

Former politicians as corporate directors: Good for business?

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Abstract

International studies suggest that directors with political connections can provide significant benefits to shareholders. In this study, we examine the prevalence of former politicians as directors in ASX-listed companies, the types of companies they hold directorships in and the market reaction to their appointment. In our cross-sectional sample of 8,883 directorships in 1,561 companies in 2007, we find a total of 81 directorships held by 58 former politicians in 79 companies. This includes 26 directorships held by former federal politicians, 40 directorships held by former state politicians, 9 directorships held by former local politicians and 6 directorships held by former foreign politicians. We find that former politicians are more likely to hold directorships in firms with more debt and firms in the industrial sector. On average, we find a negative market reaction to the appointment of former politicians as directors, which indicates that shareholders do not value the expertise that former politicians bring to corporate boards in Australia. This is particularly the case when their political parties are not in power or when they have limited or no experience as corporate directors.

Keywords: board of directors, director appointments, politicians, political connections.
JEL codes: G34, G14, D72.

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