	611	0.223	601	0.280	-0.057	0.025	0.022

This table reports the percentages of Democrats and Republicans who served on a board by category, and t-tests of the difference in board service between the parties. The only group with a statistically significant difference in board service by party is governors, where Democrats are 17% less likely to serve on a board than Republicans. Officeholders with unknown or independent party affiliations are excluded.

4.3 Board Service by Office

In this section we further analyze patterns of board service within some of the previously discussed categories of office holders. We find substantial variability across offices.

We begin with the elected offices: U.S. House, Senate, and state governorships. Governors and senators have very similar patterns of board service, and the differences in both measures between these groups are not statistically significant. Many senators and governors have long and lucrative careers on corporate boards after leaving office. For example, consider former Senate Majority Leader Bill Frist (R-TN). After Frist retired from the Senate in 2007, he accepted board positions at URS Corporation (URS), an engineering firm and a major federal contractor, and Select Medical Holdings Corp (SEM), a health care services provider. In 2012, Senator Frist earned a total of \$349,720 from his board service.¹⁴ These roles are in addition to his employment at the private equity firm Cressey & Company, as an adjunct professor of medicine at Vanderbilt University, and a variety of private company boards and advisory positions.

Unlike senators and governors, former members of the House of Representatives exhibit significantly lower rates of board service. There are many possible reasons for this difference. An individual member of the House is less important than a member of the Senate due to the relative size of these institutions. Senators are more likely to chair (or be the ranking member of) a committee, have larger staffs, and are better known in Washington and to the public in general because they represent an entire state rather than a district. Senators also serve on more committees than representatives (and these committees are smaller), giving them more opportunities to develop varied expertise. As a result, their political connections may be more valuable than those of the average representative. Similarly, governors, as the top executive in each state, are individually powerful and well-connected officials. Finally, of the 77 representatives who went on to serve on boards, 20% also served in another office (senator, governor, cabinet, etc.) prior to their board service.

Excluding the House, the rates of board service between elected officials (governors and senators)

¹⁴URS Corp 2012 Proxy Statement <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTM1NTM0fENoaWxkSUQ9LTF8VHlwZT0z&t=1>.
SEM 2012 Proxy Statement http://www.selectmedical.com/uploadedFiles/Content/Investor_Relations/Miscellaneous/2012-Proxy.pdf

and appointed officials (all other categories except the military) are not hugely different. On both measures the differences in board service between these groups are not statistically significant. This suggests that experience in public office in both elected and appointed positions both appeal to firms seeking politically-connected directors for their boards. That said, we do observe the highest rates of service among the Military, Cabinet, and Executive Branch. Furthermore, within the broader categories of public offices, we find substantial variation in board service across different offices. Below we explore this variation within ambassadors, cabinet officials, top military leaders, and executive branch offices.

Table 5 breaks down board service by ambassadors by country. While all of the countries on this list are part of the G20, and therefore represent significant economies, there is significant variation across countries. However, the number of former ambassadors to each country in our sample is quite small, and therefore differences are generally not statistically significant. Former Ambassadors to China, the United Kingdom, and Japan had the highest levels of board service. 13 of the 15 ambassadors to these three countries later served on a board, and they averaged more than a board per year. There is also substantial board service among ambassadors to Canada, the European Union, Germany, Brazil, France, and Mexico. In many cases, ambassadors go on to serve on boards of companies based in the countries to which they were posted. For example, Gordon Giffin served as Ambassador to Canada under President Clinton from 1997 to 2001. After leaving office he joined the boards of many different companies, including Canadian National Railway Co., Canadian Natural Resources Ltd., the Canadian Imperial Bank of Commerce, and TransAlta Corp., all based in Canada, as well as several other companies. Four countries (served by 26 ambassadors) had no board service at all: Argentina, Australia, Russia, and South Korea. One possibility for this lack of board service is that ambassadors to Russia, South Korea, and Argentina are more often career Foreign Service Officers, while ambassadors to other countries are more often political appointees.

In fact, among former Ambassadors, political appointees serve on corporate boards at higher rates than Foreign Service Officers. However, even among career Foreign Service Officers, over thirty percent go on to serve on corporate boards. Furthermore, considerable matching occurs

Table 5: Board Service by Ambassadors to G20 Countries

Country	N	Prob. Board	Boards per Year
China	5	1.000	1.723
United Kingdom	5	0.800	1.593
Japan	5	0.800	1.092
Canada	7	0.571	1.270
Italy	6	0.500	0.465
European Union	7	0.429	0.531
Germany	7	0.429	0.343
Brazil	7	0.429	0.179
France	5	0.400	1.020
Mexico	5	0.400	0.969
India	6	0.333	0.429
Saudi Arabia	7	0.286	0.531
Turkey	7	0.286	0.051
Indonesia	8	0.250	0.240
South Africa	8	0.125	0.240
Argentina	6	0.000	0.000
Australia	7	0.000	0.000
Russia	6	0.000	0.000
South Korea	7	0.000	0.000
All Ambassadors	121	0.347	0.508

between the country of service and the location of the home office of the firm. Roughly twenty-five percent of career Foreign Service Officers and political appointees serve on boards for firms based in their country of appointment.

Table 6 examines board service of former cabinet secretaries. More than half of all cabinet secretaries served on a board, averaging nearly one board per year. The Secretaries of Health and Human Services, Energy, and Labor were all above average on both measures, but there is substantial board service among most cabinet positions. For example, Tommy Thompson served as Secretary of Health and Human Services from 2001 to 2005 under George W. Bush (and following four terms as Governor of Wisconsin). Since leaving office, Thompson has served on the boards of ten public companies in the medical/health care sector, in addition to substantial board service on behalf of private firms in this field. He joined the first of these boards in April 2005, just three

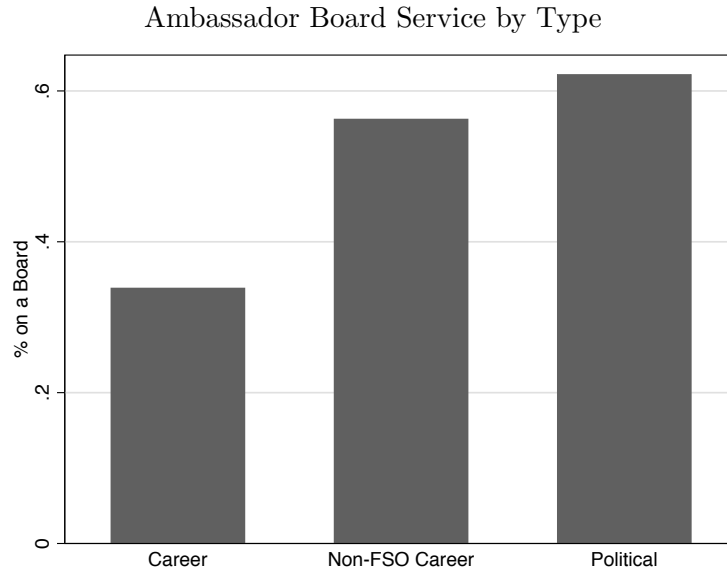


Figure 4: **Board Service by Ambassador Type.** This figure shows the rate of board service among Ambassadors who are Foreign Service Officers versus political appointees. We observe a higher rate of service among political appointees.

months after leaving office. Former attorneys general exhibit significantly lower board service than the other positions. William P. Barr, George H.W. Bush’s second attorney general, is the only attorney general in our sample to serve on a board (Time Warner Cable and Dominion Resources). However, Barr joined these boards in 2009, sixteen years after leaving office. Like the other four attorneys general in our sample, his immediate employment after leaving office was in other legal jobs. One other interesting result in Table 6 is the relatively low levels of board service by former secretaries of defense compared to other cabinet positions. Given the size of the U.S. military, annual military appropriations and procurement, and the close relationship between the military and the defense industry, we might expect this level to be higher.

In Table 7 we examine board service by former top military officials. This category has the highest levels of board service overall, exhibiting significant board service across all offices except the Chief of the National Guard Bureau. If we exclude this office from the category, 82.86% percent of all former officials served on at least one board, and they average 1.42 boards per year. Former military officials’ also serve on boards for a more concentrated set of sectors than other officials. Figure 5 shows the percentage of companies employing former military officials on their

Table 6: Board Service by Cabinet Position

Office	N	Prob. Board	Boards per Year
Secretary of Health and Human Services	4	1.000	3.265
Secretary of Energy	7	0.857	1.281
Secretary of Education	4	0.750	0.363
Secretary of Agriculture	6	0.667	0.751
Secretary of Labor	5	0.600	1.756
Secretary of State	7	0.571	0.462
Secretary of Commerce	9	0.556	0.884
Secretary of the Treasury	8	0.500	1.052
Secretary of Housing and Urban Development	6	0.500	1.030
Secretary of Transportation	6	0.500	0.803
Secretary of Defense	7	0.429	0.476
Secretary of the Interior	5	0.400	0.560
Secretary of Homeland Security	3	0.333	1.296
Secretary of Veterans Affairs	6	0.333	0.522
Attorney General	5	0.200	0.143
All Officials	88	0.545	0.923

Table 7: Board Service by Military Position

Office	N	Prob. Board	Boards per Year
Vice Chairman of the Joint Chiefs of Staff	7	1.000	2.328
Commandant of the Marine Corps	5	1.000	1.298
Chief of Staff of the United States Army	1	1.000	0.636
Chairman of the Joint Chiefs of Staff	6	0.833	1.751
Chief of Naval Operations	5	0.800	0.565
Chief of Staff of the Air Force	6	0.667	1.524
Chief of Staff of the Army	5	0.600	0.766
Chief of the National Guard Bureau	5	0.000	0.000
All Officials	40	0.725	1.243

boards by industrial sector.¹⁵ The top five sectors for former military officials are Aerospace and Defense (21%), Software and Computer Services (11%), Transportation (10%), Electronics (9%), and Construction (6%). All of these sectors have close links to the defense industry, and many of

¹⁵Appendix Figure A1 shows these distributions for the other office types.

the companies that employ military officials as directors do significant business with the military. For example, General Richard Myers, the Chairman of the Joint Chiefs of Staff from 2001 to 2005, has served on the boards of Northrup Grumman and United Technologies Corp, both major defense contractors, since retiring from the military. In addition, he serves on the boards of Deere & Co. and Aon Plc.

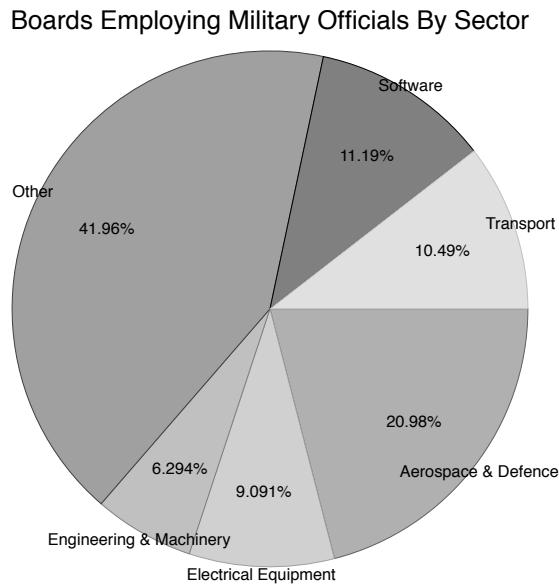


Figure 5: Distribution of Board Seats Held By Former Military Officials by Business Sector.

Table 8 reports board service by executive branch position.¹⁶ Top agency administrators (the equivalent of cabinet secretaries) also exhibit high levels of board service. Officials in intelligence and national security, including the CIA, FBI, and National Security Advisors, all have substantial board service as well. One interesting position in this category is White House Chief of Staff. Many former chiefs of staff have gone on to substantial careers on corporate boards. For example, after leaving office as Chief of Staff to President Clinton from 1996 to 1998, Erskine Bowles has served on the boards of eight different public companies, including Facebook, Morgan Stanley, Norfolk Southern Corp., General Motors, and Krispy Kreme Doughnuts. The only offices in this category without substantial board service are solicitor general and director of national intelligence. Like

¹⁶We include some positions, such as Solicitor General and Surgeon General, which are officially within a federal agency. As top executive appointments, we include them here.

the attorneys general, most of the solicitors general go on to top legal jobs, such as firm general counsel, rather than board seats. Director of National Intelligence is a relatively new position (the first director, John Negroponte, was appointed in 2005), and has only been held by three people. As a result, the sample is too small to draw any inference from their lack of board service.

Table 8: Board Service by Executive Branch Position

Office	N	Prob. Board	Boards per Year
EPA Administrator	6	0.833	1.059
U.S. Trade Representative	7	0.714	1.663
Director of the FBI	3	0.667	0.697
White House Chief of Staff	11	0.636	1.138
Director of the OMB	11	0.636	0.512
Surgeon General	5	0.600	0.858
National Security Advisor	7	0.571	0.532
Director of the CIA	9	0.556	0.692
Director of the NSA	4	0.500	0.137
SBA Administrator	7	0.429	0.940
Director of National Intelligence	3	0.000	0.000
Solicitor General	7	0.000	0.000
All Officials	83	0.542	0.762

Note: We exclude offices held by only two or fewer people. These are included in the total but not in the list of offices.

5 Board Service by Sector

Firms from different sectors hire former government officials at widely different rates. Figure 6 displays the share of firms, within a sector, that have employed at least one former government official on the board of directors between 2000–2014. The top panel illustrates the employment pattern for firms traded publicly in the U.S., and the bottom panel displays results for firms in the S&P 500.

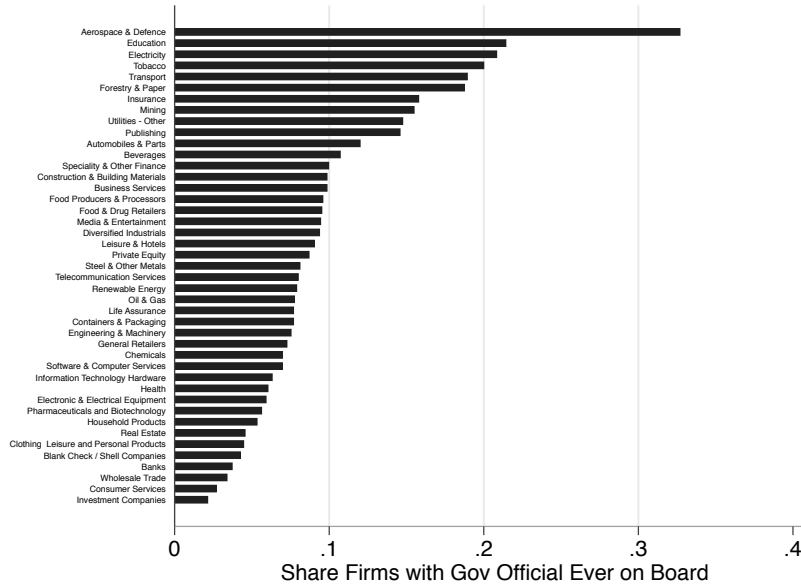
First, looking across all firms, it is clear that firms belonging to the S&P 500 employ board members at higher rates than others. This appears true even looking within sectors, so the pattern cannot be attributed to the fact that the composition of firms may be different for S&P 500 firms than for publicly traded firms on the whole. There are several possible ways to rationalize this result. First, firms with more resources can afford to develop more sophisticated corporate political strategies. Second, firms with larger market capitalization might have more to lose from regulation (or more to gain); as a result, such firms might value guidance or connections from former government officials more highly.

Looking across sectors, several patterns emerge. Aerospace & Defense employs former officials at by far the highest rates. Over 30% of all publicly traded Aerospace & Defense firms have had a former government official on their board; and all firms in this sector on the S&P 500 have at least one former government official.¹⁷ Education is the next sector most likely to hire former government officials (note that no firms in the education sector are in the S&P 500, and so the category is omitted from the bottom graph). The common thread for these sectors is that government is likely their largest customer; firms such as Lockheed depend greatly on military contracts; the for-profit schools in the education sector derive the majority of their business from government-backed loans (Mettler 2014). Political connections are therefore relevant to the core businesses of the firms in these sectors.

As one example to illustrate this pattern, consider the careers of the past three Secretaries of Education (before Arne Duncan, who currently holds the office). Richard Riley served as Secretary

¹⁷Firms in this sector on the S&P 500 are: GENERAL DYNAMICS CORP, HONEYWELL INTERNATIONAL INC, L-3 COMMUNICATIONS HOLDINGS INC, LOCKHEED MARTIN CORP, NORTHROP GRUMMAN CORP, and UNITED TECHNOLOGIES CORP (UTC).

Firms Publicly Traded in U.S.



S&P 500 Firms

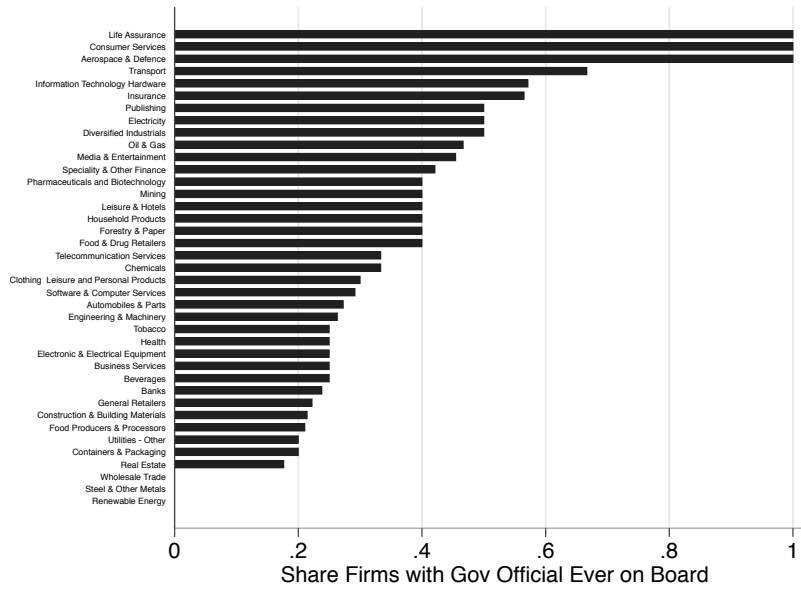


Figure 6: **Firms who Have Employed Government Officials on Board, 2000–2014.** The top figure displays the share (by sector) of all firms traded on exchanges in the U.S. that have employed at least one former government official on their board of directors between 2000–2014. The bottom figure displays the corresponding share for S&P 500 firms, by sector.

of Education under President Bill Clinton, holding the position from 1993–2001; Roderick Paige followed Riley, holding the position from 2001–2005; finally, Margaret Spellings assumed the role in the second Bush Administration and served from 2005–2009. All three of these individuals subsequently joined the boards of for-profit education firms. Riley joined the board of Laureate Education Inc in 2001, immediately after leaving office and served for seven years. Paige joined the board of Twenty-First Century Fox in 2006 and then several years later joined the board of Universal Technical Institute Inc in 2010. Finally, Spellings left office in 2008 and joined the board of Apollo Education Group Inc in 2012.

On the other hand, many of the firms on the low end of the spectrum tend to fall in sectors where the benefits of political connections seem unclear. For example, Consumer Services along with Clothing, Leisure and Personal Products and Household Products all fall in the bottom quartile—fewer than 5% of firms in these sectors have employed former government officials.

Figure 7 presents the pattern of board service over time for several key sectors, for publicly traded firms and for firms on the S&P 500. For most sectors (and for the “All Sectors” group) the trend is surprisingly flat over time. That is, the share of total firms employing former officials as directors has stayed constant. With the exception of Aerospace & Defense, this trend holds true even for the larger market cap firms that comprise the S&P 500.

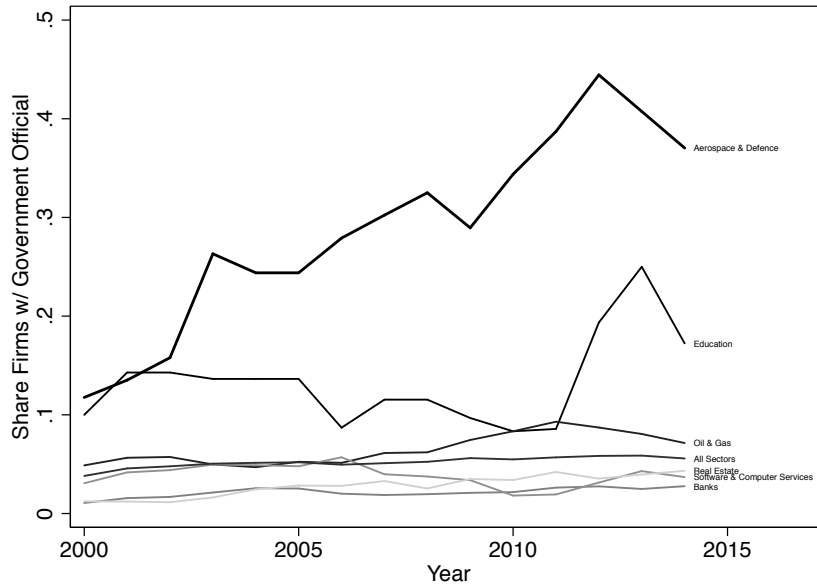
Do firms that value political connections tend to appoint multiple government officials at once? Figure 8 answers this question for several key sectors looking across all firms and across S&P 500 firms. The figures plot histograms (each observation is a board-year) capturing the distribution of board seats held within a firm on a given year by government officials. By far the most common outcome is for a firm not to employ an elected official; as we have seen before, the frequency of employment increases for firms in the S&P 500. Interestingly, very few firms employ multiple elected officials. Only in Aerospace & Defence is it remotely common to employ multiple officials. One outlier, in the Oil & Gas sector, is ConocoPhillips, which employed four government officials on their board for 2002–2005: Bill Reilly (Administrator of the EPA), David Boren (Senator, R-Okla.), Stape Roy (Ambassador to China and Indonesia), and Chuck Krulak (Commandant of the Marine Corps). As a multi-national energy firm, its interests are affected by environmental regulations

and international relations/foreign conflicts. However, ConocoPhillips proves to be the exception rather than the rule; it appears much more common for firms to fill only one slot on a board with a government official and to reserve the rest for advisers with other forms of expertise and connections. Given that corporate boards work best when they are relatively small, and that boards face many important tasks, including overseeing financial audits, setting executive compensation, and shaping long-term strategy (Carter and Lorsch 2004; Lorsch and MacIver 1989), most firms are unlikely to use more than one board seat for politically connected directors.

6 Conclusion

This paper has tracked patterns of board service among former government officials. While the political science literature has focused primarily on lobbying as a means for government officials to profit from their connections and experience, we document how firms appear to use appointment of former government officials to boards as another component of their non-market strategies. Firms hire government officials shortly after they leave office; officials who serve on boards are more likely to subsequently work as lobbyists; there is a close match between the business sector of a firm and the previous role of the government officials who are hired; and S&P 500 firms—i.e., those with larger market capitalization—tend to hire former government officials at the highest rates. These observations are consistent with firms using board service as a mechanism that compliments lobbying. Given the high rates of board service by former officials (for many of these offices serving on a board is even more common than working as a registered lobbyist) and the value to firms from politically-connected directors, corporate board seats deserve further study from political scientists who seek to understand the returns to holding office and the revolving door.

Firms Publicly Traded in U.S.



S&P 500 Firms

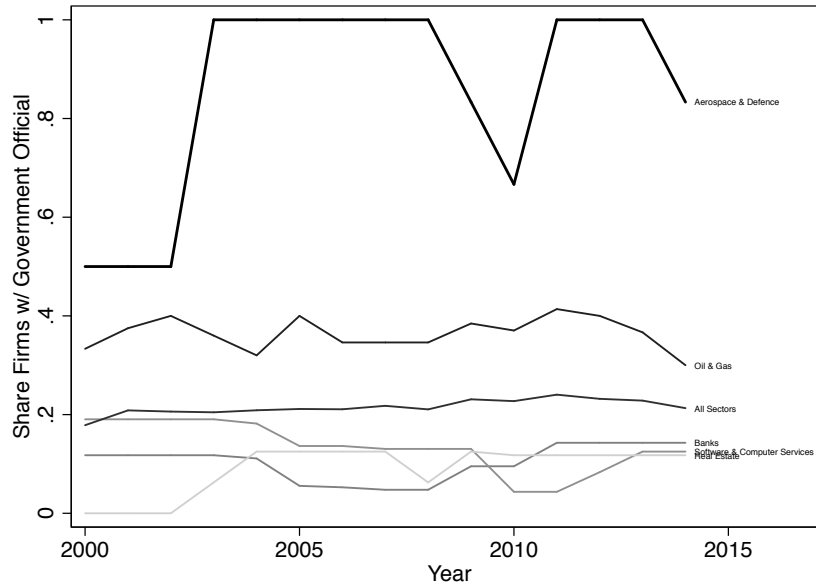


Figure 7: **Firms who Have Employed Government Officials on Board over Time, 2000–2014.** The top figure displays the share (for key sectors and over time) of all firms traded on exchanges in the U.S. that have employed at least one former government official on their board of directors between 2000–2014. The bottom figure displays the corresponding share for S&P 500 firms, by sector and over time. Each plot also includes the trend across all sectors.

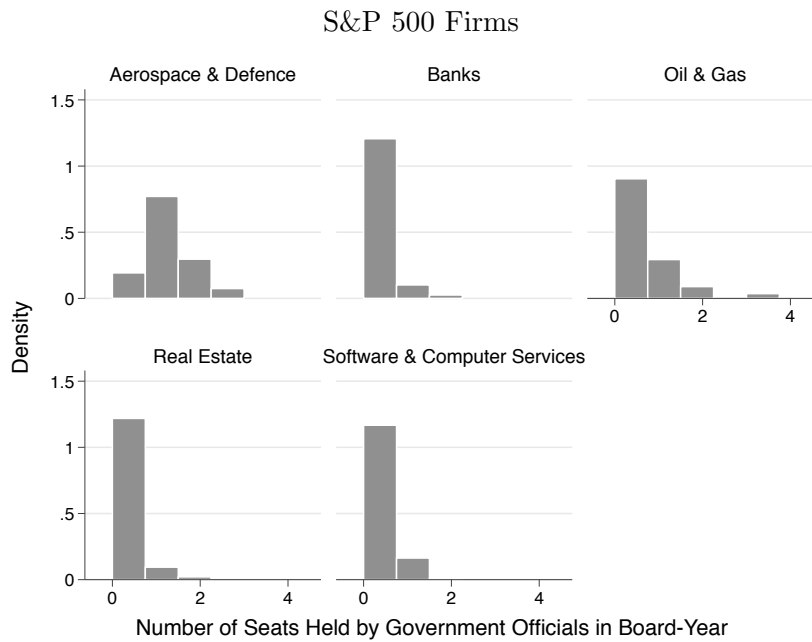
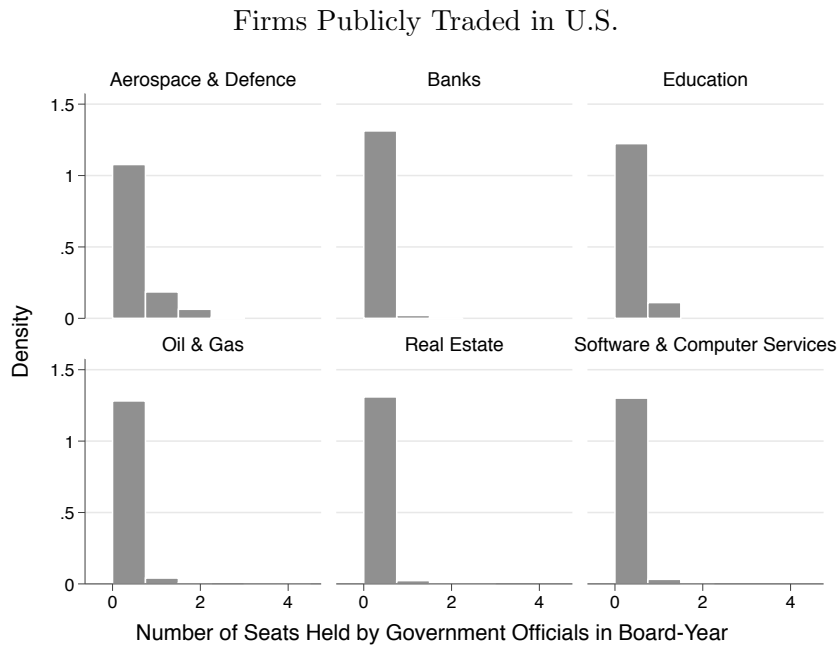


Figure 8: Key Sectors: Number of Seats Held by Government Officials per Firm in Each Year, 2000–2014 The top figure displays histograms for six key sectors that show the number of seats on each board in a given year held by government officials—for all firms publicly traded on U.S. exchanges. The bottom figure displays the corresponding histograms just for S&P 500 firms.

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Appendix

Table A1: Board Service by Office Type, Post-2000

Office Type	N	Prob. Board	Boards per Year
Ambassador (G20)	80	0.325	0.472
Cabinet	59	0.492	0.789
Congress — House	433	0.090	0.075
Congress — Senate	78	0.385	0.472
Executive Branch	54	0.444	0.503
Federal Reserve	13	0.385	0.275
Governor	106	0.387	0.412
Independent Agency	9	0.444	0.339
Military	27	0.741	1.083
All Officials	859	0.254	0.303

This table replicates the results from Table 1, with the sample restricted to officials who departed office since 2000.

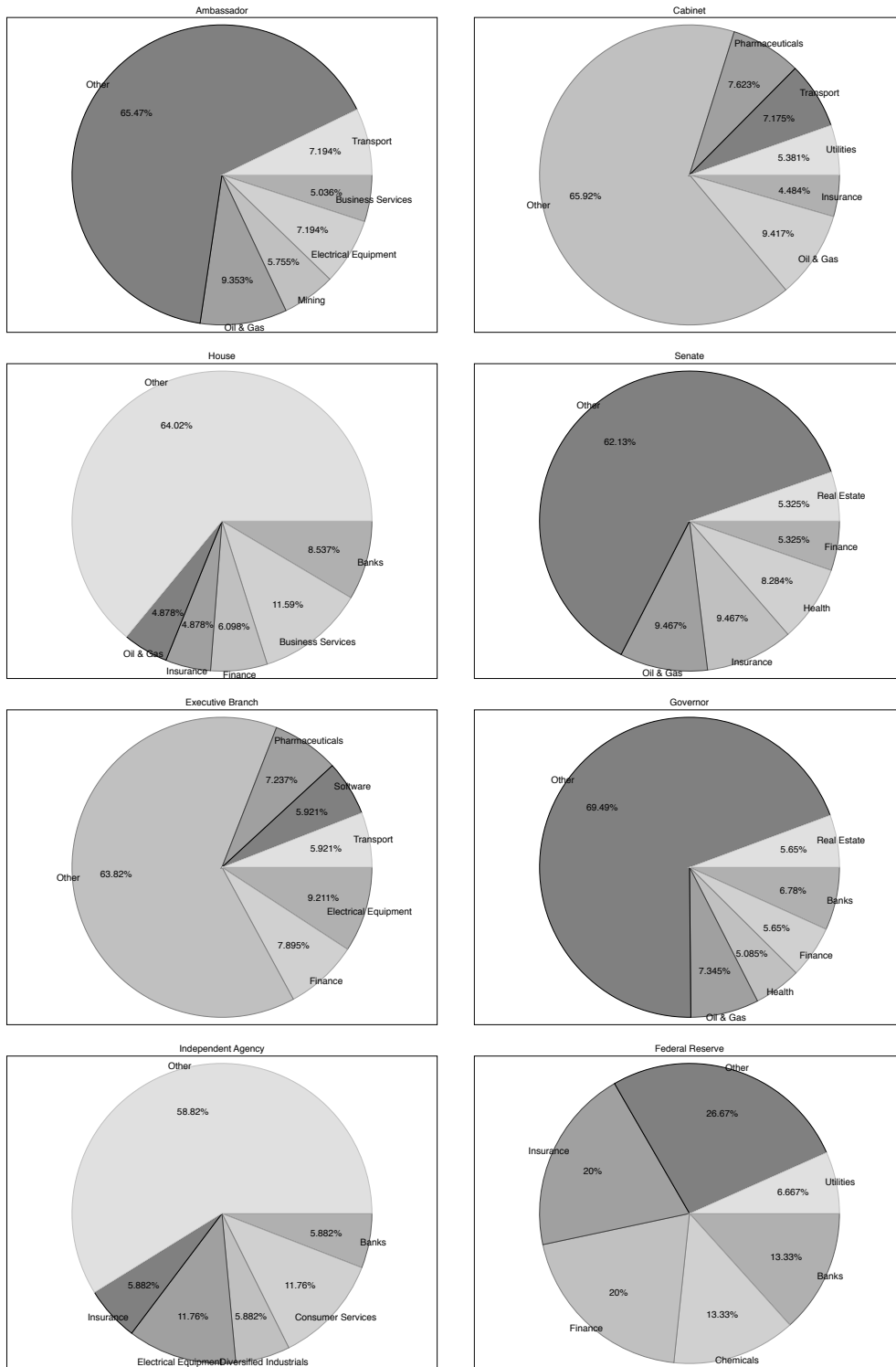


Figure A1: Distribution of Board Seats by Business Sector.