

# Companies' bottom lines benefit when former politicians join leadership teams

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Over the past year, many career politicians have announced their retirements. Of those retiring, some may be offered positions on boards of directors or leadership positions, such as CEO or CFO, at public companies. A new study from the University of Missouri has found that companies can experience a significant improvement to their bottom lines when a former politician takes a leadership role, but company leaders who move into the political area do not provide the same benefits.

"We found that the value created for firms is much greater when individuals move from politics to the board or executive team rather than the other way around," said Reza Houston, co-author on the study and a doctoral student in the Trulaske College of Business. "In the United States, we have specific legislation that prevents politicians from providing 'kickbacks' to their former companies while they hold public office. Because of this, CEOs or other high-ranking company officials who move to political office do not increase the value of firm when compared to former politicians who join the leadership team of a company."

In their study, Houston and Stephen Ferris, professor and director of the Financial Research Institute at MU, tracked more than 300 individuals who moved between public companies and politics over 15 years. Individuals they tracked either served on a board of directors or held one of five leadership positions: CEO, [chief financial officer](#), [chief operating officer](#), [chief information officer](#) or executive vice president.

The politicians they tracked included presidents, senators, representatives, and governors. Houston and Ferris found that it was 2.5 times more likely that a politician would transition to a corporate position compared to a corporate leader moving into politics.

"When a person moved from a corporate leadership position to a political office, we saw a slight positive bump of the company's stock price within the first three days, but no significant change after that," Houston said. "In the U.S., most politicians tend to recuse themselves from any decisions or votes involving their former companies. On the other hand, many politicians who have been retired from public office for a few years continue to engage in lobbying activities, developing a solid network of important connections for certain industries. The former politicians who provided the most value to public companies were former cabinet secretaries."

Houston and Ferris also found that firms that hired former politicians often were large firms with stagnant growth opportunities. They believe that the former politicians were hired, in part, to facilitate government contracting or regulatory processes in an effort to stimulate the company's profitability, Ferris said. Over three years, those companies, especially those in the financial services or health industries, who had hired former politicians experienced stock returns of 3.6 percent per year in excess of what was expected.

"In some sense, it's gratifying that we only found a positive trend associated with former [politicians](#) being hired into corporate leadership," Ferris said. "It's a weak, but implicit, endorsement, of the integrity of our political and commercial practices. We know this is not true for other countries around the world."

The study, "Does the Revolving Door Swing Both Ways? The Value of Political Connections to U.S. Public Corporations," will be published in

an upcoming edition of *Managerial Finance*.

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