The Value of a Politically Connected Board Member: Evidence from Determinants and Influence of Revolving Door Lobbyist Hires

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Abstract

As the political system and the corporate world become increasingly interconnected, the demand for—and the value of—individuals who possess experience and knowledge of both the political process and corporate activities is bound to rise. Using a hand-collected data set of Revolving Door Lobbyists (RDLs), we hypothesize that RDLs are well-suited to guide firms in their lobbying activities and in managing litigation risks, two major pieces of corporate management that affect shareholder value and firm performance. Using a battery of empirical tests, we document that firms report lower lobbying expenditures and experience fewer litigation cases in the years following the appointment of RDLs. Exploring the channel, we find that institutional investors respond to firms hiring RDLs by increasing their holdings, suggesting that their elevated monitoring may outweigh the negative agency issues commonly associated with politically connected individuals. Lastly, we demonstrate that RDLs—unique in terms of their experience with and relationship to both politicians and corporations—get a higher remuneration relative to their counterparts, highlighting the essential value of services and expertise they bring to boards.

Keywords: ideological alignment, corporate lobbying, revolving door lobbyist, congressional bill, lobbying expenditure, political connection, board compensation

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1 Introduction

> *"... in the White House, House and Senate committees (and members' offices) are typically chocked with lobbyists making "suggestions," cutting deals, and even drafting legislative language. At times, lobbyists act like virtual congressional staff and have near veto power that rivals the president's. The merits of the case typically take a backseat to politics... But, despite what you learned in "How a Bill Becomes a Law," the battle was by no means over when President Obama signed Dodd-Frank into law on July 21, 2010. the lobbyists were channeling their inner Churchills: We shall fight them in the committees, we shall fight them on the floor, we shall fight them in the regulatory agencies and in the media, we shall never surrender. ..."*
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> — *Alan S. Blinder, AFTER THE MUSIC STOPPED, page 303 and 314*

There is a growing consensus that the line between the government (the public sector) and businesses (the private sector) is increasingly getting blurred. Although one could argue that this was largely the result of the *Citizens United vs. FEC* ruling, the ascending interconnectedness in fact should not be viewed as an unexpected outcome because firms' operations are generally concerned with managing not only market forces and demands, but also the regulatory and legislative environments shaped by government policies. Furthermore, some studies show that corporations also stand to gain from their greater association with political bodies and individuals in the government.[1] Put differently, firms may find it beneficial to stay connected to the political world with the aim of improving performance and/or managing regulatory and legislative risks. In the context of the United States, corporations can establish and maintain political connections through several channels. The prominent ones include: (1). campaign contributions made via political action committees (PACs), (2). undisclosed "dark money donations" to politically active nonprofit organizations, (3). direct lobbying of government officials on policy matters, and 4). the appointment of politically

[1]Some of these benefits include winning more government contracts, greater subsidies, higher grants, government aid in times of economic crisis, and favorable regulations (Goldman et al., 2013; Blau et al., 2013; Ngo and Susnjara, 2020).

connected individuals to corporate boards and/or high-ranking executive roles.[2]

Even before the watershed moment of the *Citizens United vs. FEC* in 2010 which allowed corporations to make unlimited contributions to political campaigns and opened the door for greater corporate influence in politics, scholars have routinely examined the dynamics between firms' political connections and firm-level outcomes. While political connections of corporations definitely raise legitimate questions about the institutional integrity and ethics of politicians, the idea that political connections can confer advantages to firms is largely supported by the finance literature. Goldman et al. (2009) find that firms' stocks exhibit positive abnormal returns upon the declaration of the nomination of a politically connected individual to their boards. Meng (2020) reports that bond investors appear to regard political connections—measured in terms of campaign contributions and lobbying expenditures—in a positive light as bond yields of connected firms are lower than those of non-connected firms. Houston et al. (2018) show that even among government contractors, those with PAC contributions attain lower costs of debt than those without PAC contributions. Blau et al. (2013) report that the likelihood of receiving TARP funds is higher for politically connected banks during the years of the 2008 financial crisis. However, most prior works have rarely made distinction between various types of political ties, broadly treating any form of political engagement with the catch-all phrase 'political connection.' This raises an interesting question: do firm-level outcomes associated with political connectedness depend on the specific type of connection?

This question deserves consideration because the channels above clearly show that political connection is not a homogeneous concept. Accordingly, it is crucial to investigate the specific benefits (or drawbacks) firms may reap (or incur) from establishing a particular type of political ties. Because any form of political connection requires a significant financial investment and there are barriers to creating meaningful relationships with political institutions and individuals, it is possible that firms engage in (some) political activities with certain targeted outcomes. The plausibility of attaining their objectives is in turn determined by the type of connections established. Even allowing for the notion that firms generally do not have a specific goal in mind from the political connections they choose to establish, it is still highly

[2]Some would also categorize politicians' stock ownership as a political connection. See Tahoun (2014).

likely that the nature of the connection largely influences what firm-level outcomes may be changed.

Therefore, in this paper, we draw our attention to a very specific type of political connection and the outcomes most likely to be affected by that connection. One strategy firms commonly use to strengthen their ties with the government is hiring individuals who straddle between working for the government and working on behalf of corporations—commonly referred to as Revolving Door Lobbyists (RDL, or revolvers from now on). Assuming that corporate political connections mainly serve to secure access to those in power, our emphasis on RDLs primarily has to do with recognition of the fact that access to power structure has never been free nor direct. Just as there were middlemen between the ruling king and the merchants in the past to facilitate access and communication, so too are there intermediaries nowadays between the government and the corporate world—a role majorly performed by lobbyists. RDLs are slightly distinct from conventional corporate lobbyists because RDLs belong to a small subset of politically connected individuals who have alternated between roles in government and lobbying. In other words, RDLs are not merely politically connected in the traditional sense. Their 'revolving' feature makes their connection possibly more whole and complete. Their dual (and revolving) roles have shaped them into individuals endowed with not only institutional knowledge of policymaking and regulatory enforcement, but also with enduring personal networks within regulatory and legislative bodies as well as corporate boards and executives. Given this special mixture, RDLs are likely to be favored by corporations attempting to establish, maintain, and/or expand political connections and access. Hiring RDLs to corporate boards can thus be considered as a unique type of political connection.

Given such unique profile of RDLs, it is also essential to examine the consequences of corporations' decisions to hire RDLs to boards. RDLs' experience in representing the interest of corporate clients through lobbying platforms provides a natural setting to determine the path and patterns of firms' lobbying strategies. On the one hand, the appointment of RDLs may be followed by lower lobbying expenditures and lobbying for fewer bills. As pointed out by Kerr et al. (2014), lobbying is a complicated process and firms may struggle to effectively engage in lobbying. Competition for high-quality lobbying services and high-profile lobbyists may also prevent firms from getting access to the best lobbying service providers, as

reported by Shang et al. (2021). These points suggest that firms may be allocating substantial financial resources to ineffective lobbying in addition to not having a coherent lobbying strategy. In this context, RDLs—with their deep institutional knowledge of lobbying and established relationships with competent lobbying professionals and government officials—are well-positioned to help firms form a more systematic approach to lobbying and manage their lobbying efforts more effectively. Their guidance with a more focused direction will potentially lead to a decrease in lobbying expenses and the number of bills targeted. On the other hand, the presence of revolvers may be associated with increased lobbying intensity under two different scenarios. First, this may happen when firms that are already sufficiently experienced with the intricacies of the lobbying process leverage RDLs' experience not to increase lobbying efficiency, but to double down on their lobbying efforts. Second and alternatively, firms with limited lobbying engagement prior to revolver hires may begin to gain confidence in experimenting with targeting a greater number of bills that they previously would not have done due to a lack of expertise.

Another area in which revolvers tend to possess deep institutional knowledge is in regulatory processes and legal frameworks. For corporations, due to the potential of legal cases to affect their financial value, reputation and/or operations, managing these risks has become one of the corporate management priorities. Based on these observations, we propose that RDL hires may be associated with corporations' legal matters, particularly litigation, in two ways. On the one hand, amid the increasingly complex regulatory and legislative environments which themselves are intertwined with a constantly shifting political landscape, corporations may find it beneficial to manage their legal risk exposure by drawing on the regulatory insight of politically connected individuals such as RDLs. Thus, the presence of RDLs is predicted to be associated with lower litigation risk. On the other hand, it is equally likely that the presence of revolvers on the boards will likely push corporations into becoming less compliant with laws and regulations. This scenario may arise because revolvers' knowledge of regulatory agencies and enforcement are leveraged not to avoid legal cases, but to take on more risk and game the legal system. Thus, even when RDLs are serving on boards, their expertise may be misused and can instead lead to higher incidences of legal issues.

Next, given the influence of revolvers owing to their expertise and network, the presence

of RDLs may signal a significant change in corporate governance. This raises an interesting question about how investors respond to the presence of RDLs on corporate boards. Hence, in the final part of our analysis of firm-level changes related to RDL hires, we seek to understand whether the hypotheses presented above could have been taken into account by investors. The fact that RDL hires could generate either beneficial or harmful developments suggests that if investors see RDLs as a net positive for firms, they are likely to increase their holdings of companies whose boards have revolvers. This scenario may happen, for example, when investors believe that RDLs are instrumental in improving firms' lobbying effectiveness and mitigating litigation risk. On the contrary, if investors do not particularly value RDLs because they perceive that revolvers may increase the likelihood of increased wasteful lobbying and reduced compliance with regulations, they will decrease their holdings in companies with RDLs serving on the boards. To get a clearer idea of how these opposing conjectures will play out, we focus on the holdings of institutional investors as they are often the largest investors in the type of firms that participate in the lobbying process.

To empirically examine these hypotheses, we construct a novel hand-collected dataset of RDLs appointed to corporate boards using the Revolving Door data from OpenSecrets and matching them to corporate board data from the Institutional Shareholder Services (ISS). We obtain firm-level lobbying data from LobbyView. Other data sources include BoardEX, Compustat, CRSP, LSEG, Audit Analytics, and DIME. More information about the data and variables can be found in Section 4.1 and Table 1.

Our empirical exercises begin with preliminary tests on how and why firms hire RDLs. We first show that RDL-hiring firms do not necessarily require revolvers to be ideologically aligned with the firm's public ideological image. Left-leaning firms are equally likely to appoint right-leaning RDLs as right-leaning firms are to hire left-leaning revolvers. This finding may reinforce our point that corporations hire RDLs for their expertise and network, regardless of their political affiliations or ideological views. This finding is also interesting because it does not largely support the more generally intuitive notion that corporations prefer to appoint ideologically aligned individuals to board positions.[3] Our results suggest that, rather than

[3]To the extent that corporate boards are becoming more ideologically homogeneous as observed in Fos et al. (2021), we would expect that corporations would also prefer to appoint ideologically-aligned revolvers.

ideological alignment being the driver of the hiring decision, the past lobbying success of firms and their legal risk seem to be underlying motives behind firms' initiation of revolver hires. For example, our analyses show strong evidence that corporations are more likely to initiate revolver hire after experiencing more litigation cases.

Our tests on hypotheses show that the presence of revolvers on corporate boards is associated with both lower lobbying expenditures and fewer lobbied bills. This negative relation is consistent across two measures of political connectivity in terms of revolver board members: the number of RDLs on boards in a given firm-year and the binary variable indicating whether at least one member of the board is designated as an RDL in any year. These results reveal that the presence of revolvers on boards can reduce reliance on engagement with external lobbying service providers, and that RDLs' expertise and network presumably serve as a substitute to firms' external lobbying activities. Similarly, we find that in the years following the appointment of an RDL (or more) to corporate boards, firms experience a lower number of litigation cases, and the reverse relation is consistent across the two measures of RDLs' presence mentioned above. This result reinforces the high utility value of specialized legal expertise to corporations, a quality many revolvers seem to possess from their years of service as government officials and work as corporate lobbyists. This finding also informs us that RDLs may be more beneficial than harmful, insofar as legal matters are concerned.

These results, however, could be confounded by endogeneity issues, notably, omitted variable(s) and simultaneity. As an example of omitted variable endogeneity, consider that lobbying patterns could be driven by economic policy uncertainty, as shown by Shang et al. (2021). Similarly, litigation risks are possibly contingent on the level of enforcement from regulatory agencies. Regarding the endogeneity of simultaneity, it can be argued that supply constraints on lobbying services by K-street firms have the potential to concurrently affect revolver hires and lobbying patterns. Likewise, when lobbying service provisions firms are overwhelmed during a time of many ongoing litigation cases, revolvers are likely to be in highly sought after by firms to lessen litigation cases, thus simultaneously affecting RDL hire and litigation risk. We resolve this problem with an instrumental variable (IV) estimation in a two-stage least-squares (2SLS) model. Using the average ideological score of board members as an instrument, we continue to find consistent results that the presence of revolvers on

boards has a causal effect on firms' lobbying patterns and litigation risk.

Lastly, exploring the possible channel behind these observed associations, our tests show that institutional investors increase their holdings in RDL-appointing firms. If we assume that firms with better corporate governance are more desirable for institutional investors, this finding is again notable as it does not appear to concur with the view that firms' political connections decrease the quality of governance (Dicko, 2016). Instead, it supports the view that politically connected directors increase the governance quality (Mindzak, 2022). Since the results of the hypothesis tests seem to validate RDLs as corporate assets from both the firms' and investors' perspectives, we further conduct an additional test to determine the value of RDLs by examining their salary and compensation relative to their peers. We find that revolvers earn a higher salary and compensation compared to their non-RDL peers. This finding additionally supports that revolvers unique combination of expertise and social relationships is largely valuable to corporations and investors alike.

Our study makes several contributions to the existing literature. First, we restrict the definition of political connectivity to one specific and important–yet largely overlooked—group of politically connected individuals, RDLs, by making use of our hand-matched data. By doing so, we highlight the need for a more granular and refined categorization of political connectedness. While previous works more or less establish that politically connected (PC) individuals serving at key positions in corporations are associated with several firm-level outcomes (Faccio, 2006; Goldman et al., 2009; Houston et al., 2014), our focus on outcomes that are most likely to be naturally impacted depending on the type of PC adds a differentiating layer to the study. We look beyond more immediate/broad financial and accounting variables such as firm value and cash flow. Instead, we examine firms' patterns in political lobbying and litigation risk—outcomes that are more likely to be directly influenced by RDLs. This is important because research on RDLs mostly explores their value over time (Strickland, 2020) and their association with more general measures like firm value (Kuvvet, 2016), leaving room for researchers to study RDLs and other firm-level attributes. We contribute to the literature by filling these gaps. Our finding that RDLs add value in the firm lobbying process and strategies is both intuitive and plausible. This finding may be able to account for differences in lobbying patterns and success between two firms that are similar in most dimensions and

differ only in terms of the presence of RDLs in the boards.

Similarly, the literature on corporate litigation risk focuses on firms' political activities (Yu and Yu, 2011) or non-politically connected individuals in the firms (Unsal, 2024) or on disclosure (Hanley and Hoberg, 2012). We are the first to explore the relation between RDLs—who are well-suited to guide firms in navigating the complex regulatory and legal landscape—and litigation risk. Our finding that RDLs are part of the mechanism behind variations among firms' litigation risk may explain the growing trend of hiring them in an increasingly intricate and competitive regulatory environment.

Few studies have directly explored the relationship between corporate political connections and institutional investors, let alone the role of RDLs. Prior literature only explores the influence of institutional ownership on the promotion and regulation of corporate political activities. For example, Jiao (2022) finds that firms with greater lobbying institutional ownership tend to engage in more lobbying activities. However, the paucity of studies regarding the political preferences of institutional investors necessitates questioning whether institutional investors have a certain predisposition towards politically connected firms. We contribute to the literature on the role of institutional investors with evidence that the appointment of RDLs is seen positively by institutional investors. This finding also highlights that institutional investors respond not only to shifts in firms' financial fundamentals, but also to changes in corporate political capacity and activities.

Lastly, our findings may also speak to the ongoing debate about the mutual entrenchment and entanglement of the public and private sectors. While the general public's concerns about a possible erosion of ethics and corporate governance from the appointment of politically connected officials is certainly valid, our results however appear to suggest that not all political connections should be viewed in a negative light as they are not created in the same way. At the very least, revolvers' instrumental role in streamlining lobbying efforts and organizing legal issues seems to outweigh any potential negative effects on corporate governance.

The remainder of the paper is structured as follows. Section 2 goes over a short institutional background on lobbying, litigation, and RDLs. Section 3 reviews the related literature and build up the hypotheses. Section 4 mainly consists of the sample construction and the discussion of data, variables, and summary statistics. Section 5 presents the empirical tests

and the interpretation of the results obtained. Section 6 acknowledges some shortfalls of the study, followed by a discussion on these shortfalls. Section 7 summarizes and concludes.

2 Institutional Background

2.1 Lobbying and Revolving Door Lobbyists

Lobbying governments is a practice found in a number of countries including the United States. While lobbying is meant to serve as a channel through which non-government groups get to present their concerns and perspectives, scholars and the public also express concerns that it could be abused by corporations and interest groups to corrupt the policymaking process. For this reason, countries with legalized lobbying adopt varying levels of regulation on lobbying. In the U.S., the Regulation of Lobbying Act was enacted in 1946, followed by the enactment of the Lobbying Disclosure Act of 1995, which sought to increase transparency surrounding lobbying activities among others. Under the new act, when (registered) lobbyists hired by client firms reach out to the Congress and Federal agencies—presumably to convey their clients' take on policy matters—they are required to disclose and file their lobbying activities through the Lobbying Disclosure Electronic Filing System (LDA). These lobbying activities records reported semiannually—and quarterly after 2007—include specific bill numbers or issues lobbied, the government entities contacted, the intensity of lobbying activity, and lobbying expenses.[4]

Corporations are one of the major interest groups with high demand for lobbying services. Consequently, and perhaps unsurprisingly, engagement in lobbying by corporations has garnered significant attention. The attention may have been gaining momentum in recent years as the influence of corporations may penetrate deeper into the political system through lobbying activities and expenditures, which are not, unlike corporate PAC contributions, capped at a maximum allowable figure. Given the worrying absence of maximum limit, lobbying–and not campaign donation—is where corporations exert the most influence on the government decision making process. For instance, Bonica (2016) reports that throughout

[4]Amendment by the Honest Leadership and Open Government Act of 2007 changed the disclosure frequency requirement from biannually to quarterly.

2004 to 2010, while corporations were responsible for at least 68% of lobbying expenses at the federal level, their political contributions via PACs made up only about 7% of campaign expenditures at federal level. In 2010 alone, federal lobbying expenditures of corporations were at least 21 times higher than campaign contributions of corporate PACs. Whereas the window for political engagement through PACs happens mostly at discrete frequencies (for instance, a few months before elections), corporate lobbying activities are generally continuous and can be pursued at any time. Furthermore, since lobbying is also open to foreign firms, U.S. firms possibly face greater competition in the lobbying business and accordingly have to spend more to lobby against foreign competition (Bandyopadhyay and Lahiri, 2017).

Individuals central to this lobbying machinery are lobbyists who represent their clients, such as corporations, in the policymaking process and try to pursue outcomes beneficial to their client firms by influencing government officials and politicians. Although their image is rather tainted due to the perception of lobbying as a corrupt profession, some views assert that lobbyists are critical intermediaries and should be valued for their work of providing or transmitting informed opinions of their clients to public officials who have limited knowledge and incomplete understanding of certain issues and matters.[5] Thus, the nature of lobbying work requires that lobbyists possess the capacity to reasonably and effectively articulate concerns and interests of their clients, possess a respectable level of knowledge on issues being addressed, and establish political connections. Given the large number of registered and active lobbyists, the capacity and quality of lobbyists are expected to be spread across a spectrum. Successful and competent lobbyists boast both expertise on a range of matters and connections to the extent that even policymakers from the other side of aisle are willing to hear their advocacy (Bertrand et al., 2014). One distinct group of lobbyists comprises government officials who alternate between working as public servants and lobbyists—hence the term revolving door lobbyists or revolvers. Among lobbying professionals of varying caliber, they are most likely to meet the standards required of successful lobbyists. In addition to commanding a wide network of connections, owing to their prior experience as public officials and lobbyists, revolvers feel at home equally with both political process and private-sector advocacy. As a result, not only are RDLs critical intermediaries between corporations and

[5]Americans' Ratings of U.S. Professions Stay Historically Low

the public sector, they also often command significantly higher fees for their services than their peers, with some statistics indicating that they rank among the highest-paid lobbyists in Washington. These attributes overall highlight the importance of studying the role of revolvers who transition into corporate board positions.

2.2 Litigation and Revolving Door Lobbyists

Operating in one of the most litigious environments in the world, U.S. firms often face legal challenges such as securities class actions, regulatory investigations, employment lawsuits, and product liability claims. Firms may have a number of reasons to manage and minimize litigation risk, as litigation has been shown to affect firms' operations. For example, Lowry and Shu (2002) show that firms subject to higher litigation risk are forced to accept greater underpricing at the time of initial public offerings (IPOs). Likewise, Arena and Julio (2023) show that firms may lower dividend payouts in anticipation of rising litigation risk. This is because lawsuits come with heavy financial costs. Therefore, firms may have an incentive to manage litigation risk more effectively, for monetary-based reasons alone, if not for others like reputational concerns. The management of litigation risk could, however, be a complex task due to the fact that factors giving rise to litigation are often multifaceted on top of a constantly changing regulatory environment. Despite these challenges, there are also tools available to corporations for containing litigation risk. These include building and maintaining connections with key individuals in regulation and enforcement, appointing competent lawyers to represent firms' interests, and lobbying the government to influence policy outcomes. Firms that face a higher risk of litigation are likely to employ a mix of strategies to battle litigation wars. In such contexts, revolvers who offer both connectivity to key personnel and institutional legislative knowledge are likely to be seen as high-value assets by corporations. Given this discussion, it is worth studying the effect of revolvers on firms' litigation risk.

3 Literature Review and Hypotheses

There is a general consensus that corporations are becoming more involved in the political process. The literature on politics and finance has documented the effects of participation in

the political process on firms' characteristics, the relationship between firm characteristics and the political process, and the determinants of firms' engagement with the political system. To mention a few, Akey (2015) shows that firms experience significant abnormal returns after their supported candidates (in the form of campaign donations) win close congressional elections.[6] Regardless of the net benefits that corporations obtain from such engagements, engagement in the political process by corporations is getting increasingly common for a number of reasons. To navigate the political climate in times of heightened economic policy uncertainty, Shang et al. (2021) find that demand for lobbying services by lobbying firms increases, and consequently raises the prices of lobbying services. Firms that are previously not participants in the political process may also find it necessary to start engaging in at least one form of involvement. For example, a supplier firm may be forced to build its own influence in the political circle when its customer firm(s), aided by their significant political clout, extract rents from the firm using their bargaining power. Firms in some industries may get themselves entangled in political campaigns even if immediate or effective returns are not realized. For example, Fouirnaies and Fowler (2022) find that corporate campaign contributions by insurers overall translate to negligible gains for the industry in terms of a variety of outcome measures.

However, it should be emphasized that corporations, in the hope of attaining benefits for an individual firm or the industry, may take part in political activities even if the realized returns are not tangibly large. This is because a corporate political interest is first and foremost to build a network of access to—mostly influential and powerful—political figures (Ansolabehere et al., 2003). When seen in this light, it becomes more apparent that a corporate political connection can also be formed in another way: the employment of an individual (individuals) with experience, influence, and expertise in the political machine to important positions in a firm. These individuals are able to serve as intermediaries between the firms and the government. Besides, given the barriers to meaningful participation in the political process, firms may choose to use this option of employing connected officials to strengthen their political connectedness.[7] It is thus no surprise that a myriad of corporate political

[6]A close election is defined as one in which the winning margin is less than 5%.

[7]The barrier could be monetary for lobbying processes (Shang et al., 2021) or structural for campaign donations, such as the upper limit set on corporate PACs. See Contribution Limits.

connection measures used in the politics and finance literature can roughly be categorized into two types: involvement in the political process and the hiring of politically connected individuals.[8]

In our paper, we isolate our attention to one special type of connected individuals, revolving door lobbyists (RDLs or revolvers). RDLs are distinctive as their work nature supposedly makes them more familiar with both lobbying and legislative processes. Therefore, RDLs serving as board members may add value in terms of lobbying expertise. Accordingly, their presence on boards could influence the lobbying direction of firms. RDLs can affect lobbying strategies in either of the following two directions. The increased connection to the world of lobbying by the addition of RDLs may lead a firm to more intense lobbying involvement. Thus, following the addition of RDLs to corporate boards, lobbying expenses and the number of bills lobbied may rise. This view suggests that RDLs act as complementary tools to firms' existing lobbying war chest. On the other hand, corporations may not have been lobbying-savvy before the arrival of RDLs. For reasons such as limited access to competitive lobbying services or the lack of a dedicated board member to guide lobbying efforts, firms may not be getting "their legislative bang for the lobbying buck." Their returns from lobbying efforts may leave them wanting more success, propelling them to hire RDLs. RDLs may then prove to be instrumental in reorganizing the firms' lobbying efforts and strategies. The leaner and more focused lobbying efforts guided by RDLs may result in lower lobbying expenditures and fewer bills lobbied. Furthermore, as pointed out above, corporations value access to the political system first and foremost (Ansolabehere et al., 2003). With their extensive connections, RDLs can provide firms with more direct and indirect access, helping them bypass the traditional—as well as more public and open—lobbying paths to influence government regulations. This form of 'backdoor' lobbying leveraged through firms' RDLs may also lead to (officially reported) lower lobbying expenditures and fewer bills being lobbied. These perspectives altogether support the view that RDLs may act as substitutes for corporations' existing lobbying war chest. These opposing predictions allow us to form our first set of competing hypotheses as follows:

H1a: The appointment (or) presence of an RDL (or more) is associated with

[8]A few of these studies with various measures of political connection include Faccio (2006), Goldman et al. (2013), Meng (2020), Cooper et al. (2010), Do et al. (2012), Houston et al. (2018).

lower lobbying expenditures and fewer bills lobbied.

H1b: The appointment (or) presence of an RDL (or more) is associated with higher lobbying expenditures and more bills lobbied.

While lobbying expenditures are a significant portion of a firm's expenses (See Figure 3)[9] and lobbying engagement is a large part of a corporate survival scheme, it is unlikely that the changes corporations experience from hiring RDLs are mostly limited to lobbying patterns. Corporations' decisions to hire a board member are likely to be strategic. One reason why corporate boards are increasingly staffed with PC members is that they possess networks, expertise, and skills, which are distinct from what can be offered by non-PC members. Additionally, even among PC members, their value-enhancing qualities may not be uniform. PC members are not monolithic in type—for example, a Congress member serving as a corporate board member after losing seat may not be quite the same as a retired or former SEC official who has transitioned to the corporate world. Accordingly, a distinction in terms of connectivity and value added should be made between those who may both well be classified as PC individuals.

Hence, we tilt our attention to other possible advantages brought about by revolver hires. Unlike other types of political connections, the value of RDLs is derived from their enduring relationship with incumbent lawmakers (Vidal et al., 2012; Strickland, 2020) and their deep knowledge spanning both the government and the private sector. This is because RDLs have mostly worked in Congress (LaPira and Thomas, 2014) and they continue to maintain contacts with their former coworkers and staff as they move to firms providing lobbying services. Their tenure at lobbying service provision firms also gives them opportunities to build more direct relationships with corporate executives than was possible when they were serving in Congress. Furthermore, they learn to advocate for corporate interests from their stint at lobbyists, gaining a more nuanced understanding of the regulatory and legal environments from the perspective of corporations—an opportunity or a skill they did not get to develop during their time in public service. This duality characterizing RDLs suggests they have an exceptional ability to influence policy or regulatory changes or even to skirt around regulations—an

[9]Also see Figure 1 in Chen et al. (2015).

asset likely to be coveted by firms that want to minimize their legal risk exposure. Yu and Yu (2011) and Correia (2014) show that firms that lobby experience fewer legal issues.[10] One major type of legal issue is litigation risk and corporations have been shown to use a number of strategies to reduce litigation risk.[11] Extending this fact, appointing RDLs can also possibly be interpreted as a move to have an in-house manager to oversee lobbying efforts for mitigating litigation risk. Thus, we hypothesize that one other value of RDLs to corporations is in dampening litigation risk, i.e., RDLs on boards may be associated with lower litigation risk.

However, a counterargument that RDLs may instead increase litigation risk can be made for the following reasons. First, corporations with RDLs on their boards, emboldened by political connections, might take more operational risks that could involve breaking—subtly or blatantly—laws and regulations. Second, firms may add RDLs to their board in anticipation of increased legal troubles in the future, making higher measures of litigation risks coincide with the period following the arrival of RDLs. Third, the presence of RDLs may be associated with more rent seeking, heightened agency problems, and less-than-ideal corporate governance (Kuvvet, 2016), which have been shown to be related to higher litigation risk (Farber, 2005). These contrasting predictions lead us to state our second hypothesis as follows:

H2a: The appointment (or) presence of an RDL (or more) is associated with lower litigation risk or lower litigation cases.

H2b: The appointment (or) presence of an RDL (or more) is associated with higher litigation risk or higher litigation cases.

Our third hypothesis turns to investigating what other specific firm-level changes might support the hypotheses presented so far. Because the appointment of RDLs is intertwined with firm governance and political connectivity, we identify important firm stakeholders for whom governance and political connectivity are matters of relevance. Prior literature shows that institutional investors have a meaningful incentive to play a crucial role as shareholders

[10] It should be emphasized however that fewer legal issues do not necessarily mean fewer legal violations by a firm.

[11] Some of these are strategic disclosure (Hanley and Hoberg, 2012) and payout flexibility (Arena and Julio, 2023).

(Lewellen and Lewellen, 2022)—subsequently affecting firm governance—and tend to focus on companies with strong political resources (Wu et al., 2016). Institutional investors also value an informational advantage (Schnatterly et al., 2008) and they try to achieve this informational advantage by establishing political connections (Aabo et al., 2020). Furthermore, Jiao (2022) shows that institutional investors actively participate in lobbying and possess substantial political resources. Given this documented interest in political connections and the preference for firms with political connectivity by institutional investors, it is possible that revolver-appointing firms are likely to be viewed in a positive light by institutional investors. Thus, we state our third hypothesis as follows:

H3: Institutional investors are more likely to increase their holdings in a firm following the appointment of an RDL (or more) in that firm.

The interest in RDL-appointing firms among institutional investors can also be conceived as a complementary mechanism to some of the hypotheses stated above. A short elaboration on why and how is warranted. As Jiao (2022) highlights, bills lobbied by institutional investors have a higher probability of being enacted into laws, and institutional investors back their invested firms by lobbying on the same bills. Since they are already experienced in political lobbying—and hence likely to appreciate the economic value of lobbying to firms—they may find it more worthwhile to assist RDL firms in their portfolios with their know-how. The combined knowledge, influence, expertise, and network of both RDLs and institutional investors are then likely to create a synergy—leading to situations wherein corporations may achieve higher lobbying success following the appointment of RDLs with lower lobbying expenditures (H1a). Likewise, increased institutional ownership may serve to lower firm-level litigation risk. Institutional investors—especially those with a history of hiring politically connected individuals and a sound understanding of the impact on corporate governance of PC individuals—are well-placed to arrest and put a stop to any serious decline in corporate governance. It is even plausible that increased ownership will require them to increase the intensity of monitoring, improving corporate governance among RDL firms. As a result of better corporate governance from institutional monitoring which is shown to reduce certain types of litigation risk (Rayfield and Unsal, 2021), RDL firms may experience lower litigation

risk (H2a).

4 Data

4.1 Data Sources

The main data sources we used for sample construction, summary statistics and empirical tests are the following: Institutional Shareholder Services (ISS) Director database of S&P 1500 companies, BoardEX, Compustat, the Center for Research in Security Prices (CRSP), LSEG (formerly Thomson/Refinitiv), Audit Analytics, OpenSecret's Revolving Door Database, LobbyView (Kim (2018)), and DIME database (Dataset on Ideology, Money in Politics, and Elections).

ISS data are used to identify members of board of directors of U.S. firms, and their particulars, namely, age, tenure, start date and end date as a board member, among others. BoardEX is used to retrieve directors' salaries and compensation. The OpenSecret Revolving Door database contains a list of lobbyists who were once employed in government administration. The DIME database provides researchers with ideological scores and donations of corporate board members and corporate PACs. LobbyView contains firm-level lobbying expenses and bill details. Institutional ownership is gathered from LSEG. For data on litigation cases, we turn to Audit Analytics. We calculate firms' cumulative abnormal returns using the data from CRSP. Most firm-level fundamental values used throughout the study come from Compustat.

4.2 Sample Construction

The main data required involves the identification of corporate board members who were once government employees in positions of influence. To do so, we first obtain corporate board members data from ISS during 1996-2023.[12] LobbyView data, on the other hand, begin in 1999 and end in 2020. Because firms in LobbyView are identified by gvkeys whereas ISS firms are marked by CUSIPs, matching between firms across the two datasets requires an

[12]In ISS, the dataset is made up of two distinct subperiods, with 2007 as the breakpoint. The dataset covering up to 2007 has distinct 3033 distinct CUSIPs while the post-2007 dataset contains 3343 distinct CUSIPs.

additional step. First, the gvkeys of firms in LobbyView's client-level dataset are matched to the Compustat annual fundamental table which contains gvkey as well as cusips. This gives a list of 1750 unique firms. After generating gvkey-cusip pairs, LobbyView firms are then matched to ISS firms on the basis of CUSIP, resulting in 1485 firms and 20,377 firm-director observations. We call this table MST1 (Main Sample Table 1), which we use later to identify revolvers.[13]

4.3 Main Variables and Summary Statistics

This section briefly explains how we define and construct some of the main variables used in the study and reports statistics relevant to and related to our tests.

4.3.1 Revolving Door Lobbyist

According to OpenSecrets, RDLs can broadly be defined as any executive official, Congress official, or staffer who alternate between working as a government employee and a lobbyist.[14] Although there are many lobbyists of all stripes and colors, not many of them can be classified as RDLs.[15] Ever rarer are the RDLs who cross over to private sector and serve in corporate boards. In order to identify board members who were (registered) revolving door lobbyists—i.e., an individual must have been an RDL prior to joining a corporate board for the first time—, we first match the director names in MST1 against the list of RDLs in OpenSecrets, by comparing first names, last names, and middle names. This process produces 434 board directors identified as RDLs. In the second step, we adjust for the subtlety that some of these directors could have become lobbyists after—not before—serving on corporate boards. To do so, we check their lobbying history as reported in OpenSecrets, and match it against their corporate activities' history. We only keep those observations where the director appointment takes place after their stint as both government employees and lobbyists. This step yielded 421

[13]Thus, by design, our sample consists of only firms that are found in LobbyView, i.e., only lobbying firms. This does not pose a design problem as we find that only 18 non-lobbying firms employed RDLs during 1996-2023.

[14]There is no such thing as a lobbyist license. However, lobbyists are generally required by federal and state laws to register and report their activities.

[15]Legis1 reports that there could be as many as over 39,000 lobbyists. On the other hand, Shang et al. (2021) report that there are between 12,000-15,000 registered lobbyists in each year during 1999-2015. OpenSecrets' RDL database is primarily based on a set of 7,745 lobbyists.

unique firms that employed at least one RDL at least once during 1996-2023, showing that approximately 23% of firms were politically connected by appointing an RDL. However, the statistics indicating that these 421 firms employed 347 RDLs over the same period highlights a low supply of highly qualified and experienced RDLs relative to the demand.[16] These 347 RDLs are used in coding some of the main variables, *RDLdummy*, *RDL_N*, and *BM_is_RDL* (See Table 1 for more details.). Furthermore, given the scarce supply, the maximum number of RDLs simultaneously serving in a corporate board at any year is only 3 (out of a total of 12 board members). It appears that a few RDLs are highly sought after, as some of them served on as many as 7 corporate boards.[17] Consistent with the literature that shows corporations are increasingly politically connected, the proportion of firms with an RDL connection as seen in Figure 1 increases throughout the sample period, rising from just about 7% in 1996 and peaking at nearly 15% in 2021.

4.3.2 Other Main Variables

Lobbying expenditure and the number of lobbied bills, two of our dependent variables, are taken from LobbyView. Corporations are required to file lobbying reports twice a year until 2007 and quarterly thereafter. We set lobbying expenses to 0 if no lobbying expenses are reported by a firm in a given year—that is, *lobbydummy* is 0, and 1 otherwise. We then aggregate the data at the firm-year level and the general trend in lobbying expenditure is reported in panel (a) of Figure 2. To be consistent with the political science literature, the lobbying expenses are adjusted for inflation using the 1999 price level as the base. Lobbying expenses rose consistently from 1999 to 2010, declined slightly until 2013, and remained fairly stable afterwards. We similarly aggregate the number of lobbied bills at the yearly level based on the network client dataset from LobbyView. Panel (b) of Figure 2 shows the number of lobbied bills rose drastically during 2007-2008—probably attributable to the 2008 Financial Crisis—and has been on a decreasing trend since then. From 2000 to 2020, a total of 1485

[16] Another reason for the drop in the number of RDLs is due to the removal of the names that we are not confident as being exact matches between ISS and Open Secrets. Matching between the MST1 sample and OpenSecrets is also made difficult by the fact that the names are rendered differently in ISS and OpenSecrets. The records of the Revolving Door Lobbyist database display last name followed by first name. For example, Paul X. Kelly in ISS will be Kelley, Paul X in OpenSecrets.

[17] Our results are not, however, driven by these individuals because there are only 27 of them, and the influence of RDLs could decline with the duration of time spent in the private sector. See Strickland (2020).

firms lobbied 389,110 bills, indicating that an average firm lobbies approximately 262 bills during this period. We also report the annual lobbying expense relative to the total expense figure from Compustat in Figure 3. The ratio indicates that lobbying expenses increasingly account for a larger proportion of total expenses until 2012, then slowly decline into 2020.[18] To the extent that the combined information from the inflation-adjusted lobby expense, the lobby expense scaled by total expense, and the number of lobbied bills explains corporations' lobbying behavior, it appears that corporations are shifting to a strategy of targeting fewer bills onto which they concentrate their lobbying capital. We also create *past_lobby_unsuccessful* and *past_lobby_success_ratio* to proxy for the success that a firm has had with lobbying in recent years using the bill level dataset from LobbyView. A bill has to move through many stages before it gets passed—only a few bills eventually get passed by the legislature—and the large majority of bills only make it to the first stage known as the Referred stage.[19] Thus, we exclude the bills that did not advance beyond the Referred stage in calculating *past_lobby_success_ratio*.

To proxy for litigation risk, we construct a year-level measure based on the number of new legal actions filed against firms, using data from Audit Analytics. More specifically, we identify new lawsuits brought against a firm in each year and aggregate these to obtain an annual count of litigation events. Figure 4 reveals some interesting facts about litigation trends. As can be expected, the number of lawsuits cases were generally the highest during 2006-2011, a period characterized by higher-than-average economic uncertainty and volatility. Moreover, it appears that firms engaged in lobbying (our sample firms) account for nearly half of all lawsuit cases faced by the public firms in the Audit Analytics dataset. For example, while panel (a) shows approximately 1750 lawsuits were filed in 2008, we find that around 875 of these cases were directed against lobbying firms in our sample. We also find that RDL-hiring firms report a higher number of litigation cases, as seen in Table 2.

Institutional Ownership and Number of Institutional Owners—variables of interest for H3—are taken from the LSEG Institutional Holding Database (formerly Thomson/Refinitiv). Following the approach of Glushkov et al. (2009), we obtain the quarterly data for institutional

[18] In line with panel (a) of Figure 2

[19] LobbyView reports 26 types of bill stage, and bills with the referred stage account for nearly 80% of the sample.

ownership and the number of institutional owners. We then use the averages of these values to represent institutional ownership and the number of institutional owners for each year. Institutional ownership (log_IO) is calculated as the natural logarithm of annual institutional ownership scaled by total assets. Number of institutional owners (log_IO_N) is calculated as the natural logarithm of the annual number of institutional owners.

Table 2 reports the firm characteristics and we note that firms with RDLs and firms without RDLs are different in a number of dimensions. Firms with RDLs spend more on lobbying expenditures, have larger market capitalization, and spend more on Research and Development. Compared to firms that do not employ an RDL, RDL-employed firms also tend to have relatively lower cash holdings, higher leverage, and significantly higher ROE (profitability) and Market-to-Book ratio (investment opportunities). Firms with RDLs and those without RDLs have similar levels of institutional ownership. However, firms with RDLs have a higher number of institutional owners. This indicates that firms with RDLs have more diffuse institutional ownership.

5 Empirical Analyses and Results

This section mainly reports the results from tests of hypotheses outlined in Section 3 by estimating a number of regression models. We report the model, along with a discussion of the variables used and remark on the validity of the hypotheses based on the results obtained. All continuous variables are winsorized at 1% and 99%.

5.1 How and Why Firms Hire RDLs?

We begin with a preliminary investigation into the nature of RDLs and the corporations that appoint them—specifically focusing on the ideological alignment between RDLs and hiring firms—as well as potential motivations driving the appointments. Table 3 offers a rather curious insight that firms appear, on average, to be willing to hire RDLs whose ideological leanings may not be aligned with the public ideological slant espoused by the firms' political activities such as campaign donations. In line with the existing literature, we find that campaign donations disclosed by corporate Political Action Committees (PACs)

primarily fall in the center area of the left-right ideological spectrum. Notably, left-leaning firms do not show a strong reluctance to appointing right-leaning RDLs. A similar pattern, albeit weaker, is found among right-leaning firms in their hiring of left-leaning RDLs. While Table 3 may suggest that left-leaning firms are more inclined to appoint RDLs with opposing political orientations, the underlying explanation could be that a greater proportion of RDLs are more right-leaning than left-leaning. Furthermore, corporate PAC contribution records do not in reality reflect the ideological beliefs of their board members and employees (Bonica, 2016). In fact, firms that are presumably left-leaning as suggested by their PAC records may actually have a more conservative bias than assumed when other forms of political engagement—such as dark money donations—are accounted for (Guedhami et al., 2023).[20]

Next, we turn to the following question: why would firms opt to appoint RDLs if limiting themselves to direct engagements in lobbying were sufficient to influence policy outcomes and regulations? One reasonable answer is that while firms without prior lobbying experience may face a barrier to lobbying entry (Shang et al., 2021), firms with lobbying experience—our sample of firms from LobbyView—may begin to attempt other indirect ways of lobbying when they feel they have not yet received a considerable return on their lobbying investments. Dismayed at or unsatisfied with their past returns on traditional lobbying, appointing an RDL to corporate boards may look like an attractive option to corporate strategists. This option looks even more enticing against the backdrop of prior academic findings indicating that lobbying, on its own, does not wholly guarantee sufficient confidence or success in terms of passing the bills lobbied and winning government contracts (Cao et al., 2018). By contrast, hiring a politically-connected board member such as an RDL helps bring other advantages besides lobbying success, such as an increase in winning procurement contracts or receiving assistance and subsidies from the government (Goldman et al., 2013; Blau et al., 2013). Given the potential for these high-value returns that firms can reap from the presence of an RDL on boards, it is fair to infer that firms may begin to seriously consider appointing RDLs when past returns from lobbying efforts are less than satisfactory. To examine whether this is the

[20]See dark money donations by ex-CEO of FTX.

case, we estimate a probit model as outlined below.

$$FirstRDLhire_{i,t} = \alpha \ X + \boldsymbol{\beta} \ controls_i + FEs + \epsilon_{i,t} \tag{1}$$

where i represents a firm, t stands for a year, and X is the placeholder for any of the four explanatory variables: *past_lobby_unsuccessful*, *past_lobby_success_ratio*, *case_1y-*, and *case_2y-*. *past_lobby_unsuccessful* is a binary indicator equal to 1 if none of the bills or issues lobbied by a firm in the past three years are passed by the legislature and 0 otherwise. An alternative measure of lobbying success, *past_lobby_success_ratio*, scales the number of bills passed relative to the total number of bills lobbied by the firm in the past three years, excluding the bills that stopped at the Referred stage (See Section 4.3.2 for details). *case_1y-* are *case_2y-* are the number of new litigation cases opened against the firm in the previous one and two years respectively. For analyses with *past_lobby_unsuccessful* and *past_lobby_success_ratio* as regressors, firms with no lobbying expenses in the last three years as well as non-first RDL appointments are dropped from the sample. One potential concern is that the demand for RDLs might vary across firms and over time. For example, some firms from particular industries—such as the Energy industry (Kang, 2016) and the Pharmaceutical(Unsal, 2020) industry—are traditionally known to be heavily involved in lobbying while others are less so. Similarly, time-varying political conditions may affect both the supply and the demand for RDLs. To address this concern, we include firm and year fixed effects in our model.

The positive and statistically strong coefficient reported in Table 4 lends empirical support to the hypothesis that firms are more likely to engage in alternative ways of political connections—such as hiring RDLs—when the traditional modes of lobbying activities prove ineffective or insufficient and/or when corporations are experiencing heightened litigation risks. For both measures of past lobbying failures, the probability of a firm hiring an RDL for the first time increases with higher incidences of lobbying failures. In numerical terms, firms that failed to advance any of their lobbied bills in the past three years into the legislation stage are 75% more likely to appoint an RDL to their board for the first time, compared to firms that achieved lobbying success of at least one of their bills being passed into law. Likewise, the coefficient on *case_2y-* in column (6) implies that one additional litigation case

over the past two years is associated with an 8.41% point increase in the probability that a firm will appoint an RDL to its board for the first time.

The signs on other control variables are as expected and offer intuitive economic interpretations. For instance, larger firms with sizeable cash reserves are more likely to appoint an RDL as their financial and other resources do not limit their ability to shop for RDLs. Conversely, the negative sign on leverage confirms that highly leveraged firms are constrained by their financials in their appetite to appoint RDLs. While these results may suggest that firms may choose to hire an RDL to make up for lower-than-expected outcomes from past lobbying activities, they do not answer whether the addition of an RDL helps meaningfully alter the firm's lobbying strategies. Since RDLs are probably, first and foremost, valued for their experience in the world of lobbying and familiarity with legal battles, it is reasonable to question whether and how a firm's lobbying strategies take shape in the years following an RDL's appointment. We attempt to answer this question (H1 and H2) in the following sections.

5.2 Lobbying Behaviors

The existing literature on corporate lobbying and political contributions suggests that the primary motive of such activities is to secure increased access to the government and its policymakers. Contrary to popular intuitive claims, any improvements in firm performance and/or value are likely to be secondary effects of political engagement since not all firms manage to extract tangible benefits from participation in the political process—be it campaign contributions or lobbying (Ansolabehere et al., 2003; Hill et al., 2013; Fouirnaies and Hall, 2018). This means that other benefits may be subordinate to access, the primary motive.

If access is indeed the main motivation, it is natural that firms would consider other avenues—besides lobbying and campaign contributions—to initiate, sustain, or grow their political connectivity. Among the options available to firms, appointing RDLs is an enticing option, especially for firms that can afford to hire an RDL. Not only may hiring RDLs widen a firm's access to political entities and individuals, but it may also enrich firm managers with nuances of the world of corporate lobbying. Furthermore, access via RDLs can serve as either a substitute for or a complement to costly external lobbying—which by itself might be

potentially ineffective—in securing favorable and desirable policy outcomes (Judd, 2023). The appeal of RDLs is further boosted by the fact that traditional lobbying expenditures, which must be publicly disclosed, are more likely to attract media attention, regulatory oversight, and public scrutiny than the comparatively discreet appointment of a politically connected board member wo is rich with the institutional knowledge of lobbying. Based on these points, it may be reasonable to assume that an RDL board appointment may transform a firm's lobbying strategy and approach.

To examine this assumption, we estimate the following two regression models:

$$loglobbyexpense + 3t_{i,t} = \alpha\ RDLdummy\ (\text{or})\ RDL\_N + \boldsymbol{\beta}\ controls_i + FEs + \epsilon_{i,t} \quad (2)$$

$$lobbybills + 3t_{i,t} = \alpha\ RDLdummy\ (\text{or})\ RDL\_N + \boldsymbol{\beta}\ controls_i + FEs + \epsilon_{i,t} \quad (3)$$

where i denotes a firm, t indexes a year, *lobbyexpense+3t* is the natural logarithm of 1 plus the lobbying expenditure reported by a firm in the three years following the recruitment of an RDL (or more) to its board. Similarly, *lobbybills+3t* is the number of bills lobbied by the firm in the three years following the recruitment of an RDL (or more) to its board. Other variables are as described in Table 1.

The results reported in Table 5 provide evidence that firms' lobbying patterns change significantly in the years following the appointment of an RDL, even with the inclusion of firm and year fixed effects. In support of H1a, the findings indicate that firms with RDLs tend to report smaller lobbying expenditures post-appointment. For example, the result in column (1) indicates that, ceteris paribus, firms approximately spend 10% less on lobbying in the next three years than firms without RDLs. Looking at the number of bills lobbied, we find that RDL-present firms lobby on average about 7 fewer bills, compared to non-RDL firms. Overall, results across all four columns show consistent evidence that firms are more likely to rely less on external lobbying by leveraging the political connections and expertise of RDLs. This suggests that firms may shift to a probably more cost-effective in-house lobbying strategy under the guidance of RDLs. One interpretation of these findings implies that the appointment of an RDL serves as a substitute for more traditional forms of political

engagement through external lobbying channels. This point about turning to in-house RDLs is particularly important and begins to appear more credible when consideration the fact that corporations must compete for the existing limited services of lobbying provision firms, driving up the fees charged by lobbying service firms. Returning to interpretations of results, consistent with what is reported in the previous section, we observe positive and highly significant coefficients on market size and cash holding, suggesting that larger firms with more disposable cash exhibit a higher level of lobbying intensity. Conversely, firms operating with higher leverage are characterized by a lower level of lobbying activities, as a result of their constrained financial status.

5.3 Litigation Risk

As explained in Section 3, the appointment of an RDL to corporate boards is a significant move that could alter a firm's governance and corporate strategies including litigation risk management. This likelihood is essentially based on the fact that RDLs are not only experts in law enforcement and legal cases from their prior exposure to government roles, but they are also probably well-connected to lawyers, persecutors, judges, and attorney generals.[21] An RDL-turned-board-member may be able to persuade an acquaintance lawyer or regulator in his or her network to tilt the enforcement environment in the firm's favor. On the other hand, a firm appointing an RDL may face unexpected negative consequences on top of more commonly discussed agency issues. For instance, the presence of an RDL may attract more attention from the RDL's competing groups or individuals, who may have regulatory or political power to target the firm unfairly, leading to more legal cases brought against the firm. Given that these predictions could swing either way, we conduct empirical tests to gain a better understanding. We opt for the following Poisson regression to analyze whether hiring RDLs is associated with future litigation risk:

$$case\_1y+_{i,t} = \alpha\ RDLdummy\ (\text{or})\ RDL\_N + \boldsymbol{\beta}\ controls_i + FEs + \epsilon_{i,t} \tag{4}$$

[21] LaPira and Thomas (2014) show that RDLs have mostly worked in Congress and Bonica (2020) discusses a large presence in Congress of individuals with an educational and professional background in law.

$$case\_2y+_{i,t} = \alpha\ RDLdummy\ (\text{or})\ RDL\_N + \boldsymbol{\beta}\ controls_i + FEs + \epsilon_{i,t} \tag{5}$$

where i denotes a firm, t indexes a year, *case_1y+* is the number of cases for defendant firm i in year *t+1*, and *case_2y+* is the number of cases for defendant firm i in year *t+1* and *t+2*. Because new litigation cases in future years may be dependent on past litigation cases, we also include the number of litigation cases in year t and year *t-1* as controls. Similarly, firm and year fixed effects are included to address the potential effect of unobservable firm-related and time-varying factors on litigation cases. Table 6 presents the results of our analysis. Columns (1) and (2) both use *case_1y+* as the dependent variable. Column (1) shows that the coefficient of *RDLdummy* is negative and statistically significant, indicating that hiring RDLs is associated with lower future litigation risk. Employing RDLs corresponds, on average, to approximately 5% decrease in the number of litigation cases.[22] In Column (2), we use the number of RDLs on boards as the independent variable. The results similarly indicate a negative relationship between the number of RDLs hired and future litigation risk, suggesting that firms employing more RDLs tend to experience lower litigation risk. In economic terms, each additional RDL board member is associated with a drop of 3.7% in the expected number of litigation cases. Replacing *case_1y+* with *case_2y+* retains the consistency of the results as the findings presented in columns (3) and (4) confirm that firms continue to face statistically significant lower litigation risk in the two years following the appointment of an RDL (or more).

5.4 Endogeneity

The results presented above are statistically significant and economically meaningful in most cases. However, not until we address the possible endogeneity issues can we not make a fairly strong conclusion that revolvers hires have a causal effect on the lobbying behavior and litigation risk of corporations. Although the two explanatory variables, *RDLdummy* and *RDL_N*, do not likely suffer from significant measurement errors, the case for endogeneity can still be made on the basis of omitted variables/unobserved factors or strategic behav-

[22]While this number may appear to be not economically meaningful, we also ought to consider the severity of each litigation case, and the degree of success in defending litigation cases.

ior/simultaneity. In particular, some unobserved factors influencing lobbying patterns could be a macro measure like economic policy uncertainty and the available supply of lobbying services firms and lobbyists, which are limited in number and scope. The simultaneity issue may also be a factor that jointly determines a firm's lobbying behavior and the presence of revolverss, or its litigation risk and the appointment of an RDL. To see why, first suppose that the size of the lobbyist universe is fixed. Under this assumption, the lobbying services available to firms may drop when lobbyists—some of whom are revolvers—seek employment in the private sector.[23] Lower services available can deter firms from lobbying engagement, and firms may hire RDLs when lobbyists are looking to move to the private sector. In other words, the hiring of revolvers is likely to be correlated with external lobbying activities—both simultaneously driven by the supply of lobbying services. We resolve these endogeneity concerns by conducting an instrumental variable (IV) estimation with a two-stage least-squares (2SLS) regression. Using the DIME database, we construct an instrument, the average ideological score of board members. Its value ranges from -1 to 1, with lower numbers indicating a bias towards the left side of the ideological spectrum and more positive scores pointing to more right-wing beliefs. For an instrument to be valid, it must mainly satisfy two conditions: first, it should have minimal correlation with the error terms in the model specified (exclusion restriction); second, the correlation between the dependent variable and the instrument should be primarily through the regressor (relevance assumption).

Regarding the first condition, it is highly likely that the instrument does not have a significant correlation with unexplained factors (ϵ) in the regression equations of Section 5.2 and Section 5.3. To explain further, there is virtually no compelling reason to believe that plausible omitted variables—captured by the error term—such as regulatory enforcement and economic policy uncertainty are significantly related to the ideological leanings of corporate board members, which are shaped by a mix of socioeconomic conditions, cultural environments, and an individual's own upbringing.

Concerning the second condition, we put forward that the average ideological score of board members does not materially and directly affect the lobbying and litigation patterns. Despite some studies that show Republican CEOs engage in more lobbying and are associated

[23]Lobbyists don't necessarily have to transition to only corporate board positions, however.

with higher agency costs of free cash flow (Unsal et al., 2016), two main differences mark our IV and setting from such literature. First, we note that those studies examine corporate CEOs and other executives whereas corporate board members are our focus interest. Second, the construction methodology of ideological scores in DIME is vastly different from that used in literature such as Unsal et al. (2016). The average ideological scores of board members is likely to have a detectable, if not strong, association with the dependent variables through their correlation with RDL hires for the following reason. The corporate board circle is often depicted as a world with a strong element of the 'it is not what you know, it is who you know' doctrine. As personal relationships, connections, and friendships matter to a large degree, corporate boards with higher ideological scores are possibly more acquainted with RDLs, many of whom themselves are more right-leaning than left-leaning (See Table 3). This point does not contradict the discussion in Section 5.1 because, as explained earlier, ideological slant inferred from firms' PAC are not positively and highly correlated with ideological viewpoints of board's constituents. Our point is that while careful PAC donation strategy of corporations presents a pattern of RDL hires seemingly not driven by ideology, the tendency of humans to be closer to those with similar ideology gives rise to a moderate possibility that boards with more right-leaning members may share a greater network with RDLs, leading to a higher probability of an RDL hire. Thus, to the extent that the likelihood of a revolver hire is greater for boards with higher average ideological scores, the correlations between the average ideological score and our two variables of interest, lobbying behaviors and litigation risk, are mostly due to revolver hires.

Table 7 and Table 8 report the results. In both tables, columns (1) and (2) show the coefficients from the first stage regression of a linear probability model. As expected, the instrument is positively correlated with both *RDLdummy* and *RDL_N* and the coefficients are statistically significant. According to Stock and Yogo (2002), the F-statistics from the first-stage regression should be larger than 10, to ascertain that the instrument is not weak. The value of F-statistics in the tables are all larger than 10, consolidating our choice of instrument as an appropriate one. Columns (3)-(6) report the results from the second stage of regression. In all specifications, the coefficients on $\widehat{RDLdummy}$ and $\widehat{RDL\_N}$ remain statistically significant at either 5% or 10% and the signs on the coefficients remain consistent

with Table 5 and Table 6. In terms of interpretation, the coefficient of -0.1848 on $\widehat{RDLdummy}$ in column (5) of Table 8 implies that the presence of a revolver board member is associated with an approximate 16.88% decrease in the expected number of litigation cases in the following two years, holding all else constant. This suggests a substantial decline in litigation risk from the addition of an RDL to boards. Overall, the results from this section allow us to establish a fairly strong causal relation on lobbying and litigation by revolver hires, and to conclude that the results from prior sections were not driven by the plausible endogeneity issues mentioned above.

5.5 Institutional Investors

To test our conjecture that the appointment of RDLs leads to changes in institutional ownership, we estimate the following two regression models:

$$log\_IO_{i,t} = \alpha \ RDLdummy \text{ (or) } RDL\_N + \boldsymbol{\beta} \ controls_i + FEs + \epsilon_{i,t} \tag{6}$$

$$log\_IO\_N_{i,t} = \alpha \ RDLdummy \text{ (or) } RDL\_N + \boldsymbol{\beta} \ controls_i + FEs + \epsilon_{i,t} \tag{7}$$

where i denotes a firm and t indexes a year. A more complete explanation of *log_IO* and *log_IO_N* is given in Section 4.3.2.

Table 9 presents evidence on the relationship between the appointment of RDLs and institutional behavior. In column (1), we see a statistically significant and positive relationship between the hiring of RDLs and institutional ownership. The result suggests that institutional investors' portfolios tend to overweigh firms that recently hired RDLs. Column (2) turns to analyzing the impact of the number of RDLs hired on institutional ownership. We find a similar result—a significant and positive correlation between the number of RDLs hired and institutional ownership. This suggests that institutional investors not only respond to the appointment of RDLs but may also interpret more political connectivity as a positive sign for firms.

Column (3) and (4) report consistent results when we use the number of institutional owners as the dependent variable. Firms with RDLs attract a larger base of institutional investors and firms with more RDLs are favored by institutional investors. This result aligns

with the assumption that institutional investors are more likely to increase their holdings in a company following the appointment of an RDL because they deem the RDL appointment as a net-positive move. The favored view likely arises from the anticipation of higher firm performance and from benefits brought about by RDLs, such as coordinated lobbying efforts, lower litigation risks, or even other advantages not explored in our paper. In addition, across the four specifications (columns), we also observe consistency regarding the market-to-book ratio (*mtb*): institutional investors tend to choose firms with a high Market to Book ratio. As shown by Gaver and Gaver (1993), the market-to-book ratio represents investment opportunities. This further suggests that institutional investors may be drawn to firms hiring RDLs not only because such firms are likely to have greater future investment opportunities, but also because such firms have higher long-term growth prospects and returns.

To ascertain institutional ownership as a channel, we run regressions from Section 5.2 and Section 5.3 by including an additional interaction term *RDLdummy* x *log_IO*. Table 10 reports the results. All four columns show that the coefficients on *RDLdummy* x *log_IO* are negative and the signs on *log_IO* are positive. These findings imply that although higher institutional ownership increases lobbying intensity and litigation risk, it becomes a moderating factor in reducing lobbying expenditures and litigation cases when revolvers serve on boards. Overall, these results offer us a reasonable inference that revolvers are particularly effective appointments for streamlining lobbying efforts and managing litigation risks under greater institutional monitoring.

5.6 The Value of RDL to market participants and firms

Since the results so far have indicated that RDLs have value because they could help improve lobbying success and government access, reduce lobbying expenditure and attract institutional investors, it is worth questioning whether their value is properly priced. To answer this question, we look at the value of RDLs as priced by their salary and compensation structure. These are explored in the following sections.

5.6.1 Is there a Salary Premium for RDLs?

In this section, we investigate whether Revolving Door Lobbyists (RDLs) command a positive salary and compensation premium due to their lobbying and policy expertise, government connections, and the access they bring to firms. This conjecture is a straightforward and natural extension of the fact mentioned earlier in Section 2.1 that RDLs services are worth more than those of their fellow lobbyists. To empirically examine the existence of a salary premium received by RDL board members, we estimate the following regression models based on Hartzell and Starks (2003):

$$logsalary_{i,t,k} = \alpha \ BM\_is\_RDL + \boldsymbol{\beta} \ controls_i + FEs + \epsilon_{i,t} \tag{8}$$

$$logtotaldirectcomp_{i,t,k} = \alpha \ BM\_is\_RDL + \boldsymbol{\beta} \ controls_i + FEs + \epsilon_{i,t} \tag{9}$$

where the dependent variables—*logsalary* and *logtotaldirectcomp*— are the natural logarithms of directors' salary and total compensation respectively, as reported in BoardEx. The suffix i denotes a firm, t a year, and k a director respectively. *BM_is_RDL* is a dummy indicator equal to 1 if the director is a revolver and 0 otherwise. Regressors include the natural logarithm of institutional holdings scaled by total assets (*log_IO*), board size, changes in shareholder wealth in the last two years (*t-2* to *t-1*), and the market-to-book-equity ratio. We further include year, firm/industry fixed effects to control for other unobservable firm characteristics and time-varying factors and the fact that compensation and salary may differ across industries. We also exclude founders, cofounders, and their relatives from the sample.

The existing corporate lobbying literature has examined whether CEOs of lobbying firms earn higher compensation than their counterparts at non-lobbying firms (Unsal et al., 2016). Although we do not test whether the same pattern is observed for board directors (i.e., across firms), this paper, to the best of our knowledge, is the first to explore the within-firm variation in the salary and compensation of directors. Among lobbyists, heterogeneity in fees and compensation exists based on their connections and knowledge (LaPira and Thomas, 2014). As stated in Section 4.3.1, the supply of highly qualified and experienced RDLs is also limited. In addition, given that it was the network and knowledge of RDLs to which corporations are

attracted, the natural assumption would be that firms will have to attract these experienced RDLs with a premium. We find strong evidence that RDLs receive significantly higher salaries and compensation compared to their non-RDL peers. This premium is possibly due to their distinct role as directors representing the firm's interests to the government and regulators. Specifically, the coefficient estimate of 0.153 in column (3) of Table 11 informs us that, on average, an RDL earns approximately 16.5% more in compensation than a non-RDL director. This finding can be interpreted in another way: firms may channel the capital saved from lower lobbying expenses (as found in Table 5) to a monetary compensation package for RDLs. In this context, the appointment of RDLs is not so much cost saving as it is a capital reallocation. Although our paper does not attempt to make an extensive empirical evaluation on why firms would opt for this strategy, one explanation we could offer is that the returns to lobbying expenses may be limited to lobbying success whereas an RDL appointment potentially delivers benefits to firm beyond lobbying—such as lower litigation risk (as explored in our paper) as well as other tangible and intangible value for shareholders.[24]

5.7 Robustness

We undertake additional robustness checks to ascertain the validity of our results. For brevity, we give a cursory report of the empirical results from two alternative ways of estimating the relation between RDLs and firms' outcomes of interest.

In the first configuration, we develop a measure called *Treated* which is assigned a value of 1 to a firm if the firm hires an RDL in a given year. We then find another comparable firm in terms of having the closest market capitalization and without an RDL in the next three years. The comparable firm is assigned a value of 0 to the *Treated* variable. We then run similar regressions as we did in Section 5. However, this alternative specification uses, by design, a fewer number of observations. The results are reported in Column (3) and (6) of Table 12, Table 13, and Table 14. We find that our results remain statistically significant and the signs of the coefficients remain consistent, despite having fewer observations. Furthermore, the

[24]Some benefits could be valuable for debtholders as well. For example, if a firm with an RDL wins more government contracts, the more certain stream of income from the government ensures a stable cash flow, reducing the default risk for bondholders.

magnitude of the coefficients also stays steady. For example, column (3) of Table 12 shows that RDL-hiring firms' lobbying efforts decrease by about 8 fewer bills relative to a non-RDL firm.

Second, our premise that RDLs bring value to the firm has so far not directly addressed the point that firms' valuation of revolvers is not constant across time. To make things clearer and as also briefly discussed in Section 4.3.2, the value of RDLs may be amplified during crisis periods, when lobbying intensity rises and access to politicians becomes more competitive. Although the year fixed effect could have absorbed such variations, we go for a more conservative design by removing observations from the years 2007-2009 and 2020. By doing so, we remove potentially enlarged effects of economic uncertainty on the value of RDLs. Excluding observations from those years did not materially change the validity of our results. In fact, for some specifications, the magnitude of the estimated coefficients increases. For example, in Table 14, the coefficient estimate of 0.1333 in column (1) indicates that institutional ownership of an RDL-appointing firm is approximately 14.3% higher, compared to a non-RDL firm. This estimate is notably larger than the corresponding 12.7% estimate we obtained for column (1) of Table 9. All in all, our robustness tests offer us an extra layer of confidence that our findings reflect the average effect of RDL appointments and that they are not driven by certain years or corrupted by our choice of empirical models.

6 Discussions

6.1 What about Other Types of Politically Connected Board Members?

So far, we have exclusively focused on the board members classified as revolving door lobbyists in the OpenSecrets database. One might dispute, however, that a few individuals who qualify as RDLs or have similar characteristics to RDLs may not be captured in this database for a variety of reasons.[25] Although this possibility cannot be ruled out, OpenSecrets specifies that the dataset consists of "officials in the executive branch, Congress and senior

[25]For example, former members of Congress may take up "consultant" positions at law firms in Washington and they are technically not considered lobbyists. See Lazarus and McKay(2012).

congressional staffers." This indicates that connected officials are matched and found in our sample to a reasonable degree.

It is also plausible that other types of politically connected (PC) individuals may be serving simultaneously with RDLs on corporate boards. While we acknowledge that such PC members too are beneficial to firms, our point is that RDLs are better suited to guide the firm in matters related to lobbying and litigation. Furthermore, one could also argue that we ignore another possibility: the potential appointment of non-government officials—specifically, individuals who have worked in lobbying firms but have never held public office——to corporate boards. Despite not having held political posts, these individuals may possess their own political network, knowledge, and experience within the lobbying world. We do acknowledge this deficiency in our current analysis. Unfortunately, we have not yet found a way to identify such individuals. However, this limitation may not greatly pose a problem to the integrity of our results obtained so far. For example, the results presented in Table 11 are likely to be stronger when such individuals are excluded from the sample.

Another direction for future research should look at whether the salary and compensation premium vary with the type of public sector positions previously held. This analysis is particularly relevant given that the existing literature agrees not all Congressional committees are equal in influence (Cohen et al., 2009). It would be valuable to examine whether certain RDLs provide greater value to firms based on the nature and type of their prior governmental roles.

6.2 What if Lobbying and Litigation Risks are not the Main Objective for Hiring RDLs?

We present our analyses by primarily framing the value of RDLs in the context of firms' lobbying strategies and litigation risk. It is, however, possible that these documented associations are merely coincidental. The first motive for appointing RDLs to corporate boards may not necessarily be linked to lobbying or litigation risk. A few alternative scenarios and motives could also explain why firms choose to hire RDLs.

For instance, a firm may only value the presence of RDLs at certain points in time—such

as during investigations by the Securities and Exchange Commission (SEC) or when facing an unusually high degree of litigation risk. In another equally plausible scenario, firms may appoint RDLs as a form of damage control or strategic response following the electoral defeat of political candidates they had overwhelmingly supported.[26] Alternatively, firms may value hiring RDLs for additional support in winning government contracts (Goldman et al., 2013; Brogaard et al., 2021; Ngo and Susnjara, 2020). While these assumptions are not without merit, it is worth emphasizing the point that both lobbying and litigation risk management represent central components of a firm's overall corporate strategy. Given their significance, it is hard to imagine that corporations do not seem to be aware of the tactical advantages in lobbying and litigation they could gain by appointing RDLs to their boards. Furthermore, since lobbying affects firm value positively, it is likely that corporate executives—whose primary task is to maximize shareholder value—recognize the benefits RDLs may offer in lobbying and legal or regulatory matters.

6.3 What about RDLs in Executive Positions?

While our work focuses on RDLs appointed to corporate boards, it is plausible that some could take up executive positions. However, it is beyond the scope of this paper, and we do not address the two issues concurrently, specifically because empirical findings might be confounded by the overlapping effects coming from executive RDLs and board RDLs. Moreover, while accounting for the effect of the appointment of an RDL to an executive position may be desirable, RDLs transitioning into executive roles are less common than RDLs serving as corporate directors. This is because executive roles require managerial and financial expertise. Most revolvers probably lack managerial and financial experience since their strength and value are primarily derived from their political connections and institutional knowledge such as the legal system and the intricacies of the political world. Consequently, the effect of a possibly small number of revolver-executives on firms' lobbying and litigation risk may not be statistically detectable.

[26] As discussed in Section 5.1, such cases are likely not numerous due to hedging strategies of corporations in their campaign donations and political support.

7 Conclusion

Although the interrelation between political bodies and corporate wealth has existed for much of history, the watershed moment in 2010, *Citizens United*, may have probably catalyzed deeper entanglement between politics and corporations. Since then, as the wall between the sphere of government and politics, and the corporate world has become increasingly amorphous (Fisch and Schwartz, 2024), the ongoing intersectional research on politics and finance has examined various relations between them. Our findings too contribute to the literature by showing that the value of RDLs to corporations can be substantial and far-reaching. In conclusion, this study examines the various facets of interactions between corporations and RDLs using a novel dataset and extensive empirical tests. Our research suggests that understanding political connections and benefits is nuanced and requires us to acknowledge that different types of political connections may bring diverse benefits (or downsides) to firms.

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Figure 1: Connection ratio over time

This figure reports the connection ratio over time, measured as the proportion of politically connected firms—defined as firms having at least one RDL on corporate board—to the total number of firms in the sample. The horizontal axis represents the year while the vertical axis shows the connection ratio, expressed as a percentage.

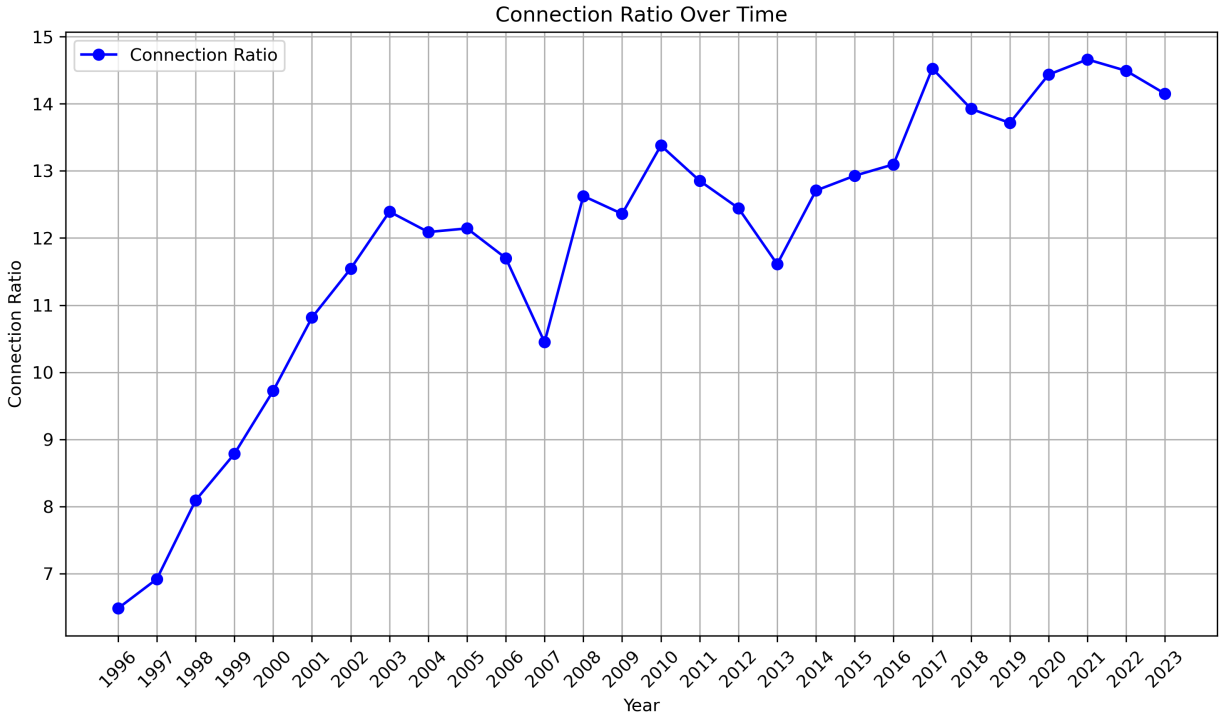
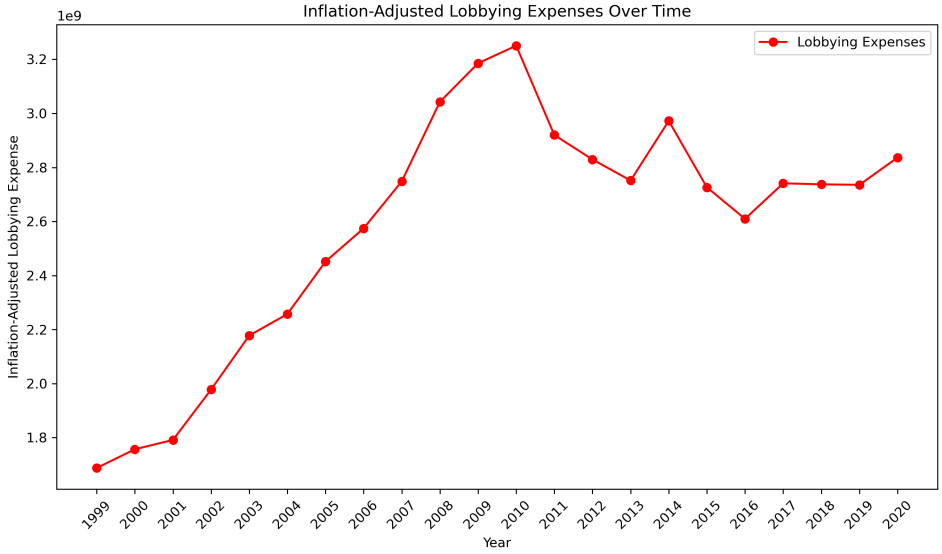
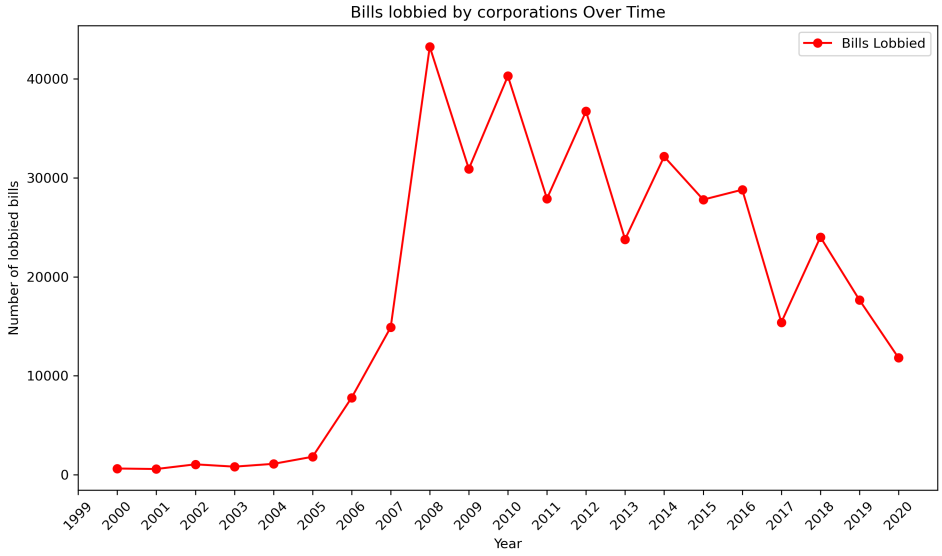


Figure 2: Lobbying patterns over time

This figure reports corporate lobbying patterns in two measures: inflation-adjusted lobbying expenses (in 1999 price level) as a base in panel (a), and the number of bills lobbied by corporations in panel (b). In both panels, the horizontal axis denotes the year. The vertical axis in panel (a) is measured in units of 10^9 inflation-adjusted dollars whereas it is simply the number of bills lobbied by corporations in panel (b).



(a) Inflation-adjusted lobbying expenditure over time



(b) Number of lobbied bills over time

Figure 3: Lobbying expense relative to total expenses over time

This figure reports the lobbying expenses as a proportion of total expense. The horizontal axis stands for the year while the vertical axis is given in decimals.

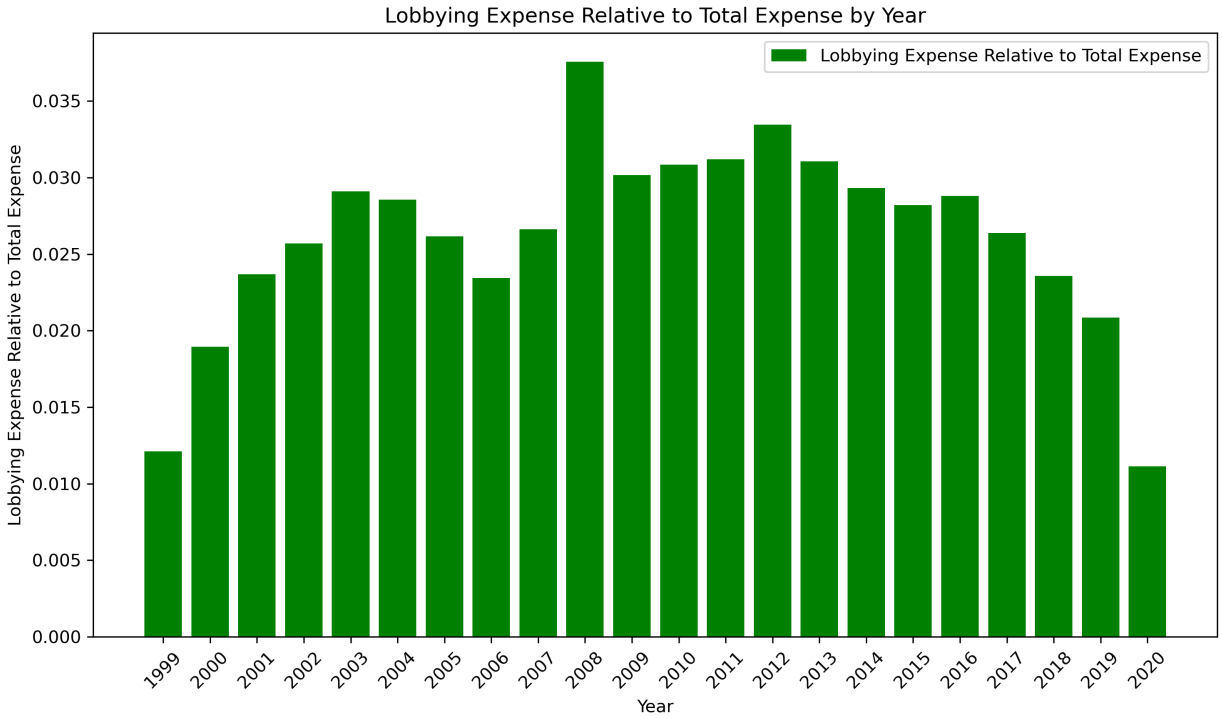
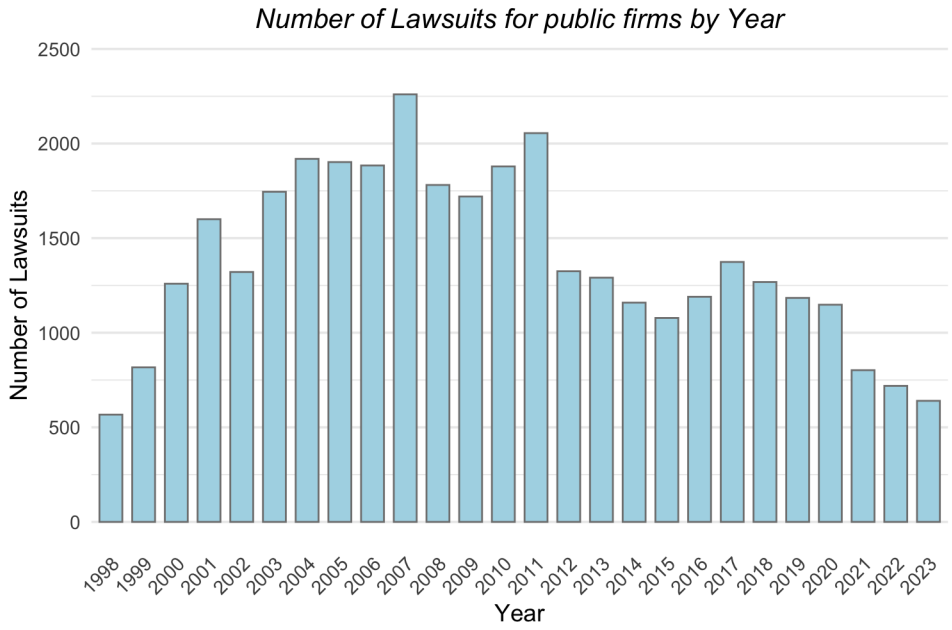
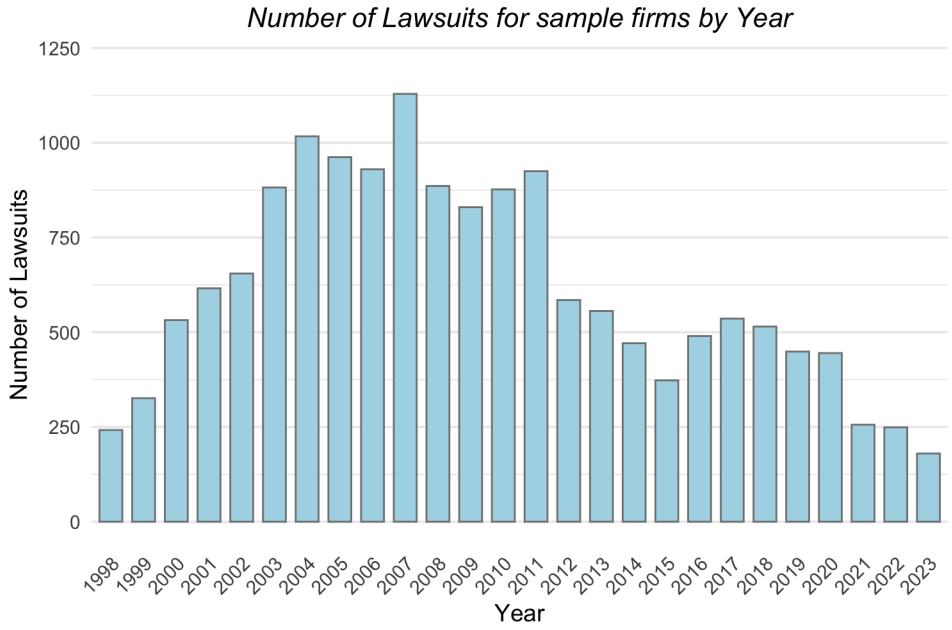


Figure 4: Lawsuits over time

This figure reports the number of lawsuits cases for two groups of firms over the 1998-2023 period: all public firms covered by Audit Analytics in panel (a), and firms that comprise **MST1** sample in panel (b). Refer to Section 4.2 for the construction of **MST1** sample. In both panels, the horizontal axis denotes the year and the vertical axis the total number of lawsuits faced by the firms.



(a) Total number of lawsuits for public firms by year



(b) Total number of lawsuits for sample firms by year

Table 1: Variable Descriptions

Variable	Definition	Source
past_lobby_unsuccessful	A binary variable equal to 1 if none of the issues or bills lobbied by a firm in the past 3 years is passed by the legislation. See Section 4.3.2.	LobbyView
past_lobby_success_ratio	The number of issues or bills passed successfully, relative to the total number of issues/or bills lobbied by a firm in the past 3 years. See Section 4.3.2.	LobbyView
avgideoscr	The mean ideological score of board members	DIME
lobbydummy	An indicator equal to 1 if a firm has non-zero lobbying expense in a given year and zero otherwise	LobbyView
RDLdummy	An indicator equal to 1 if at least one RDL is serving as a board member in a company at year t	OpenSecrets and ISS
RDL_N	The number of RDLs serving as a board member in a company at year t	OpenSecrets and ISS
BM_is_RDL	An indicator equal to 1 if the director is a revolving door lobbyist and 0 otherwise	OpenSecrets and ISS
boardsize	The total number of members in a board in year t-1	ISS
logmktcap	The natural logarithm of market capitalization, calculated as the multiplication of public share outstanding and closing price at the end of fiscal year.	Compustat
cashholding	Cash holding divided by asset	Compustat
leverage	Long-term debt plus debt in current liabilities divided by stockholders equity	Compustat
mtb	Market to book equity ratio	Compustat
ROE	Net income divided by common shares outstanding times closing price	Compustat
R&D	Research and development expense scaled by total asset in year t	Compustat
log_IO	The natural logarithm of annual institutional ownership, scaled by total asset	LSEG
log_IO_N	The natural logarithm of the number of institutional owners	LSEG
$\Delta(shareholderwealth)$	Change in the value of shares outstanding times stock price from the period $t-2$ to period $t-1$, where 't' represents year	CRSP
case_1y+/case_2y+	The number of total new litigation cases in which a firm is the defender, one or two years following the appointment of an RDL	Audit Analytics
case_1y-/case_2y-	The number of total new litigation cases in which a firm is the defender, one or two years prior to the appointment of an RDL	Audit Analytics
logsalary	The natural logarithm of annual salary	BoardEx
logtotaldirectcomp	The natural logarithm of total compensation	BoardEx

Table 2: Summary Statistics of Firm Characteristics

This table reports the summary statistics on the characteristics of firms included in the sample. Lobby expenses are expressed in dollars. The other variables are as defined in Table 1. The upper panel reports on firms that recruited an RDL at least once in the sample period (1998-2023) whereas the lower panel on firms that did not at all hire an RDL during the entire sample period (1998-2023). Except for N that represents the number of firms, the numbers reported are averaged across all firm-year observations.

	Firms that hired RDL at least once in the sample period			
Variable	N	mean	median	std.
logmkatcap	1064	7.0799	7.1419	2.0227
cashholding	1064	0.0836	0.0532	0.0890
leverage	1064	1.1632	0.7053	16.0493
mtb	1064	7.6396	2.3087	65.7621
ROE	1064	0.1839	0.1245	2.8922
lobby expenses (in dollars)	1064	783,102	5,769,200	1,976,375
lobby bills	1064	152.45	45	113.05
litigation cases	1064	3.60	2.01	1.11
log_IO	1064	9.6678	9.6421	1.2236
log_IO_N	1064	6.0739	6.0408	0.8375
R&D	1064	0.0610	0.02751	0.2333
	Firms that did not hire RDL at all in the sample period			
Variable	N	mean	median	std.
logmkatcap	421	7.9650	8.0411	2.1777
cashholding	421	0.0970	0.0617	0.1049
leverage	421	0.8751	0.5762	12.5114
mtb	421	4.9591	2.2816	26.8608
ROE	421	0.0791	0.1127	3.5469
lobby expenses (in dollars)	421	420,000	103,000	160,040
lobby bills	421	201.55	67	98.12
litigation cases	421	1.51	1.34	0.45
log_IO	421	9.9753	10.0158	1.2057
log_IO_N	421	5.6810	5.6095	0.7757
R&D	421	0.04126	0.02189	0.0769

Table 3: Ideological leanings of firms (inferred from corporate PAC donations) and of RDLs (inferred from government positions or donations)

This table shows a summary distribution of firms ideological leaning based on the donations of their corporate PACs, and the party affiliation of RDLs in the sample. We use the ideological scores of the board members, as reported in the Database on Ideology, Money in Politics, and Elections (DIME). RDLs with ideological scores lower than -0.5 are considered to be left-leaning, those with scores above 0.5 are assumed to be right-leaning, and anyone whose score falls between -0.5 and 0.5 are considered to be centrists. Note that the number of firms here is smaller than 421 because their affiliated PACs cannot be found in the DIME database.

Firms		Left			Center			Right	
		35			298			64	
RDL	Left	Center	Right	Left	Center	Right	Left	Center	Right
	15	33	20	68	95	153	21	43	96

Table 4: Past lobbying success, litigation risk, and the first time hiring of RDL to a corporate board

This table reports the probit model estimation that examines how lobbying success and litigation risk in the past affects the decisions of firms to recruit RDLs to their boards. *firstRDLhire* is the dependent variable that takes a value of one in the year in which the firm hires a RDL (or more) for the first time and 0 otherwise. The main explanatory variable is either the *past_lobby_unsuccessful* or *past_lobby_success_ratio* and either *case_1y-* and *case_2y-*. *past_lobby_unsuccessful* is a binary variable that takes a value of 1 if none of the issues or bills lobbied by the firm in the past five years is passed by the legislation, and 0 otherwise. *past_lobby_success_ratio* is the ratio of issues or bills passed successfully to the total number of issues/or bills lobbied by the firm in the past five years. *case_1y-* and *case_2y-* is the number of new lawsuits targeting the firm in the past one and two years respectively. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1998 - Dec 31, 2023.

	(1)	(2)	(3)	(4)	(5)	(6)
	firstRDLhire					
past_lobby_unsuccessful	0.7601***	0.7520***				
	(0.1086)	(0.1074)				
past_lobby_success_ratio			-0.1505***	-0.1446***		
			(0.0167)	(0.0161)		
case_1y-					0.0775**	
					(0.0360)	
case_2y-						0.0841**
						(0.0373)
lobbydummy		0.1552***		0.1532***		
		(0.0218)		(0.0191)		
logmktcap	0.1800***	0.1703***	0.1743***	0.1713***	0.1650***	0.1572***
	(0.0198)	(0.0189)	(0.0164)	(0.0161)	(0.0185)	(0.0183)
cashholding	0.1551**	0.1661**	0.1425**	0.1338**	0.1401**	0.1359**
	(0.0801)	(0.0851)	(0.0721)	(0.0679)	(0.0674)	(0.0672)
leverage	-0.0030*	-0.0030*	-0.0025*	-0.0025*	-0.0026*	-0.0025*
	(0.0018)	(0.0018)	(0.0012)	(0.0012)	(0.0014)	(0.0014)
mtb	0.0001	0.0001	0.0012	0.0012	0.0001	0.0001
	(0.0001)	(0.0001)	(0.0045)	(0.0045)	(0.0001)	(0.0001)
roe	0.0023	0.0023	0.0023	0.0013	0.0021	0.0021
	(0.0016)	(0.0015)	(0.0013)	(0.0012)	(0.0012)	(0.0012)
Firm FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Obs.	14237	14237	14237	14237	15936	15936
Pseudo R^2	31.79%	32.84%	35.11%	35.15%	28.61%	31.21%

Table 5: RDL board members and lobbying behaviors

This table reports the results from OLS regression model estimation that examines the relation between RDLs and lobbying behaviors. In columns (1)-(2), the dependent variable is the natural logarithm of 1 + total lobbying expenditure reported by a firm over three years following the recruitment of an RDL (or more) to the board in year t. In columns (3)-(4), the dependent variable is the number of bills lobbied by the firm for three years following the recruitment of an RDL (or more) to the board in year t. If no lobbied expense or expenditure bills are reported for the next three years, we set it to zero. *RDL_dummy*, a binary variable, indicates whether the company has an RDL board member in year t. *RDL_N* is the number of RDLs in a board in year t. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1999 - Dec 31, 2020.

	(1)	(2)	(3)	(4)
	lobbyexpense_3t+		lobbybills_3t+	
RDLdummy	-0.1051***		-7.264***	
	(0.0305)		(1.105)	
RDL_N		-0.1500***		-7.877***
		(0.0385)		(1.532)
boardsize	0.0121**	0.0152**	0.0514**	0.0521**
	(0.0063)	(0.0072)	(0.0262)	(0.0265)
logmktcap	0.1715**	0.1717**	0.1737**	0.1892**
	(0.0875)	(0.0875)	(0.7826)	(0.6914)
cashholding	0.2075**	0.2188**	1.351**	1.356**
	(0.1056)	(0.1100)	(0.0792)	(0.0794)
leverage	-0.0002	-0.0002	-0.0004	-0.0004
	(0.0001)	(0.0001)	(0.0006)	(0.0006)
mtb	0.0019***	0.0019***	0.0008**	0.0008**
	(0.0009)	(0.0009)	(0.0002)	(0.0002)
roe	0.0414*	0.0481*	0.5281*	0.5669*
	(0.0251)	(0.0253)	(0.3125)	(0.3209)
Firm FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Obs.	17148	17148	17148	17148
R^2	68.52%	69.53%	21.58%	21.56%

Table 6: RDL board members and litigation risk

This table reports the results of Poisson regression in analyzing relationships between hiring RDLs and future litigation risk. In columns (1)-(2), the dependent variable is the total number of new cases for firm i in year *t+1*. In columns (3)-(4), the dependent variable is the total number of new cases for firm i in year *t+1* and *t+2*. *RDL_dummy*, a binary variable, indicates whether the company has an RDL board member in year t. *RDL_N* is the number of RDLs in boards in year t. $case_t$ and $case_{t-1}$ are the number of new cases that firm i have in year t and *t-1*, respectively. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1998 - Dec 31, 2023.

	(1)	(2)	(3)	(4)
	case_1y+		case_2y+	
RDLdummy	-0.0501**		-0.0451***	
	(0.0212)		(0.0191)	
RDL_N		-0.037**		-0.033***
		(0.0209)		(0.0151)
$case_t$	0.0412***	0.0410***	0.0383***	0.0383***
	(0.0011)	(0.0011)	(0.0009)	(0.0009)
$case_{t-1}$	0.0324***	0.0324***	0.0291***	0.0294***
	(0.0013)	(0.0013)	(0.0009)	(0.0009)
logmktcap	0.4421***	0.4423***	0.4666***	0.4666***
	(0.0066)	(0.0066)	(0.0048)	(0.0048)
cashholding	0.2130*	0.2122*	0.3771***	0.3771***
	(0.1227)	(0.1227)	(0.0899)	(0.0899)
leverage	0.0030***	0.0030***	0.0021***	0.0021***
	(0.0009)	(0.0009)	(0.0007)	(0.0007)
mtb	-0.0022**	-0.0022**	-0.0036***	-0.0036***
	(0.001)	(0.001)	(0.0008)	(0.0008)
roe	0.0018	0.0019	0.0018	0.0019
	(0.0024)	(0.0024)	(0.0013)	(0.0013)
R&D	2.5801***	2.5773***	2.4501***	2.4472***
	(0.1787)	(0.1789)	(0.1326)	(0.1327)
Firm FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Obs.	16991	16991	15716	15716
Pseudo R^2	38.24%	38.24%	48.72%	48.72%

Table 7: RDL board members and lobbying behaviors using 2SLS estimation

This table reports the results from tests to address endogeneity issues with explanatory variables. In columns (1)-(2), the dependent *RDL_dummy* and *RDL_N* respectively, and these two columns correspond to the first stage regression of 2SLS estimation, with average ideological scores of board members (*avgideoscr*) as an instrument variable. *RDL_dummy*, a binary variable, indicates whether the company has an RDL board member in year *t*. *RDL_N* is the number of RDLs in a board in year *t*. Columns (3)-(6) correspond to the second stage regression of 2SLS estimation with estimated *RDL_dummy* and *RDL_N* as explanatory variables. The dependent variable in columns (3)-(4) is the natural logarithm of 1 + total lobbying expenditure reported by a firm over three years following the recruitment of an RDL (or more) to the board in year *t*. The dependent variable in columns (5)-(6) is the number of bills lobbied by the firm for three years following the recruitment of an RDL (or more) to the board in year *t*. If no lobbied expense or expenditure bills are reported for the next three years, we set it to zero. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1998 - Dec 31, 2023.

	(1)	(2)	(3)	(4)	(5)	(6)
	RDLdummy	RDL_N	lobbyexpense_3t+		lobbybills_3t+	
avgideoscr	0.1125**	0.2841**				
	(0.0580)	(0.1270)				
$\widehat{RDLdummy}$			-0.1736**		-10.85**	
			(0.0876)		(5.14)	
RDL_N				-0.2099*		-12.44**
				(0.1216)		(6.17)
boardsize	0.0143*	0.0352*	0.0122*	0.0165*	0.0493*	0.0512*
	(0.0079)	(0.0184)	(0.0065)	(0.0081)	(0.0267)	(0.0295)
logmktcap	0.0217**	0.0574**	0.1701***	0.1716***	0.1802***	0.1921***
	(0.0105)	(0.0233)	(0.0272)	(0.0274)	(0.0734)	(0.0725)
cashholding	0.0179**	0.0433**	0.2128	0.2165	1.319*	1.354*
	(0.0073)	(0.0169)	(0.1493)	(0.1493)	(0.7584)	(0.7728)
leverage	-0.0064**	-0.0173**	0.0004	0.0002	-0.0002	-0.0003
	(0.0030)	(0.0079)	(0.0097)	(0.0097)	(0.0400)	(0.0401)
mtb	0.0004	0.0011	0.0019***	0.0019***	0.0009**	0.0009**
	(0.0007)	(0.0016)	(0.0006)	(0.0006)	(0.0004)	(0.0004)
roe	0.0081	0.0216	0.0478	0.0603	0.5499*	0.5889*
	(0.0087)	(0.0166)	(0.0291)	(0.0294)	(0.2843)	(0.2991)
Firm FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Obs.	17148	17148	17148	17148	17148	17148
R^2	76.83%	67.63%	68.01%	68.11%	21.60%	21.73%
F-statistics	16.24	15.46				

Table 8: RDL board members and litigation risk using 2SLS estimation

This table reports the results from tests to address endogeneity issues with explanatory variables. In columns (1)-(2), the dependent *RDL_dummy* and *RDL_N* respectively, and these two columns correspond to the first stage regression of 2SLS estimation, with average ideological scores of board members (*avgideoscr*) as an instrument variable. *RDL_dummy*, a binary variable, indicates whether the company has an RDL board member in year *t*. *RDL_N* is the number of RDLs in a board in year *t*. Columns (3)-(6) correspond to the second stage regression of 2SLS estimation with estimated *RDL_dummy* and *RDL_N* as explanatory variables. In columns (3)-(4), the dependent variable is the total number of new cases for firm *i* in year *t+1*. In columns (5)-(6), the dependent variable is the total number of new litigation cases for firm *i* in year *t+1* and *t+2*. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1998 - Dec 31, 2023.

	(1)	(2)	(3)	(4)	(5)	(6)
	RDLdummy	RDL_N	case_1y+		case_2y+	
avgideoscr	0.1072**	0.2573**				
	(0.0548)	(0.1376)				
$\widehat{RDLdummy}$			-0.1230*		-0.1848*	
			(0.0711)		(0.0985)	
$\widehat{RDL\_N}$				-0.1123*		-0.1762**
				(0.0621)		(0.0845)
$case_t$	0.0015	0.0049	0.0397***	0.0399***	0.0381***	0.0383***
	(0.0010)	(0.0021)	(0.0012)	(0.0012)	(0.0009)	(0.0009)
$case_{t-1}$	0.0016*	0.0055*	0.0306***	0.0306***	0.0283***	0.0284***
	(0.0008)	(0.0029)	(0.0012)	(0.0012)	(0.0009)	(0.0009)
logmktcap	0.0196***	0.0539***	0.4202***	0.4245***	0.4541***	0.4599***
	(0.0067)	(0.0144)	(0.0087)	(0.0088)	(0.0071)	(0.0071)
cashholding	0.0159	0.0364	0.2125*	0.2173*	0.3766**	0.3770**
	(0.0131)	(0.0252)	(0.1201)	(0.1229)	(0.0902)	(0.0918)
leverage	-0.0054	-0.0139	0.0030***	0.0030***	0.0020***	0.0020***
	(0.0088)	(0.0205)	(0.0009)	(0.0009)	(0.0007)	(0.0007)
mtb	0.0003	0.0010	-0.0023**	-0.0023**	-0.0038***	-0.0038***
	(0.0005)	(0.0012)	(0.0013)	(0.0013)	(0.0009)	(0.0009)
roe	0.0075	0.0198	0.0019	0.0020	0.00019	0.0020
	(0.0067)	(0.0129)	(0.0025)	(0.0025)	(0.0019)	(0.0019)
R&D	0.4421***	1.0213***	2.5990***	2.5774***	2.4627***	2.4485***
	(0.1591)	(0.3703)	(0.1881)	(0.1883)	(0.1355)	(0.1328)
Firm FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Obs.	16991	15716	16991	16991	15716	15716
Pseudo R^2	40.80%	39.00%	38.08%	38.01%	48.19%	48.22%
F-statistics	11.55	11.04				

Table 9: RDL board members and institutional ownership

This table reports the results from OLS regression analyses of the relation between RDLs and institutional ownership. In columns (1)-(2), the dependent variable is the logarithm of annual institutional ownership scaled by total asset at year *t*. Annual institutional ownership in year *t* is the average of the quarterly values of institution ownership over the four quarters, where the quarterly value is obtained by adding up all shares held by institutions in each security for each quarter. In columns (3)-(4), the dependent variable is the natural logarithm of the number of institutional owners across the four quarters in year *t*. *RDL_dummy*, a binary variable, indicates whether the company has an RDL board member in year *t*. *RDL_N* is the number of RDLs in boards in year *t*. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1998 - Dec 31, 2023.

	(1)	(2)	(3)	(4)
	log_IO		log_IO_N	
RDLdummy	0.1193***		0.0489***	
	(0.0205)		(0.0105)	
RDL_N		0.1095***		0.0428***
		(0.0176)		(0.0090)
boardsize	-0.0383***	-0.0383***	0.0146***	0.0147***
	(0.0032)	(0.0032)	(0.0017)	(0.0017)
logmktcap	-0.3836***	-0.3840***	0.3709***	0.3708***
	(0.0048)	(0.0048)	(0.0024)	(0.0024)
cashholding	2.0721***	2.0684***	1.3691***	1.3678***
	(0.0699)	(0.0699)	(0.0356)	(0.0356)
leverage	-0.0010*	-0.0010*	-0.0008*	-0.0008*
	(0.0005)	(0.0005)	(0.0003)	(0.0003)
mtb	0.0013***	0.0014***	0.0014***	0.0014***
	(0.0002)	(0.0002)	(0.0001)	(0.0001)
roe	-0.0015	-0.0015	0.0006	0.0006
	(0.0019)	(0.0019)	(0.0010)	(0.0010)
Firm FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Obs.	18350	18350	18350	18350
R^2	77.57%	77.56%	37.87%	37.88%

Table 10: RDL board members and institutional ownership as a channel

This table reports the results from OLS regression analyses on how the presence of RDLs affect lobbying behavior and litigation risk through institutional ownership channel. In columns (1)-(2), dependent variables represent lobbying behavior in terms of lobbying expenditure and the number of lobbied bills. In columns (3)-(4), dependent variables represent the number of litigation cases in the years after the appointment of RDLs. Details of these variables and control variables can be found in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is either Jan 1, 1998 - Dec 31, 2023, or Jan 1, 1999 - Dec 31, 2020.

	(1) lobbyexpense_3t+	(2) lobbybills_3t+	(3) case_1y+	(4) case_2y+
RDLdummy	-0.0921**	-6.483***	-0.0384**	-0.0261**
	(0.0364)	(1.325)	(0.0187)	(0.0128)
log_IO	0.0845***	0.942**	0.0223**	0.0191**
	(0.0203)	(0.411)	(0.0094)	(0.0086)
RDLdummy x log_IO	-0.0410*	-1.227**	-0.0106*	-0.0084*
	(0.0218)	(0.602)	(0.0056)	(0.0045)
boardsize	0.0124**	0.0505**		
	(0.0063)	(0.0259)		
logmktcap	0.1692**	1.725**	0.4322***	0.4505***
	(0.0853)	(0.6911)	(0.0051)	(0.0048)
cashholding	0.2190*	1.382**	0.1933**	0.3489***
	(0.1110)	(0.0787)	(0.0840)	(0.0801)
leverage	-0.0003	-0.0004	0.0024***	0.0019***
	(0.0002)	(0.0003)	(0.0008)	(0.0007)
mtb	0.0019**	0.0009*	-0.0030***	-0.0028***
	(0.0009)	(0.0004)	(0.0009)	(0.0008)
roe	0.0452*	0.552*	0.0020	0.0022
	(0.0254)	(0.3210)	(0.0018)	(0.0017)
R&D			2.4812***	2.3991***
			(0.1320)	(0.1275)
$case_t$			0.0387***	0.0361**
			(0.0009)	(0.0008)
$case_{t-1}$			0.0293**	0.0271**
			(0.0009)	(0.0009)
Firm FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Obs.	17148	17148	16991	15716
R^2	69.02%	24.11%	38.96%	49.31%

Table 11: RDL salary and compensation premium

This table reports the regression model estimation that examines whether RDLs command higher salary and compensation premium, as a result of their political connections and ties to the government. In columns (1)-(2), *logsalary* is the natural logarithm of salary as reported in annual remuneration table of BoardEx. In columns (3)-(4), *logtotaldirectcomp* is the natural logarithm of 1 + Total Compensation as reported in BoardEx. The explanatory variable, BM_is_RDL, a binary variable taking a value of 1 if the board director is classified as an RDL in OpenSecret and 0 otherwise. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote statistical significance at the 10%, 5%, and 1% levels, respectively. The sample period is Jan 1, 1998 - Dec 31, 2023.

	(1)	(2)	(3)	(4)
	logsalary		logtotaldirectcomp	
BM_is_RDL	0.102**	0.126***	0.153***	0.189***
	(2.153)	(2.945)	(3.477)	(3.832)
boardsize	-0.052**	-0.031*	-0.040**	-0.039***
	(2.572)	(2.047)	(2.501)	(2.891)
logmktcap	0.156***	0.143***	0.182**	0.178**
	(4.728)	(4.860)	(5.031)	(5.063)
mtb	0.0035***	0.0033***	0.0037***	0.0038***
	(0.0006)	(0.0007)	(0.0007)	(0.0007)
log_IO	0.211	0.301*	0.411*	0.450**
	(1.836)	(1.952)	(1.934)	(2.371)
$\Delta(shareholderwealth)$	-0.008**	-0.010**	0.012***	0.014***
	(2.155)	(2.367)	(3.890)	(3.952)
Industry FE	N	Y	N	Y
Firm FE	Y	N	Y	N
Year FE	Y	Y	Y	Y
Obs.	80315	80315	80315	80315
R^2	0.45	0.53	0.44	0.54

Table 12: Robustness check for RDL board members and lobbying behaviors

This table reports the results from OLS regression analyses of the relation between RDLs and lobbying behaviors. In columns (1)-(3), the dependent variable is the natural logarithm of 1 + total lobbying expenditure reported by a firm over three years following the recruitment of an RDL (or more) to the board in year *t*. In columns (4)-(6), the dependent variable is the number of bills lobbied by the firm for three years following the recruitment of an RDL (or more) to the board in year *t*. If no lobbied expense or expenditure bills are reported for the next three years, we set it to zero. *RDL_dummy*, a binary variable, indicates whether the company has an RDL board member in year t. *RDL_N* is the number of RDLs in a board in year t. *Treated* takes a value of 1 to indicate a firm that hires an RDL in a given year and 0 otherwise for a comparable firm that does not hire an RDL in the same year and the following 3 years. The comparable firm is matched based on having the nearest market capitalization to the treated firm. If market capitalization for the present year is not found and the past year value is available, past year market value was used. Otherwise, the treated firm is dropped from the sample. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1999 - Dec 31, 2020.

	(1)	(2)	(3)	(4)	(5)	(6)
	lobbyexpense_3t+			lobbybills_3t+		
RDLdummy	-0.1133***			-6.761***		
	(0.0201)			(1.1030)		
RDL_N		-0.1334***			-5.093***	
		(0.0284)			(1.352)	
Treated			-0.1262**			-7.863**
			(0.0342)			(1.184)
boardsize	0.0142**	0.0142**	0.0143*	0.0551**	0.0551**	0.0543*
	(0.0078)	(0.0078)	(0.0071)	(0.0276)	(0.0276)	(0.0278)
logmktcap	0.1862**	0.1890**	0.1996*	0.0161**	0.0168**	0.1990*
	(0.0633)	(0.0633)	(0.1213)	(0.0037)	(0.0037)	(0.1210)
cashholding	0.2153*	0.2203*	0.3413**	1.233**	1.355**	1.484**
	(0.1303)	(0.1303)	(0.1723)	(0.0811)	(0.0811)	(0.0861)
leverage	-0.0002	-0.0002	-0.0003	-0.0004	-0.0004	-0.0002
	(0.0001)	(0.0001)	(0.0003)	(0.0006)	(0.0006)	(0.0003)
mtb	0.0017***	0.0018***	0.0034***	0.0007**	0.0007**	0.0024***
	(0.0003)	(0.0003)	(0.0008)	(0.0001)	(0.0001)	(0.0007)
roe	0.0524	0.0523	0.0540	0.5223*	0.5223*	0.5593*
	(0.0370)	(0.0370)	(0.0324)	(0.3021)	(0.3021)	(0.3410)
Firm FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Obs.	14137	14137	690	14137	14137	690
R^2	61.44%	61.45%	31.55%	24.43%	24.43%	51.37%

Table 13: Robustness check for RDL board members and litigation risk

This table reports the results of Poisson regression in analyzing relationships between hiring RDLs and future litigation risk. In columns (1)-(3), the dependent variable is the total number of new cases for firm i in year *t+1*. In columns (4)-(6), the dependent variable is the total number of new cases for firm i in year *t+1* and *t+2*. *RDL_dummy*, a binary variable, indicates whether the company has an RDL board member in year t. *RDL_N* is the number of RDLs in boards in year t. *Treated* takes a value of 1 to indicate a firm that hires an RDL in a given year and 0 otherwise for a comparable firm that does not hire an RDL in the same year and the following 3 years. The comparable firm is matched based on having the nearest market capitalization to the treated firm. If market capitalization for the present year is not found and the past year value is available, past year market value was used. Otherwise, the treated firm is dropped from the sample. $case_t$ and $case_{t-1}$ are the number of new cases that firm i have in year t and *t-1*, respectively. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1998 - Dec 31, 2023.

	(1)	(2)	(3)	(4)	(5)	(6)
		case_1y+			case_2y+	
RDLdummy	-0.0337*			-0.0027*		
	(0.0187)			(0.0016)		
RDL_N		-0.0253*			-0.0254*	
		(0.0149)			(0.0149)	
Treated			-0.010*			-0.087*
			(0.0054)			(0.0481)
$case_t$	0.0381***	0.0381***	0.0713***	0.0331***	0.0331***	0.0835***
	(0.0011)	(0.0011)	(0.0011)	(0.0009)	(0.0009)	(0.0011)
$case_{t-1}$	0.0283***	0.0283***	0.084***	0.0257***	0.0257***	0.082***
	(0.0013)	(0.0013)	(0.0013)	(0.0009)	(0.0009)	(0.0013)
logmktcap	0.445***	0.445***	0.314***	0.469***	0.470***	0.332***
	(0.0066)	(0.0066)	(0.0066)	(0.0048)	(0.0048)	(0.0066)
cashholding	0.048	0.047	0.694	0.185*	0.184*	0.419
	(0.1227)	(0.1227)	(0.1227)	(0.0899)	(0.0899)	(0.1227)
leverage	0.004***	0.004***	0.000	0.004***	0.004***	-0.003**
	(0.0009)	(0.0009)	(0.0009)	(0.0007)	(0.0007)	(0.0009)
mtb	-0.0052***	-0.0052***	0.0041*	-0.0064***	-0.0064***	0.0041***
	(0.0010)	(0.0010)	(0.0010)	(0.0008)	(0.0008)	(0.0010)
roe	0.0219	0.0219	-0.0126	0.0015	0.0015	-0.0067
	(0.0024)	(0.0024)	(0.0024)	(0.0013)	(0.0013)	(0.0024)
R&D	2.567***	2.566***	3.928***	2.411***	2.410***	3.356***
	(0.1787)	(0.1789)	(0.1787)	(0.1326)	(0.1327)	(0.1789)
Firm FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Obs.	13543	13543	753	12396	12396	717
R^2 (or) Pseudo R^2	36.64%	36.64%	52.34%	44.60%	44.60%	46.65%

Table 14: Robustness check for RDL board members and institutional ownership

This table reports the results from OLS regression analyses of the relation between RDLs and institutional ownership. In columns (1)-(3), the dependent variable is the logarithm of annual institutional ownership scaled by total asset at year *t*. Annual institutional ownership in year *t* is the average of the quarterly values of institution ownership over the four quarters, where the quarterly value is obtained by adding up all shares held by institutions in each security for each quarter. In columns (4)-(6), the dependent variable is the natural logarithm of the number of institutional owners across the four quarters in year *t*. *RDL_dummy*, a binary variable, indicates whether the company has an RDL board member in year *t*. *RDL_N* is the number of RDLs in boards in year *t*. *Treated* takes a value of 1 to indicate a firm that hires an RDL in a given year and 0 otherwise for a comparable firm that does not hire an RDL in the same year and the following 3 years. The comparable firm is matched based on having the nearest market capitalization to the treated firm. If market capitalization for the present year is not found and the past year value is available, past year market value was used. Otherwise, the treated firm is dropped from the sample. Other control variables are as defined in Table 1. Standard errors clustered at firm-level are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The sample period is Jan 1, 1998 - Dec 31, 2023.

	(1)	(2)	(3)	(4)	(5)	(6)
		log_IO			log_IO_N	
RDLdummy	0.1333***			0.0468***		
	(0.0232)			(0.0118)		
RDL_N		0.1143***			0.0398***	
		(0.0199)			(0.0101)	
Treated			0.1109*			0.0908**
			(0.0620)			(0.0341)
boardsize	-0.0408***	-0.0407***	-0.0406**	0.0214***	0.0214***	0.0033
	(0.0036)	(0.0036)	(0.0147)	(0.0018)	(0.0018)	(0.0081)
logmktcap	-0.3833***	-0.3836***	-0.3574***	0.03708***	0.03707***	0.3799***
	(0.0054)	(0.0054)	(0.0216)	(0.0027)	(0.0027)	(0.0119)
cashholding	2.1386***	2.1346***	1.7417***	1.4909***	1.4895***	1.2889***
	(0.0806)	(0.0806)	(0.3596)	(0.0410)	(0.0410)	(0.1978)
leverage	-0.0011	-0.0012	-0.0017	-0.0006	-0.0006	-0.0001
	(0.0008)	(0.0008)	(0.0018)	(0.0004)	(0.0004)	(0.0010)
mtb	0.0012***	0.0012***	0.0137***	0.0013***	0.0013***	0.0133***
	(0.0002)	(0.0002)	(0.0041)	(0.0001)	(0.0001)	(0.0023)
roe	0.0002	0.0002	-0.1173*	-0.0024	-0.0024	-0.1300***
	(0.0034)	(0.0034)	(0.0638)	(0.0017)	(0.0017)	(0.0351)
Firm FE	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Obs.	14787	14787	790	14789	14789	790
R^2	72.28%	72.28%	24.40%	42.40%	42.40%	41.90%