



# THE AFTER LIFE

## DO X-POLITICIANS COME BACK AS COMPANY DIRECTORS?

There is life after politics, but is it in business? When politicians join company boards in Australia, the share price is more likely to drop than when a non-politician is appointed, says UQ Business School research. Don't shareholders value the expertise that our former leaders bring to the boardroom? Or perhaps it's a vote of confidence in our democracy?

Politics and business might seem like different vocations, but former treasurer John Dawkins believes serving in Cabinet and serving on a company board are not too dissimilar.

"Certainly the strategic discussions about the business and direction, such things as if you were interested in growing the company through acquisitions, looking at possible acquisition targets, assessing their worth and their capability – all those are very similar to the kinds of discussions you would have in a cabinet context," says Dawkins, who served as Education Minister and Treasurer in the Hawke and Keating governments in the 1980s and 1990s.

Since leaving politics in 1993 he has served on several boards in the education, financial and mining sectors. He believes his ministerial experience was excellent preparation.

"One of the things about attending a cabinet meeting on a weekly basis and dealing with multiple submissions, any decent minister very quickly develops an ability to understand the main points whether they're an expert in the field or not," he says. "You can quickly sort the wheat from the chaff, and that's a skill which

is equally valuable for considering proposals when they come to the company board."

However, investors in Australia don't always welcome the appointment of former politicians to corporate boards.

A recent study of share price movements in Australian companies that had appointed former politicians as directors found the market reaction was more negative than for the appointment of non-politicians. The study indicates that shareholders don't value the expertise that former politicians can bring to corporate boards in Australia, say the paper's authors, Stephen Gray, Professor of Finance at UQ Business School, and John Nowland, Assistant Professor at the Department of Accountancy at Hong Kong's City University.

The academics looked at trading in companies' shares the day before, the day of and the day after an announcement that a former politician had been appointed to their board. They examined how the share price reacted compared with its historical trading patterns and with the broader market.



Professor  
Stephen Gray

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For instance, when former Victorian Treasurer Alan Stockdale was appointed to high speed data encryption provider Senetas Corporation, the share price fell 8.3 per cent compared with historical trading and with the broader market movement; the shares of failed far north Queensland developer and builder CEC Group fell a relative 4.9 per cent when former Queensland premier Rob Borbidge joined the board; shares in Marathon Resources rose 6 per cent compared to the market and historic trading patterns when former Labor Senator Chris Schacht joined as a director.

Of course, it's important not to take such results purely at face value. Firstly, they're relative price movements so they don't necessarily signify that the actual share price rose or fell. Secondly, it would be incorrect and indeed unfair to read anything into the price movement around an individual's appointment and to say they were the reason for the rise or fall, because a host of other factors influence share price movements.

Nonetheless, when taken in aggregate, and averaged, the share price movements do suggest that market reaction is generally negative.

Australian investors are unusual in not valuing the experience of former politicians.

In the US and much of Asia, for instance, political connections are highly-valued. Studies in these regions have shown that firms generally benefit from political connections, as they can help to win government contracts and concessions, and access to external financing.

## What does it mean?

Is this perhaps a vote of confidence in Australia's political process? In a system relatively free from corruption, former politicians will have less influence over government decisions that might benefit business.

John Nowland suspects that this is the case in Australia. In the US, where the appointment of former politicians to boards is generally welcomed by the market, business is more influential, and political connections are more valuable. "In the end, there just seems to be a weaker relationship between business and politics in Australia compared to other countries," he says.

Elections in the US aren't publicly funded, so politicians spend an inordinate amount of time fundraising. Indeed, a leaked memo obtained earlier this year by the Huffington Post revealed that incoming Democratic Congressmen were advised to spend at least four hours of their 10 hour days fundraising. Many suggest this figure might in fact be too low.

Australia's own lobbying industry pales in comparison to the US, where there are around 13,000 registered lobbyists with billions of dollars at their disposal.

The combined fundraising and lobbying makes for much closer contact between politicians and business in the US. Perhaps

with it comes the expectation that politicians can use their influence, even out of office. "I'm guessing that this is not forgotten. The donors do it maybe expecting to get something later on, whereas in Australia this is not so prevalent," says Nowland.

Another difference is where the politicians cut their teeth. It is rare to achieve high political office in Australia without investing years in politics beforehand. In the US, the President can draw members of the executive branch from any field, and often shoulder taps corporate executives for senior roles.

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## Who'd give a politician a job?

Only a handful of Australian companies recruit former politicians to their boards.

Gray's and Nowland's study found that of 1561 ASX-listed companies in 2007, just 83 of them, or 5.3 per cent, had politicians on the board. These seats were held by a total of 59 former politicians (some were directors of more than one company), with 18 former federal politicians, 24 former state politicians, 7 former local politicians and 10 former foreign politicians.

Interestingly, firms with more debt, bigger boards and in the industrial sector are more likely to have former politicians on their boards.

Jane Bridge, founder of search firm Boardroom Partners, says she's had mixed success in placing the many former politicians seeking directorships that have come through

her door over the past two decades.

"You've got some ex-politicians who think that they're waiting for a call from BHP. That's often not very realistic," she says. "It's often the ones who have less corporate experience who think that some kind of experience at the centre of government is a passport to areas that they haven't been to before. I think that's a naivety."

While former politicians can make a contribution, Bridge is not surprised by the generally negative reception that generally greets such appointments. The market looks for compelling logic in board appointments. "If it looks like a job for the boys or it's not explicit on what basis this person has been appointed, then I think all the conspiracy theorists jump in and the market will penalise the organisation," she says.

## How strong is your resume?

Bridge draws a distinction between those who have prior experience outside of politics to those who have spent all of their adult life in and around politics. "Somebody who has done something or run a business then had some time in politics is a very different commodity to somebody who's grown up in a party, worked for a party, been an elected member and that's all they've done," she says.

Bridge says a lot of politicians lack the basic, yet core, skills needed of directors: reading a balance sheet, looking at issues in terms of profit and loss, and having responsibility for the bottom line.

However, John Dawkins says he had no trouble picking up the commercial skills required, saying directors need not be experts. "People get rather hung up on company balance sheets and accounts and so on, but they're not an end in themselves, they're a tool for running the company, and you very quickly learn what are the crucial aspects of the

company accounts that you need to keep an eye on in terms of contributing to the growth of the business, and also taking account of your regulatory responsibilities," he says.

His knowledge of the education sector and education policy has informed his work at MGM Wireless, a company that provides communication systems for schools. MGM's shares rose 4.8 per cent compared to their usual trading pattern and the broader market in the days around his appointment.

Dawkins was also chair of Elders Rural Bank, which received one of the first banking licences after the financial system was deregulated. "From my experience with bank regulation as Treasurer I was able to work on the application for the licence and at the same time help build the systems and approach – converting a pastoral house into a full bank, with all the additional regulatory obligations and so on," he says. He also knew many of the bank regulators.

Finally, Dawkins drew on his experience as the Treasurer who introduced the superannuation guarantee legislation to Parliament when he joined the board of Asgard, an investment platform now owned by Westpac.

Peter Lindsay, a Liberal Member of Parliament from 1996 until 2010 and who served as Parliamentary Secretary to the Defence Minister, is now chair of Guildford Coal, which also counts former Labor MP Alan Griffiths as a member. He says for resources companies in particular former-politicians' knowledge of community is valuable.

"Former MPs bring a wealth of experience in working with the community. They see threats that bean counters miss," says Lindsay, who ran his own electronics business before entering Parliament. "Former members also bring a detailed knowledge of government processes and how to work effectively with governments and their bureaucracy. In the resources industry there is a minefield of approvals, regulation, red tape and legislation that a company must deal with."

Martin Lawrence is one of the founders of proxy advisor Ownership Matters, which advises institutional investors on corporate governance, including on the election of directors. He says he is surprised that companies don't make more use of former politicians, particularly in dealing with dissent.

"Politicians have a level of expertise and skills that often boards don't have. Politicians deal with conflict every day; they're used to it," he says. "If they have been on top of a major department they have been on top of, and accountable for, a large organisation. It may not have a commercial focus, but they've been dealing with a level of complexity. I think a lot of company directors discount just how difficult that role is."

Nowland's and Gray's research doesn't examine whether former politicians actually do add value to a company in the years after they join the board.

That's a project for the future, Gray says. "My gut feeling would be to go with the market. There's little evidence that the market systematically gets things wrong."



Dr John Nowland

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