

# **Who, Republican or Democrat CEOs, laughs last?**

## **Political cycles in the market for corporate directors**

(Preliminary Version)

Changmin Lee  
Hanyang University Business School  
222 Wangsimni-ro, Seongdong-gu  
Seoul, Korea, 04763  
[changmin74@hanyang.ac.kr](mailto:changmin74@hanyang.ac.kr)

Jihong Jeon  
Hanyang University Business School  
222 Wangsimni-ro, Seongdong-gu  
Seoul, Korea, 04763  
[cellc@hanyang.ac.kr](mailto:cellc@hanyang.ac.kr)

Seong Jin Ahn  
Peking University Guanghua School of Management  
5 Yiheyuan Road, Haidian  
Beijing, China, 100871  
[seongjinahn@gsm.pku.edu.cn](mailto:seongjinahn@gsm.pku.edu.cn)

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# Who, Republican or Democrat CEOs, laughs last?

## Political cycles in the market for corporate directors

Ji-hong Jeon, Chang-min Lee\*, Seong Jin Ahn

### Abstract

In this paper, we explore the relationship between CEO's political preference and post-retirement directorship holding by individual CEOs. We test a hypothesis that CEO's political preference measured by political donations might produce the political cycle in the professional labor market because CEO's political preference could work as a signal for political influence ("Money matters in the election") or political network with a governed party ("Birds of a feather flock together"). We use a data set on the political donations of CEOs to major political parties from 1998-2016 in the U.S. Firstly, we provide direct evidence that one of main candidates in the market for corporate directors is a retired CEO. The proportion of retired CEO outside directors for all outside directors in the S&P 500 firms is 20.62%. Second, our empirical evidence suggests that the political donations of CEOs are more likely to reveal a preference, not strategic behavior. 72.8% of CEOs do not change the pattern of donation according to the ruling party. 73.7% of CEOs do not change donation behavior before vs. after CEO retirement, either. Third, the success in the market for corporate director depends on the ruling party. Republican partisan CEOs hold larger outside directorships than Democratic partisan CEOs under a Republican regime, but less outside directorships under Democratic regimes. These regressions results are robust for controlling the endogeneity problem. We use the presidential election result at a state where a headquarter of CEO firm is located as the instrumental variable. Finally, the political cycle in the market for corporate director could be partially explained by the political value in the regulated industry, but the regulated industry does not fully drive our main outcomes.

Keywords: Political Preference, Political Connections, Homophily, Boards of Director, CEO

JEL classification: G30

## I. Introduction

*“The chief executives of America’s top corporations have thrown their financial support to Mitt Romney over President Obama by more than a 4-1 margin, according to a review of federal records conducted by NBC News. The presumptive Republican nominee’s presidential campaign has received almost \$322,000 in direct donations from the CEOs of the companies listed on the annual “Fortune 500” list of the biggest U.S. companies. By comparison, the Obama campaign has raked in \$75,500 in contributions this election cycle from CEOs of the companies included on the list, according to records through the second quarter of 2012 on file with the Federal Election Commission... “People who support Mitt Romney do so because they support his pro-growth, pro-jobs agenda for the country,” Romney spokeswoman Amanda Henneberg said. A spokesman for the Obama campaign declined to comment for this story.”*

07/30/2012 MSNBC

In the last twenty years, political considerations have become important in financial economics: the regulation in the financial markets, law, political connections, and political uncertainty. Politics is playing a greater role in finance research. “Political preference” of CEOs or boards of director is one of popular research topics. In one hand, some literatures test a possibility that the political preference of CEOs simply represents the political belief: Hong and Kostovetsky (2012) find the investment of mutual fund managers depends on the political values which are relevant to social responsibility. In detail, Democrats are more likely to manage a social responsible investing (SRI) funds. They find the result that Democrats have more concerned with the environmental and labor protection. Hasan, Sun and Wu (2016) show that firms led by politically partisan CEOs are associated with a higher level of corporate tax sheltering than firms led by nonpartisan CEOs. Specifically, Republican CEOs are associated with more corporate tax sheltering. The results imply that it may cost firms more to motivate Democratic CEOs to engage in more tax sheltering activities because such decisions are not consistent with their political beliefs regarding tax policies. Unsal, Hassan and Pantaleoni (2016) find a generous engagement in lobbying efforts by firms with Republican leaning-managers. However, they report higher free cash flow, lower Tobin's Q, and smaller increases in buy and hold abnormal returns following lobbying activities for firms with Republican managers, compared to Democratic rivals.

In the other hand, there is a possibility that the political preference of CEOs represents the attitude

toward a risk: Hutton, Jiang, and Kumar (2014) demonstrate that personal political preferences of corporate managers influence corporate policies. Specifically, Republican managers who are likely to have conservative personal ideologies adopt and maintain more conservative corporate policies. Those firms have lower levels of corporate debt, lower capital and research and development (R&D) expenditures, less risky investments, but higher profitability. Christensen et al., (2015) investigate whether managers' personal political orientation helps explain tax avoidance at the firms they manage. The findings are that, on average, firms with top executives who lean toward the Republican Party actually engage in less tax avoidance than firms whose executives lean toward the Democratic Party.

In this paper, we analyze the relationship between CEO's political preferences and the number of post-retirement directorships CEO holds. So far, the political preference of CEOs was interpreted as the political belief or the attitude toward risk. We, however, shed new light on the political preference. We hypothesize that the political preference of CEOs measured by political donations could make a political cycle in the professional labor market. The political preference of CEOs measured by political contributions might be a signal for "(potential) political influence or political connection<sup>1</sup>". The market might think that Republican partisans are more likely to influence legislative and regulatory process under a Republican regime and vice versa. Bonica et al.,(2013) argue that the rich, for instance, CEOs, are able to use their resources to influence electoral, legislative, and regulatory processes through campaign contributions. They show that the share of campaign contributions made by the top 0.01 percent of the voting age population is over 40 percent. Especially, more than four in five in board members and CEO from Fortune 500 firms reported contributions in federal elections. Barber (2016) asks for whom legislators best represent. He finds that legislators reflect the preferences of the average contributor better than any other group. Money matters in the election!

There is another possibility that Republican partisans are more likely to have a social network with a Republican government and vice versa. This is a kind of "homophily principle", which is the tendency of individuals to connect with similar others, as in the proverb "birds of a feather flock together".

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<sup>1</sup> Many studies show that the political connection at corporate levels matters. Examples are: Fisman (2001) for the value of political connections with a president, Faccio (2006) for the value when officers or large shareholders involved in business enter politics, Leuz and Oberholzer-Gee (2006) for the effect of connections on long-run performance, Goldman, Rocholl and So (2008) for the abnormal stock return following the announcement of the nomination of a politically connected individual to the board, Cooper, Gulen and Ovtchinnikov (2010) for the effect of the corporate political contributions on the abnormal stock returns, Yu and Xiaoyun (2011) for the effect of lobbying on fraud detection by regulators, Kim, Pantzalis and Park (2012) for the effect of political geography on the stock returns, and Akey (2015) for the value of donating to winning candidates.

McPherson et al., (2001) show the presence of homophily in a vast array of network studies. Or, Republican partisans might have more opportunities to meet with Republican congressional officials and vice versa. For instance, Kalla and Broockman (2016) show that the campaign donors have more chance to meet congressional officials. Then, it could produce political cycles in the professional labor market. The firm would like to hire the professionals who are democrat partisans under a democratic regime and vice versa to enjoy the political value of the professionals.

To test this hypothesis, we tackle whether the political preference of a CEO matters or not for his career path after retirements in the market for corporate directors. It naturally follows a question. Why “market for corporate directors after CEO retirement?” It is not enough to say that the boards of director is an important governance mechanism. Brickley, Linck, and Coles (1999), Linck, Netter, and Yang (2009), Lee (2011), and Harford and Schonlau (2013) show that one of candidates in the market for corporate directors is a retired CEO.<sup>2</sup> Put simply, “CEO” is not the end of career path in the professional labor market. Moreover, Brickley, Linck, and Coles (1999) study the evidence about the CEO post-retirement. Ongoing CEOs can get incentives for acquiring the directorship on his or her own board and an outside directorship on other boards after retirement. CEOs holding the directorship position after retirement strongly create higher annual accounting returns than CEOs who do not keep the directorships during their CEO tenure. Harford and Schonlau (2013) study the benefits for experience and ability in the director labor market. They show that large acquisitions are associated with significantly higher numbers of board seats in the future for the acquiring CEO, target CEO, and the directors. This means that the market for corporate director functions well when it selects retired CEOs as outside directors. Higher performance as CEO, more outside directorships after retirement or more M&A experience as CEO, more outside directorships after retirement. Now, we could ask a question. Would the CEO’s political preference be valued in the market for corporate directors? Is there a possibility that the CEO’s political preference has a signaling effect for political connection with a supporting party? In this sense, our paper is very close to Goldman, Rocholl and So (2008, 2013). Goldman, Rocholl and So (2008) analyze the stock-price response to the Republican win of the 2000 presidential election and finds that companies with boards connected to the Republican Party increase in value, and companies connected

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<sup>2</sup> One of other candidates is a current CEO. However, it is noisy to test a signaling effect of an ongoing CEO’s political preference in the market for corporate directors because an ongoing CEO has an only limited number of boards with his full-time job.

to the Democratic Party decrease in value.<sup>3</sup> Goldman, Rocholl and So (2013) analyzes whether political connections of the board of directors affect the allocation of government procurement contracts. They find that companies with boards connected to the winning (losing) party following the 1994 House and Senate election experience a significant and large increase (decrease) in procurement contracts. These findings show the one of channels through which corporate political connections add value to firms. Goldman, Rocholl and So (2008, 2013) show the value of boards' political connection at the firm. We test the value of boards' political preference for their career. For that purpose, we use a data set on the political donations of CEOs to major political parties from 1998-2016 in the U.S. We measure the political preference as the contribution amounts to Republicans minus Democrats divided both parties' contributions from 1998-2016, which are similar as Borghesi, Houston, and Naranjo (2014) and Lee, Lee, and Nagarajan (2014).

Our main findings follow. Firstly, we directly show that one of main players in the market for corporate directors is a retired CEO, which is differentiated with Brickley, Linck, and Coles (1999), Linck, Netter, and Yang (2009), Lee (2011), and Harford and Schonlau (2013). The proportion of retired CEO outside directors for all outside directors in the S&P 500 firms during 2003-2016 year is 20.62%.

Second, we address a possibility that the individual donation is driven by strategic incentives as in Ovtchinnikov and Pantaleoni (2012). Our empirical evidence supports that the political donations of CEOs are more likely to reveal preference, not strategic behavior. 72.8% of CEOs do not change the pattern of donation according to the ruling party. Moreover, 73.7% of CEOs do not change donation behavior before vs. after CEO retirement.

Thirdly, CEO's political preference does have marginal effects on outside directorships, in general. Republican partisan CEOs, who donate only to a Republican Party, hold 0.78 post-retirement outside directorships for two years after retirement compared to 0.65 for Democratic partisan CEOs who donate only to the Democratic Party. The difference between Republican partisans and Democratic partisans is

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<sup>3</sup> The political connection in Goldman, Rocholl and So (2008) is for the following: A company is classified as politically connected if it has at least one board member with one of the following former positions: president (Gerald R. Ford), presidential (vice-presidential) candidate, senator, member of the House of Representatives, (assistant) secretary, deputy secretary, deputy assistant secretary, undersecretary, associate director, governor, director (CIA, FEMA), deputy director (CIA, OMB), commissioner (IRS, NRC, SSA, CRC, FDA, SEC), representative to the United Nations, ambassador, mayor, staff (White House, president, presidential campaign), chairman of the Party Caucus, chairman or staff of the presidential election campaign, and chairman or member of the president's committee/council.

marginally significant at 10% level. The regression results also show that the number of post-retirement outside directorships is not associated with the political preference.

Fourth, however, the success in the market for corporate director depends on the ruling party. Republican partisan CEOs hold more outside directorships under a Republican regime than Democratic partisan CEOs. Republican partisan CEOs hold 0.86 post-retirement outside directorships for two years after retirement, which is statistically larger than 0.54 for Democratic partisan CEOs under a Republican regime. Meanwhile, Republican partisan CEOs hold 0.65 post-retirement outside directorships for two years after retirement, which is not statistically different from 0.77 for Democratic partisan CEOs under a Democratic regime. The regression results also show that the number of post-retirement outside directorships is positively correlated with the political preference under a Republican regime. In the partisan sample, however, the number of post-retirement outside directorships is positively correlated with the political preference under both regimes. Republican partisan CEOs hold larger outside directorships than Democratic partisan CEOs under a Republican regime, but Democratic partisan CEOs hold larger outside directorships than Republican partisan CEOs under a Democratic regime. These regressions results are robust for controlling the potential endogeneity problem. We use the presidential election result at a state where a headquarter of CEO firm is located as the instrumental variable. Tam Cho (2003) and Gimpel, Lee, and Kaminsky (2006) show that an individual political preference can be affected by the social influences (regional effect). However, there is no direct correlation between the regional political preference and post-retirement directorships of an individual CEO.

Finally, we try to explain the political cycle in the market for corporate directors as the demand for a lobbyist for the ruling party in the regulated industry (Goldman, Rocholl and So, 2008; Babenko, Fedaseyev and Zhang, 2017). We show that the political cycle in the market for corporate director could be partially, but not fully, explained by the political value in the regulated industry. For two years after retirement, Democratic partisans hold 0.11 outside directorships in regulated industry and 0.43 outside directorships in unregulated industry under a Republican regime. It increases to 0.25 and 0.52, respectively, under a Democratic regime. Democratic partisans hold 0.25 outside directorships in the regulated industry, which is significantly larger than Republican partisans 0.21 under a Democratic regime.

The rest of the paper is organized as follows. Section II describes the data and descriptive statistics.

Section III explores the main result. Section IV suggests the possible explanations. Section V concludes.



## **II. Sample**

We collect the contribution data of the retired CEOs, financial data during their CEOs tenure and post-retirement number of outside directorship to find out the relationship between the political preference and outside directorship.

### ***A. Political Preference***

#### ***CEO's contribution to committee***

We collect the political contribution of the retired CEOs to the major parties in the USA from the Federal Election Commission (FEC) website. The collected data is composed mainly of the contribution amounts and numbers donated by retired CEOs to both the Republican and the Democratic Parties from 1998 to 2016. The FEC provides individual political contribution data whose donation is greater than or equal to \$200. By using the Contributions by Individuals file from the FEC, we identify a donor whose title (variable name is the OCCUPATION) is a CEO. Then we match each CEO's donation to the Candidate Master File from the FEC by using the Filer Identification Number (Contributions by Individual file) and the Committee Identification (Committee Master File)<sup>4</sup> to classify the contribution to either the Republican or the Democratic Parties (variable name is the Committee Party in the Committee Master File). In this stage, we have 38,000 CEOs from 1,094 companies during our sample period. Since we focus on the retired CEOs' political preferences, we identify the retired CEOs by using the executives' data from the ExecuComp especially for those who retired from the S&P major index firms (S&P 500, MidCap 400 and SmallCap 600). The final sample contains 730 retired CEOs who have donated to either/both the Republican or/and the Democratic Parties from 1998 to 2016.

### ***B. Data during their CEO position***

#### ***CEOs' firm***

CEO's post-retirement career can be affected by the characteristics of the firm where he/she retired. Brickley, Linck, and Coles (1999), and Lee (2011) show that CEOs showing better market performance or accounting performance during their tenure hold more directorships after retirement. In addition, they also provide the pre-retirement firm size and industry as determinants of directorships held by retired CEOs.

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<sup>4</sup> The Filer Identification Number and the Committee Identification are a code assigned to a committee by the FEC.

We collect retired firm data during pre-retirement period from Compustat. Firm size is measured by total assets. Abnormal Stock Return is calculated by subtracting the Center for Research in Security Prices (CRSP) value-weighted stock return from the annual stock return. Industry-adjusted return on assets (ROAJ) is calculated by subtracting the industry median ROA from the firm's ROA. Industry is defined by the 2-digit Standard Industrial Classification (SIC) code. The pre-retirement data is based on the average of each variable for 4 years before retirement. If the tenure is less than 4 years, we use the average value during their tenure before retirement year. Finally, the regulation dummy equals one when a retired firm is included in the regulated industries such as utility (49), depository institution (60) and insurance (63) by using the firm's 2-digit SIC code.

### *C. Post-retirement directorships*

We collect the retired CEOs' directorship data for two<sup>5</sup> years after their retirement over the period of 2003-2014<sup>6</sup> from ISS (Institutional Shareholder Services, formerly RiskMetrics). ISS director data contains information about board members in S&P major index firms, including individual characteristics. Since we analyze the impact of CEO's political preferences on the post-retirement directorships, our main interest is outside directorships. A retired CEO is more likely to remain as a director of a retire firm due to the firm-specific knowledge<sup>7</sup> and the number of board seats give more insight about the director market. ISS categorizes directorships as 3 different board affiliations; employee/insider, independent and linked directorships. We use the number of outside directorships based on the independent and linked directorships. We match the retired CEO's name and age to find the number of directorships in the post-retirement period. Because of the data availability our dataset only counts the retired CEO's directorships in the S&P major index firms.

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<sup>5</sup> Using board seats two year after retirement is the conventional way to examine the number of post-retirement directorships established in previous literatures by Brickley et al. (1999), Fahlenbrach et al. (2011), Lee (2011), Harford and Schonlau (2013), Liu (2014), Liu et al. (2017).

<sup>6</sup> Using the data from 2003 is mainly due to the enactment of Sarbanes-Oxley(SOX) act in 2002. There is a significant impact of SOX on director market. Section 101 recommends a full-time director and Section 301 gives more responsibility and stricter independency standards to the audit committee of a board. There are several studies about the impact of SOX on the director market. Linck et al. (2009) examine the effects of SOX on the demand for and the supply of corporate directors. They find an increased workload because of more frequent board meetings and increased risks as measured by higher Director & Officer Insurance premiums. Jiraporn et al. (2009) find that the U-shaped relation between number of outside board memberships and committee memberships changed to the negative relation after SOX. Thus, it fails to reject the busyness hypothesis for directors due to the SOX enactment. The busyness hypothesis argues that the more the board seat a director holds, the fewer committee is assigned. Cashman et al. (2012) analyze the relationship between director busyness and firm value and they find that the negative relationship between board busyness and firm value has weakened during post-SOX period. Thus, they argue that directors have felt pressure to behave in a more responsible manner by SOX.

<sup>7</sup> Evans et al. (2010) argue that retaining former CEOs on the board help utilizing their unique monitoring and advising ability.

### III. Descriptive Statistics

<Table 1>

<Table 1> shows the portion of retired CEO outside directors for S&P 500 all corporate directors during 2003~2016. In the full sample, total number of corporate directors is 73,834. Among those, a number of retired CEO outside directors is 13,130. The proportion of retired CEO outside directors of 63,672 as all outside directors is 20.62%.

<Table 2>

<Table 2> shows the definition of main variables. For instance, *Dn2*, and *Dn3* stand for number of outside directorships for two years after leaving office, respectively. *Rel* is an individual CEO's political preference index; contribution amounts to Republicans minus Democrats divided both parties' contributions from 2003-2014. CEO characteristics and Financial characteristics are explanatory variables to be used in the regression analysis.

<Table 3>

<Table 3> shows the summary statistics for main variables. The total number of observations is 730 retired CEOs.<sup>8</sup> The mean number of outside directorships for two years after leaving office, *Dn2*, is 0.73. *Rel* is an individual CEO's political preference index, contribution amounts to Republicans minus Democrats divided both parties' contributions from 2003-2014. The averaged *Rel* is 0.22, which is larger than 0. It implies that retired CEOs are more oriented to the Republican Party.

<Figure 1 and Table 4>

<Figure 1 and Table 4> show the distribution of retired CEOs' political preference. <Table 4. Panel A>

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<sup>8</sup> The average retirement age of CEOs in our sample is 59.8 years old similar to Sunder et al. (2017), 51.25 % are more than 60, and 17.68 % are 64 to 66.

shows that Republican partisans, *Rel* is 1, are 284 out of 730 retired CEOs. It consists of 38.90%. Democratic partisans, *Rel* is -1, are 133 out of 730 retired CEOs, 20.96% in the full sample. In <Table 4. Panel B>, Republican partisans who retired during Republican regime (2003-2008) are 214 out of 509, 42.04% and Democratic partisans who retired during Republican regime (2003-2008) are 96 out of 509, 18.86%. Likewise, Republican partisans who retired during Democratic regime are 70 out of 221, 31.67% and Democratic partisans who retired during Democratic regime are 57 out of 221, 25.79%.

## IV. Empirical Results

### A. Political Preference or Strategic Behavior

Firstly, we address a question as follows. Would the individual donation behavior really reflect the political preference? Is there a possibility that the individual donation is driven by strategic incentives? Much previous literature supports the political preference<sup>9</sup> argument, but it is hard to rule out the strategic behavior hypothesis completely. For instance, Ovtchinnikov and Pantaleoni (2012) show that individual political contributions are associated with higher industry-adjusted return on assets of firms located in economically dependent Congressional districts. They also find that donations to economically related politicians lead to improvement in accounting performance. Based on the empirical results, they argue that the purpose of political contribution is to strategically improve the individual's economic situation.

<Table 5>

<Table 5> measures the amount of political contribution relative to CEO compensation. *Convpay* shows the proportion of the one year averaged political contributions amount to CEO Compensation during CEO tenure for each retired CEO. The political contribution amounts to only 0.03% of CEO compensation on average.

<Table 6>

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<sup>9</sup> For instance, Hutton, Jiang, and Kumar (2014) link political preferences measured by political donation to the CEOs' demographic profiles. They show that male, older, and white individuals are more likely to be the Republican Party.

<Table 6> shows the pattern of donation behavior under different political regimes. *Rel Republican Regime* is an individual CEO's *Rel* during Republican regime (2003-2008) and *Rel Democratic Regime* is an individual CEO's *Rel* during Democratic regime (2009-2014). In the unpaired sample, *Rel Republican Regime* is 0.20 and *Rel Democratic Regime* 0.13. For the paired sample, *Rel Republican Regime* is 0.21, which is higher than *Rel Democratic Regime* 0.21, but not statistically significant. There is no strong evidence that retired CEOs donate strategically according to the ruling party.

<Table 7>

<Table 7> shows the pattern of donation behavior under different ruling party in a different way. 71 out of 147 retired CEOs, 48.30%, donate more to the Republican Party whatever the ruling party is. 36 out of 147 retired CEOs, 24.49%, donate more to the Democratic Party whatever the ruling party is. In sum, 72.79% of retired CEOs do not change donation behavior across different political regimes. 46 out of 82 partisan CEOs, 56.10%, allocate all to Republican Party whatever the ruling party is. 19 out of 82 partisan CEOs, 23.17%, allocate all to Democratic Party whatever the ruling party is. In sum, 79.27% of partisan CEOs hold their pattern of donation across different political regimes. These findings also support the political preference argument.

<Table 8>

<Table 8> shows the pattern of donation behavior before vs. after CEO retirements. *Rel Before Retirement* is an individual CEO's *Rel* before CEO retirement and *Rel After Retirement* is an individual CEO's *Rel* after retirement. In the unpaired sample, *Rel Before Retirement* and *Rel After Retirement* are 0.22 and 0.34 respectively. For the paired sample, *Rel Before Retirement* and *Rel After Retirement* are 0.32 and 0.38 respectively.

<Table 9>

<Table 9> shows the pattern of donation behavior before vs. after CEO retirements in a different way. 101 out of 175 retired CEOs, 57.71%, donate more to the Republican Party whether retired or not. 28 out of 175 retired CEOs, 16.00%, donate more to the Democratic Party whether retired or not. In sum, 73.71% of retired CEOs do not change donation behavior before vs. after CEO retirement. 56 out of 85 partisan CEOs, 65.88%, allocate all to Republican Party whether retired or not. 13 out of 85 partisan

CEOs, 15.29%, allocate all to Democratic Party whether retired or not. In sum, 81.18% of partisan CEOs hold their pattern of donation before vs, after CEO retirement. These findings also support the political preference argument.

### ***B. Regression results in the full sample***

<Table 10>

<Table 10> shows the post-retirement outside directorships.  $Dn2$  represent the number of outside directorships for two years after leaving office. Republican partisan CEOs hold 0.78 post-retirement outside directorships for two years after retirement on average. Democratic partisan CEOs hold 0.65 post-retirement outside directorships on average. There is marginally significant difference at 10% level.

<Table 11>

<Table 11> reports ordered logit estimates on post-retirement outside directorships for two years after retirement, respectively. The specification is based on Brickley, Linck, and Coles (1999), Lee (2011), and Harford and Schonlau (2013). The specifications (1) and (2) are full sample regressions. The specifications (3) and (4) are partisans sub-sample sample regressions. They show that the number of post-retirement outside directorships depends on the characteristics of the firm where they worked as a CEO. Our empirical evidence shows that the political preferences of retired CEOs are not associated with the number of post-retirement outside directorships.

### ***C. Regression results: Republican regime vs Democratic regime***

<Figure 2>

<Figure 2> report the fitted line between the number of outside directorships two years after retirement,  $Dn2$  for Republican and Democratic partisans and political regime. George Walker Bush, 2003~2008, is a Republican and Barack Hussein Obama, Jr. 2009~2014, is a Democratic. Republican partisans have more outside directorships under a Republican regime than Democratic partisans. However, this pattern is reversed under a Democratic regime.

<Table 12>

<Table 12> shows the mean difference between the number of outside directorships two years after retirement,  $Dn2$  for Republican and Democratic partisans across political regime. For instance, Republican partisans hold 0.86 outside directorship two years after retirement, which is statistically larger than 0.54 compared to Democratic partisans under a Republican regime. However, Republican partisans hold 0.65 outside directorship two years after retirement under a Democratic regime, which is lower than 0.77 of Democratic partisans even though statistically insignificant.

<Table 13>

<Table 13> reports regression results on the number of outside directorships two years after retirement. The specification (1) and (4) in all tables are baseline regression results, ordered logit estimates in the full sample. An interaction term,  $Rep\_Dummy*Rep\_reg\_Dummy$ , is positive and significant in <Table 13>, which implies that partisan Republican CEOs hold more outside directorships under a Republican regime.

For robustness checks, we, firstly, use a zero-inflated Poisson distribution model in the full sample. One concern in our sample is retired CEOs who hold zero outside directorships after retirement. It is possible that there are two different kinds of retired CEOs holding zero outside directorships: one who participates in the market and one who voluntarily exits the market for corporate directors. To address this excess zero-count data problem, we adopt a zero-inflated Poisson model based on Greene (1994).<sup>10</sup> We assume that zero outcome is due to two different processes. The two processes are that a retired CEO has not participated vs. participated in the director market. If they have not participated in the director market, the only outcome possible is zero. If they have participated in the director market, it is then a count process. The number of directorships held by a retired CEO in the equation (1) is:

$$Dn_i \sim \begin{cases} 0 & \text{with probability } q_i \\ g(Dn_i|x_i) & \text{with probability } (1 - q_i) \end{cases} \quad (1)$$

$q_i$  is the probability that a retired CEO has not participated in the director market, and  $g(Dn_i|x_i)$

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<sup>10</sup> Currently, Ahern and Sosyura (2014) use a zero-inflated Poisson model.

indicates the count process from a Poisson regression model. The probability of holding directorships in the equation (2) is:

$$P(Dn_i|x_i, z_i) = \begin{cases} q(z_i) + \{1 - q(z_i)\}g(0|x_i) & \text{if } Dn_i = 0 \\ \{1 - q(z_i)\}g(Dn_i|x_i) & \text{if } Dn_i > 0 \end{cases} \quad (2)$$

The probability of holding directorships depends on the characteristics of a retired CEO which are related to the participating in the director market ( $z_i$ ) and how many directorships he holds ( $x_i$ ). Thus, the zero-inflated Poisson model estimates the probability of participating in the director market by using a logit model in the first stage. Then, a retired CEO participated in the director market is predicted by the standard Poisson model. Following Brickley, Linck, and Coles (1999), Lee (2011) and Harford and Schonlau (2013), we consider that the probability of participating in a director market for retired CEOs is affected mainly by the firm size(Lna) where he/she has retired as a CEO. The specification (2) and (5) are zero-inflated Poisson models in the full sample. The negative coefficient of Lna in Inflate part means that a CEO retired from a greater firm is less likely to be recorded as not participating director market during post-retirement period.

An interaction term, *Rep\_Dummy\*Rep\_reg\_Dummy*, is positive and significant in <Table 13>. Secondly, the specification (3) and (6) are ordered logit estimates in the sub-sample. Specification (3) and (6) use only the sample which has at least one directorships including outside or inside (employee) directorships. Here, inside (employee) directorships are chairman positions at their retired firms. Typically, the retired CEO remains in a firm as a chairman during one or two subsequent year of his retirement for succession of control planning (Naveen, 2006). We assume that the retired CEO is active in the market if he takes a chairman position. We try to exclude retired CEOs who voluntarily leave the market for corporate directors. Particularly an interaction term, *Rep\_Dummy\*Rep\_reg\_Dummy*, is positive and significant, and *Rep\_Dummy* is negative and significant for ordered logit estimates for 2 years after retirement under Republican vs. Democratic regime in <Table 13>. In this case, a perfect political cycle takes place. Republican CEOs hold more outside directorships under Republican regime and less outside directorships under Democratic regimes.

#### ***D. Regression results: Endogeneity problem***

Now, we address potential concerns about the endogeneity problem between success in the market for



corporate directors and political preference of a retired CEO. An unobservable factor might have effects on the political preference of CEO and the number of post-retirement outside directorships. We use the presidential election result as the instrumental variable. The presidential election result of the state where the headquarter (HQ) of a firm is located can affect the political preference of a CEO. However, there is no direct connection between the regional political preference and post-retirement directorships. During our sample period, the presidential elections conducted three times in year 2004, 2008, and 2012. Based on the majority results (Republican vs Democrat) of the presidential elections, we decide the regional political preference. An individual political preference can be affected by the social influences (regional effect). Tam Cho (2003) and Gimpel, Lee, and Kaminsky (2006) analyze how the geographic pattern affects the individual campaign contributions and they find that geographical distribution is related to the individual campaign contribution.

<Figure 3, 4, and 5>

<Figure 3, 4, and 5> show 2004-year, 2008-year, and 2012-year president election results. George Walker Bush (Republican) won 31 states and John Forbes Kerry (Democrat) won 20 states in 2004-year president election. John Sidney McCain (Republican) won 22 states and Barack Hussein Obama, Jr. (Democrat) won 29 states in 2008-year president election. Willard Mitt Romney (Republican) won 24 states and Barack Hussein Obama, Jr (Democrat) won 27 states in 20012-year president election.

<Table 14>

<Table 14> shows the strong correlation between individual preference and regional preference. *Rel Republican Win State* is a *Rel* of CEO who works at a firm where a headquarters is located in a state a Republican candidate wins in the 2004, 2008 and 2012 president elections. *Rel Democratic Win State* is a *Rel* of CEO who works at a firm where a headquarters is located in a state a Democratic candidate wins in the 2004, 2008, and 2012 presidential elections. For instance, *Rel Republican Win State* is 0.41 in <Panel A>, which is statistically higher than *Rel Democratic Win State*, 0.05. A CEO who works in a Republican-friendly state prefers the Republican party more.

We estimate 2-stage regression models by using an instrumental variable to address the endogeneity problem in the equation (3) and (4). We instrument *Rep\_Dummy* with the regional political preference (*State\_Rep\_Dummy*). *State\_Rep\_Dummy* equals 1 if the Republican Party wins more than one election

among the three presidential elections (2004, 2008, and 2012) in a state where the corporate HQ located, and 0 otherwise.

1<sup>st</sup>-Stage:

$$Rep\_Dummy_i = \alpha + \beta_1 State\_Rep\_Dummy_i + \beta_2 Lna_i + \beta_3 Asr_i + \beta_4 Roaj_i + \beta_5 Dmi_i + \beta_6 Timetrend_i + \varepsilon_i \quad (3)$$

2<sup>nd</sup> Stage:

$$Dn_i = \alpha + \beta_1 Rep\_Dumy_i + \beta_2 Rep\_reg\_Dummy_i + \beta_3 (Rep\_Dumy_i * Rep\_reg\_Dummy_i) + \beta_4 Lna_i + \beta_5 Asr_i + \beta_6 Roaj_i + \beta_7 Dmi_i + \beta_8 Timetrend_i + \sigma_i \quad (4)$$

$Rep\_Dumy_i$  is the expected value from the 1<sup>st</sup> stage OLS regression.

<Table 15>

<Table 15> displays the results from 2-stage IV regressions. The specification (1) is 2-stage ordered logit estimates in the partisan sample. The specification (2) is 2-stage zero-inflated Poisson model in the partisan sample. The specification (3) is 2-stage ordered logit estimates in the sub-sample. The specification (4) is 2-stage OLS estimates in the sub-sample. An interaction term,  $Rep\_Dummy * Rep\_reg\_Dummy$ , is positive and significant for 2 years after leaving office. Our results are robust. Moreover,  $Rep\_Dummy$  is negative in the specification (1) ~ (4). In this case, a perfect political cycle takes place. Republican CEOs hold more outside directorships under Republican regime, but less outside directorships under Democratic regimes.

### ***E. Regression results: Regulated industry***

We try to explain the political cycle in the market for corporate directors as the demand for a lobbyist for the ruling party in the regulated industry.

<Table 16>

We decompose the number of outside directorship into regulated and unregulated industry holdings by

retired CEOs. There is a possibility that the political connections value more in the regulated industry (Goldman, Rocholl and So, 2008; Babenko, Fedaseyeu and Zhang, 2017). <Table 16> shows that our main outcomes are not fully driven by the regulated industry.<sup>11</sup> Democratic partisans hold 0.11 outside directorships in regulated industry and 0.43 outside directorships in the unregulated industry for two years after retirement under a Republican regime. This increases to 0.25 in the regulated industry and 0.52 in the unregulated industry under a Democratic regime. The value of political connection exists not only in the regulated industry, but also in the unregulated industry. However, Democratic partisans hold 0.25 outside directorships in regulated industry, which is larger than Republican partisans 0.21.

## V. Alternative Explanations

An alternative theory is another kind of “birds of a feather” explanations. Fahlenbrach, Low and Stulz (2010) show that appointments outside CEOs to their boards have a certification benefit for the appointing firm. CEOs are more likely to join boards of large established firms that are geographically close, pursue similar financial and investment policies, and have comparable governance to their own firms. Fracassi and Tate (2012) find that powerful CEOs hire directors that are more socially connected with them, leading to weaker monitoring, and more value-destroying mergers. Lee, Lee, and Nagarajan (2014) show the alignment in political orientation between the chief executive officer (CEO) and independent directors. In this sense, partisan Republican CEOs prefer more Republican partisan outside directors and vice versa.

<Table 17 and 18>

<Table 17 and 18> test a “birds of a feather” theory. <Table 17> shows that there is no significant political preference difference between newly appointed CEOs across ruling parties. *New CEO Rel Republican Regime*, the political preference of newly appointed CEOs under a republican regime, is 0.128 and *New CEO Rel Democratic Regime*, the political preference of newly appointed CEOs under a Democratic regime, is 0.124. <Table 18> reports a similar result. The proportion of Republican partisans on newly appointed CEOs under a Republican regime is 39.1% and 40.6% under a Democratic regime. The proportion of Democratic partisans on newly appointed CEOs under a Republican regime

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<sup>11</sup> We do not report here, but the regression results also show that our main outcomes are not fully driven by the regulated industry.

is 28.9% and 29.1% under a Democratic regime. All results are not statistically significant. There is no evidence supporting a “birds of a feather” theory.

## **VI. Conclusions**

In this paper, we study the relationship between CEO’s political preferences and the number of post-retirement directorships CEO holds. Firstly, we provide evidence that the political donations of CEOs reveal preference, not strategic behavior. Second, the number of post-retirement outside directorships is not associated with the political preference. Thirdly, however, the effects of political preference in the market for corporate director depends on the ruling party. Republican partisan CEOs are more popular under a Republican regime than Democratic partisan CEOs and vice versa. These results are robust for controlling the endogeneity problem. Finally, the political cycle in the market for corporate director could be partially explained by the connection value in the regulated industry, but the regulated industry does not fully drive our main outcomes.

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**Table I****Portion of Retired CEO Directors for S&P 500 All Directors**

This table shows the portion of retired CEO outside directors for S&P 500 all corporate directors during 2003~2016. In 2003 year, total number of corporate directors is 5,329. Among those, the number of retired CEO outside directors is 593. The proportion of retired CEO outside directors for all outside directors is 13.24%. In 2016 year, total number of corporate directors is 5,406. Among those, a number of retired CEO outside directors is 974. The proportion of retired CEO outside directors for all outside directors is 20.62%. The number in parenthesis is the proportion in the total number of outside directors.

Data Year	Insiders	Outsiders			Total
		Others	Retired CEO directors	Total outsiders	
2003	849	3,887 (86.76)	593 (13.24)	4,480 (100.00)	5,329
2004	823	3,740 (83.41)	744 (16.59)	4,484 (100.00)	5,307
2005	743	3,481 (80.34)	852 (19.66)	4,333 (100.00)	5,076
2006	727	3,466 (79.68)	884 (20.32)	4,350 (100.00)	5,077
2007	725	3,422 (79.47)	884 (20.53)	4,306 (100.00)	5,031
2008	717	3,559 (78.70)	963 (21.30)	4,522 (100.00)	5,239
2009	713	3,588 (78.39)	989 (21.61)	4,577 (100.00)	5,290
2010	686	3,597 (77.59)	1,039 (22.41)	4,636 (100.00)	5,322
2011	691	3,531 (77.42)	1,030 (22.58)	4,561 (100.00)	5,252
2012	703	3,568 (77.85)	1,015 (22.15)	4,583 (100.00)	5,286
2013	701	3,637 (77.42)	1,061 (22.58)	4,698 (100.00)	5,399
2014	698	3,661 (77.47)	1,065 (22.53)	4,726 (100.00)	5,424
2015	705	3,654 (77.89)	1,037 (22.11)	4,691 (100.00)	5,396
2016	681	3,751	974	4,725	5,406



		(79.39)	(20.61)	(100.00)	
Total	10,162	50,542	13,130	63,672	73,834
		(79.38)	(20.62)	(100.00)	

**Table II**  
**Description of Variables**

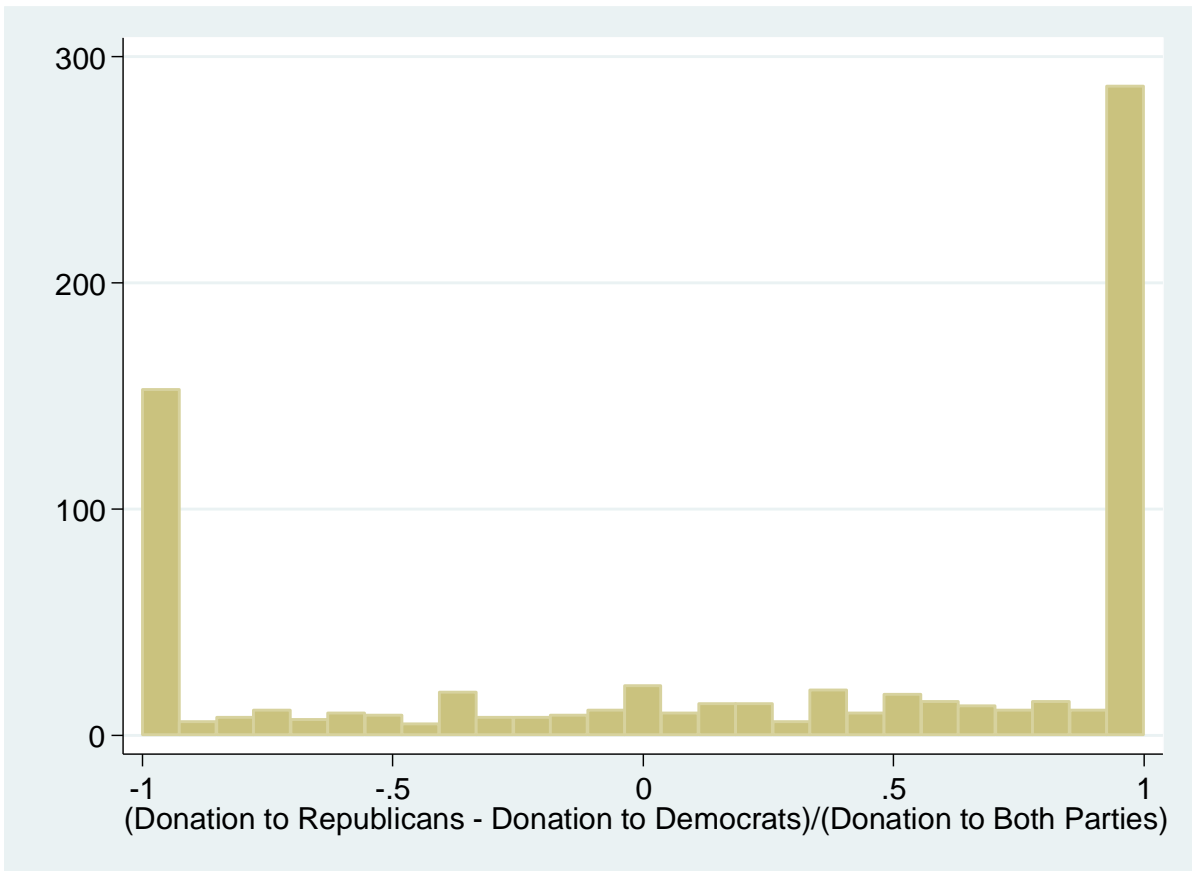
This table shows the definition of main variables in our paper. A firm is included in regulated industry if 2-digit SIC code is 49 (utility), 60 (depository institution), and 63 (insurance). The extended regulated industries, means financial (44, 45, 47) / utilities (31) as well as pharmaceutical (12, 13) / communication (32) / defense (26) based on Fama-French 48 industrial code. Rel is an individual CEO's political preference index. If Rel is 1, we consider "Republican Partisan". If Rel is -1, we consider "Democratic Partisan". CEO characteristics (Pay) and Firm characteristics (Ast, Asr, Roa, and Roaj) are based on 4 years before retirement.

Variable	Symbol
<b>Political Contribution:</b>	
No. of outside directorships for 2 years after leaving office	<b>Dn2</b>
Contribution amounts to Republicans minus Democrats divided both parties' contributions	<b>Rel</b>
Rep_Dummy takes value 1 if Rel=1. Rep_Dummy takes value 0 if Rel=-1.	<b>Rep_Dummy</b>
Contribution amount to Republican party (\$)	<b>Rea</b>
Contribution amount to Democratic party (\$)	<b>Dea</b>
<b>CEO characteristics:</b>	
Tenure period of CEO in office (yrs.)	<b>Tenure</b>
CEO compensation for averaged 4 years before retired (thousands)	<b>Pay</b>
Age when CEO retired	<b>Age</b>
<b>Firm characteristics:</b>	
Assets of firm for averaged 4 years before CEO retired (millions)	<b>Ast</b>
Ln (assets): natural log value of assets	<b>Lna</b>
Abnormal stock return for averaged 4 years before CEO retired (%)	<b>Asr</b>
Return on assets of CEO company averaged 4 years before CEO retired (%)	<b>Roa</b>
Adjusted Roa = return on assets of company – median average of return on assets for 4 years before CEO retired for SIC industry	<b>Roaj</b>
Dummy, one for 49(utility), 60(depository institution), and 63(insurance) of SIC code	<b>Dmi</b>

**Table III**  
**Summary Statistics**

This table shows the summary statistics for main variables. Rel is an individual CEO's political preference index calculated based on political contribution from 1998-2016. See Table II for a description of the variables.

<b>Variable</b>	<b>Mean</b>	<b>Median</b>	<b>Min</b>	<b>Max</b>	<b>Std.Dev.</b>	<b>N</b>
<b>Dn2</b>	0.73	0.00	0.00	5.00	0.95	730
<b>Rel</b>	0.22	0.50	-1.00	1.00	0.81	730
<b>Rea (\$)</b>	4,543.74	2,000.00	0.00	88,700.00	8,102.99	730
<b>Dea (\$)</b>	2,875.63	1,000.00	0.00	101,400.00	6,650.74	730
<b>Tenure</b>	11.21	9.00	2.00	46.00	7.60	730
<b>Ast (\$ millions)</b>	35,645.22	3,176.47	63.66	1,878,618	157,918.30	725
<b>Asr (%)</b>	27.19	5.13	-98.39	10,648.39	402.11	720
<b>Roa (%)</b>	3.24	3.56	-164.62	28.01	10.23	725
<b>Pay (\$ millions)</b>	7,540.96	4,573.41	58.14	132,932.30	10,124.15	706
<b>Age</b>	59.82	61.00	35.00	90.00	7.46	730
<b>Dmi</b>	0.19	0.00	0.00	1.00	0.39	730



**Figure 1. Distribution of Political Preference.**

**Table IV**  
**Distribution of Political Preference**

Panel A presents the retired CEOs' Rel and number of partisans. If Rel is 1, we consider "Republican Partisan". If Rel is -1, we consider "Democratic Partisan". Panel B presents the retired CEOs' Rel distribution under Republican regime or Democratic regime.

<b>Panel A: Partisan CEOs</b>				
	<b>Mean</b>	<b>Median</b>	<b>Std.Dev</b>	<b>N</b>
<b>Rel</b>	0.22	0.50	0.81	730
<b>Distribution</b>	<b>Republican Partisan</b>	<b>Democratic Partisan</b>	<b>In-between</b>	<b>N</b>
	284	153	293	730
	(38.90%)	(20.96%)	(40.14%)	

<b>Panel B: Rel distribution</b>						
<b>No. of Retired CEOs by Rel distribution</b>	<b>Total</b>		<b>Republican Regime based on the retired year</b>		<b>Democratic Regime based on the retired year</b>	
	<b>N</b>	<b>%</b>	<b>N</b>	<b>%</b>	<b>N</b>	<b>%</b>
$-1 \leq REL \leq 1$	730	100.00	509	100.00	221	100.00
REL = 1	284	38.90	214	42.04	70	31.67
$0 < REL \leq 1$	447	61.23	326	64.05	121	54.75
$0.25 \leq REL \leq 1$	406	55.62	296	58.15	110	49.77
REL = 0	15	2.05	14	2.75	1	0.45
$-0.25 < REL < 0.25$	86	11.78	62	12.18	24	10.86
$-1 \leq REL \leq -0.25$	238	32.60	151	29.67	87	39.37
$-1 \leq REL < 0$	268	36.71	169	33.20	99	44.80
REL = -1	153	20.96	96	18.86	57	25.79

**Table V**  
**Political Preference or Strategic Behavior: Political Contribution Relative to CEO Compensation**

Convpay means the 1-year averaged political contribution amount divided by pre-retirement annual CEO Compensation during CEO tenure for each retired CEO. For instance, a retired CEO from firm A contributed \$1,000 per year and his CEO compensation during CEO position in firm A was \$1,000,000 per year. Then, Convpay is 0.1%.

	<b>Mean</b>	<b>Median</b>	<b>Min</b>	<b>Max</b>	<b>Std.Dev.</b>	<b>N</b>
<b>Convpay (%)</b>	0.03	0.01	0.00	2.10	0.11	706

**Table VI**  
**Political Preference or Strategic Behavior: Donation Behavior Changes**  
**Under Different Political Regimes**

This table presents the donation behavior under different political regimes. Rel Republican Regime is an individual CEO's Rel during Republican regime (2003-2008) and Rel Democratic Regime is an individual CEO's Rel during Democratic regime (2009-2014). The unpaired sample is for the full sample and paired sample is only for the retired CEOs made political contribution during both Republican regime period and Democratic regime period. Significant differences at the 1%, 5%, and 10% levels are indicated by \*\*\*, \*\*, and \*, respectively.

	Mean	Std.Dev.	N
<b>Unpaired Sample</b>			
Rel Republican Regime	0.20	0.89	419
Rel Democratic Regime	0.13	0.89	251
Mean Difference	0.07		
<b>Paired Sample</b>			
Rel Republican Regime	0.21	0.83	151
Rel Democratic Regime	0.21	0.85	151
Mean Difference	0.00		

**Table VII**  
**Political Preference or Strategic Behavior: Donation Behavior Changes**  
**Under Different Ruling Parties**

This table presents the number of retired CEO who changed political preference across the ruling party. Panel A shows changes in donation behavior of retired CEO made political contribution during both Republican regime period and Democratic regime period. The sample uses in Panel B is partisan CEOs who contributed either the Republican or the Democratic party.

<b>Panel A: No. of Retired CEO who changed political preference across the ruling party</b>				
			N	%
Republican Regime: Rel > 0 (2003 ~ 2008)	Democratic Regime (2009~2014)	Rel > 0	71	48.30
		Rel < 0	20	13.61
Republican Regime: Rel < 0 (2003 ~ 2008)	Democratic Regime (2009~2014)	Rel < 0	36	24.49
		Rel > 0	20	13.61
<b>Total</b>			<b>147</b>	<b>100.00</b>

<b>Panel B: No. of Retired Partisan CEO who changed political preference based on the ruling party</b>				
			N	%
Republican Regime: Rel = 1 (2003 ~ 2008)	Democratic Regime (2009~2014)	Rel = 1	46	56.10
		Rel = -1	10	12.20
Republican Regime: Rel = -1 (2003 ~ 2008)	Democratic Regime (2009~2014)	Rel = -1	19	23.17
		Rel = 1	7	8.54
<b>Total</b>			<b>82</b>	<b>100.00</b>

**Table VIII**  
**Political Preference or Strategic Behavior: Donation Behavior Changes**  
**Before vs. After Retirement**

This table presents the donation behavior before vs. after retirement. Rel Before Retirement is an individual CEO's Rel before CEO retirement and Rel After Retirement is an individual CEO's Rel after CEO retirement. The unpaired sample is for the full sample and paired sample is only for the CEOs made political contribution before and after retirement. Significant differences at the 1%, 5%, and 10% levels are indicated by \*\*\*, \*\*, and \*, respectively.

	Mean	Std.Dev.	N
<b>Unpaired Sample</b>			
Rel Before Retirement	0.22	0.82	665
Rel After Retirement	0.34**	0.86	228
Mean Difference	-0.12		
<b>Paired Sample</b>			
Rel Before Retirement	0.32	0.74	182
Rel After Retirement	0.38	0.85	182
Mean Difference	-0.06		



**Table IX**  
**Political Preference or Strategic Behavior: Donation Behavior Changes**  
**Before vs. After Retirement**

This table presents the number of retired CEO who changed political preference before vs. after retirement. Panel A shows changes in donation behavior of retired CEO made political contribution before and after retirement. The sample uses in Panel B is partisan CEOs who contributed either the Republican or the Democratic party.

<b>Panel A: No. of Retired CEO who changed political preference before vs. after retirement</b>				
			N	%
Rel before retirement: Rel > 0	Rel after retirement	Rel > 0	101	57.71
		Rel < 0	24	13.71
Rel before retirement: Rel < 0	Rel after retirement	Rel < 0	28	16.00
		Rel > 0	22	12.57
<b>Total</b>			<b>175</b>	<b>100.00</b>

<b>Panel B: No. of Retired Partisan CEO who changed political preference before vs. after retirement</b>				
			N	%
Rel before retirement: Rel > 0	Rel after retirement	Rel = 1	56	65.88
		Rel = -1	9	10.59
Rel before retirement: Rel < 0	Rel after retirement	Rel = -1	13	15.29
		Rel = 1	7	8.24
<b>Total</b>			<b>85</b>	<b>100.00</b>

**Table X**  
**Post-Retirement Outside Directorships**

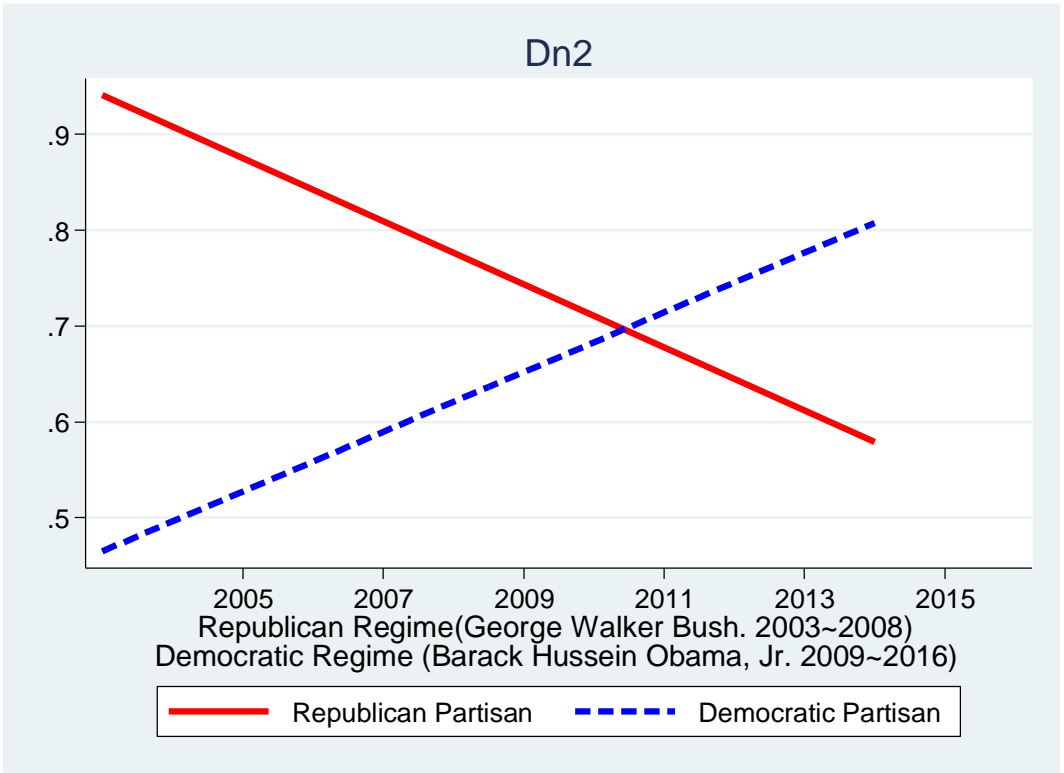
This table shows the average number of outside directorships held by retired CEOs. Dn2, and Dn3 stand for number of outside directorships for 2 and 3 years after leaving office. There is no statistically significant mean-difference between Republican partisan and Democratic partisan. The significance level is estimated by a 2-sided difference in means test.

	<b>Full sample</b>	<b>Republican partisan</b>	<b>N</b>	<b>Democratic partisan</b>	<b>N</b>	<b>Mean Difference</b>
<b>Dn2</b>	0.73	0.78*	284	0.65	153	0.13

**Table XI**  
**Regression Results for Post-Retirement outside Directorships: 2 Years After Retirement**

This table reports ordered logit estimates. The specifications (1) and (2) are full sample regressions. The specifications (3) and (4) are partisans sub-sample regressions. The dependent variable is Dn2, number of outside directorships for 2 years after leaving office. The coefficients of the regression results represent the ordered log-odd scale change in a response to the one unit change in explanatory variable. Time Trend values from 0 to 14 based on the observation year. P-values are in parentheses. Significant differences at the 1%, 5%, and 10% levels are indicated by \*\*\*, \*\*, and \*, respectively. See Table II for a description of the variables.

	(1)	(2)	(3)	(4)
<b>Rel</b>	0.144 (0.111)	0.147 (0.102)		
<b>Rep_Dummy</b>			0.248 (0.207)	0.251 (0.202)
<b>Lna</b>	0.207*** (0.000)	0.207*** (0.000)	0.234*** (0.001)	0.234*** (0.001)
<b>Asr</b>	-0.001 (0.478)	-0.001 (0.481)	-0.000* (0.065)	-0.000* (0.066)
<b>Roaj</b>	-0.002 (0.854)	-0.002 (0.853)	0.006 (0.550)	0.006 (0.554)
<b>Dmi</b>	-0.151 (0.430)	-0.153 (0.424)	-0.336 (0.200)	-0.336 (0.199)
<b>Time Trend</b>		0.006 (0.789)		0.003 (0.934)
<b>Obs</b>	720	720	432	432
<b>Pseudo R2</b>	0.017	0.017	0.018	0.018



**Figure 2. Post-Retirement outside Directorships.**

It shows a fitted line: the outside directorships 2 years after retirement (Dn2) for Republican and Democratic partisans under Republican regime and Democratic regime.

**Table XII**  
**Post-Retirement outside Directorships:**  
**Republican Regime vs. Democratic Regime**

This table shows the mean of outside directorships 2 and 3 years after retirement, Dn2, and Dn3 for Republican and Democratic partisans under Republican regime and Democratic regime. Significant differences at the 1%, 5%, and 10% levels are indicated by \*\*\*, \*\*, and \*, respectively. The significance level is estimated by a 2-sided difference in means test.

	<b>Republican Regime</b>		<b>Democratic Regime</b>	
	<b>(George Walker Bush, 2003~2008)</b>	<b>N</b>	<b>(Barack Hussein Obama, Jr. 2009~2014)</b>	<b>N</b>
<b>2 Years after Retirement (Dn2)</b>				
<b>Republican Partisan</b>	0.86***	181	0.65	103
<b>Democratic Partisan</b>	0.54	76	0.77	77
<b>Mean Difference</b>	0.32		-0.12	

**Table XIII**

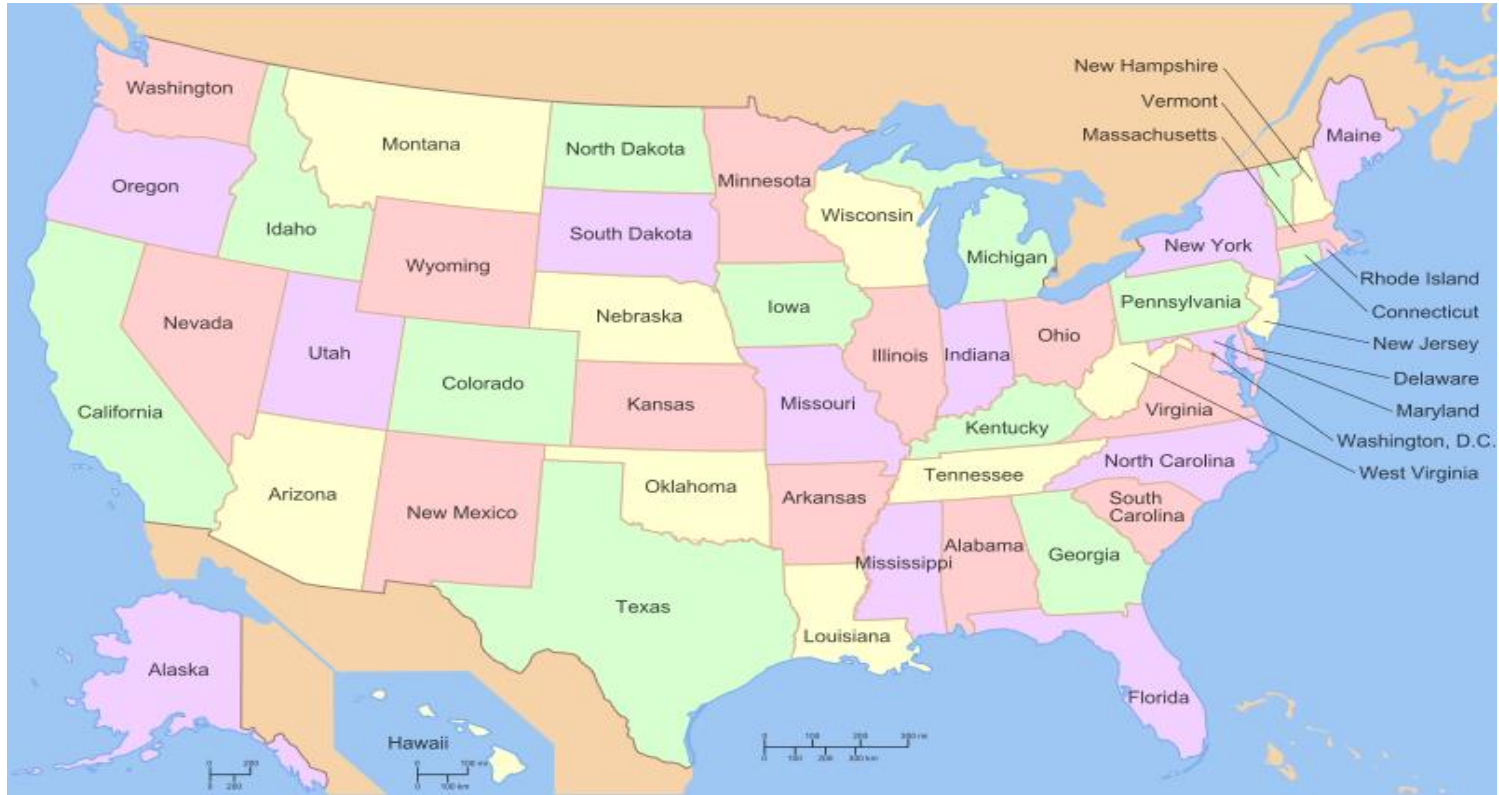
**Regression Results for Post-Retirement Outside Directorships: 2 Years After Retirement under Republican vs. Democratic Regime**

This table reports regression results. The specification (1) and (4) are ordered logit estimates in the full sample and partisan sample. The specification (2) and (5) are zero-inflated passion model in the full sample and partisan sample. The specification (3) and (6) are ordered logit estimates in the sub-sample. In the sub-sample, we use only the sample who has participated in the director market. And, the participation is defined as at least one directorships including outside and inside (employee) directorships, mostly a chairman position. The dependent variable is Dn2, No. of outside directorships for 2 years after leaving office. The negative coefficient of Lna in Inflate part means that a CEO retired from greater firms is less likely to be recorded as zero directorships during post-retirement period. P-values are in parentheses. Significant differences at the 1%, 5%, and 10% levels are indicated by \*\*\*, \*\*, and \*, respectively. R2 is a pseudo-R squared for ologit model and deviance-based R squared for ZIP. See Table 2 for a description of the variables.

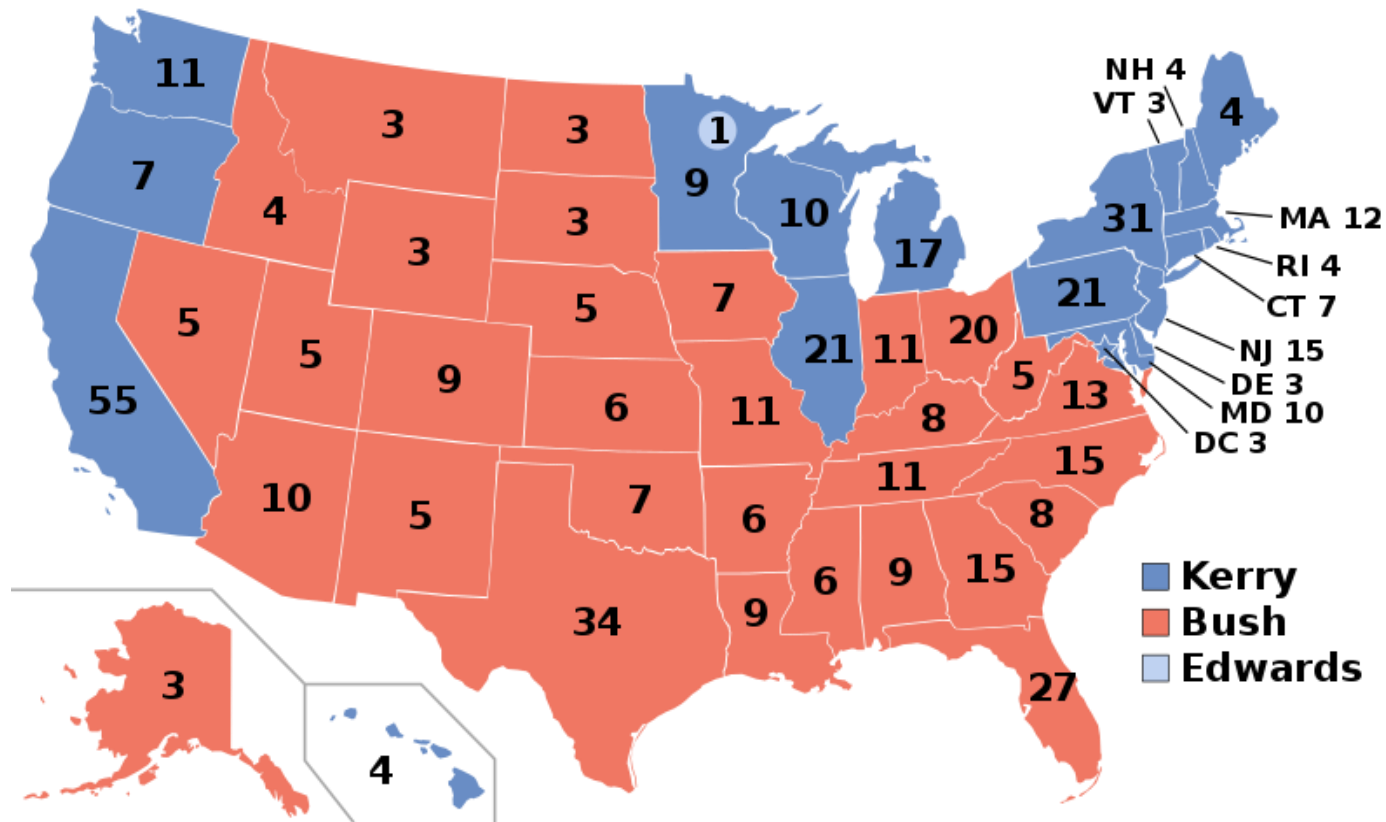
<b>Dependent variable: Dn2</b>	<b>(1)</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>
	<b>Ologit</b>	<b>ZIP</b>	<b>Ologit</b>	<b>Ologit</b>	<b>ZIP</b>	<b>Ologit</b>
<b>Rel</b>	-0.162 (0.246)	-0.115 (0.141)	-0.318* (0.077)			
<b>Rep_Dummy</b>				-0.577* (0.074)	-0.362** (0.034)	-1.043** (0.035)
<b>Rep_reg_Dummy</b>	-0.308 (0.377)	-0.156 (0.446)	0.461 (0.360)	-1.013* (0.070)	-0.549* (0.066)	-0.619 (0.484)
<b>Rel*Rep_reg_Dummy</b>	0.448** (0.023)	0.289** (0.011)	0.682** (0.012)			
<b>Rep_Dummy*Rep_reg_Dummy</b>				1.169** (0.016)	0.725*** (0.005)	1.720** (0.019)
<b>Lna</b>	0.339*** (0.000)	0.151*** (0.000)	0.304*** (0.000)	0.450*** (0.000)	0.244*** (0.000)	0.505*** (0.000)
<b>Asr</b>	-0.163* (0.090)	-0.117** (0.044)	-0.155 (0.214)	-0.138 (0.167)	-0.128** (0.041)	-0.244** (0.042)
<b>Roaj</b>	-0.003 (0.841)	-0.002 (0.812)	-0.008 (0.320)	0.008 (0.482)	0.003 (0.732)	0.010 (0.628)
<b>Age</b>	0.044*** (0.000)	0.027*** (0.000)	0.017 (0.430)	0.053*** (0.002)	0.028*** (0.001)	0.040 (0.185)

<b>Gender</b>	-0.988*	-0.502**	-1.436**	-1.367***	-0.731***	-1.202*
	(0.072)	(0.046)	(0.016)	(0.002)	(0.001)	(0.055)
<b>Dmi</b>	-2.512***	-1.214***	-0.341	-2.636***	-1.680***	-1.565
	(0.001)	(0.005)	(0.722)	(0.001)	(0.001)	(0.156)
<b>Time Trend</b>	-0.025	-0.014	0.076	-0.059	-0.033	0.008
	(0.652)	(0.668)	(0.333)	(0.449)	(0.452)	(0.941)
<b>Inflate</b>		-0.856***			-7.474	
<b>Lna</b>		(0.001)			(0.476)	
<b>Industry Origin Dummy</b>	YES	YES	YES	YES	YES	YES
<b>Obs</b>	720	720	404	432	432	239

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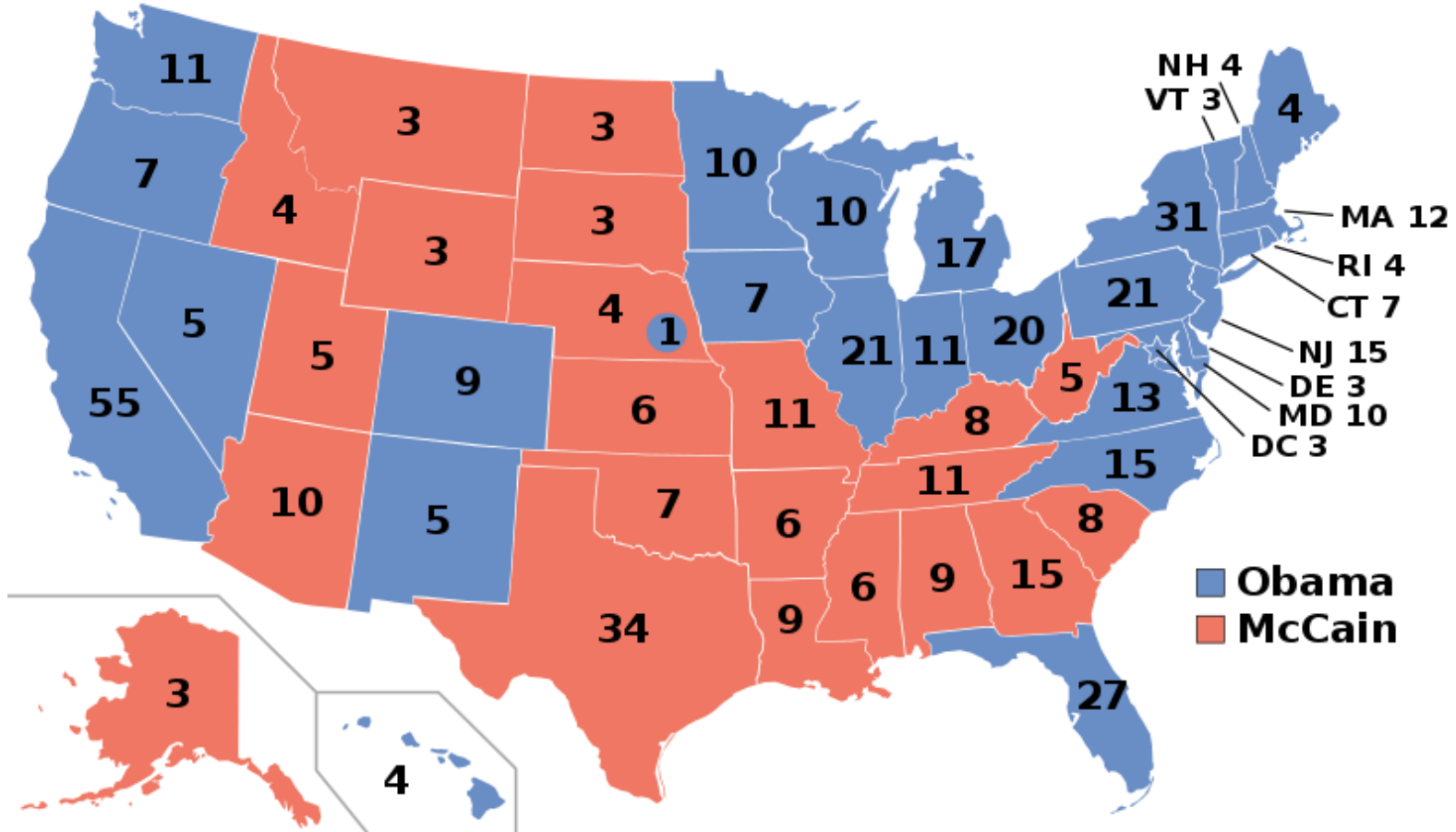






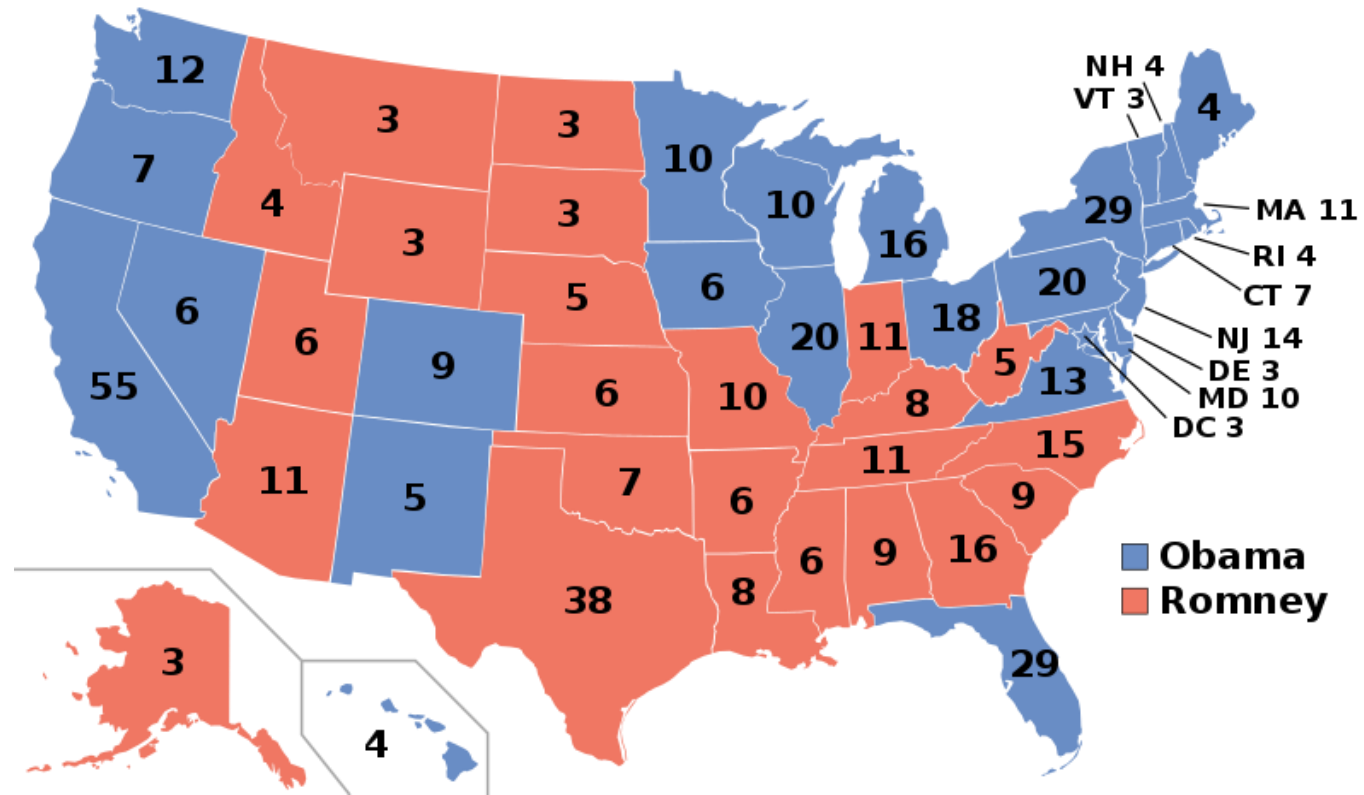
**Figure 3. 2004 Year President Election Results.**

It shows a 2004-year president election result. George Walker Bush (Republican) won 31 states and John Forbes Kerry (Democrat) won 20 states. The number on the figure stands for voters selected members of the Electoral College in each state.



**Figure 4. 2008-Year President Election Results.**

It shows a 2008-year president election result. John Sidney McCain (Republican) won 22 states and Barack Hussein Obama, Jr. (Democrat) won 29 states. The number on the figure stands for voters selected members of the Electoral College in each state.



**Figure 5. 2012-Year President Election Results.**

It shows a 2012-year president election result. Willard Mitt Romney (Republican) won 24 states and Barack Hussein Obama, Jr (Democrat) won 27 states. The number on the figure stands for voters selected members of the Electoral College in each state.

**Table XIV**  
**Instrument Variable: Republican Win State vs. Democratic Win State where HQ are located**

Rel Republican Win State is a Rel of CEO who works at a firm where a headquarters is located in a state a Republican candidate wins in the 2004, 2008 and 2012 president election. Rel Democratic Win State is a Rel of CEO who works at a firm where a headquarters is located in a state a Democratic candidate wins in the 2004, 2008 and 2012 president election. Significant differences at the 1%, 5%, and 10% levels are indicated by \*\*\*, \*\*, and \*, respectively. The significance level is estimated by a 2-sided difference in means test.

	Mean	Std. Dev.	N
<b>Panel A: 2004 President Election</b>			
Rel Republican Win State	0.41***	0.74	339
Rel Democratic Win State	0.05	0.84	391
Mean Difference	0.36		
<b>Panel B: 2008 President Election</b>			
Rel Republican Win State	0.43***	0.74	198
Rel Democratic Win State	0.14	0.82	532
Mean Difference	0.29		
<b>Panel C: 2012 President Election</b>			
Rel Republican Win State	0.42***	0.73	226
Rel Democratic Win State	0.13	0.83	504
Mean Difference	0.29		

**Table XV: 2-Stage Regression with Instrumental Variable**

This table estimates 2-stage regression models by using an instrumental variable to address potential concerns about endogeneity problem. We instrument “Rep\_Dummy” with the regional political preference. The specification (1) and (5) are 2-stage ordered logit estimates in the full sample and partisan sample. The specification (2) and (6) are 2-stage zero-inflated poisson model in the full sample and partisan sample. The specification (3) and (7) are 2-stage ordered logit estimates in the sub-sample. The specification (4) and (8) are 2-stage OLS estimates in the sub-sample. The dependent variables are No. of outside directorships for 2 and 3 years after leaving office. The negative coefficient of Lna in Inflation part means that a CEO retired from greater firms is less likely to be recorded as zero directorships during post-retirement period. P-values are in parentheses. Significant differences at the 1%, 5%, and 10% levels are indicated by \*\*\*, \*\*, and \*, respectively.

Dependent variable: Dn2	(1) 2s-Ologit	(2) 2s-ZIP	(3) 2s-Ologit	(4) 2s-OLS
<b>Rep_Dummy</b>	-4.501*** (0.006)	-3.010*** (0.002)	-8.819*** (0.000)	-3.147*** (0.000)
<b>Rep_reg_Dummy</b>	-3.295** (0.016)	-2.099*** (0.006)	-4.708** (0.023)	-2.062** (0.018)
<b>Rep_Dummy*Rep_reg_Dummy</b>	4.974** (0.019)	3.329*** (0.005)	8.666*** (0.006)	3.643*** (0.005)
<b>Lna</b>	0.468*** (0.000)	0.243*** (0.000)	0.496*** (0.000)	0.175*** (0.000)
<b>Asr</b>	-0.117 (0.304)	-0.106 (0.197)	-0.165 (0.287)	-0.061 (0.365)
<b>Roaj</b>	0.017 (0.184)	0.007 (0.377)	0.027 (0.209)	0.008 (0.304)
<b>Age</b>	0.055*** (0.001)	0.028*** (0.000)	0.039 (0.178)	0.013 (0.210)
<b>Gender</b>	-1.356*** (0.001)	-0.714*** (0.001)	-1.026* (0.072)	-0.333 (0.154)
<b>Dmi</b>	-2.439** (0.010)	-1.271*** (0.009)	-0.694 (0.622)	-0.286 (0.609)
<b>Time Trend</b>	-0.095 (0.241)	-0.060 (0.205)	-0.063 (0.600)	-0.026 (0.597)

<b>Inflate</b>		-69.966***		
<b>Lna</b>		(0.000)		
<b>Industry Origin Dummy</b>	YES	YES	YES	YES
<b>Obs</b>	430	430	239	239

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**Table XVI**

**Post-Retirement Outside Directorships in Regulated Industries**

Regulated industries related to the political regulation to financial (44, 45, 47) / utilities (31) as well as pharmaceutical (12, 13) / communication (32) / defense (26) based on Fama-French 48 industrial code. Significant differences at the 1%, 5%, and 10% levels are indicated by \*\*\*, \*\*, and \*, respectively. The significance level is estimated by a 2-sided difference in means test.

	<b>Republican Regime</b>				<b>Democratic Regime</b>				<b>Regulated Industry</b>	<b>Unregulated Industry</b>	<b>Mean Difference</b>
	<b>(George Walker Bush, 2003~2008)</b>				<b>(Barack Hussein Obama, Jr. 2009~2014)</b>						
	<b>Regulated Industry</b>		<b>Unregulated Industry</b>		<b>Regulated Industry</b>		<b>Unregulated Industry</b>				
	Mean	N	Mean	N	Mean	N	Mean	N			
<b>2 Years after Retirement (Dn2)</b>											
<b>Republican Partisan</b>	0.27**	181	0.59*	181	0.21	103	0.44	103	0.05	0.16**	
<b>Democratic Partisan</b>	0.11	76	0.43	76	0.25	77	0.52	77	-0.14**	-0.09	
<b>Mean Difference</b>	0.16		0.16		-0.03		-0.08				

**Table XVII**  
**Political Preference Difference: Newly Appointed CEOs Across Ruling Parties**

This table summarizes the political preference of newly appointed 1, 292 CEOs under Republican or Democratic party across 2003-2014 sample period from the CEOs' contribution data in FEC. From this database, we extract the political preference for newly appointed CEOs by the contribution pattern. New CEO Rel Republican Regime is Rel of 698 newly appointed CEOs under a Republican regime. New CEO Rel Democratic Regime is Rel of 594 newly appointed CEOs under a Democratic regime.

	<b>Mean</b>	<b>Std.Dev.</b>	<b>N</b>
New CEO Rel Republican Regime	0.128	0.033	698
New CEO Rel Democratic Regime	0.124	0.036	594
Mean Difference	0.004		



**Table XVIII**  
**Political Preference Difference: Newly Appointed CEOs Across Ruling Parties**

Panel A summarizes the political preference of newly appointed 1, 292 CEOs under Republican or Democratic Party across 2003-2014 sample period from the CEOs' contribution data in FEC. From this database, we extract the political preference for newly appointed CEOs by the contribution pattern. Panel B summarizes the political preference of newly appointed 698 CEOs under Republican Party across 2003-2008 sample period from the CEOs' contribution data in FEC. Panel C summarizes the political preference of newly appointed 594 CEOs under Democratic Party across 2009-2014 sample period from the CEOs' contribution data in FEC.

<b>Panel A: Republican and Democratic regime (2003-2014)</b>								
	Total	REL=1	0<REL≤1	0.25≤REL≤1	-0.25<REL<0.25	-1≤REL≤-0.25	-1≤REL<0	REL=-1
CEO No.	1,292	514	729	685	103	504	549	375
%		39.8	56.4	53.0	8.0	39.0	42.5	29.0

<b>Panel B: Republican regime (2003-2008)</b>								
	Total	REL=1	0<REL≤1	0.25≤REL≤1	-0.25<REL<0.25	-1≤REL≤-0.25	-1≤REL<0	REL=-1
CEO No.	698	273	394	373	58	267	295	202
%		39.1	56.4	53.4	8.3	38.3	42.3	28.9

<b>Panel C: Democratic regime (2009-2014)</b>								
	Total	REL=1	0<REL≤1	0.25≤REL≤1	-0.25<REL<0.25	-1≤REL≤-0.25	-1≤REL<0	REL=-1
CEO No.	594	241	335	312	45	237	254	173
%		40.6	56.4	52.5	7.6	39.9	42.8	29.1

