



**BEYOND POLITICS:  
DO DIRECTORS WITH A POLITICAL BACKGROUND MAKE FIRMS GREENER?**

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Thomas Graf

IE Business School  
Strategy Department  
María de Molina 12, 4º-D  
28006 Madrid

[tgraf.phd2012@alumno.ie.edu](mailto:tgraf.phd2012@alumno.ie.edu)

Carl Joachim Kock

IE Business School  
Strategy Department  
María de Molina 12, 4º-D  
28006 Madrid

[carl.kock@ie.edu](mailto:carl.kock@ie.edu)

**Abstract**

This study examines whether former politicians on corporate boards may be helpful for the implementation of green strategies. Following a resource-based view of the firm, we argue that directors with a political background can provide firms with resources and capabilities that are valuable for meeting communication and implementation challenges of creating an effective and substantive environmental management strategy. We also consider the possibility that appointments of politicians to the board are purely symbolic acts intended to enhance the public's image, without any change in the environmental performance of the firm. We develop testable hypotheses for each of these ideas.

**Keywords:** Corporate Governance, Environmental Management, Politicians as Directors, Resource based view.

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**Introduction**

Outside directors on boards can help firms by providing a multitude of external resources (Hillman, Cannella, & Paetzold, 2000; Pfeffer, 1972; Pfeffer & Salancik, 1978). As business experts they may support firms in decision making and problem solving, bring in alternative viewpoints and act as channels of communication between firms. As support specialists they may bring to the firm specialized expertise on law, banking, insurance and public relations or provide it with financial or legal aid. Finally, as community influentials they may provide non-business perspectives and expertise about as well as influence with powerful groups in the community (Hillman et al., 2000). In all of these functions, outside directors may also provide the firm with legitimacy in its institutional and business environment, which is necessary for the survival of firms (DiMaggio & Powell, 1983).

Only recently, research on outside directors has added a new dimension. Following the resource-dependency perspective, an emerging literature focuses on the role that former politicians may play on corporate boards, with a particular emphasis on their social capital stemming from their relations to governmental institutions (Lester, Hillman, Zardkoohi, & Cannella, 2008; Hillman, 2005). The focus of these studies is the substantive aid that former politicians on boards can give to firms in order to reduce uncertainty from the governmental environment and thus to aid in the “political strategy” of a firm (Hillman, 2005). Essentially, this prior work on politicians as board members has emphasized the political contacts as well as a number of skills (e.g., organization and communication), or, in other words, the valuable resources that these persons could contribute when sitting on corporate boards. We take these studies as inspiration for exploring deeper the specific resources that former politicians can bring to the firm and neglect the

perspective on external dependencies for this. In other words, we change the perspective on former politicians from a resource dependency perspective to the resource-based view (RBV – e.g., Wernerfeld, 1984; Barney, 1991; Peteraf, 1993) following the intuition that a resource dependency perspective may only partially explain the value potential that former politicians may bring to firms. Specifically, we investigate whether former politicians on boards can be a valuable, rare, and hard-to-imitate resource for important areas of firm strategy other than the political strategy and explore their effect on the firm's environmental management efforts and results. Besides being an increasingly important area of firm strategy that has recently attracted much academic attention (e.g., Hart, 1995, 1997; Russo & Fouts, 1997; King & Lenox, 2002), environmental management also shows some similarities to political strategy in that both types of strategies share some of the same human and social capital patterns and thus require the service of similar external resources.

Specifically, we argue that former politicians on boards can substantially contribute to environmental management through their advice and counsel, channels of communication and information between the firm and external organizations, preferential access to commitments or support from important elements outside the firm, and legitimacy. We thus consider explicitly the resource endowments of former politicians and integrate the same into a model of environmental management on the firm level, which details the relationship between environmental efforts and firm performance.

We further hypothesize that former politicians could be taken on boards with the express intention of supporting the firm as a more “symbolic” act (David, Bloom, & Hillman, 2007;

Westphal & Zajac, 1994). We draw on institutional theory to explore if former politicians might be elected to boards to signal to stakeholders that the respective firm is engaging or at least planning to engage in green production efforts and thereby create legitimacy for the firm (DiMaggio & Powell, 1983, Meyer & Rowan 1977). In this case, the firm may mitigate stakeholder pressures for some time - for instance by developing environmental production processes - but would leave their level of substantive environmental performance unchanged or even deteriorate it (Westphal & Zajac, 1998; David et al., 2007; Berrone & Gomez-Mejia, 2009b).

Our work contributes to the literature on board performance by extending the analysis of director backgrounds from a resourced based view perspective. This will help our understanding of the complex relationships between board appointments, specific firm strategies and eventual firm performance. Furthermore, we are also contributing to the literature on environmental management, and in particular the emerging perspectives of “environmental governance” (e.g., Berrone & Gomez-Mejia, 2009a), by investigating the influence of board directors and particularly those with a political background, on environmental performance on the firm level.

The paper is organized as follows. We first review the literature on the importance of the board of directors for firm performance and the emerging perspectives added to this literature by a focus on politicians as members of such boards. In order to develop testable hypotheses, we then analyze what challenges firms face with respect to implementing an effective environmental strategy or otherwise managing the public expectations regarding environmental performance and match these challenges with the resources that former politicians on the board could

potentially supply. Since we are in the process of data collection, we do not offer an empirical test in the current paper, but conclude with a short discussion of the implications of our theoretical discussion.

### **Literature review**

The important role that corporate boards play for firm performance has long been acknowledged in the literature (Hillman & Dalziel, 2003; Judge Jr. & Zeithaml, 1992). By monitoring the CEO, providing services such as linkages to important external actors, and giving advice for strategic decisions, board directors force managers to behave in the interest of firm owners, as well as provide them with external resources and expertise (Fama & Jensen, 1983; Finkelstein & Hambrick, 1996; Markarian & Parbonetti, 2007; for a review of board directors' contribution to strategy: Pugliese, Bezemer, Zattoni, Huse, Van den Bosch, & Volberda, 2009).

A particular stream within this literature has focused on how board composition and the characteristics of board directors affect the efficacy of these roles. Certo (2003), for example, suggest that investors value board prestige and that IPO firms achieve a higher market performance with prestigious board directors. Furthermore, Haunschild & Beckman (1998) find that interlocks matter when they provide complementary information to firms not available through other sources, while Daily & Dalton (1994) identified board quality as one predictor of bankruptcy. Hillman, Cannella, & Paetzold (2000), finally, developed a new taxonomy of board directors that satisfies the resource-providing role of board directors, classifying them as insiders, support specialists, business experts, and community influentials. Within this field, several researchers have analyzed what effects directors that come from particular groups such as

women, minorities, or, in fact, former politicians may have on board and firm performance. However, while the literature on particularly women directors is already quite substantial (e.g., Terjesen, Sealy, & Singh, 2009), our understanding of what role former politicians can or do play on corporate boards is just emerging (Faccio, 2006; Hillman, 2005; Lester et al., 2008).

The potential benefits of close relations with the political arena as a means for establishing competitive advantages have long been a topic of inquiry by public policy researchers (e.g. Capron & Chatain, 2008; Keim & Baysinger, 1988). Specifically, as, for example, Marcus, Kaufman, & Beam (1987) argue, firms use political activities to establish social legitimacy, or, as Shaffer (1995) points out, to influence regulatory processes around protectionism, environmental issues, military procurement and deregulation, prices and market entry. At the core of firms' political strategies lies therefore the attempt to gain and maintain access to those who make public policy. By means of this access firms may acquire information that help them to anticipate changes in the policy environment, are able to build strategic alliances with legislators and regulators, increase their ability to survive by decreasing uncertainty in the political domain, and shape public policies, for example by influencing regulatory and legislative processes (Hillman & Hitt, 1999; Schuler, Rehbein, & Cramer, 2002). In addition, firms use several tactics such as lobbying, making financial contributions, or mobilizing grassroots constituencies (Getz, 1993; Keim & Zeithaml, 1986; Lord, 2000). As a result, firms seem to profit from political connections by showing a higher financial performance than those not connected (Faccio, 2006; Fisman, 2001) and being more likely to be bailed out (Faccio, Masulis, & McConnell, 2006).

Despite this ample work on the effects of connections between the political and the corporate sector, the role of former politicians who join corporate boards has only received scant attention. This surprises even more, considering the apparent importance that firms assign to having politicians join their boards. In fact, between 1973 and 2007, the number of large corporate boards whose members include former government officials has grown from 14 to 52 percent (Korn/Ferry International, 2009), suggesting that former politicians may provide some benefits for firms that other directors do not provide.

According to the extant literature, these benefits may be rooted in the fact that former politicians possess human and social capital that can be leveraged for firms (Lester et al., 2008). For example, former politicians on the board can be helpful in giving advice and counsel, creating channels of communication and information between the firm and external organizations, providing preferential access to, or commitments and support from important elements outside the firm, as well as creating legitimacy for firms (Pfeffer & Salancik, 1978; Hillman, 2005). In this context, Lester et al. (2008) show that the more government service tenure and prior political service jobs with high complexity and prestige former politicians have accumulated, the stronger their human and social capital will be. One potential benefit of these skills likely consists of exploiting the ex-politicians' human and social capital in order to reduce uncertainty from the external environment such as that from regulatory institutions. Accordingly, Hillman (2005) finds that in particular in regulated industries, bringing former politicians on boards seems to pay off as firms with former politicians on boards show higher financial performance than firms without them.

Interestingly, the prior literature discussing the role of politicians on firm boards has near exclusively focused on firms' political strategies, the linkages between former politicians on the board and firms' political environment, and firms' financial performance as a result of these strategies. In addition, the theoretical perspective so far is primarily based on the resource dependence theory (Pfeffer & Salancik, 1978) as former politicians on the board are seen to serve the firm by reducing political environmental uncertainty.

Yet, from a broader perspective, the ability of former politicians to reduce political uncertainty for firms due to prior connections or other skills built during their political careers also clearly constitutes an important resource that from the perspective of a firm is potentially valuable as well as in rare supply (Carpenter & Westphal, 2001; Lester et al., 2008). Thus, while exploring former politicians on corporate boards from a resource dependence theory perspective prior literature has also and essentially shed light on the specific skills that politicians have developed during their political tenure and that can be put to use by firms interested in shoring up the effectiveness of their political strategy. By this, prior work had a resource-based view (Barney, 1991; Dierickx & Cool, 1989; Peteraf, 1993) perspective inherent.

We intend to develop this resource-based view of former politician effects further by analyzing the resource base that politicians bring with them and identifying to what extent not only the political but also other firm strategies could potentially benefit from the skill set that politicians have to offer. In particular, in this paper we focus on the effect that former politicians on the board might have on an increasingly important area of firm strategy, which, furthermore, seems particularly suited to draw on the types of skills that former politicians are likely to bring to the



firm: firm environmental management. We develop hypotheses as to whether or not former politicians on the board can or will be helpful in aiding firms to develop substantive environmental strategies and to what extent firms would actually value to have former politicians on the board; in a second step, we then examine what actual effects we may expect to happen when politicians are on the board. When it comes to strategy issues other than the political policy of a firm, however, one may ex-ante also question whether politicians can or do play a role here, and whether that role consists in substantive aid to firm strategy, or perhaps only serves in a more "symbolic" fashion.

### **Theory**

Environmental performance is a major concern for society today. What started with minority groups such as the Green parties in the late 1970s and non-profit activity groups such as Greenpeace has become a worldwide movement, especially in the so-called developed countries. Waste-reduction, CO<sub>2</sub> emissions' reduction, or energy savings are major issues today, discussed in the political arena, pressured by activity groups, and increasingly demanded by consumers (Berrone & Gomez-Mejia, 2009a; Kassinis & Vafeas, 2006). Accordingly, institutional pressures (DiMaggio & Powell, 1983) for firms to become "green" are increasing, which suggests that individual firms will feel more and more compelled to show a high level of environmental performance - to insulate themselves from negative reactions from their environment or to even benefit actively from these trends and turn their environmental management approach into a competitive advantages (e.g., Berrone & Gomez-Mejia, 2009a; King & Lenox, 2000; Sharma & Vredenburg, 1998). In the next sections, we argue that these tendencies create severe challenges for firms, especially in polluting industries, and that politicians on corporate boards have key capabilities that can help firms to master these challenges.

### **Challenges for firms in polluting industries**

The literature on stakeholder theory (Freeman, 19984) suggests that active stakeholder management can effectively mitigate social pressures and even create financial benefits (Hillman & Keim, 2001; Kassinis & Vafeas, 2006; Smith, 1987). Governmental institutions, in particular, are one of firms' primary stakeholders as they influence the rules of commerce, the structure of markets, the offerings of goods and services that are permissible, and the sizes of markets (Schuler et al., 2002). For firms in polluting industries, regulatory institutions such as the Environmental Protection Agency (EPA) may be a particularly important source of uncertainty as this agency prosecutes environmental offenders and, furthermore, annually publishes toxic spill data on a set of nearly 500 regulated chemicals in the Toxic Release Inventory (TRI). The TRI has, in fact, by now become a highly regarded and extremely well publicized tool for assessing particular firm's environmental performance. Achieving a better fit between the firm's environmental profile and regulations, for example through compliance with existing rules or through influencing regulators, may thus cause fewer penalties and hence achieve a direct financial benefit. In addition, other stakeholders such as media organizations, activity groups, suppliers, or employees may be important stakeholders (Berrone & Gomez-Mejia, 2009a; Kassinis & Vafeas, 2006). While positive reports in the media or at least the avoidance of negative reports about a company may increase its reputation among customers, also the support of activity groups such as Greenpeace may be helpful in building a positive image to the public, and suppliers as well as potential future employees may prefer a firm with a green image to a firm with a dirty one (for an overview on advantages for firms engaging in social issues see Berrone & Gomez-Mejía, 2009b).

Hence, managing these interest groups may be important for the survival of firms particularly in polluting industries, be that through investments into a strong environmental policy that leads to effectively greener production and thus the approval of these interest groups, or through a more symbolic approach (Westphal & Zajac, 1994) that attempts to sway the opinion of these stakeholders without actually going through the complex, time consuming and difficult process of setting up an effective environmental strategy. Accordingly, the challenge for the firm on the communications side is to create a good environmental image for the firm, which may then lead to higher revenues or lower costs.

While the value of maintaining organizational legitimacy by showing to comply with the expectations of various stakeholders regarding environmental performance is a relatively straightforward example of avoiding negative reactions (e.g., consumer boycotts or fines from regulatory institutions), the rationale for gaining strategic benefits from an active approach to environmental management requires some elaboration. In fact, the empirical literature on environmental issues suggests that environmental investments could lead to financial gains, but only if these investments have top management support, are substantial and pro-active in the sense that firms do not just fulfill governmental requirements but actively shape their environmental strategy, and ongoing (King & Lenox, 2002; Klassen & Whybark, 1999; Russo & Fouts, 1997; Berrone & Gomez-Mejia, 2009a). Such pro-active and intense environmental management programs could lead to above average returns in a number of ways. First, by creating legitimacy with environmentally concerned external stakeholders – as discussed above – which could lead to attracting new customers or benefitting from governmental subsidies, but

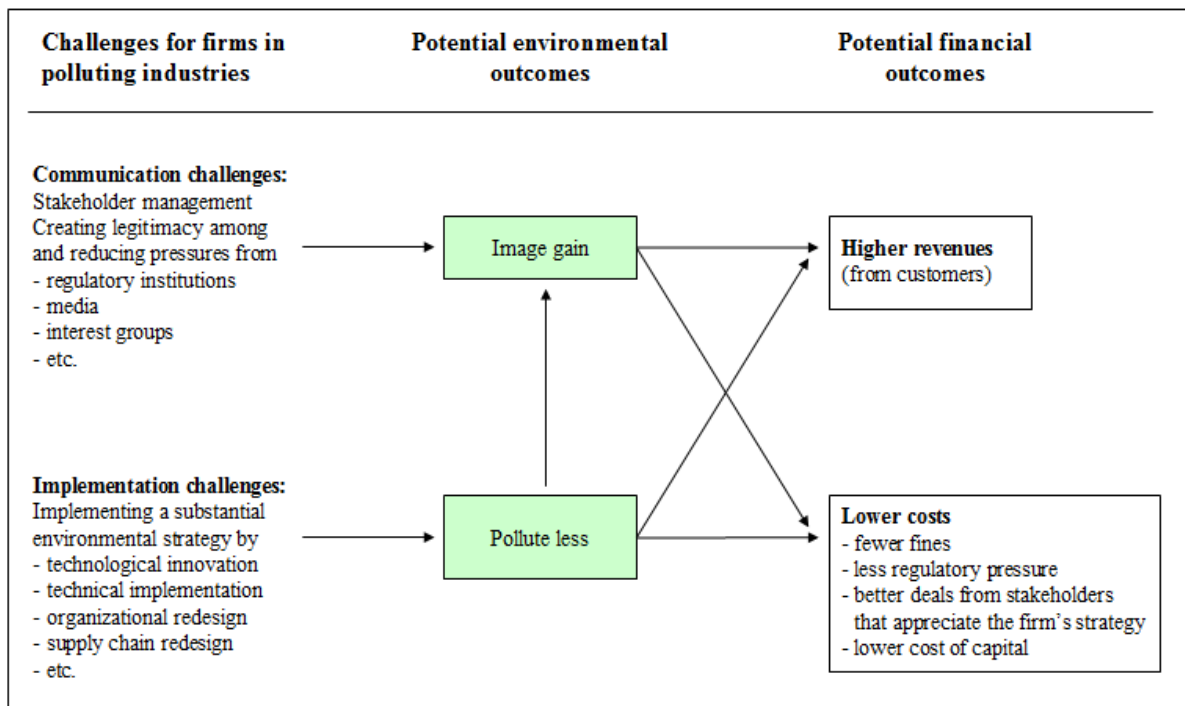
also with internal stakeholders like employees, if these groups value a firm's environmental stance enough to extend the term of their cooperation (e.g., attracting and retaining good employees) or otherwise offer better exchange relationships (e.g., Porter & Kramer, 2007). Second, by developing complex organizational and hard-to-copy capabilities, which in the process of creating a full-scale environmental management program usually requires the integration of various stakeholders such as suppliers or customers (Delmas, 2001; Hillman & Keim, 2001), the firm may become enabled to more efficiently and competitively use firm assets to realize net cost savings (i.e., cost saving process innovations), but also – again – to tie key stakeholders like suppliers, employees or customers closer to itself (Sharma & Vredenburg, 1998). Finally, the development of these environmental capabilities can also lead to product innovations (with an environmental twist) that may allow the firm to charge higher margins in the market (e.g., Porter & van der Linde, 1995). In essence, competitive advantage through environmental efforts is achieved if firms manage to develop a complex set of valuable, rare, hard to imitate or substitute resources and capabilities that allow them to positively differentiate from their competitors in a sustainable way (Barney, 1991).

However, implementing a substantial environmental strategy implies significant implementation challenges for a firm. For example, it may imply an environmentally-oriented redesign of the whole company (Hart, 1995; Russo & Fouts, 1997), the introduction of an Environmental Management System (Klassen & Whybark, 1999), or an organization-wide involvement by going through the ISO14001 EMS certification (Melnik, Sroufe, & Calantone, 2003). Moreover, in order to achieve financial benefits by environmental performance, firms may need to build strong relationships with stakeholders (Delmas, 2001; Kassinis & Vafeas, 2006) or redesign the CEO's compensation system (Berrone & Gomez-Mejia, 2009b). Organizations to become green

and realize financial benefits at the same time, thus, need to go beyond simple compliance with regulations (Oliver, 1991) towards a pro-active, holistic, and ongoing environmental strategy. The implementation of such a strategy may require internal resources and capabilities such as technical information and implementation capabilities as well as external resources and capabilities such as relations to governmental institutions, the communication with activity groups and the management of media organizations. Altogether, the challenges of a firm are to actually create a functioning environmental management approach that leads to a good environmental performance of the firm and, in the process, potentially to higher revenues or lower costs. Figure 1 summarizes these challenges for firms in polluting industries.

**FIGURE 1**

**Challenges for firms in polluting industries**



Furthermore, it is a reasonable assumption that firms will differ systematically in terms of their perceived need to tackle these challenges and create an environmental program that leads to substantive – or perhaps only symbolic – improvements in their green performance. Most obviously, such a need would be higher in industries where firms are under high scrutiny or where stakeholders exercise a large degree of pressure on firms to be more environmentally friendly (Kassinis & Vafeas, 2006). Especially highly polluting industries (Berrone & Gomez-Mejia, 2009a) or such that sell primarily to the end consumer appear likely to expose firms to a high degree of pressure on this issue.

### **How can former politicians on boards help?**

We argue that former politicians possess some of the key capabilities that could be leveraged by firms for mastering the huge implementation and communication challenges of implementing a substantial environmental strategy. Prior research suggests that former politicians are helpful for reducing uncertainty for the firm, particularly by providing advice, communication channels, networks, and legitimacy (Hillman, 2005). However, arguing from the resource-based view we assume that former politicians themselves can be seen as a resource and provide the firm with capabilities. For example, they may have communication and impression management capabilities (De Landtsheer, De Vries, & Vertessen, 2008; Smith, Smith Powers, & Suarez, 2005; Stanyer, 2008) that could be leveraged by firms for the creation of legitimacy and the crafting of an effective communication strategy. In addition, former politicians may have experience in the public process and social issues and therefore skills to manage relations with (or influence) regulatory institutions, interest groups, and media organizations. Finally, former politicians may provide technological knowledge about environmental issues and links to

specific interest groups. We therefore assume that former politicians are potentially very valuable for firms in both managing stakeholders, as well as in implementing a substantive environmental strategy. This should be the case especially for firms in polluting industries where pressures from regulatory institutions and activity groups may be particularly high and where consumers may become increasingly demanding for "greenness" in times of the global warming increase and rising media coverage of environmental topics.

Moreover, prior research has identified a number of issues that would tend to enhance the strength of these skills, in particular political tenure as that increases the likelihood that politicians acquire the skills that we are ascribing them here, serving in complex and prestigious positions during their political career, which would likewise aid in the development of deep communication, problem solving and other skills, as well as the time that has lapsed since the last political office, because skills that are based on the prestige or their exiting contacts are likely to decay over time (e.g., Lester et al., 2008). In the context of environmental management, however, we have to add another condition to this list – that is the extent to which former politicians have accumulated actual environmental policy experience. Obviously, the more insights politicians have into the details of environmental regulation or technology, and the more they have build up a pro-environmental public image, the more they are likely to be of value in helping firms to address their environmental challenges. Therefore, and since we argued before that these politicians will tend to be more valuable to firm for which environmental issues are particularly important, we suggest:

*Hypothesis 1a. The more urgency environmental issues have for firms (dirty industries, consumer goods industries, high stakeholder pressures), the more likely they will hire former politicians to their board of directors.*

*Hypothesis 1b. The more experience former politicians have with environmental issues, the more likely they will join a corporate board.*

We will now explore how these various skills of politicians could be applied to the implementation and communication challenges in the environmental management domain of a firm.

### Implementation challenges

The creation of a sound and effective environmental management strategy in order to lead the firm to substantively good environmental performance is a difficult and highly involved task (e.g., Hart, 1995; Berrone & Gomez-Mejia, 2009a). Among other things, such a strategy may require detailed knowledge about legal constraints and political requirements, expectations from activity groups, in depth knowledge about technologies, or environmental data. Politicians, especially when they have been working in environmental committees or have otherwise concentrated on environmental issues during their political career, may provide the firm with deep insights into environmental concerns that firms may use for designing milestones of a substantive environmental strategy that is both effective in achieving the environmental performance objectives and efficient in its financial investments. For example, politicians with experience in environmental fields may have a more accurate understanding of the “state of the



art” of environmental technology than individual firms, know vendors of environmental technologies, or have contacts to research and development centers in this area. Therefore, we argue:

*Hypothesis 2a. Firms with former politicians on the board, who have a policy background in environmental issues, have a stronger and more effective environmental management strategy.*

Practically, this would, for example, imply that we observe that firms with former politicians on the board pollute less than firms without them.

A particular instance of valuable insights that politicians may bring with them concerns the environmental regulation itself. Specifically, the EPA frequently augments the list of regulated chemicals that firms have to report on in the event of a an accidental spill (e.g., the EPA is currently in the process to add CO<sub>2</sub> to the list of regulated substances – New York Times, 2009). Politicians who may have advanced knowledge of (or simply deep insights into) the EPAs regulation could thus aid the firm in positioning itself to anticipate future moves by the EPA, which may afford these firms an advantage over their competitors.

*Hypothesis 2b. Firms with former politicians on the board, who have a policy background in environmental issues, will be able to position themselves to make use of future regulatory changes*

Practically, this would, for example, imply that these firms pollute less than other firms specifically with respect to controlled toxic chemical compounds that are newly added to the TRI, but not necessarily others.

### Communication challenges

We have argued that former politicians on the board can aid firms in implementing substantial environmental management strategies. However, the implementation of such a strategy must also be accompanied by efforts to communicate that program to the pertinent stakeholders in order to increase the firm's environmental legitimacy. Specifically, critical stakeholders such as governmental institutions, Environmental Non-governmental organizations (ENGOS), media, or local communities may have the power to positively shape the firm's reputation and thus contribute to the differentiation strategy that underlies the firm's environmental management. Firms investing substantially in their environmental performance thus have an interest that stakeholders are informed adequately as a base for creating legitimacy and a differentiated brand.

For politicians, on the other hand, their personal success depends at least to a sizable extent on their reputation among voters, in their party, or among highly influential people such as other politicians outside of their party or business people. Politicians build this legitimacy either by directly communicating with these target groups or by indirectly communicating with them through media organizations (De Landtsheer et al., 2008; Smith et al., 2005; Stanyer, 2008). The communication or impression management skills needed for creating such a positive reputation as well as the reputation itself may be especially high when politicians have tenure and have been exposed to the public, for instance through prestigious positions such as senators,

congressmen, or presidential cabinet secretaries. Both, the communication skills and the reputation of former politicians may help firms to communicate credibly their environmental strategy to key stakeholder groups. Moreover, it is a reasonable assumption that former politicians, who have served in important positions linked to environmental affairs (e.g., membership in committees charged with environmental oversight) may have a higher degree of legitimacy in environmental issues, a better understanding of the specific means of communication with environmental stakeholders, and may have established links with these groups. Therefore we argue that this type of former politicians is well suited to translate the firm's environmental efforts to a broad audience of environmental stakeholders. Accordingly:

*Hypothesis 3a. Firms with former politicians on the board with high-level policy experience in environmental matters have a better environmental reputation than other firms.*

A simple corollary of these ideas is that politicians that have formed strong links to important stakeholder groups such as ENGOs may be even better suited to forge a strong communication strategy for a firm's environmental management efforts.

*Hypothesis 3b. Firms with former politicians on the board with links to environmental interest groups have a better environmental reputation than other firms.*

Furthermore, if such politicians are indeed more valuable for firms, we also expect:

*Hypothesis 3c. Politicians with links to environmental interest groups are more likely to be hired onto corporate boards than politicians without such links.*

So far, we have analyzed the case where firms are engaged in an active process of active environmental management in order to actually improve their environmental performance and communicate this to important stakeholders and create environmental legitimacy. If this is true we should expect firms with former politicians on the board to not only gain a big environmental reputation but also to profit from this financially, for example by realizing higher sales or facing fewer regulatory fines. However, besides actually substantively improving firm environmental performance, there may be other ways for firms to attain such a positive image and financial gains. In the following we will explore two such possibilities: lobbying and symbolic management.

### **Lobbying**

In the US context, the environmental protection agency (EPA) is probably the most important source of institutional pressures for superior environmental performance for firms. Starting in 1970, the EPA has put an increasing number of toxic chemicals (currently more than 500) under regulation and required firms to report any spills, leaks or other breaches that allowed these chemicals to escape into the water, land or air. Annually, the EPA publishes these toxic spill data in the Toxic Release Inventory (TRI), which by now has become a highly regarded and extremely well publicized tool for assessing particular firm's environmental performance. Numerous academic articles are based on these data and analysts and shareholders do appear to pay attention to it (e.g., King & Lenox, 2000, 2002; Joshi, Khanna, & Sidiq, 2005). In addition

to showing the relative cleanness or dirtiness of particular firms (thus allowing a judgment as to the degree of their environmental efforts), high polluting firms are also very likely to be fined by the EPA for environmental violations. Besides monetary fines levied against firms, environmental enforcement lawsuits in the US also often turn directly against firm executives or directors, who may be sentenced to fines or even jail terms. Environmental law enforcement in 2008, for instance, resulted in \$68.5 million in criminal fines and 57 years of prison time (U.S. EPA, 2008).

Following prior work (Hillman, 2005), one conjecture within this context would clearly be that politicians may use their connections, reputation, and experience with political processes and environmental issues to avert potential environmental enforcement actions to protect firm assets and executive or director's personal liability. If that were the case we should find that firms with more former politicians on the board have fewer environmental enforcement rulings against them (or pay lower fines) – even if they have the same substantive environmental performance as other firms. This effect should be stronger the more tenure these politicians have, the more influential positions they had in their active political career, and the less time has passed since their departure from politics (Lester et al., 2008).

*Hypothesis 4. Firms with more former politicians on the board and similar environmental performance as other firms face fewer regulatory environmental penalties (or pay lower fines)*

## **Symbolic management**

We have argued that former politicians are taken onto boards because they can provide firms with valuable resources for implementing environmental strategies. We therefore expect firms with former politicians on the board to be better equipped for successfully implementing such a strategy and actually perform better in environmental terms than firms without former politicians on the board. However, apart from aiding the firm in the creation of substantive environmental practices, former politicians on the board could potentially also be used in a more or less symbolic way (i.e., to perform a window-dressing function for the firm), for example by leveraging the former politicians' personal legitimacy to gain legitimacy for the firm and thus mitigate stakeholder pressures. Prior research has shown that firms sometimes use symbolic actions in lieu of substantive underlying activities to reduce stakeholder pressures (Westphal & Zajac 1994; Zajac & Westphal 1995; Wade, Porack, & Pollock 1997). Westphal & Zajac (1998), for instance, found that the simple announcement of stock buybacks, or the announcement of enhancements in the quality of corporate governance can lead to significant abnormal shareholder returns, even when no substantive actions to actually implement these announcements follows. In these examples, shareholders appear content to change their opinion of the value of the firm (and hence bid up their shares) purely based on observing the firm's announcements, and do not seem to realize that these are simply symbolic acts. In the current context, since politicians presumably amass connections, power, and prestige (Lester et al., 2008), firms may be tempted to use the very appointment of these politicians as a symbol to their various stakeholder groups, that the firm intends to better its environmental performance. Several studies have indeed shown how the reputation of the corporate board can have benefits for the firm. Certo (2003), for example, has found evidence that board prestige signals organizational legitimacy to investors in an IPO context, leading to an improved IPO firm stock performance.

Similar, in a theoretical paper Hillman & Dalziel (2003) link the construct of board capital to several potential advantages for firms, for instance, the attainment of legitimacy and the bolstering of the firm's public image (Selznick, 1949).

We expect a similar effect when former politicians join corporate boards, especially the more the politicians in question have created for themselves the necessary prestige and believability that would signal to the shareholders that they would actually be driving the firm to a better environmental policy. In fact, politicians themselves can be expected to have an interest in a positive public image of the firm they join, for instance as an environmentally responsible organization, because otherwise their personal reputation might be at risk (De Landtsheer et al., 2008; Smith et al., 2005, Stanyer, 2008). It is precisely the assumption among stakeholders that politicians would not risk their reputation by joining or speaking for a "dirty" firm, or, at the very least, that these politicians would try to turn such a dirty firm around, that could be exploited by firms. In fact, the very appointment of a reputable politician, particularly one with an environmental track record, could be used by such firms as a symbolic act intended to positively influence the perception of outsiders of the firm's environmental performance, even if the firm does not follow through with any substantive enhancements of that performance. If this happens, then the following should hold:

*Hypothesis 5. Firms with former politicians with environmental policy experience on the board that have the same objective environmental performance (e.g., pollution levels) as other firms will be more highly regarded by stakeholders.*

Finally, since prior research has found that the human capital and social capital of former politicians will be higher the more tenure in political activities these former politicians have, the more complex and prestigious their tasks have been, and the less time has passed since their departure from politics (Lester et al., 2008). Therefore we argue:

*Hypothesis 6. The effects of hypotheses 1 to 5 will be stronger the more tenure in the political arena former politicians, who come to the board, have, the more complex and prestigious their tasks have been, and the less time has passed since their departure from politics.*

## **Discussion**

We have discussed the potential contributions that former politicians on corporate boards may have for effectively implementing environmental strategies. Prior literature has discussed the purposes of politicians on corporate boards primarily from a resource-dependence perspective as potentially influencing political processes for the financial benefit of the firm (Hillman, 2005). In addition, the benefits of former politicians primarily have been captured as human and social capital regarding political processes (Lester et al, 2008). We extend this emerging research by considering politicians themselves as a resource and explore how they can aid firms in mastering other important strategic issues, notably environmental (green) management. In addition, we explore whether electing former politicians to corporate boards is done for substantially improving the environmental performance of the firm or rather as a symbolic signal to mitigate stakeholder pressures. By this, we first contribute to the literature on board performance and improve our understanding of the complex relationships between board appointments, specific



firm strategies and eventual firm performance. We also contribute to the literature on environmental management, and in particular the emerging perspectives of “environmental governance” (Berrone & Gomez-Mejia, 2009a).

Furthermore, our study is valuable for the managerial practice. Prior literature suggests that for firms in industries with low environmental performance and high waste production or emissions, for instance, in the chemical or the steel industry, there appears to be a high strategic potential for developing a differentiating brand from competitors by becoming green (King & Lenox, 2002). Our study provides insights about how and why the appointment of politically experienced directors can be a valuable and rare means to establish this strategic potential for competitive advantage by increasing effectively the firm’s environmental performance.

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