2022-01-01

American corporate political strategy by revealed preference

American Corporate Political Strategy By Revealed Preference

A Cross-Industry Analysis of Political Activity as a Bundle of Economic Goods

Sophia Irene Scaglioni Melegari

B.A. Political Science | B.A. Economics | Boston University

December 2021

Advisor: Maxwell Palmer

Abstract:
This thesis explores corporate political activity as a bundle of economic goods by analyzing heterogeneity between industries' spending on lobbying, PAC contributions, and the appointment of former political officials to a corporate board of directors. By using hand-collected data on political connections of board members, and years of lobbying and PAC expenses, this paper reveals the sector-specific preferences of the firms within the S&P 500 as of Spring 2021. The analysis shows clear differences between the nonmarket strategies of each industry, signaled by whether or not the industry views the three methods of political engagement as complementary of substitute goods. This tactical selection suggests diverse motivations and goals between sectors and solidifies the theory that firms (and the executives that lead them) perceive corporate political activity as strategically apt.

Keywords: lobbying, PAC, board of directors, corporate political activity, non-market strategy

Contents

Tables and Figures

"Do we have former politicians at home?"

I. Introduction

Is the involvement of corporations in the American political process monolithic? Do all "Big Businesses" all engage similarly on the stage of U.S. politics? This paper will explore the varied ways in which different companies and sectors interact with the government by dissecting and discussing the strategic choices made within firms. This paper will define corporate activity as not one singular decision by a firm, but rather a series of tactical decisions a firm can opt-in or opt-out of. These series of strategic decisions can be viewed as the "goods" firms are purchasing in their "bundle of goods". By uncovering the dimensions *within* corporate political activity, and considering how these dimensions vary between industries, this paper will explore what, which, how, and why firms engage with the policymaking process.

Although there are several ways in which a corporation can decide to enter the political sphere, this paper focuses on three. As these three methods of corporate political activity are highly documented, they are guaranteed to be factual, are rather easily accessible in large quantities, and can be quantified and studied in reproducible ways. They are (1) lobbying expenditure, (2) PAC expenditure, and (3) the appointment of former political officials to a company's Board of Directors. This is not to discount other ways in which companies engage with elected officials or the policymaking process, but rather to focus on a specific group of activities that are not only relevant and meaningful (for reasons discussed later in this paper) but also represent a visible and diversified strategic portfolio for a firm.

The three "goods" should be considered as distinct independent variables, and as different products that firms are purchasing as though they were consumers in a marketplace of corporate political strategy[1]. Framing corporate political activity as a bundle of economic goods is useful for a few reasons. Firstly, it sheds light on how firms engage with politics, namely how *much* they engage in politics and in how *many ways* they engage in politics. If consumption of lobbying services, PAC donations, and appointments of former political officials to a firm's Board Directors are complementary goods, then it indicates that firms attempt to purchase political access and insight in tandem, perhaps voraciously. If spending money on hiring lobbyists, donating to the SuperPAC of a candidate who promises favorable policy, and

[1] Moskowitz, D., Palmer, M., & Schneer, B. (2016). "Corporate Political Activity as a Bundle of Goods." Unpublished manuscript.

appointing ex-bureaucrats (complete with their knowledge into industry-specific regulations) to a company's board of directors only serves to drive up spending on the other two categories, this would indicate a massive positive feedback loop around political spending by private firms. It would suggest that once a firm starts purchasing attempts at political influence, it will be increasingly motivated to buy more of it. If consumption of the three "goods" is as substitutes, on the other hand, it would suggest that firms engage tactfully and only in certain areas at a given time, perhaps not to overspend on political engagement, or because they are selective in choosing avenues that they perceive as having higher yields.

Not only does framing corporate political activity as a bundle of economic goods yield insights into how companies at large engage with elected officials, but it also sheds light on how individual industries differ in their interactions with the government. By breaking down exactly where and on what corporations spend the money they've allocated towards political action and analyzing it on an industry-by-industry basis, we can compare the methods each industry* adopts to try to gain insights and footholds into the policy-making world. In doing so, we see that corporate political activity is anything *but* monolithic. Different industries prioritize completely different forms of spending on government engagement. In certain industries, lobbying expenditures, PAC donations, and corporate board appointments for ex-politicians are consumed by firms as complements. Spending on each lever is not in lieu of spending on another: firms consume more and more of our three political access "goods" to supplement previous purchases (which our literature review will show are perceived by firms as investments). Other industries only engage in one or two methods of political activity, suggesting that they view the three "goods" as substitutes. They pick and choose where to funnel the resources they've internally allocated towards "non-market strategy" (attempting to influence politicians), a business strategy I will discuss further in my literature review. The differences between industries become evident when we separate and compare methods of political activity, and the implications of these differences become highly significant and insightful when we frame them as economic complements or substitutes.

To provide an early example, let's consider two firms: Altria Group and Goldman Sachs. Both are publicly traded firms and are members of the S&P 500 index. Altria Group is a tobacco company in the Consumer Staples sector and Goldman Sachs is an investment banking firm in the Financial Services sector, as cataloged by the GCIS*. Both are highly successful firms: at the end of the 2020 fiscal year, Altria saw revenues of over $26.5 billion[2] and Goldman Sachs saw revenues of $44.6 billion[3]. Despite commonly enjoyed profitability, the firms have different ways of engaging in corporate political activity. In fact, Altria, like the average firm in the Consumer Staples sector, views the different "goods" available for firm purchase as complementary goods while Goldman Sachs, as the average firm in the Financial Services sector, views the "goods" as substitutes.

Altria spends money on all three areas of political activity, lobbying against cigarette and nicotine taxes[4], donating to favorable political funds[5], and appointing Gerald Baliles, the former Governor of Virginia (the state in which Altria is headquartered), to their board of directors[6]. Altria perceives these avenues of spending as actions that go hand in hand, each complementing the other. Goldman Sachs, on the other hand, has no former political officials on their board of directors and their average yearly lobbying expense is a third that of Altria[7]. However, the bank spends twice as much as Altria on PAC donations in a given year[8]. This marked preference towards PAC donations and away from the other two areas of corporate political activity indicates that, to Goldman Sachs, the three "goods" more closely approximate substitutes, as they are consumed independently of one another. These are not case-specific observations, but rather, indicative of overall trends in both industries. Why do they occur? Why are certain industries high spenders across the board while others selectively engage in only one area more than others? Is it only to uphold the status-quo of what other competitors in an industry are doing? Or is there a deeper, deliberate reason for this political engagement?

---

[2] Altria Group, Inc. (2020). Form 10-K Report.
[3] Goldman Sachs Group, Inc. (2020). Form 10-K Report.
*GCIS is short for Global Industry Classification Standard and is an industry taxonomy used by the global financial community.
[4] Clerk of the U.S. House of Representatives and Secretary of the Senate. (2nd Quarter, 2019). Altria Client Services Lobbying Report.
[5] U.S. Federal Election Commission FEC. (2021). Altria Group, Inc. Political Action Committee (ALTRIAPAC), Committees And Candidates Supported/Opposed.
[6] Altria Group, Inc. (2020). Form 10-K Report.
[7] Clerk of the U.S. House of Representatives and Secretary of the Senate. (2nd Quarter, 2019). Goldman Sachs Lobbying Report.
[8] U.S. Federal Election Commission FEC. (2021). Goldman Sachs Group, Inc. Political Action Committee.

As demonstrated in the above example, this research is important because it supplements years of data and trend analysis on how corporations interact with policymakers. Its unique empirical and economic framing allows for a clear and impactful understanding of how and through what means firms choose to engage politically.

Although firms are allotted the same legal protections as individual citizens after the Supreme Court ruling in Citizens United v. Federal Election Commission (558 U.S. 310), their agendas, manpower, and checkbooks surmount those of any ordinary individual citizen. Although corporations were involved in politics far before the Citizens United decision in 2008, nowadays companies and people are, as far as the law is concerned, interchangeable when it comes to exerting political influence. This makes the contrast in how firms and citizens engage politically more obvious than ever before. Where I can call my senator and be answered by an overworked and unpaid intern, a corporation can send a lobbyist directly to their desk on Capitol Hill. Where I can raise money through friends and family for a candidate, a corporation can fund a SuperPac to support its preferred candidate. Where I can write letters to my governor to urge support on an issue, a corporation can hire a former agency director or administrator to advise its boardroom on how to navigate through red tape and towards financial success.

These anecdotes serve to emphasize what this paper contributes and why we study corporate political activity at all: companies can do more to change social, economic, and political outcomes than an individual can. By using empirical research to analyze the reasoning and motivations behind firms' political decisions, we can learn more about the inner workings of these powerful players in the political landscape.

II. Literature Review

Before delving into my original research, it is important to take a step back and consider existing research on corporate political activity. Indeed, there is a sizable body of literature that lays a strong foundation for the original questions asked by this paper. The first thing to consider when we consider corporate political activity at all is the "why" behind it all. Before we can begin to understand which firms are engaging and how they are engaging, it is essential to comprehend exactly what firms think they are doing. What payoffs do they presume to await them if they chose to engage politically—whether that be through lobbying, donating to a PAC, or appointing a former politician to their corporate board?

To political scientists, corporate political activity is regarded as a phenomenon that affects democracy and institutions. To business administrators, corporate political activity is regarded as a non-market strategy. I will review the extant literature on the topic from both areas of academia, not solely political science because it is crucial to understand the differences in perspective that exist between the two fields. Moreover, if we hope to uncover what drives a firm to engage in politics, we must step into their viewpoint (A.K.A. their circle of professional journals) to understand what *they* perceive to be corporate political activity. I will therefore begin by considering corporate political activity from the viewpoint of the corporation and then progress to literature written on the topic from more traditional academic sources, namely economic and political science journals. Let's dive in by considering the former.

A. Why Firms Decide to Engage Politically

Non-market strategy is a broad term that refers to a firm's activities outside of the marketplace that can help it gain a competitive advantage[9]. Corporate political activity, in the business world, is viewed as a type of non-market strategy. Articles and papers written for a corporate audience openly posit that non-market strategies, such as political action, are intended to alter the playing ground upon which firms compete. An oft-quoted business article states, "non-market strategy assumes that this landscape for pricing, investment, and competition decisions is not exogenous. Rather, it explicitly considers the landscape as endogenous—a landscape that a firm can affect with various tools at its disposal".[10] Essentially, this article, like many others, encourages corporate political activity by reminding corporate readers that the realm in which they operate "can be created, tilted, or altered to give one firm the high ground and another firm the low ground". Lobbying, donating to a PAC, or appointing a former political official to a corporate board of directors are written about in such literature as activities that yield similar results as cutting firm costs or increasing a customer's willingness to pay for a firm's

[9] Baron, D. P., & Diermeier, D. (2005). Strategic activism and nonmarket strategy. Stanford Graduate School of Business.
[10] De Figueiredo, J. M. (2009). Integrated Political Strategy. National Bureau of Economic Research Working Papers.

product. Activities that in literature for an academic audience are framed as able to fundamentally change the responsiveness of politicians to their constituents are viewed in this realm of writing as tools to gain an advantage over competitors.

Firms view corporate political activity in an outwardly influential way. This is evidenced by the literature that is taught to future executives in MBA programs. Companies are led by people who likely believe that, just as their company competes in the market, “they also compete in the political arena, attempting to influence the outcome of the rules of market competition to enhance their profitability”. Businesses see government agencies, such as the EPA, the FDA, etc. as influenceable. By using money, information, and human capital, businesses believe that they can affect the priorities pursued by government agencies, the policies enacted by government agencies, and the timing and targets of implemented policy[11]. If the regulations, laws, and limitations in place to monitor and control businesses are viewed as changeable by the very entities they are intended to govern, there is a considerable issue at hand. Businesses are playing by a different set of rules than the rest of society because to them, the rulebook is flexible. The line between what is and is not allowed is not set in stone, but rather can be shifted to serve a company’s bottom line. And what other way to shift the line of legality than to engage in corporate political activity?

It is necessary to first consider how *firms themselves* view corporate political activity before we cover other literature on the topic for a few reasons. Firstly, it establishes how the actors in our study are reasoning. It is essential to grasp where they are coming from, and how they view the institutions that they are trying to influence. It is not from a place of philanthropic benevolence, or social activism. It is from a place of strategic, profit-chasing business management. Secondly, by covering this area of academic literature—meaning literature that is meant for business administrators—separately from more traditional political science and economic research, one can observe differences in how each field discusses corporate political activity more starkly. These differences are significant unto themselves because they indicate the marked contrast between executives and the rest of the academic world in how the United States government is viewed. The former group views it as something that can be bought and sold in

[11] Oberholzer-Gee, F., & Yao, D. (2006, Revised 2012) "Strategies Beyond the Market." Harvard Business School Background Note 707-469.

the interest of buying and selling, whereas the latter views it as a flawed yet valid and true institution worthy of saving, perhaps through the very regulation which executives try to diminish. When the starting points of perception are so far apart between the two groups, how can a middle ground be attained?

B. Academic Insight Into Why Firms Engage Politically

Having considered the question of why firms engage politically from the viewpoint of the firm itself let's now consider how the question is pondered in other research (which is also available to and cited by MBA level papers, but primarily for a more traditionally-academic audience). Although lobbying and donating to PACs are often discussed in business-oriented articles as levers in strategist's toolkit for attempting to sway officials, it is rarely backed up by empirical evidence in that side of academia. Rather than taking it for granted, or as a rule of thumb, that spending on influence increases political standing (which you will often find is how businessmen and women regard the action), political scientists have established that corporations receive benefits from lobbying and PAC spending through concrete data. For example, PAC contributions to firms have been noted to increase when a candidate that a firm is endorsing is part of a powerful Congressional committee[12] or part of the political party which currently enjoys majority party status[13]. This indicates that firms are more likely to engage in PAC spending if they perceive the candidate they are donating to will be more likely to be in a position to help the firm in return, such as in a *quid pro quo.* Lobbying expenses are similar in that regard: studies have shown that firms who spend on lobbyists receive returns in the form of lower tax rates[14] and increased odds of receiving funding from government programs[15]. More evidence that firms perceive lobbying as a tit-for-tat service is found when we consider that firms are more likely to

[12] Grier, K., Munger, M., & Roberts, B. (1994). "The Determinants of Industry Political Activity." The American Political Science Review, Vol. 88, No. 4, pp. 911-926.
[13] McCarty, N., & Rothenberg, L. (1996). "Commitment and the Campaign Contribution Contract." American Journal of Political Science, Vol. 40, No. 3, pp. 872-904.
[14] Richter, B. K., Samphantharak, K., & Timmons, J. F. (2009). "Lobbying and taxes." Wiley Online Library.
[15] Duchin, R. & Sosyura, D. (2012). "The politics of government investment." Journal of Financial Economics, vol. 106, issue 1, 24-48.

hire lobbyists with connections to politicians and that former senate staff members who became lobbyists saw a decrease in their earnings once their senator left office[16].

This data goes to show that firms engage in spending-based political activity to try to gain government insights and favors. It also goes to supplement prior discussion (from the literature intended for executives) of how and why companies engage in politics with purely *financial* means. There is one other area of corporate political activity which we have yet to explore that goes beyond financial activism: board appointments for former political officials. In MBA-level articles and papers, lobbying and PAC spending are written about frequently, and in the same light as spending on opening a new office or cutting overhead costs. Perhaps writing for executives about corporate political activity focuses on these methods for this very reason: it makes political engagement seem like another thing firms can spend money on, like marketing or research and development, and therefore simplifies and streamlines the idea that corporate political activity is just another tool in a firms' strategic portfolio. Although corporate board members are financially compensated, their appointment goes beyond mere expenses because it also adds to a firm's highly specialized human capital rather than only being marked as an outside expense. Political scientists have made up for the lack of attention to this area of spending within business-level papers by writing extensively on what is colloquially referred to as "the revolving door", or "a situation in which someone moves from an influential government position to a position in a private company, or vice versa"[17].

By studying corporate board appointments for ex-bureaucrats, politicians, army generals, agency-administrators, and other politically connected individuals, extant literature from economists and political scientists provides significant insights into the question of why businesses engage in corporate political activity. First, let's consider what the benefit is to a firm that appoints a former political official to its board of directors. Hailing from a wide range of backgrounds, a former official could provide strategic guidance, direction, and supervision over the firm, as well as political connections, and assist in relationship building. Existing literature has found that several politicians and government officials accept lucrative careers in the private

[16] Vidal, J. B., Draca M., & Fons-Rosen C. (2012). "Revolving Door Lobbyists." American Economic Review, Vol. 102, No. 7

[17] Oxford English Dictionary. "Revolving Door". 2nd ed. (Oxford: Oxford University Press, 2004).

sector. In fact, almost half of all former senators and former governors serve on at least one board of a publicly traded corporation and being elected increases a person's chance of serving on a board of directors by about 30%[18]. This research, as well as my own later in this paper, shows that "the revolving door" is not urban legend but rather, indicative of a pervasive tendency for former politicians to work for a private company after completing their service.

One of the main reasons firms decide to appoint former politicians to their board of directors is to navigate regulatory challenges, as touched on previously. Prior research shows that as regulatory exposure increases, firms in the natural gas and energy industries are more likely to appoint politically-connected individuals to their board of directors[19]. Another reason firms hire ex-government officials is to best navigate changes in not only regulation but also legislation. Studies show that politically experienced directors become more prevalent when new legislation is introduced that fundamentally alters competition in the firm's industry[20]. A third reason to appoint ex-public servants to a private board is to establish better relationships with *present* government officials. Research shows that if the firm is interacting frequently with the bureaucracy—specifically that sales to government, exports, and lobbying are larger than average—there are likely more politically associated people on the board of directors. This suggests that firms invest not only in landscape navigation but also in relationship building when they hire a former politician to their board of directors.

This underscores a point that is mentioned frequently in literature on corporate political activity for a business-minded audience (the first section of my literature review): firms can compete on not one, but two playing fields. One is the free market, and one is the political landscape. Anyone watching the decisions made by businesses will see that there is a very real, and very important second arena in which firms engage and possibly compete*, and this is the political landscape. Companies *want* to out-navigate and out-network their competitors because,

[18] Palmer, M., & Schneer, B. (2016). "Capitol Gains: The Returns to Elected Office from Corporate Board Directorships." Journal of Politics.
[19] Helland, E., & Sykuta, M. (2004). "Regulation and the Evolution of Corporate Boards: Monitoring, Advising or Window Dressing?" Social Science Research Network.
[20] Agrawal, A., & Knoeber, C. (2001). "Do Some Outside Directors Play a Political Role?" Journal of Law and Economics, vol. 44, issue 1, 179-98.
* Whether or not there is significant competition between firms to secure certain connections is a future area of research which I would like to explore

in many ways, regulation, and legislation are what "defines" the market in which firms compete. Defines is a loose term, since the very firms that regulations and legislations are designed to contain view regulations as endogenous variables, something they can alter if they simply try hard enough, but the point remains that there is a whole other side of the market which frequently goes overlooked. The checkerboard upon which firms play in a classic market is one of the sets with a second game on the other side, and this side is a chess game of firms outsmarting one another to gain better access and better insights into the government. The end result—at least in the eyes of those writing literature *for* business executives[21]—is firms understanding, outsmarting, and perhaps even influencing the decisions made by the government. This allows the most connected and wealthy firms to influence the very rules they must play by, subsequently gaining an upper hand in both the chess game of political power *and* the checker game of market profitability.

Before we delve into more literature on former politicians and corporate boards, let us consider a hypothetical case. Consider two firms in the same, highly regulated industry, let's say the Financial Services industry. A highly regulated industry is strictly controlled by government rules, and likely faces a frequent need to adjust its practices according to new laws and administrative shifts (I will cite an empirical measure of what constitutes a highly-regulated industry later in this paper, but for the moment allow this definition to suffice). Now, consider that one of these hypothetical firms has six former political figures on their board of directors. Perhaps one is the former governor of a state in which the firm has offices, one is the former mayor of a city in which the firm has offices, three used to work at the right hand of the President on various Executive committees, and one used to sit on the board of directors at the Federal Reserve Bank.

Now, imagine the second firm in our anecdote. This other firm, which is effectively the previous firm's competitor, has no former politicians or politically connected folks on its board of directors. All else equal, which do you think would have the upper hand when it comes to navigating bureaucratic obstacles or regulatory challenges on the firm's way to financial success? Which do you think is more attractive to informed investors who are aware of the legislative and

[21] De Figueiredo, J. M. (2009). Integrated Political Strategy. National Bureau of Economic Research Working Papers.

administrative complexities of the industry the two firms operate in? The obvious answer is the first company. This hypothetical anecdote indicates there may be an advantage to having a politically-connected board. This is plausible merely by considering the function of a corporate board and a landscape in which one may operate.

However, to further emphasize this, we can consider literature that proves the same point by using empirical evidence. This is important in case examples like the one above are isolated and idiosyncratic cases, or if politically-connected boards truly do affect the value of a company. Luckily for us, extant research exists answering this question. An existing study[22] (which uses similar methods to the ones I detail later in this paper) collected information on the political connections of board members of S&P 500 companies and sorted companies into those connected to the Republican Party and those connected to the Democratic Party to study stock returns following not only the nomination of the politically connected individual to the board but also stock returns following elections of politicians of the same party that the firm is connected to. It found that the first announcement of a former government official to a board already provides financial value to a firm's stock price and that this benefit is only more substantial for companies whose directors are connected to a party that experiences a win in an election. The specific event mentioned by this article is the 2000 election, where George W. Bush won control of the presidency, and subsequently, companies connected to the Republican Party saw an increase in value, and companies connected to the Democratic Party saw a decrease in value.

This research is highly significant because it confirms what one's intuition already knows: that politically connected firms would be better off financially. It is a proven fact that appointing people who used to work for the government in any capacity helps advance a firm's profit motive. This phenomenon also works in the opposite direction: firms whose employees leave to take up positions working *for* the government (specifically the Department of Defense, in the cited study) see a positive reaction of almost one percent in their stock price for the two days after the announcement. There are clear payoffs for both former government officials who chose to pursue private careers and the firms who employ them.

[22] Goldman, E., Rocholl, J., & So, J. (2008). "Do Politically Connected Boards Affect Firm Value?" Oxford University Press on behalf of The Society for Financial Studies.

Existing literature shows that former officials have a tendency to "cash in" after having held office (i.e. pursue a private career on the merits of their public service), and that, other than members of the House, individuals are more likely to serve on corporate boards than register as a lobbyist[23]. Business implications aside (of which firm is best positioned to gain competitive advantage and maximize profits due to their political connections), perhaps there are also implications to the democratic process when we consider this cycle of service and the amount of formerly-private human capital winds up in the Capitol. If politicians, while in office, are planning to later capitalize on their service in a post-political career, what effect does this have on their actions while *in* office? These individuals may seek industry-specific insight by pursuing committee service while in office, specifically on the Finance and Intelligence committees, as participation on these has been noted to increase future board appointments[24].

If elected representatives are focused on developing their personal capital (in the form of sector-specific knowledge and connections) instead of serving constituents while in office, then there is a distortion of policy priorities between what citizens want and what politicians want. This raises the crucial point that corporate political activity is not just a way to improve a firm's standing—although literature for firm executives positions it as such. It is also risking the loss of constituent voices in an echo chamber of private priorities. It risks embedding private priorities into public policy, and possibly, diminishing the democratic process in the name of increasing profit margins.

III. Methodology

Having reviewed current literature on corporate political activity from the lenses of both the corporate and the political, let's consider the original research conducted for this paper. My dataset of firms is composed of the companies in the Standard and Poors 500 (S&P 500). The index represents all areas of the economy, with at least 20 firms included per sector. Although further research may be warranted to ensure these 500 firms are representative of the entire universe (all large corporations in the United States), as the S&P 500 stock is the most

[23] Palmer, M., Schneer, B. (2019). "Postpolitical Careers: How Politicians Capitalize on Public Office." The Journal of Politics, Vol. 81, No. 2.
[24] Palmer, M., & Schneer, B. (2016). "Capitol Gains: The Returns to Elected Office from Corporate Board Directorships." Journal of Politics.

commonly used indicator of the U.S. economy's strength as a whole, these firms' actions are likely to be representative of other firms in their industries as a whole. After creating a list of S&P 500 companies as of Spring 2021, I adopted two separate methods of data collection to gather data on these firms' lobbying expenditures, PAC donations, and corporate board appointments.

A. Collection of Lobbying and PAC Spending Data

To collect lobbying spending and PAC contributions for my universe of firms, I turned to the OpenSecrets database. This online repository of raw data is created by the Center for Responsive Politics, a non-partisan, non-profit research group based in Washington, D.C. Information provided by them is often used in academic, peer-reviewed research papers that consider money in politics. Because parent corporations often spread out their contributions and lobbying efforts among several subsidiary companies, I assigned all political activity to the parent-company level. I assessed PAC contributions per election cycle, rather than per year since the nature of a PAC lends itself to a four-year timespan. Dissimilarly, I assessed lobbying contributions yearly, since, unlike PAC contributions which fluctuate predictably depending on if an election is zero, one, two, or three years away, there is no wave-like nature to firm lobbying activity.

I merged lobbying data by year, and PAC data by election cycle for all companies provided by OpenSecrets, and then eliminated ones that were not in the SP500 index (at the time) to create my datasets for those two variables. The datasets were collected and organized together because the most significant parts of each dataset (i.e. the dollar amounts expensed by firms) are numeric. Both variables attached a firm's name, GCIS sector, and sub-industry, to the year an expense or donation was made, and the amount of that expense or donation.

B. Collection of Board Member Data

The third "good" used by firms to try to gain political influence is board appointments for former political officials. This variable, out of the three, is unlike the others due to its qualitative nature. Unlike the lobbying and PAC spending data, which represent data collected and analyzed by a statistical programming language, the board member data was hand-collected. The end product was a dataset similar in its first four variables to the lobbying expenditure dataset and the PAC donation dataset (meaning it also begins by stating a firm's name, GCIS sector, and sub-industry, and the year in question) but very different in its fifth column. Instead of having a numeric quantity that indicates how much a firm invested in political engagement, it shows whom the firm *hired* to invest in political engagement.

To compile the data for this section, I used the U.S. Securities and Exchange Commission EDGAR search feature to pull the 10-K reports from the last five years (2015-2020) for each of the firms in my dataset. 10-K reports are documents disclosing a firm's financial performance that a publicly-traded firm must file with the government every year. At the end of any given 10-K, the firm lists the names of its Board of Directors. For each firm in my universe, I collected these names and researched the person's background. This was an extensive task that drew upon thousands of personnel files, biographies, LinkedIn profiles, company websites, even obituaries.

The universe of officials includes former officeholders, bureaucrats, agency administrators, ambassadors, military officials, and staff members of officeholders who found a post-political career on the Board of Directors of an S&P 500 firm. These individuals have a wide range of backgrounds and experiences. In fact, essentially every level of the American government is represented within this paper's universe of corporate board directors. There are former governors, like Jon M. Huntsman Jr., who was the governor of Utah from 2005-2009 (and an ambassador thereafter) and now serves on the board of Chevron Corporation[25]. There are former agency administrators, like Scott Gottlieb, who was the 23rd head of the Food and Drug Association, and now sits on the board of Illumina Inc, a biotechnology company[26]. There are decorated members of the armed forces, like John M. Richardson, whose 40-year career in the Navy included positions such as Chief of Naval Operations staff, a naval aide to the president, and director of Strategy and Policy at U.S. Joint Forces Command, who now spend their days in the boardrooms of firms like Boeing Co. where Mr. Richardson is a director[27]. There are trade representatives, Federal Reserve officials, chiefs of staff, Police Commissioners, and former

---

[25] Chevron Corporation (2020). Form 10-K Report.
[26] Illumina Inc. (2020). Form 10-K Report.
[27] Boeing Co. (2020). Form 10-K Report.

employees at just about every three-letter agency you can think of (CDC, FDA, CIA, FBI, etc.). Several people who may be widely regarded as purely political figures, like Nikki Haley[28], Al Gore[29], and Chelsea Clinton[30], find secondary callings in the private sector as corporate board directors. The universe is wide and deep, with unlimited potential for future research and exploration; as further analysis will show, every industry engages substantially with former politicians. The hand-collected data on these individuals was the final variable used in my analysis of a firm's "spending" on "goods".

This data was operationalized into an average number per firm of how many officials on a company's board of directors have close political ties or personal political experience to be analyzed quantitatively, like the data on lobbying expenditures and PAC donations. I merged this with data from the WRDS (Wharton Research Data Services) repository which provided insight into the total board size of each firm in each given year. This allowed me to understand what percentage of board members in a year were former politicians.

Once the three components, lobby spending, PAC spending, and board appointments, were collected, I began to model how spending on one area affects spending on another. This allows us to understand whether or not these elements of private political activism work as substitutes to one another or as complements. This analysis will indeed look at overall corporate decisions on how to engage and establish a baseline for how firms engage politically. In other words, it will establish how the average firm in each industry is most likely to engage with politics and allow us to consider the implications of both at-large differences in activity, as well as the implications of the different routes taken by firms in their decision to engage politically.

C. Operationalizing Data

To model firm behavior across industries as a bundle of economic goods, the first step was to convert all of the insights explained above into a usable dataset. Using R, I dropped the lobbying and PAC information from years before 2015, in order to have the same time period represented across all three variables. This was a natural change for the Lobbying and Board

[28] Boeing Co. (2020). Form 10-K Report.
[29] Apple Inc. (2020). Form 10-K Report.
[30] Expedia Corp. (2020). Form 10-K Report.

Member data, which does not fluctuate based on election year, as was the case with the PAC spending data. PAC spending was categorized by cycle, rather than year, which prompted an extra step in the dataset creation process. Since cycles occur every two years (following midterm elections), I divided the per-cycle donation and allocated it evenly across the two years within that cycle. This allowed for consistent data across PAC analysis and avoided the impression in graphs that PAC spending from firms went from zero in odd-numbered years to many thousands of dollars in even years.

The final dataset created includes an observation for every two-year period for 496 firms in the S&P 500. Each observation indicated the firm name, their stock ticker, their respective GCIS sector and sub-industry, the dollar amount of PAC contributions made to either party, the dollar amount of lobbying expenditures, the number of former politicians on their board, and the total number of people on their board. To create models of how firms spend on what they perceive as political access, I imported this dataset into the analysis and visualization software, Tableau.

IV. Results and Analysis

A. How Companies Spend on Political Engagement (At-Large)

I started by modeling economy-wide trends in spending on the three areas of political activity in isolation. By focusing first on each good individually, I was able to confirm a series of preliminary research questions at the outset of my project. Firstly, these graphs show there is a significant amount of spending across all industries on perceived political accessibility and influence. Second, these graphs show there are major differences in how much each industry spends on a certain "good", and also which "goods" are the preferred area of consumption for different industries. Graphs 1, 2, and 3 respectively show lobbying expenditures, PAC expenditures, and the number of former political officials appointed to the average company in a given industry over the years 2015-2020. I will discuss them each in turn below.

The below graph and table (Graph 1 and Table 1) show data on lobbying specifically, with each amount representing the average amount spent by a firm in a given industry in the years of 2015-2020. It is crucial to note here, as well with all graphs in this report, that the values therein represent the average yearly lobbying (or PAC contribution, or the number of former politicians on a board) for a given *firm* within a sector. Thus variation is not attributed to the different sizes of the sectors, although this may be an underlying cause of heterogeneity in firm behavior. We can see that the two industries that largely outspend any others are the Industrials and Communication Services industries. Industrials include aerospace and defense, construction and engineering, and electrical equipment and heavy machinery. Communication Services include telecommunication providers, media and entertainment providers, and wireless internet providers. All of the other industries spend at relatively comparable levels, except for the Real Estate industry, which has a significantly smaller lobbying presence than any other industry.

Graph 1: Average Yearly of Lobbying Expenditure by Sector (2015-2020)

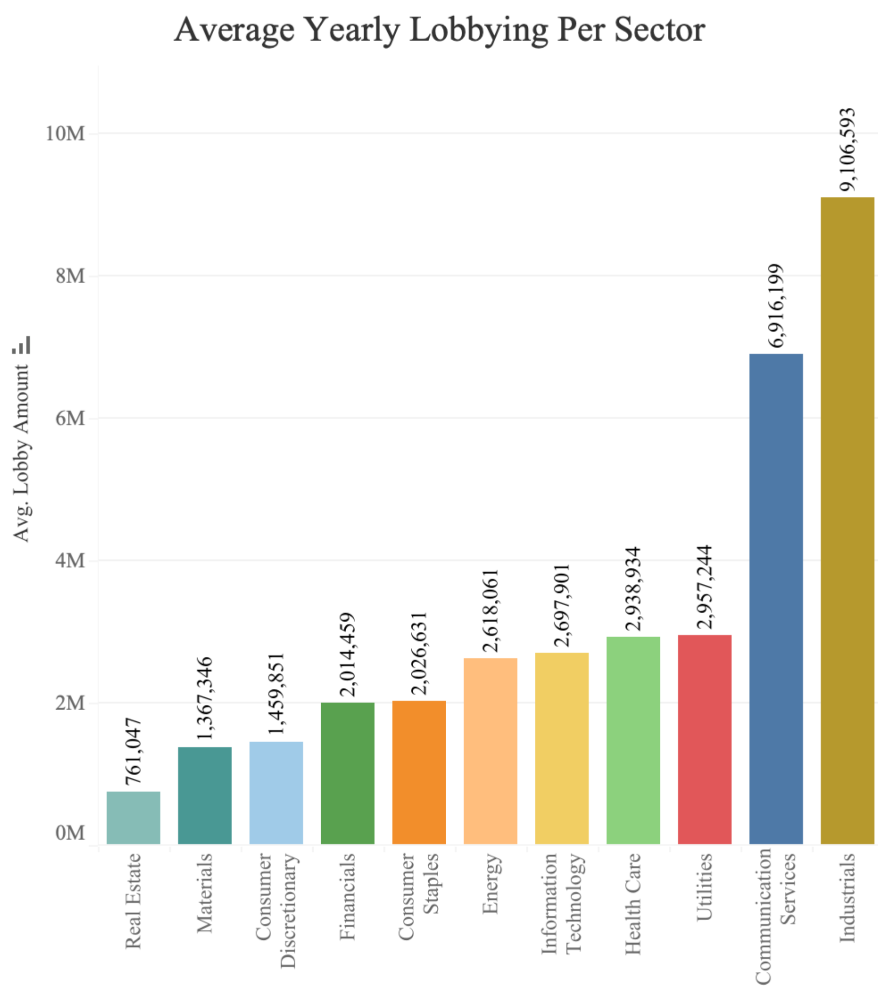


Table 1: Average Yearly Firm Lobbying Expense by Sector (2015-2020)

Sector	Yearly Lobbying Expenditure
Industrials	$ 9,106,593
Communication Services	$ 6,916,199
Utilities	$ 2,957,244
Health Care	$ 2,938,934
Information Technology	$ 2,697,901
Energy	$ 2,618,061
Consumer Staples	$ 2,026,631
Financials	$ 2,014,459
Consumer Discretionary	$ 1,459,851
Materials	$ 1,367,346
Real Estate	$ 761,047

Next, we can consider a similar graph but one that shows the average PAC donation a firm in a given sector can be expected to make in an election cycle. The results of this analysis, as demonstrated in Graph 2 and Table 2, and the findings are interesting to consider especially in comparison to the lobbying information. First of all, there is less money in PAC spending than in lobbying spending across all industries; perhaps this is due to the essence of PAC donations which support *candidates* who have yet to ascend to office, in contrast with lobbying expenditures which are to advance relations and information networks with people *already in* office, and therefore provide a more immediate avenue of influence. Another difference is that with PAC spending, it is very clear which political party is receiving the donation. Lobbying, on the other hand, is often focused around specific issues, and therefore not directly partisan to the extent that PAC spending is. This allows for an observable split in amounts donated to either party.

This visualization is significant in several ways. Firstly, it shows that all industries donate to both Republicans and Democrats in election cycles, but no industry donates more to Democratic candidates than it does to Republican candidates. The industry which most strongly represents the economy-wide preference towards donating to Republican candidates over Democratic candidates is the Energy Industry. Almost 90% of PAC dollars donated by the average firm in the Energy industry can be expected to support a Republican candidate.

The top two spenders on PAC involvement, by a substantial margin, are again the Industrials and Communication Services industries. The other nine industries spend at much lower levels than the two leaders, but not a negligible amount and there is still significant variation between them. For instance, the Financials industry outspends the Real Estate and Materials industries by over 100%. This goes to show that, although the two highest-spending industries outspend the rest of the economy by a large margin, there are still important moves being made from other industries. These differences in method and amount of engagement will become further developed as we consider them further in section B of my analysis.

Graph 2: Average PAC Donation Per Cycle by Sector Per Cycle (2015-2020)

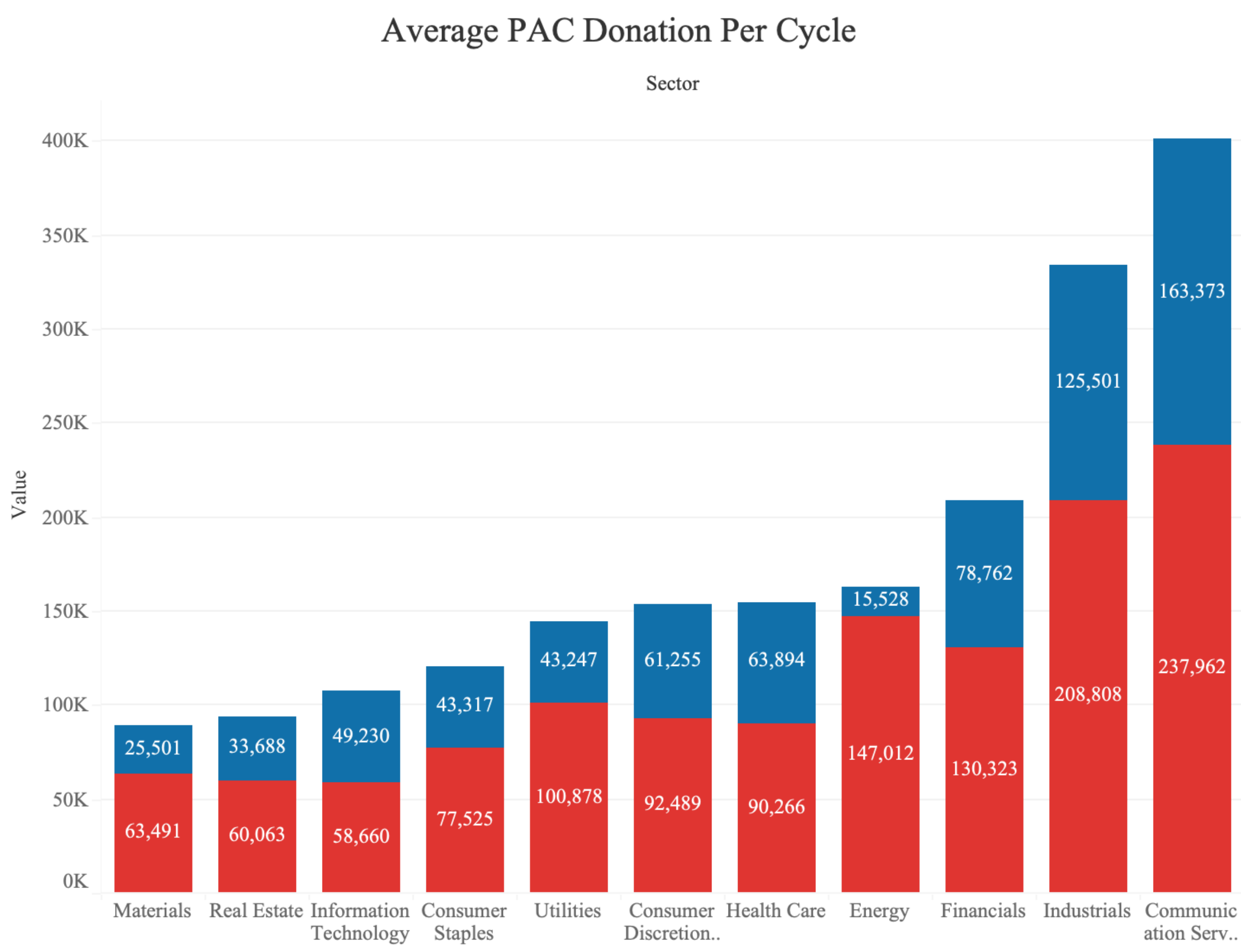


Table 2: Average PAC Donation Per Cycle by Sector (2015-2020)

Sector	Average Donation to a Republican Candidate or Cause	Average Donation to a Democratic Candidate or Cause
Communication Services	$ 237,962	$ 163,373
Industrials	$ 208,808	$ 125,501
Financials	$ 130,323	$ 78,762
Energy	$ 147,012	$15,528
Health Care	$ 90,266	$ 63,894
Consumer Discretionary	$ 92,489	$ 61,255
Utilities	$ 100,878	$ 43,247
Consumer Staples	$ 77,525	$ 43,317
Information Technology	$ 58,660	$ 49,230
Real Estate	$ 60,063	$ 33,688
Materials	$ 63,491	$ 25,501

Let us conclude our at-large analysis of how firms engage with politics by considering the third “good” that firms can choose to “consume”: board appointments of former political officials. Again, we see that the industry which is most likely to appoint a former military official, agency director, senator, governor, etc. to their Board of Directors is the Industrials industry. Although the third variable certainly solidifies this industry as the most likely to engage with the government by either lobbying, donating to a favorable PAC, or appointing a former political official to its board, it also adds interesting variation patterns observed in the research on the first two “goods”.

Unlike the lobbying and PAC insights, the distribution of firms’ likelihood to appoint former politicians to their boards is more uniform throughout the economy. On average, every firm in the S&P 500 can be expected to have at least one person in their boardroom who has previously worked in politics, or in one of the many arms of the American bureaucracy. This is a highly significant finding that shows a contrast between this method of political engagement and the first two methods. When considering lobbying and PAC spending, the distribution in how much firms in each industry spend on either category is more varied. In other words, the industry a firm is in matters a great deal in predicting their spending on lobbying per year or PAC donations per cycle. However, when it comes to board appointments, all industries are in concurrence that there is a benefit to having at least one politically-minded and connected individual in the boardroom.

This is true even when considering industries that were formerly below average in terms of their political engagement. A firm in the Real Estate Industry, which as a whole ranked penultimate on spending on lobbying exposure and PAC donations, is as likely to have a former political official on a corporate Board of Directors as a firm in the Communications Services industry, which was a top spender on the other two categories. The Industrials Industry remains a steadfast leader across sectors in terms of engagement.

Graph 3: Average Number of Former Political Officials on Firm's Board of Directors (2015-2020)

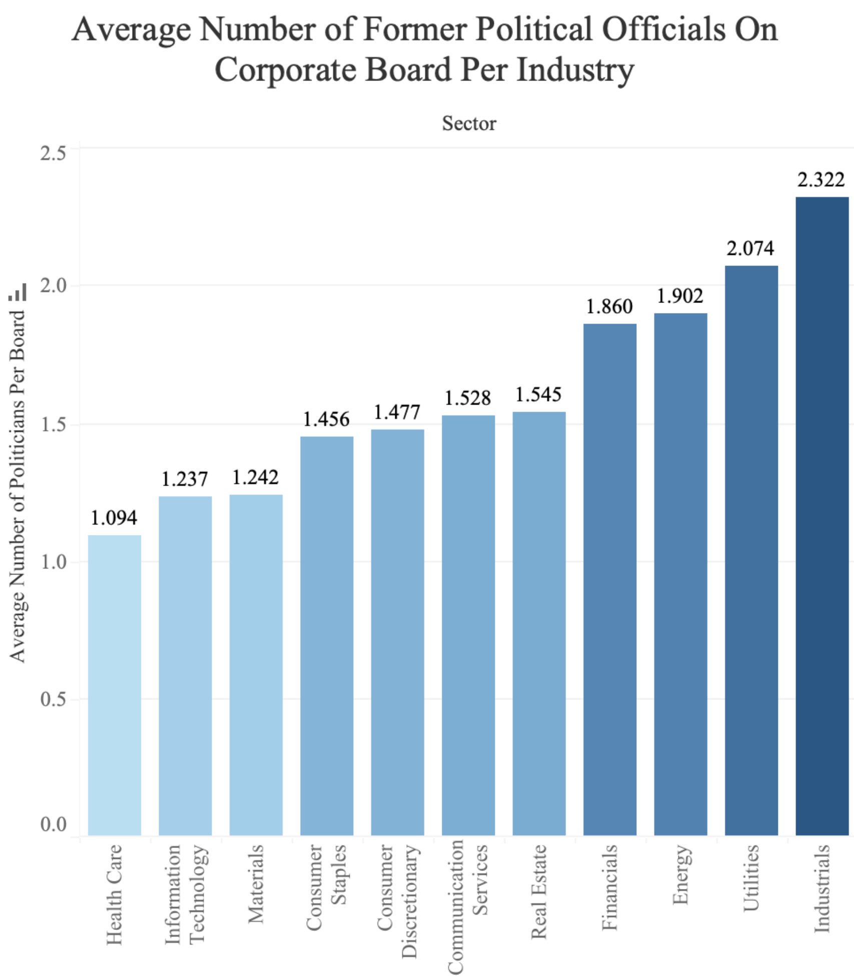


Table 3: Average Number of Former Political Officials on a Corporate Board of Directors by Sector (2015-2020)

Sector	Average Number of Former Political Officials on a Corporate Board
Industrials	2.322
Utilities	2.074
Energy	1.902
Financials	1.860
Real Estate	1.545
Communication Services	1.528
Consumer Discretionary	1.477
Consumer Staples	1.456
Materials	1.242
Information Technology	1.237
Health Care	1.094

Another consideration that comes with the board member data is the understanding of which firms did *not* appoint a former political official to their board. In the sample of 496 firms that this research bases itself on**,** 112 firms had no former political officials on their board from the years 2015-2020. The first implication that can be drawn from this is that 77.4% of S&P 500 firms can be expected to have at least one official on their boards. This individual may have previously worked in a regulatory agency and is now able to aid a firm through regulatory challenges and bureaucratic red tape. For instance, sitting on the board of Pharmaceutical giant Johnson and Johnson is the former Commissioner of the U.S. Food and Drug Administration and Administrator for the U.S. Centers for Medicare & Medicaid Services, Mark B. McClellan. Mr. McClellan was appointed to the board of directors of Johnson and Johnson due to "extensive experience in public health policy and regulation", which, although nuanced, underscores the essential insights he likely provides the firm[31].

Not all former officials who work on a corporate board provide bureaucratic insights. Perhaps, some serve to strengthen ties between their current employer, a private firm, and their former employer, the U.S. Government. For instance, former military officials often serve on the boards of firms in the Aerospace and Defense sub-industry, which contract frequently with the

[31] Johnson & Johnson Leadership Profiles. (2020). "Mark B. McClellan, M.D., p.h.D. Biography".

government. Published justification for appointments of such people (on company websites or in 10-K reports) often centers around traits such as, “extensive crisis management and national security experience” and first-hand “experience with major program development, program resourcing, and other aspects of managing large U.S. armed forces acquisition programs”[32]. However, experience indicates that appointments in this field go further than just regulatory and operational knowledge, as connections between board members and their former agencies continue even after a board member has left their government station.

The second implication comes from looking into which firms are abstaining from appointing former political officials to their boards. As one might imagine, the below table shows logically connected results to Graph 3, where the industries with a lower number of former political officials on their board are also the ones in which more firms abstain from appointing any former political officials at all.

Table 4: Firms per Industry with No Former Political Officials on their Board (2015-2020)

Sector	**Average Number of Former Political Officials on a Corporate Board**
Information Technology	23
Health Care	20
Industrials	18
Consumer Discretionary	11
Materials	10
Consumer Staples	9
Financials	8
Energy	6
Communication Services	3
Real Estate	3
Utilities	1
Total	**112**

It is important to remember that 23% of companies chose not to appoint a former political *official* to their board of directors, this does not mean that those companies are not appointing otherwise politically connected people to their boards. Several board members I encountered during my manual data collection were involved in think tanks and non-profits, such as the

[32] Boeing Leadership Profiles. (2020). “John M. Richardson Biography”.

Council on Foreign Relations, which are not official government organizations but that interact frequently with policymakers. Effectively, several boards have not only *former* political officials within their ranks, but also several *current* political activists around their decision-making tables. However, this is outside the scope of my research and I posit it solely to encourage future research on the topic as well as ask the reader to consider the board member numbers as possibly under representative measures of how much a company is investing in government access through the people it hires.

Having acknowledged the above consideration, allow us to concentrate on what the board member data *does* tell us. Having former political officials on a board of directors is the "equalizer" of the "goods" found in a corporation's bundle of purchases. Not all industries are *spending* significant amounts on political access, but all industries are *appointing* significant amounts of former politicians to their boards (if we believe that just one person on a board of only, on average, nine people can make a difference). There is wide variation in terms of dollars allocated by a major corporation to lobbying and PAC expenses, but minimal variation in how many board members one can anticipate on any given company's board who once had a job in the public sector. The industries with the fewest former political officials on their boards—Health Care, Information Technology, and Materials—have only one less person than the industries with the most former political officials on their boards—Industrials, Utilities, and Energy. Board appointments for ex-officials, agency administrators, and council members are homogeneously adopted throughout all big businesses. Unlike the lobbying and PAC donation data, which showed great heterogeneity in the amounts spent and given by firms across different industries, the board data is much more comparable across sectors.

Of course, in a room of under ten people, on average, a single extra person is a significant presence. Their skills, connections, and insights, are a highly valued contribution, and raising the point that distribution is more uniform among this variable as compared to the other two is not an attempt to undermine the still evident and still important variations within the board member data. On the contrary, there are insights to be gained by analyzing these variations—the industries that have more versus fewer former political officials on their boards—and I will discuss this more in the next section.

The addition of the board member data, the last of the three variables which we will consider in this economic bundle of goods, provides us with, for the purposes of this research, our complete data set. It is expressed in Table 5. It illustrates how firms in each industry spend their politically-designated dollars and will be a launching point for analysis later in the paper about whether firms view these "goods" as substitutes or complements. This table is visualized later as Graph 4, where it will provide comparisons of relative spending on each "good" by each industry's average firm.

Table 5: Average Levels by Sector (2015-2020)

Sector	Average Lobbying Expense	Average PAC Donation	Average Number of Former Political Officials on a Corporate Board
Industrials	9,106,593	345,902	2.322
Communication Services	6,916,199	401,335	1.528
Utilities	2,957,244	144,125	2.074
Energy	2,618,061	166,413	1.902
Financials	2,014,459	190,804	1.860
Health Care	2,938,934	160,455	1.094
Consumer Discretionary	1,459,851	158,127	1.477
Consumer Staples	2,026,631	124,858	1.456
Information Technology	2,697,901	107,890	1.237
Real Estate	761,047	93,750	1.545
Materials	1,367,346	88,992	1.242

B. Differences in Industries' Preferred Method of Political Activity

As touched upon throughout this paper, different industries—and different sectors within industries— have different approaches to gaining political access. The crux of this research focuses on these variations, the heterogeneity between industry's "bundles of goods". In which industries are the three methods of (perceived) political access complements? In which are the three substitutes? This section of the paper will consider these questions and dive deeper into the foundations laid in the previous sections' analysis.

The first step in understanding any further questions was to understand where each industry fell relative to other industries in the U.S. economy. Although exploration of this topic began in the above section, additional analysis aggregating all three "goods" into one "ranking" will allow us to determine with certainty which industries were the greatest consumers of political access. Table 6 shows where each sector stands relative to others on spending on the three "goods". The table was created by first, looking at precisely where in the distribution of sectors each sector fell on the three measures as compared to other sectors, quantifying that placement into standings of 1st, 2nd, 3rd, and so on, and then averaging the three standings into one overall "score". Those "scores" were then ordered from highest to lowest, with the highest score—Industrials—indicating that industry is the most fervent partaker in overall corporate political activity, and the lowest score—Materials—indicating that industry is the least fervent partaker in overall corporate political activity.

Table 6: Rank of Relative Spending on the "Goods" Across Industries

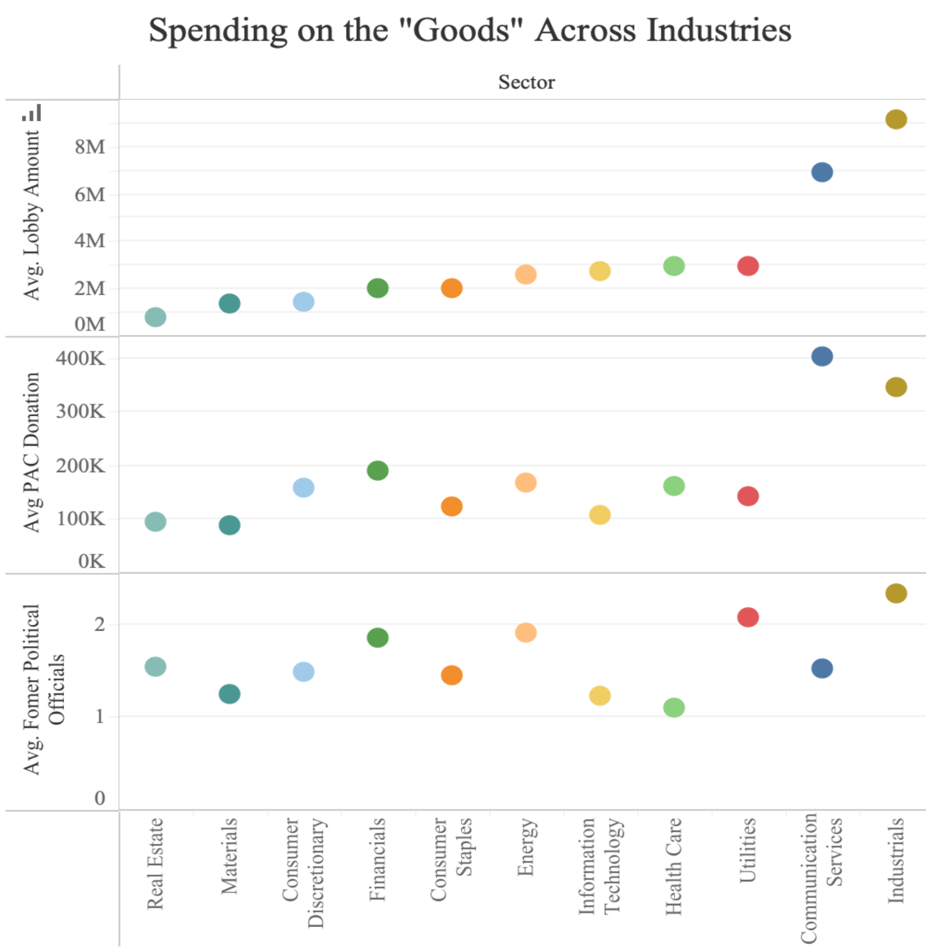
Sector	Average Rank	PAC Spending Rank	Former Political Officials on Board Rank	Lobby Spending Rank
Industrials	1	2	1	1
Communication Services	2	1	6	2
Utilities	3	7	2	3
Energy	4	4	3	6
Financials	5	3	4	8
Health Care	6	5	11	4
Consumer Discretionary	7	6	7	9
Consumer Staples	8	8	8	7
Information Technology	9	9	10	5
Real Estate	10	10	5	11
Materials	11	11	9	10

Ranking the industries in such a way allowed for us to not only account for different approaches to corporate political activity (and in doing so, get an overall understanding of how much each sector engages with the policymaking process) but also allowed us to observe those different approaches that needed to be accounted for. These different approaches, or variations in non-market strategies, as a CEO might frame them, are seen in industries such as Utilities or

Financials, where low rankings in one approach are offset by higher rankings on other levers of influence.

These variations are visualized in Graph 4. The sectors are ordered on the x-axis by highest to lowest lobbying expenditures because each sector's placement on lobby spending most closely approximates the sector's overall "ranking" discussed in Table 5. Graph 4 allows for clear visualization of where each industry allocates resources and where it stands relative to others on spending on each "good" in corporate political activity. It supplements Table 5 by visualizing how, in some industries, relative spending on a particular area is low, but in another, it is very high. The alignment of a firm's spending on each of the three goods makes up their "portfolio" of corporate political activity.

Graph 4: Relative Spending on the "Goods" Across Industries



From the above graph, we can consider each sector's portfolio of goods to understand if they consume the three goods together, or in place of each other when executing their non-market strategy. Industries that view lobbying, donating to PACs, and appointing former political officials to a corporate board as complementary goods will see comparable levels of engagement on all three categories. Whether they are a relatively high spending industry or a relatively low spending industry, sectors that consume comparable amounts of the three goods are the industries that view the "goods" as complements. These include on the upper spectrum, Industrials, Health Care, and Information Technology, and on the lower spectrum, Materials, Consumer Discretionary, and Consumer Staples. Industries that view the three "goods" as substitutes will spend in significantly different amounts among categories. These include Communication Services, Utilities, Financial Services, Energy, and Real Estate. Allow us to consider the industries which view the "goods" as complements first, and then consider those which view them as substitutes.

...Firms' that View Corporate Political Activity as a Bundle of Complementary Goods

As mentioned, there are two groups of firms that View Corporate Political Activity as a Bundle of Complementary Goods. One group views them as complements but spends above-average on the three levers, and one group views them as complements but spends below-average on the three levers.

This latter group represents industries in which the norm is still to spend on all three categories of political engagement, but to a lesser extent than other industries. This is likely due to lesser levels of regulation for the Materials, Consumer Discretionary, and Consumer Staples industries. Previous research regarding regulatory exposure and corporate political activity linked the text of companies' SEC filings to their sector to understand how much regulatory exposure is considered in the decision-making of each industry[33]. I have included the measures they created with their methodology in Table 7 below.

[33]Fouirnaies, A., & Hall, A. (2016). "The Exposure Theory of Access: Why Some Firms Seek More Access to Incumbents Than Others." American Journal of Political Science, Vol. 62, No. 1, pp. 123-147.
*The research done by Fouirnaies and Hall excludes the Real Estate Sector from their analysis..

Table 7: Regulatory Exposure Level By Sector, 2012 (Fouirnaies and Hall, 2016)*

Sector	Regulatory Exposure
Utilities	3.32
Financials	2.34
Health Care	1.57
Energy	1.04
Communication Services	0.92
Information Technology	0.74
Materials	0.48
Industrials	0.39
Consumer Discretionary	0.21
Consumer Staples	0.19

Specifically, a word count of "government; federal; congress; senat; governor; agency; court; administration; commission; legislat; politic; rule; politic; penalt; fine; law; regulat; zoning; licens; oversight; compliance, enforce; require; pursuant; protect" was used to create a measure of regulatory exposure affecting each sector. This research found that all three of those industries are subject to below-average regulatory exposure. It stands to reason that this explains their lessened amounts of corporate political activity, which are relatively diminished across all three "goods" seeing as low demand for government influence and accessibility permeates these firms' nonmarket strategies.

The former group represents industries that spend, spend, spend. Firms in these sectors view hiring lobbyists, contributing to PACs, and appointing former politicians to their boards as levers that assist the others in achieving their overall strategic goals. This may be due to the fact that public-private partnerships are common in the three industries. While all sectors of the U.S. economy interact with the government in one way or another, the frequency of legislative and contractual interactions between the Industrials, Health Care, and Information Technology sectors is of note. Perhaps, the iterative need for collaboration and assistance between the government and businesses in these sectors leads to the sentiment that the more touch-points a firm can create with the government, the better[34].

[34] Schwab.com. (n.d.). "Schwab sector insights: A view on 11 equity sectors. Schwab Brokerage."

Allow us to consider each sector in turn. The Industrials sector, for instance, includes the aerospace and defense sub-industry. Some firms within this industry include Lockheed Martin, Raytheon, and Boeing, all of that are government contractors for the Department of Defense[35]. The Department of Defense is the agency with the largest number of private contractors, representing what President Eisenhower named in his farewell address as "the military-industrial complex". With the government reliant on private companies to fulfill many billions of dollars worth of military and defense obligations, it is plausible that the lines between government and contractor are more blurred than ever before. Former lobbyists and contractors often land high-ranking federal defense appointments, and soldiers and defense agency officials often find lucrative post-political careers on the boards of S&P 500 companies in the Industrials sector. The close contact of private and public forces in this industry means a firm in this area will likely lobby, donate, and appoint more frequently on all three methods of accessibility in order to increase their connections and network with the government.

Another sector in which government interactions with the private sector are increasingly common is the Health Care sector. The Department of Health and Human Services, for instance, is another major agency that employs a great deal of contractors and, importantly, purchases medical supplies and health care surfaces from private companies. Firms like Merck & Co., Pfizer, and GlaxoSmithKline receive several million dollars from government bids for vaccine creation and distribution capabilities annually, even before the COVID-19 pandemic which has only shed light on the public-private partnership between the government's need to provide healthcare to citizens, and their inability to do so without the capabilities and resources of pharmaceutical companies[36]. Like in the Industrials industry, firms in the Health Care industry are likely motivated by their frequent transactions with the government to invest in influence in any way they can. Furthermore, the aforementioned research that used a word counter to measure regulatory exposure for industries found that the Health Care sector was the second most highly regulated industry, which likely only heightens the observed need for government contact.

[35] Nguyen, J. (2019). "The U.S. government is becoming more dependent on contract workers". Marketplace. Episode.
[36] System for Award Management. (2021). Government Contracts for Medical and Healthcare Services.

Subsequently, lobbying, PAC donations, and appointing former political officials to a board of directors are viewed as complementary goods to one another in this industry.

The last industry I noted was a high-spender of the goods as complements was the Information Technology Industry. As is the case for the previous two industries—Industrials and Health Care—I posit that this is at least partially explained by the repeated need for public-private partnerships in this area of the economy. The Information Technology sector is highly concentrated, with a few companies including Apple and Microsoft representing more than 50% of the sector's profits. These firms also represent, however, frequent partners and allies of the U.S. government. Microsoft, for example, was selected in 2018 by the Department of Defense to create a cloud computing interface for the department[37]. Apple, just recently, in August of 2021, promised (alongside Microsoft and Google) to help bolster the cybersecurity infrastructure of the United States as cyberattacks against government agencies are becoming increasingly prevalent. If we consider the recent window of time of the data set (2015-2020), the rationale for why Information Technology spends so much on different methods of government access as complements is clear. Frequent collaboration between government and big-tech is on the rise as the world becomes increasingly digitized and, in President Biden's own words "most of [America's] critical [cybersecurity] infrastructure is owned and operated by the private sector, and the federal government can't meet this challenge alone"[38]. Businesses in this sector want to create close ties with frequent clients and customers, which in recent years and likely in the years to come, are federal government agencies.

...Firms' that View Corporate Political Activity as a Bundle of Substitute Goods

Having discussed the industries in which levers of government access and influence are perceived as complementary goods to one another, and having posited that for the firms that spend low amounts of money on the three it is likely due to low perceived need for access due to low regulatory exposure and that for firms that spend high amounts of money on their complementary goods it is likely due to frequent government interactions, allow us to consider the industries which do *not* view the goods as complements. These industries view them as

[37] Townes-Whitley, T. (2021). "Microsoft's commitment to the DOD remains steadfast." Official Microsoft Blog.
[38] Biden, J. (2021). Address to Press After Cybersecurity Meeting with Tech CEOs in August 2021.

substitutes for one another, picking and choosing which exact areas to funnel resources into rather than consuming equally across all three. I will identify the industries in which avenues of engagement are perceived as substitutes by noting where there are marked differences in levels of engagement between categories. Communication Services, for instance, is the top industry for PAC donations and the second-highest for lobbying expenses but falls in the middle of the group on board appointments. Conversely, the Utilities industry is close to the average on PAC donations and lobbying expenditures, but the second-highest industry for a former bureaucrat to find him or herself a post-political career. The Financials and Energy Industries sing a similar song, as they are middle of the pack on the spending-based levers of access but above average in terms of former political officials on a board of directors. The final industry in which there is an observable preference for board appointments to lobbying or contributing to a PAC is the Real Estate industry.

A note on the Real Estate industry is in order here, as it is a key example of the methodology for identifying substitute consumption versus complementary consumption. The Real Estate industry is the second-lowest spender on both lobbying and PAC donations, but the fifth most likely industry in which you could find an ex-Capitol Hill employee running a boardroom. Comparison of the Materials and Real Estate industries clearly demonstrates how different industries can have different strategies surrounding their levers of influence. Materials is as low as Real Estate on both lobbying and PAC contributions and maintains a low (relatively speaking) level of former political officials on its firms' boards. If the Real Estate industry perceived the three levers as complements, we would observe equally low engagement with former politicians, as is seen in the Materials Industry. However, this is not the case. The Real Estate industry, like the Utilities, Financials, and Energy industries, views board appointments as substitutes for lobbying or donating to PACs because we can observe a tactical shift in the allocation of a firm's resources towards board member appointments rather than the other two methods. The comparison of the Materials industry and the Real Estate industry makes this clear, as they began with similar levels on the first two variables and show a large difference in the third. If the industries both viewed the three "goods"" as complements, we would expect similar levels of spending on all three categories. However, the difference seen can only be accounted for by considering the firm's internal strategy, and preference for a human-capital-based lever of political accessibility.

It is important to note as well that all of these industries—Communication Services, Utilities, Financials, Energy, and Real Estate—still interact in significant ways with the government. In fact, the perception of the three goods as substitutes is actually quite significant, as it underscores a tactical choice made by the firm to spend on one lever of influence instead of another. These are decisions that make up a firm's non-market strategy and emphasize that firms in these industries have a preference for one "good" over another. Let's consider each industry and hypothesize why these preferences are prevalent.

The Communications Services industry is the second-highest spender on lobbying, the highest contributor to PACs, but is average when it comes to how many ex-political officials one can expect to find on a corporate board of directors. Why is there an observable preference for purely financial avenues of government access in this sector? Perhaps, it stems from the unique nature of firms in this industry, as it is the only one in which the preference for financial donations outweighs the preference for former political officials on a board. Firms within Communication Services include telecommunication service providers, media (e.g., television, radio, print publications, advertising), entertainment (e.g., movie production, sports teams, streamed content), and interactive media (e.g., social networking websites, video games). Over the past twenty years, the telecommunication industry has experienced significant consolidation in the form of highly regulated mergers and acquisitions. Two salient examples of multibillion-dollar mergers are seen in the AT&T and Time Warner merger in 2016[39], and the Sprint and T-Mobile merger in 2018[40]. Interactive media sites, similarly, have seen multi-billion dollar consolidations in the past two decades: Google bought YouTube in 2006[41], Facebook bought Instagram in 2012[42], and Whatsapp two years later[43].

Increased market power for a few firms in the two sub-industries has raised concerns about emerging monopolies within the telecommunication and social media space, but perhaps

[39] AT&T, Inc. (2016). Form 10-K Report.
[40] T-Mobile U.S., Inc. (2016). Form 10-K Report.
[41] Google Inc. (2006). Form 10-K Report.
[42] Facebook. (2012). Form 10-K Report.
[43] Facebook. (2014). Form 10-K Report.

would have drawn even more concerns if not for the ever-increasing amount of money allocated to lobbying and PAC donations from firms in these industries. Since the Federal Communications Commission introduced and passed the Open Internet Order in 2010, an act which attempts to establish and protect net neutrality, lobbying from internet service providers surged and has continued to increase ever since[44]. Unlike other sectors, where adding a board member with specific insight into bureaucratic processes is invaluable, it appears that in the Communication Services industry lobbying and donating to PACs is even *more* valued. The exact reason, or reasons, for this observed difference, are unclear and merit further research; the stark preference by this specific sector for monetary forms of engagement is, indeed, a strategic anomaly.

While the Communication Services industry prefers financial levers to add an ex-politician as a board member, the opposite phenomenon is observed in the remaining industries where lobbying, PAC donations, and corporate board appointments for ex-politicians are viewed as substitutes. In other words, the Utilities, Financials, Energy, and Real Estate industries all appoint former board members at a higher relative rate than they spend on either lobbying or PAC donations. They do this because of the high levels of industry-specific regulation that exist for each of these sectors. Citing the previously mentioned Fouirnaies and Hall paper that used a word-count-based method of understanding regulatory exposure for firms, we can see above-average levels of regulatory exposure for the Utilities, Financials, and Energy industries*. In fact, these three industries are, by the measure created by using the word count, the three most highly regulated industries in the U.S. economy (Utilities, then Financials, then Energy). Perhaps this is what fuels their decision to appoint rather than spend on political influence. To support this hypothesis, allow us to consider exactly what an ex-political official brings to a boardroom in these specific industries. A former policymaker, agency administrator, or committee member who gained first-hand, industry-specific insights into the rules and regulations that surround an industry's legislative or compliance-related challenges can shed light on how to navigate red tape, how internal decisions get made within the government and leverage a network of former co-workers who may still be government employees.

[44] Dellinger, A. (2019). "Here's How Telecom Giants Spent More Than $1 Billion Lobbying Congress." Forbes.
* Recall, Fouirnaies and Hall do not include the Real Estate Sector in their analysis.

In any of these three areas, such knowledge is more valuable than merely lobbying the government agency involved in regulating your firm or donating to a candidate who promises to ease such regulation because regulation is the name of the game when it comes to managing a firm in the Utilities, Financials, or Energy industries. The constant presence of procedural monitoring and compliance requirements in these areas means that a few long-term investments in highly-specialized staffing of your boardroom are perhaps a stronger strategic choice than having to spend every year or every election cycle on lobbyists and PAC contributions. Additional support for this hypothesis can be found in the 10K filings of specific firms, where companies cite their reasons for appointing former politicians. Although the language is nuanced, frequent references to political experience and bureaucratic insights can be found among reports justifying board appointments for firms in the Utilities, Financials, and Energy industries. Essentially, these firms perceive adding connected board members to their firm's portfolio of influence as a stronger lever of non-market strategy than having to repeatedly engage in lobbying or PAC contributions due to the ever-present need for insightful guidance in these highly regulated fields. In other words, these firms make the strategic choice to consume board appointments rather than the other strictly financial methods of access due to their perception that they are superior, substitute "goods" and need not consume the three in tandem, as is the case for the industries which perceive the goods as complements.

C. Implications

By understanding the engagement of a sector relative to the rest of the economy on lobbying expenditures, PAC donations, and corporate board appointments allows us to get an insight into how each industry prioritizes its non-market strategy. It allows us to consider the natural differences between these sectors, as well as the industry-specific context that drives the variation in the multifaceted phenomenon that is corporate political activity. Two crucial, connected questions that cannot be answered by my empirical analysis alone, however, are why firms engage in corporate political activity in the first place and if it actually yields any payoffs. Although research exists citing improved tax rates for firms that lobby extensively, and intuition and nuanced writing on company websites shows ex-political officials are chosen to lead boards due to their insider knowledge, there is also research showing that considering the magnitude and importance of the public-policy decisions at stake, there is actually surprisingly *little* money in American politics.

The oft-cited literature arguing this point uses an analysis of PAC contributions and the voting decisions made by the politicians who received donations and controlled for "unobserved constituent and legislator effects" and finds little relationship between money and legislator votes[45]. It is essential to note this paper was not only written almost two decades ago but also *before* Citizens United opened the gates for unlimited levels of corporate political participation (and data from the years may very well change this papers' findings if accounted for). However, considering the points it raises anyways is important as it effectively raises the ultimate question of corporate political activity: what came first, the money or the vote? Although outdated, this paper emphasizes something which is still fundamentally true when it comes to firm engagement with the government. We cannot prove precisely why a representative chooses to vote in one way or another or favor a certain policy over another. We cannot discern with scientific certainty if it was the effect of a lobbyist or a PAC donation that ultimately changed the decision a policymaker makes.

Despite this research and the questions, it raises—the nagging and existential dilemma of "how do we know spending even works?"—my research raises a few counters and implications. Firstly, even *if* we, as academic researchers of corporate political activity, can't prove with empirical certainty that politicians act in accordance with how they've been lobbied, or donated to, or urged by a former colleague, we know that the *firms themselves believe it to be true*. Recall the distinction drawn in the literature review of writings for a business audience and an academic audience. The section of articles and papers written for business executives lacked any empirical research but adamantly expressed that adding spending on government access was a strong move for any business. Firms are engaging in something that is costly when they lobby, appoint to a board, or contribute to a PAC. So even if there are no actual payoffs to corporate political activity, firms either believe that there are, or that it is otherwise strategically important to engage in politics. Perhaps they fear a decision not to engage, especially in a sector that is on

---

[45] Ansolabehere, S., De Figueiredo, J,, & Snyder Jr., J. (2003). "Why Is There So Little Money in U.S. Politics?" The Journal of Economic Perspectives, Vol. 17, No. 1, pp. 105-130.

average a frequent collaborator or donor in the political sphere (say, Industrials or Communication Services), will make the public view them as a less comprehensively run firm or "out-of-the-loop" relative to competing firms.

So, even *if* political activity has no payoffs, whatsoever, firms still choose to engage either out of habit or ignorance or competitive signaling at the levels demonstrated in **Graphs 1-3**. However, "ifs" aside, there *is* strong extant literature showing specific payoffs to corporate political activity such as lower tax rates and increased odds of receiving funding from government programs for high-lobbying firms[46], and increased stock prices for firms' whose boards are politically connected[47]. Not only that, but it is also important to return to the possibility that if we contemplate the dimensions behind a politician's "yay" or "nay" voting decision too deeply, as is done in the outdated but still probing paper, we risk overanalyzing a relationship into oblivion. Not only are there proven relationships showing specific instances of payoffs to participation, but it is intuitive that corporations benefit from their engagement.

To invoke the sentiment Justice Potter Stewart once expressed about the undefined yet observable nature of pornography... "I know it when I see it". Perhaps, the same is true for corporations spending money on political influence. We know it works because we see it happening. There are payoffs to putting former highly-specialized politicians on a corporate board, to lobbying extensively for improved tax rates, and to funding candidates who promise to give favorable policies to your industry. Arguments can be made and regressions can be run to attempt to show otherwise, but it is unmistakably true that there are payoffs to political participation.

V. Conclusion

This research provides insights into the complicated, diverse arena that is corporate political activity. Specifically, it sheds light on industry-specific preferences, which in their heterogeneity further the argument that there *are* payoffs to participation. Since different sectors are strategically selecting what way to reach elected officials, it indicates that there *are*

[46] Richter, B. K., Samphantharak, K., & Timmons, J. F. (2009). "Lobbying and taxes." Wiley Online Library.
[47] Goldman, E., Rocholl, J., & So, J. (2008). "Do Politically Connected Boards Affect Firm Value?" Oxford University Press on behalf of The Society for Financial Studies.

industry-specific reasons, possibly even payoffs, behind each method of connecting. Some of these reasons were explored in my analysis, and some weren't. For instance, I link firms that are more likely to appoint ex-political officials to a board with industries that have high rates of public-private partnerships. This indicates an area for future research where payoffs to political participation could be identified through empirical analysis. I hypothesized motivations as to why each sector preferred their engagement method of choice, all of which provide crucial starting points for more research. There are likely hundreds of other explanations as to why a specific sector, sub-industry, or even an individual firm makes one political decision over another.

What is essential to take away from this paper, and what it provides the extant body of literature, is not only that all sectors engage significantly in politics, but that there is significant, strategic variation in how each sector chooses to engage. If industries have specific preferences on how to engage, could there be industry-specific payoffs to the preferred engagement? If such preferences are evident, doesn't that indicate that there is something *worth* preferring? These questions pose fascinating new areas to explore. Building upon this research of corporate political activity as a bundle of goods, which thereby reveals, on a sector-by-sector basis, preferences in corporate strategy, further evidence may be found on the payoffs to a firm's political participation.

VI. References

Agrawal, A., & Knoeber, C. (2001). "Do Some Outside Directors Play a Political Role?" Journal of Law and Economics, vol. 44, issue 1, 179-98.

Altria Group, Inc. (2020). Form 10-K Report.

Ansolabehere, S., De Figueiredo, J,, & Snyder Jr., J. (2003). "Why Is There So Little Money in U.S. Politics?" The Journal of Economic Perspectives, Vol. 17, No. 1, pp. 105-130.

AT&T, Inc. (2016). Form 10-K Report.

Baron, D.P. (2015). "Strategy Beyond Markets: A Step Back and a Look Forward." Advancements in Strategic Management, Volume 34.

Baron, D. P., & Diermeier, D. (2005). Strategic activism and nonmarket strategy. Stanford Graduate School of Business.

Biden, J. (2021). Address to Press After Cybersecurity Meeting with Tech CEOs in August 2021.

Boeing Leadership Profiles. (2020). "John M. Richardson Biography".

Clerk of the U.S. House of Representatives and Secretary of the Senate. (2nd Quarter, 2019). Altria Client Services Lobbying Report.

Clerk of the U.S. House of Representatives and Secretary of the Senate. (2nd Quarter, 2019). Goldman Sachs Lobbying Report.

De Figueiredo, J. M. (2009). Integrated Political Strategy. National Bureau of Economic Research Working Papers.

Duchin, R., & Sosyura, D. (2012). "The politics of government investment." Journal of Financial Economics, Vol. 106, Issue 1, 24-48.

Facebook. (2012). Form 10-K Report.

Facebook. (2014). Form 10-K Report.

Fouirnaies, A., & Hall, A. (2016). "The Exposure Theory of Access: Why Some Firms Seek More Access to Incumbents Than Others." American Journal of Political Science, Vol. 62, No. 1, pp. 123-147.

Grier, K., Munger, M., & Roberts, B. (1994). "The Determinants of Industry Political Activity." The American Political Science Review, Vol. 88, No. 4, pp. 911-926.

Goldman Sachs Group, Inc. (2020). Form 10-K Report.

Goldman, E., Rocholl, J., & So, J. (2008). “Do Politically Connected Boards Affect Firm Value?” Oxford University Press on behalf of The Society for Financial Studies.

Google Inc. (2006). Form 10-K Report.

Helland, E., & Sykuta, M. (2004). “Regulation and the Evolution of Corporate Boards: Monitoring, Advising or Window Dressing?” Social Science Research Network.

Johnson & Johnson Leadership Profiles. (2020). “Mark B. McClellan, M.D., p.h.D. Biography”.

McCarty, N., & Rothenberg, L. (1996). Commitment and the Campaign Contribution Contract. American Journal of Political Science, Vol. 40, No. 3, pp. 872-904.

Moskowitz, D., Palmer, M., & Schneer, B. (2016). “Corporate Political Activity as a Bundle of Goods.” Unpublished manuscript.

Nguyen, J. (2019). “The U.S. government is becoming more dependent on contract workers”. Marketplace. Episode.

Palmer, M., & Schneer, B. (2016). “Capitol Gains: The Returns to Elected Office from Corporate Board Directorships.” Journal of Politics.

Palmer, M., Schneer, B. (2019). “Postpolitical Careers: How Politicians Capitalize on Public Office.” The Journal of Politics, Vol. 81, No. 2.

Oberholzer-Gee, F., & Yao, D. (2006, Revised 2012) "Strategies Beyond the Market." Harvard Business School Background Note 707-469.

Oxford English Dictionary. “Revolving Door”. 2nd ed. (Oxford: Oxford University Press, 2004).

Richter, B. K., Samphantharak, K., & Timmons, J. F. (2009). “Lobbying and taxes.” Wiley Online Library.

Schwab.com. (n.d.). “Schwab sector insights: A view on 11 equity sectors. Schwab Brokerage.”

System for Award Management. (2021). Government Contracts for Medical and Healthcare Services.

T-Mobile U.S., Inc. (2016). Form 10-K Report.

Townes-Whitley, T. (2021). “Microsoft's commitment to the DOD remains steadfast.” Official Microsoft Blog.

U.S. Federal Election Commission FEC. (2021). Altria Group, Inc. Political Action Committee (ALTRIAPAC), Committees And Candidates Supported/Opposed.

U.S. Federal Election Commission FEC. (2021). Goldman Sachs Group, Inc. Political Action Committee.

Vidal, J. B., Draca M., & Fons-Rosen C. (2012). “Revolving Door Lobbyists.” American Economic Review, Vol. 102, No. 7.

VII. Dedication(s)

Thank you a million times to my parents, Paolo and Margherita, who show me every day the importance of education and integrity. Thank you to Roberto, who inspired my love of discussion and economics. Thank you to my friends, especially Makena, who encouraged my data collection over the summer of 2021 even when it bordered on obsessive, and Ellie and Gabby, who have been the willing (I hope) sounding boards of this project since its start.

And, of course, thank you, Max. You are an incredible professor and an incredible friend. This research would not have been possible without you.