

# **Politics in the Boardroom: Corporate Pay, Networks and Recruitment of former Parliamentarians, Ministers and Civil Servants in Britain**

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## **Abstract**

This paper explores an important aspect of post-career earnings in public life in Britain: membership of corporate boards by former parliamentarians, ministers and civil servants. It attempts to determine whether this group represents a distinct group within the wider network of interlocking corporate directorships in the UK. Further, it specifically investigates the characteristics of those individuals who obtain appointments as non-executive directors to the boards of FTSE-listed companies after service in parliament and/or government and their relative connectedness and remuneration compared to the wider network of interlocking directors. The analysis uses data on board membership and pay in Britain for more than 700 companies listed on the London Stock Exchange and over 7500 directors and 1000 former parliamentarians, government ministers and civil servants. The findings suggest that although this group are represented in the wider corporate network, they are not more central than other directors and do not receive significantly different compensations once industry sector, experience and board role are controlled for. While social class and educational backgrounds have been shown to be important in the sociological analysis of corporate networks, the influence of service in Parliament or British government has not yet been considered. By seeking to fill that gap, this paper offers novel insight into the interconnectedness of the public sphere and the corporate world.

Private wealth extracted by individuals after service in politics or government raises important questions close to the heart of democratic politics and public life. Salary levels, allowances and other perks of elected or unelected office are a recurring topic of interest in a wide range of social and political settings (e.g. Hood and Peters 1994; 2003; Hood et al. 2001; Eggers and Hainmueller 2009). One of the central concerns of such studies is the nature of the post-career earnings of individuals after leaving public life – whether as elected officials or as unelected civil servants. This paper considers such post-career earnings in Britain through the appointment of former parliamentarians, government ministers and senior civil servants to corporate directorships in the City of London. Specifically, it seeks to shed light on the recruitment of former politicians and bureaucrats to corporate boards and the nature of financial returns to office. Whereas it is possible to measure the effect of political office on individual wealth (Eggers and Hainmueller 2009), this analyses the role performed by individuals who migrate from public life to serve as directors on the boards of top British companies and the nature of financial remuneration received for this work. In this, financial returns to office are secured in the form of salaries and share options awarded in lieu of corporate directorships.

This question of financial returns to office is not just a British phenomenon. Similar concerns arise in comparative context (see Winters and Page 2009). There are conventions, for example, of post-retirement financial returns through the recruitment of former civil servants to private firms or public corporations in Japan (see Johnson 1974; Blumenthal 1985; Colignon and Usui 2003; Nakamura and Dairokuno 2003) and South Korea (Kim 2003), while the ‘revolving-door’ between government and industry has been a longstanding focus of research in the US, in particular with regard to regulation (e.g. Freitag 1975; Gormley 1979; Cohen 1986). In a wider sense, too,

the recruitment of former politicians and civil servants to the boards of leading firms has the potential to provide insight into the relationship between politics, government and business.

The theoretical approach behind our interest in patterns of the recruitment of former parliamentarians, government ministers and civil servants to the boardrooms of British companies, and the nature of post-career financial returns to office, rests upon specific expectations about the behaviour of *individuals* (including both elected and unelected officials) and *firms*. For individuals, appointments to corporate boards provides a means for securing financial remuneration through directors' salaries and for also obtaining non-financial benefits such as prestige or networking opportunities (for example maintaining professional status or regular involvement in public life). It is important to emphasise that not all individuals who serve in parliament or British government wish, or possess the requisite skills, to serve on the boards of companies. The personal wealth of individuals is also subject to variation, leading to different motivations for post-career earnings. However, corporate directorships are one of a number of the potential sources of income for individuals after leaving parliament and/or British government (as elected or unelected officials). For firms, the recruitment of former parliamentarians, government ministers or civil servants offers a number of sources of economic value, such as knowledge of the policy process and procurement (e.g. Faccio 2006; Goldman et al. 2008; Jayachandran 2006; Roberts 1990), political connections and prestige accrued during time in public office. These differ from the expertise available from other corporate directors with technical expertise in industry or financial accounting.

To come to a better understanding both of the extent to which British companies appoint former politicians and civil servants to their boards and the nature

of financial returns to office, this paper seeks to determine whether certain career attributes – such as departmental background, seniority and political affiliation – are associated with greater connectedness and higher levels of financial remuneration for former ministers, parliamentarians and civil servants who later enter the corporate world. In so doing, it generates insights into the connection between politics, government and business. To achieve this, network analysis methods are applied to a dataset of corporate directors that covers up to 98% of the capital value of companies traded on the London Stock Exchange.

The paper proceeds in three steps. Firstly it outlines a theoretical approach to account for the recruitment of former parliamentarians, ministers and civil servants to corporate boards and expectations concerning the nature of financial returns to office. Specifically, it introduces the concept of interlocking directorates for measuring the migration of former politicians and bureaucrats to the corporate world. Secondly, it describes the dataset on which the analysis is based; the database contains information on more than 1000 individuals who served in the British government or Parliament at some time between 1970 and 2008 and more than 7500 directors and 700 companies. Third, it presents results on post-career earnings through membership of corporate boards that reveal (a) differences of the positions and rewards of former politicians and civil servants compared with other directors, (b) the degree to which individuals who once inhabited British politics or government are represented within the network of corporate directors, and (c) the connectedness and compensation of the former parliamentarians, ministers and civil servants who sit on corporate boards.<sup>1</sup> It also

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<sup>1</sup> While this research design enables us descriptive insights into the network position and remuneration of corporate directors with a background in politics or government, to fully understand the nature of financial returns to public office it would be necessary to compare the social, economic and professional attributes of those individuals with their peers who did not subsequently enter corporate life and instead pursued other lifetime rewards (such as in the quasi-experimental design of Eggers and Hainmueller's (2009) study into financial returns to political office).

considers the association of specific individual attributes – e.g. departmental background, political affiliation and rank/seniority – with network connectedness and the level of financial remuneration. The implications of the findings are then reflected upon in conclusion.

## **1. Corporate Networks and Post-Career Earnings in Public Life**

In Britain, an important feature of the traditional ‘public service bargain’ that applied to both politicians in Westminster and senior bureaucrats in Whitehall in the era of club government was the possibility for earnings outside public life (Hood and Lodge 2006, Chapter 4). For senior civil servants, such opportunities arose after their retirement from public service, while for politicians these were sometimes possible in combination with opposition or backbench activities as well as after their retirement from elected office. This arrangement reflected the close ties that existed between the worlds of high finance and politics (e.g. Heclo and Wildavsky 1974; Marquand 1981; Moran 1981; 2003), and in particular involved the translation of political capital to the corporate boardroom.

The close inter-relationship between politics, government and business comes into particular focus when considered as part of wider enquiry into the influence of social class and educational backgrounds in corporate networks (e.g. Scott and Griff 1984; Scott 1991, Mizruchi 1996; Davis and Greve 1997; Burris 2005). Connections across and within these corporate networks derive from common membership to corporations and unfold on two interrelated, although not symmetrical, levels. Ties are created between directors when they belong to the same company and ties are created between firms when they share the same directors. The intersections between organisations and individuals are referred to as interlocks. These ties create potential

for the exchange of information and the diffusion of norms and practices across both firms and sectors (Breiger 1974; Levine 1972). Research finds that ties between directors are not just a product of interactions in the corporate world but are also rooted in shared kinship, education in elite schools and universities, and membership of select clubs (Whitley 1973; Fidler 1981; Scott and Griff 1984; Scott 1991; Kono et al. 1998; Bond 2005; 2007). It might also be expected that ties between directors in the corporate world would also reflect connections in politics and government.

There has been extensive research into such networks of interlocking directors and their interface with politics (e.g. Useem 1984; Stokman et al. 1988; Scott 1991; Bond 2005; 2007; Burris 2005). Some directors (especially those at high-status firms) transfer resources of prestige and knowledge to the boards of other companies (Mace 1971). It might be expected that the appointment of prominent figures from public life would perform a similar role in bringing their reputation, connections and technical expertise to the boardroom, as well as knowledge of the inner workings of politics and government. There is evidence that firms with connections to government or politics achieve higher stock valuations (for a review, see Eggers and Hainmueller 2009, p. 1). Further, financial gains accrue to businesses from having directors with a background in political office on their board (e.g. Faccio 2006; Goldman et al. 2008; Jayachandran 2006; Roberts 1990). Such individuals can provide companies with direct connections to the political world as well as offering them important experience of the drawing-up of legislation, government contracts and the regulation of industry. For companies, the value of recruitment of these individuals to their board might be derived from general attributes (for example due to their reputation, prestige, governance or networking) or traits that are domain-specific (such as technical expertise, ties to domestic industry or business overseas), or for some combination of

these reasons. In addition, service in elected or unelected public office provides for unique connections and knowledge of the political environment and government decision-making processes. It might, then, be expected that individuals with a background in parliament or government would be better connected than directors with other industry or business trajectories. Further, given this background, former politicians and bureaucrats might be more likely to be appointed to generalist positions that relate to corporate governance, such as non-executive directorships and chairmanships, rather than to expert industry or executive roles. These individuals will not tend to have expertise in corporate management or in professional disciplines such as accounting, audit or risk management. This in turn informs the expectation that these connections are not necessarily translated into proportionate rewards in the boardroom, since non-executive positions tend to be paid less in comparison to executive roles. The recruitment of individuals from politics and government to the boardroom is therefore expected to conform to a particular pattern.

Our general theoretical model of corporate networks and post-career earnings can be summarised as follows:

- a) One of the opportunities for post-career earnings for former parliamentarians, government ministers and civil servants is recruitment to corporate boards.
- b) Corporate firms have reasons to recruit such individuals to their boards due to their unique attributes or resources acquired from service in politics and/or government (including prestige, reputation, knowledge of government and business, connections and technical expertise).
- c) In view of their non-commercial background, there is a greater likelihood of former parliamentarians, ministers and civil servants being recruited to the boards of companies in non-executive positions. This group is expected to



exhibit a higher degree of connectedness compared with other directors, but receive a lower level of financial remuneration.

- d) The post-career earning potential of individuals is a function of departmental status (i.e. there is a greater likelihood of firms appointing individuals from high prestige departments) and the strength of industry-departmental ties (i.e. firms will tend to appoint individuals drawn from departments engaged in high levels of procurement activity).

## *Hypotheses*

### *H.1*

The first hypothesis concerns the general pattern of recruitment of individuals with a background in politics and government onto the boards of British companies and suggests this group is distinguishable, with respect to their network position and remuneration, from other directors. This is despite career-differences between elected-partisan politicians and unelected-non-partisan career-bureaucrats in the British political system, where civil servants are expected to refrain from participation in the partisan realm – even after retirement. Nevertheless, common patterns can still be expected in the post-career opportunities open to former politicians and bureaucrats (H<sub>1</sub>). Apart from their shared social, educational and geographical backgrounds (e.g. Scott 1991), these groups share similar expertise of, and formal or informal ties to, the policy process and the regulatory environment – especially at the very top. Secretaries of State and permanent secretaries, for example, have access to the same paperwork and people, while both positions bestow a high level of prestige for individuals (as a function of the status of the government department). The reasons that companies recruit these individuals to their boards are therefore similar, deriving from the shared

attributes of these groups such as prestige and networking as well as their common knowledge of the policy domains, procurement and the legislative process. As such, it is possible to hypothesise that there is a relatively homogenous group of former parliamentarians, ministers and civil servants in the corporate world, with network positions and remuneration packages that are distinguishable from other directors in the boardroom.

*H<sub>1</sub>: There are similarities in the network positions and remuneration packages for former parliamentarians, government ministers and civil servants recruited to the boards of corporate firms and these are distinguishable from other directors in the corporate network.*

## *H.2*

The second hypothesis suggests that individuals who once served in politics or government will tend to be better connected in the network of interlocking directors, due to their pre-existing reputation and connections as well as due to their recruitment to non-executive positions (which can be held for multiple firms). This hypothesis is based on the claim that one of the main contributions that former parliamentarians, ministers and civil servants bring to the corporate table is their political connections and status, and it is therefore expected that this group will tend to hold interlocking directorships more than other directors, making them more connected.

*H<sub>2</sub>: Former parliamentarians, government ministers and civil servants tend to hold more central positions in the network of corporate directors.*

## *H.3*

Further to this expectation regarding the more central network position of those individuals with a background in politics or government, the third hypothesis contends that the level of financial remuneration received for holding directorships will, in fact, tend to be lower for former parliamentarians, government ministers and civil servants. While it is conceivable that higher centrality might also translate into higher financial income, there are reasons to expect that remuneration of individuals with a background in politics or government might be lower, than their corporate peers (H<sub>3</sub>). The same political-governmental expertise and connections that are a unique resource in the recruitment of individuals as directors might also be expected to secure lower financial compensation than business skills with direct relevance to the practice of corporate governance (such as commercial expertise or qualifications in accounting, audit or risk management). Moreover, the remuneration of former politicians and civil servants is subject to *Tocquevillian* pressures (Hood and Peters 1994: 10-11): according to this argument, as political systems become more democratic, financial returns to public office become more parsimonious in response both to institutional accountability and growing public interest (and criticism). It is hypothesised, then, that the remuneration package of corporate directors with a background in politics or government will tend to be less than other directors.

*H<sub>3</sub>: Corporate directors who are former parliamentarians, government ministers or civil servants receive remuneration levels that are significantly lower than other directors.*

#### *H.4*

Finally, the recruitment of former parliamentarians, government ministers and civil servants to corporate boards is expected to reflect relative status and expertise in public office, as well as political-governmental connection to particular sectors or

industries. Former officials with a career background in certain elite departments are expected to be well represented on the boards of corporations in specific sectors. This might be due to departmental status (as has been found in Japan) or to the strength of ties between departments and industry sectors (e.g., the military-industrial complex), such as those that involve substantial public spending or procurement. The reputation of former politicians and top civil servants is potentially attractive to firms in their recruitment of directors that provide a high status signal to investors. In addition, the seniority and status of individuals might also be signalled through their 'honours rank', given the British tradition of rewarding public office with the non-financial award of knighthoods and such like. This is a further indicator of the reputation of individuals *within* the realms of politics and government, and the sorts of expertise, knowledge and connections that they possess, and their attractiveness as directors to firms in their recruitment decisions. This fourth hypothesis therefore suggests that differences in the network position and remuneration of former parliamentarians, government ministers and civil servants will reflect differences both in their rank and seniority in politics or government and their departmental affiliation.

*H<sub>4</sub>: The network position and remuneration of former parliamentarians, government ministers and civil servants are a function of their rank in politics/government and their departmental affiliation in public office.*

The main claim tested in this paper is, therefore, that corporate directors that at one time held office in government, parliament or the civil service have – as a group - a differential representation in the overall corporate network in terms of both centrality and compensation, and that this also reflects specific characteristics of their career in public office. Specifically, it seeks to establish the characteristics of former politicians

and civil servants who are recruited to the boards of firms and determine the extent to which this group is distinct from other corporate directors in terms of their network positions and remunerations.

## 2. Data

The data on which these analyses are based consists of information about the boards of directors and executive officers of companies listed on the UK's FTSE All-Share Index as of March 2009, tracking the composition of those boards for the period 1999 to 2008. The data was obtained from the business networking service *BoardEx* (see [www.boardex.com](http://www.boardex.com)) in the form of annual reports listing the companies included in the index and the names of directors sitting on their boards. The reports also included additional information such as the age, gender, education, board role and annual compensation of directors. This dataset covers more than 700 companies, which constitute about 98 per cent of market capitalization, and contains information on 7936 individual directors.

This information was combined with additional data about the career paths of former government ministers, civil servants and parliamentarians. An initial search of the *Civil Service Yearbook* identified around 1000 government ministers (cabinet ministers, ministers of state and law officers, 1970-2008) and civil servants (top three ranks, 1990-2008) as having served in high public office. This data was supplemented through additional searches of the *BoardEx* data for any parliamentarians, junior ministers or civil servants not identified in the initial round. Further information about political (e.g. role, rank, department, political affiliation, honours) and social (e.g. age, gender, education) attributes of former politicians and senior civil servants was compiled through the data portal *KnowUK* ([www.knowuk.com](http://www.knowuk.com)), which aggregates

biographical information from sources such as *Who's Who* and *Debrett's People of Today*, and through additional online searches.

The data for the entire period was aggregated in the form of a two-mode network, and the affiliation network of directors was projected as illustrated in Figure 1. A connection between two directors indicates that they have sat in, at least, one common company board during the period between 1999 and 2008. This procedure is conventional in analyses of interlocking directorates (Breiger 1974), and is based on the assumption that sitting on the same board opens opportunities for interaction and long-term relationships through which valuable information can flow (Levine 1972). The position of directors in the network is relevant because it reflects their status in the overall structure of the corporate elite and can give them a differential access to unique vantage points from where to access and assess information. This is particularly true for interlocks, represented in Figure 1 by director 3 (D3): by sitting in two boards, this director connects different spheres of information.

[insert Figure 1 about here]

### **3. Network Position and Attributes of Former Politicians and Civil Servants**

We start with a descriptive analysis of the network position of those with background in high political office in Britain. The network reconstructed using the procedure presented in the previous section is formed by a total of 7936 directors, and close to 84000 edges or connections (277 of these connections involve directors sharing more than one board). On the aggregate level, the network is divided into 56 components, which are illustrated in Figure 2. The largest component, to the left of the figure, is formed by 94% (7483) of the directors in the dataset; the second largest

component is formed by 20 directors, and the rest vary between sizes of 19 and 3.

What this means is that over the period considered here the network formed by interlocking directorates connects most of the corporate elite in a single structure, which makes every director potentially reachable for almost anybody else in the network. Assuming that this web of connections is the only means by which two directors could be introduced to each other this would, on average, take about 4 shakes of hand -- a relatively short chain of intermediaries considering that there are close to 7500 directors in the network. This feature (which reveals the so-called ‘small-world’ nature of the network) is not specific to the corporate world, however, and is also characteristic of a number of other social and natural networks (e.g. Easley and Kleinberg 2010; Newman 2010; Watts 2003).

[insert Figure 2 about here]

### *The Overall Network of Directors*

Table 1 displays some descriptive statistics about the composition of the network. Most directors are affiliated to just one company: only 19% of them sit on the boards of 2 or more organisations which means that only a small fraction of the corporate elite act as interlocks – the connectivity of the largest component identified above essentially relies on their role as intermediaries. As one would expect, directors with multiple positions receive significantly higher compensations (which is the total remuneration package, including salary, bonus, pension and shares, received by each director between 1999 and 2008), and are slightly older and more experienced in the corporate world. Table 1 also reports the centrality of directors, as measured by their degree or number of other directors to which they are directly connected (Freeman 1979; Bonacich 1987). Directors with multiple affiliations are, as one would expect,

more central in the network: they have more than twice the number of connections than directors with a unique affiliation because they sit in more than one board. The gender distribution indicates that a higher network centrality does not result in higher compensations: female directors are better connected than male directors, but they also receive half their compensation. Taken altogether, however, only about 6% of directors are female. Unsurprisingly, executive directors receive significantly larger compensations (nine times larger than non-executive directors) even though the difference in degree centrality is small.

Of particular interest for our analysis is that just 2% (152) of directors have a background as top civil servants or politicians. This is an important finding: of the approximately one thousand senior parliamentarians, government ministers and civil servants identified through our initial search, around 15% appear to have later become members of the corporate elite. This is not an inconsequential number. These directors include 53 former or current Members of Parliament (inclusive of the 48 government Ministers). The remaining 81 directors are former civil servants or public servants of some sort (including a number of senior commanders from the armed forces). Unsurprisingly, most of the former politicians and civil servants hold non-executive positions (141 of 152).<sup>2</sup> We include a small number of former senior parliamentarians in our analyses (21 in total) who did not serve in government, but whose knowledge of the executive and legislative process is considered a potential resource for firms (notably these include three former party leaders, three shadow ministers and a former Vice-President of the European Commission).

If such a small fraction of potentially employable individuals obtain post-career rewards in the City, are there certain attributes that characterise those that are

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<sup>2</sup> The total number of former politicians and civil servants discussed in the text and reported in Table 1 do not match because some are counted more than once in Table 1 if they held two or more different positions whereas this discussion relates to unique individuals.



successful? Most (145 or 95%) are embedded in the largest component identified in Figure 2. Compared to all other directors, they are older and sit on the boards for longer. This is as might be expected from post-career earnings: most would not leave public office until late in their professional life. According to the average degree centrality shown in the last column of Table 1, former politicians and civil servants seem to be better placed in the overall structure than the average director, consistent with H<sub>2</sub>. The degree coefficient indicates that directors with a background in politics or government are on average connected to 8 more directors than other directors, and this difference is statistically significant.

[insert Table 1 about here]

A notable finding (even when taking the small numbers into account) is that, in spite of their higher network centrality, former parliamentarians, ministers and civil servants receive significantly lower compensations overall, in line with H<sub>3</sub>. One potential explanation is that they tend to sit on the boards of the larger and prestigious corporations. This would increase their degree centrality because larger corporations tend to have larger boards with directors who are specialist interlocks, but would not increase their compensation if their corporate affiliation was limited to that single company. The results reported in Table 1 show that financial remuneration is twice as high amongst directors with multiple directorships than amongst those with a single affiliation.

This difference in compensation could also result from differences in the appointment of former politicians and civil servants to certain board positions, namely non-executive directorships (NEDs). Table 2 presents further statistics that help assess each of these explanations. This table, and the remainder of the paper, focuses upon

the subset of directors that held non-executive positions (NEDs and Chairs) during this period. This eliminates a small number of outliers identified by Table 1 within the sample who held executive positions, which on average receive greater remuneration levels, but are individuals who entered politics or government with a pre-existing background in the private sector and whose re-joining the corporate network does not represent a post-career return to office.

As Table 2 shows, about 30% (42 of 141) of directors with a background in politics or government act as interlocks (that is, they sit on more than one board), about 5% more than other non-executive directors; this suggests that the lower compensations received former politicians or civil servants cannot be due to a higher proportion possessing a single board affiliation only. The difference in remuneration between those with single and multiple directorships this group is not statistically significant however. There are three possible explanations for this. A first possible explanation suggests that rewards for service in politics and government are subject to downward pressure in democratic systems (H<sub>3</sub>). Indeed, recent reforms of corporate governance – such as Sarbanes-Oxley in the US and the Higgs Report in Britain – have increased oversight of corporate reward systems. In light of public hostility to high career and post-career rewards, former civil servants and politicians both are under pressure to embrace some form of material self-discipline and this could be reflected in the observed lower compensation levels.

A second alternative explanation suggests that the mechanisms underlying the nomination of directors who previously were politicians or civil servants are more likely to be related to social connections instead of business expertise (Mace 1971). If the specialised knowledge or reputation acquired through successful corporate management provides directors with a competitive advantage, then this advantage

should be reflected in higher compensation. Last, a third alternative explanation might be that that the former politicians and civil servants accept directorships as symbolic roles or because of the prestige associated to the position. In return, these directors are expected to broadly support the decisions of those that enabled their appointment to the board. In other words, non-executive directorships for such individuals represent an interpersonal exchange of favours (Mace 1971).

[insert Table 2 about here]

Does the structure of corporate rewards reflect differences in background, status and expertise *within* politics and government? Overall, 51 of the 141 of non-executive directors are former Conservative politicians, 13 are former Labour politicians and 4 are former Liberals (although one Liberal peer started political life as a Conservative). While Conservatives are better represented in the sample of former politicians, political affiliation does not have a significant statistical effect either on compensation or connectedness (average degree). This lack of significance is in all likelihood due to the small numbers involved, which means that it is difficult to distinguish differences from sampling error. Nevertheless we provide substantive description of the numbers involved.

The findings on higher educational backgrounds again are consistent with the traditional stereotype of the British elite, with 36 having graduated from Cambridge and 34 from Oxford – 51% of total known cases (with the university unknown or no university education for 23 individuals in the dataset). Further to this, 95 of the 141 have received a public honour (e.g. CBE), and 81 are Knights of some order (e.g. KCB, KCMG), confirming that former politicians and civil servants are a high status social group considered according to a number of different measures. While

individuals whom have received a knighthood receive more on average (£596,000) than those without any honour (£437,000) this is not statistically significant and there is little difference in their connectedness (average degree) .

The results presented in Table 2 show that most non-executive directors with a background in British government spent part of their career at H.M. Treasury, the Foreign Office, the Ministry of Defence and the Department of Trade and Industry (now the Department for Business and Innovation).<sup>3</sup> Of the 48 government ministers and 76 civil servants, 28 served in the Treasury at some point, 30 in the Foreign Office, and 34 in the Ministry of Defence. Note that just three served in *both* the Treasury and Foreign Office, and just seven in both the Ministry of Defence and the Treasury or the Foreign Office (59 of the 141 served in none of these departments). There is little career overlap (12%) between these three prestigious departments of state. The final department of individuals before retirement or leaving government reflects a similar dominance of elite departments, with 12 from the Treasury, 25 from the Foreign Office, and 22 from the Ministry of Defence. So 42% of the political-bureaucratic elite (59 of 141) retired from the top ranks of these elite departments. Departmental affiliations are therefore associated with subsequent appointment to corporate directorships ( $H_4$ ). This might be attributed to business connections established while in government, the technical expertise of some officials, or the prestige status of certain departments.

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<sup>3</sup> Because of perpetual reform, through mergers and break ups, of the machinery of British government, departments are aggregated according to function for the period between 1970 and 2008. HM Treasury (HMT) and the Ministry of Defence (MOD) refer to single departments for the period between 1970 and 2008. The Foreign and Commonwealth Office also includes the Ministry of Overseas Development (1970; 1974-1979) and Department for International Development 1997-2008. The Department for Trade and Industry refers to a number of different government departments with responsibilities for business: Department of Trade and Industry 1970-1974; 1983-2005; Department of Trade 1974-1983; Department of Industry 1974-1983; Department of Energy 1974-1992; Department of Prices and Consumer Protection 1974-1979; Department for Business, Enterprise and Regulatory Reform 2007-2008.

In terms of financial remuneration, having worked in Treasury at some point is associated with almost £150,000 higher remuneration on average for individuals when compared with those who have not. Their connectedness also tends to be significantly higher (average degree = 40) than individuals from other departments (average degree = 36), with their greater earning-power and network connections suggesting that there are differences in associations between departmental affiliations and post-career rewards (H<sub>4</sub>). In contrast, having served in the Foreign Office is associated with far less compensation on average (£252,000) when compared with individuals who served in other departments (£496,000).<sup>4</sup> Despite the relatively small number of people involved, these findings are consistent with H<sub>4</sub>, but also suggest the reward structure for an elite department such as the Foreign Office is not necessarily financial in nature. The connectedness of individuals with a background in the Foreign Office (average degree = 32) is on a par with individuals from other departments, but the financial compensation is not.

The findings suggest that seniority in politics or inside government matters, consistent with H<sub>4</sub>. While there are no Prime Ministers amongst 58 former Ministers and MPs, the corporate directors include two former Chancellors of the Exchequer, one former leader of the Labour Party, one former leader of the Liberal Party and one former leader of the Liberal Democrats, 13 former Secretaries of State and two Chancellors of the Duchy of Lancaster. The 76 civil servants include three former Cabinet Secretaries (the most senior position in the British civil service), 19 former

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<sup>4</sup> The results suggest that politicians and bureaucrats with some kind of background in business (or whose career in public office ended at a relatively early stage in their professional career) earn considerably more on average (£877,000 over the period between 1999 and 2008). Several former officials from the DTI moved from public service into the business world at a relatively early stage in their professional career. Although these individuals are not civil service retirees, they are classified as former public officials since their public service was an important stage of their career development. This classification is partly responsible for the high financial compensation reported for this department in Table 4.

Permanent Secretaries (the second most senior rank in the civil service), and 13 former Ambassadors (plus two High Commissioners), one former head of defence sales and one former head of defence procurement, and eight former senior commanders of the Armed Forces. It is therefore relatively safe to suggest that only the very top among former politicians and civil servants end up securing rewards in corporate world. This evidence is further supported by the level of seniority/status represented in terms of the honours rank for former civil servants, with the majority holding knighthoods (see Appendix Table A2).

#### *Differences between Former Politicians and Bureaucrats*

To explore whether it is appropriate to talk about a collective population of former politicians and civil servants rather than distinct post-career corporate rewards for each group ( $H_1$ ), in Figure 3 (and additional analyses reported in the Appendix in Tables A1 and A2) we disaggregate non-executive directors into two groups: former ministers and MPs on the one hand and former civil servants on the other. Here the sample sizes become rather small, meaning that very few of the differences between groups are significant. However, they allow for some descriptive insights into the characteristics of these groups. Overall, some departments do appear to be better than others as springboards for subsequent transition into the corporate world – again consistent with  $H_4$  – with strong representation on corporate boards from former politicians and civil servants with a background at the Treasury (24% of the former politicians holding directorships, 19% of civil servants), Foreign Office (7%, 36%), Ministry of Defence (24%, 28%) and Department of Trade and Industry (31%, 7%). The percentage of civil servants who served at the Foreign Office and later became corporate directors is, however, far more than the percentage of politicians who

served as ministers. This perhaps reflects the assumed expertise and connections that retired ambassadors and diplomats bring to business overseas in comparison to their political counterparts. The reverse is true for the Department of Trade and Industry, suggesting that time in ministerial office in this domain is more likely to result in corporate appointments.

[insert Figure 3 about here]

The general structure of corporate rewards is quite similar, however, for both elected politicians and unelected bureaucrats, which makes it meaningful to speak of a relatively homogeneous population of former politicians and civil servants. There are certain factors associated with successful post-career rewards in the City that cannot be reduced to individual characteristics. The reason, in light of earlier discussion, is attributable to the general elite status of these institutions and to domain-specific ties between each of the government departments and business. The prestigious status of these institutions tends to attract talent as well as offering opportunities to build a particular type of social capital and connections, much in the same way as elite schools, universities or clubs contribute to the ties between directors (Whitley 1973; Fidler 1981; Scott and Griff 1984; Scott 1991; Kono et al. 1998; Bond 2007). These departments are widely regarded as premier career locations so the value of being member of these departments rather than others is reflected in post-career positions and earnings. At the same time, specific external ties of these departments provide a resource for future corporate rewards. The Ministry of Defence has strong links with the arms industry through both procurement and sales and the Treasury with high finance in economic policy-making, while former Foreign Office officials tend to have connections with foreign government and business. Such connections are

combined with domain-specific expertise developed within government, providing an attractive resource to companies when leaving public office.

Figure 4 presents the distribution of directors in different industry sectors and the average compensations received in each of these sectors. The upper graph shows that former politicians and civil servants are disproportionately represented in Aerospace-Defence and Investment companies, providing evidence consistent with  $H_4$ . The prominence of defence is both remarkable and unsurprising, given the high level of procurement and export activity in this domain. The lower graph confirms that across all sectors directors that previously served in politics or government receive lower compensations ( $H_3$ ). The following analyses aim to determine whether these differences are still significant once other factors (such as industry sector, company size or multiple directorships) are taken into account.

[insert Figure 4 about here]

#### **4. Network Analysis: homogeneity of former politicians and civil servants within the corporate elite?**

While career bureaucrats and politicians follow quite different career paths during their time in public service, this analysis has highlighted the distinctive pattern of post-career rewards for former politicians, government ministers and civil servants. Classic studies of the British corporate elite (e.g. Scott and Griff 1984; Scott 1991) emphasize the shared social characteristics of board members. The remainder of this analysis considers how the attributes of this group compare to the rest of the business world.

Focusing on non-executive directors and chairs, this section goes one step further and aims to determine whether the differences identified so far remain even



when controlling for all the confounding effects that also affect network position and compensation. Ultimately, the analysis seeks to establish whether it is possible to speak of a distinct group of former politicians and civil servants within the corporate elite or whether these individuals have similar characteristics to other non-executive directors and that their social and political capital is used in obtaining opportunities to access the corporate network – external to the network – rather than within the corporate world itself.

First, a random effects model was applied with just the intercept parameter to determine how much of the variance in degree centrality and compensation results from variation between the two groups of directors (see models DM1 and CM1 in Table 5). This model allows the variability around the mean to be different in the two groups; in other words, it splits the residuals into two levels: one for individuals, where differences are measured between individual values and their group means; and one for groups, where differences are measured between the group means and the overall mean (Gelman and Hill 2007). According to this model about 4.87% of the total variance in degree centrality can be attributed to differences between the two classes of directors. The model estimates that former politicians and civil servants have on average six more connections than those who did not build their careers in politics or government.<sup>5</sup> The variance of compensation shows the opposite trend: the model estimates that directors drawn from politics or government receive, on average, a compensation that is about £200,000 lower; according to the model, just 0.87% of the total variance in compensation results from the differences between the two types of directors. When compared to models without the random intercept (that is, models

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<sup>5</sup> I.e., if the antilogs of the intercepts are calculated for all directors this is equal to 15.72 and for former politicians and civil servants it is equal to 21.65 -- so the difference is just less than 6 connections.

that do not allow the means to vary across the two groups), the -2 log likelihood values indicate that the difference is significant at the 1% level.

These models, summarised in Table 3, provide a baseline to determine how significant the differences between directors remain when predictors are introduced at the individual level. This includes demographic variables (gender, age and education) that are often included in studies of corporate networks (e.g. Whitley 1973; Scott and Griff 1984; Scott 1991; Bond 2005; 2007) as well as variables linked to the traits of directors (number of directorships and experience) and firms (company size and industry sector). These allow us to test whether the difference between former politicians and civil servants and other directors is due to demographic attributes, board experience and the type of roles they tend to be recruited to. For example, it follows that if former politicians and civil servants tend to have fewer directorships and less experience as directors than the general population (and tend to take up non-executive roles rather than executive positions) this should on average be associated with lower remuneration. In the light of the findings shown in the previous section, there are a number of factors that are positively associated to degree centrality and compensation, like gender, age and education: men are more likely to get better compensations but women seem to be better connected; and older and highly educated directors seem to be associated to better positions and rewards. The models that follow control for these basic demographic variables. Years of experience in boards of directors might also contribute to improve network centrality, but they do not seem to be associated to higher compensations. The role that directors have in those boards, however, seems to be strongly associated with higher compensations, as is being a multiple director: interlocks are, by definition, more central in the network and they are also better remunerated.

[insert Table 3 about here]

Further, the size of the company determines the degree centrality of directors and the industry sector influences the level of compensation. Because the same director might be affiliated to different companies operating in different sectors, the size and the sector of the organisations were operationalised using the same network configuration: the size of companies was approximated by calculating, for every director, the average degree of their neighbours in the network (so that directors sitting in larger corporations are linked to neighbours with higher average degrees); and the sector was approximated by calculating the average compensation of the neighbours in the network (again, directors working in, for example, the banking sector, will tend to have neighbours with higher average compensations). Finally, because the same director might also have several board roles, their board position was approximated using their compensation, a variable that we use to predict centrality in the network.

The random effects models fitted with these individual-level variables are also summarised in Table 3. In the case of degree centrality (model DM2) the most relevant predictors are, as expected, number of directorships (that is, whether the director is an interlock) and board role, controlling for company size and industry sector. Age, gender, education and experience are not significant predictors of centrality. The most striking finding, however, is that once all these factors are controlled for there are no significant differences between directors who once served in politics or government and the other directors. The gap identified by model DM1 disappears and being a former politician or civil servant does not make any difference

in terms of network position once all the other individual-level factors are taken into account. The tests for compensation are no different (model CM2): controlling for industry sector and company size, being a multiple director and being more central in the network still have a positive and quite significant impact on the level of financial rewards; age and experience seem to have the opposite effect: the older directors are and the longer they stay in boards, the lower their compensations become, all else equal; once all these factors are held constant, being a former politician or civil servant does not explain any variance in compensation. Any advantages in either the connectedness ( $H_2$ ) or compensation ( $H_3$ ) of former politicians and civil servants are therefore only secured through the same mechanisms as other directors -- with the same characteristics -- within the corporate network. For illustration, Figure 5 reproduces the estimation of the models with only the significant variables. It shows that the most important predictors of both centrality in the corporate network and compensation relate to the size and sector of the companies, and to whether directors play interlocking roles. Gender is also associated to significantly higher compensation levels, as is experience. However, the data does not support the claim that the former parliamentarians, ministers and civil servants receive more or less advantageous positions or remuneration than other directors with similar characteristics.

This finding suggests either that the value of appointing a senior politician or civil servant as (in most instances) a non-executive director is no different than for other non-executives (contra to  $H_2$ ) -- perhaps undertaken for symbolic or specialist reasons -- or that Tocquevillian pressures in political systems depress the salaries of individuals who enter in the private sector (consistent with  $H_3$ ). These findings require further investigation either through analysis over a longer timer period than is

considered here or through qualitative assessment of the reasons for appointment of former politicians and civil servants to corporate boards.

[insert Figure 5 about here]

## **5. Conclusion**

The financial returns to office obtained by former parliamentarians, ministers and civil servants illuminate a particular aspect of the nexus between politics and business. The analysis presented here shows that just a small minority of former politicians and civil servants obtain positions and rewards in the corporate boardroom. These individuals tend to share departmental and/or political backgrounds and similar professional trajectories. Their greatest rewards are not financial, however. In fact, while former parliamentarians, ministers and civil servants are better connected on average than other directors they tend to receive lower monetary compensations. This is consistent with accounts of the democratic pressures that depress the level of financial returns to public office. However, when compared with directors of the same experience, board position or industry sector these differences disappear. These individuals do not possess better social capital, as measured by their contacts in the inter-firm network.

Time spent in public office nevertheless remains a contributing factor in the recruitment of these former parliamentarians, ministers and civil servants to corporate boards. While just a very small fraction of former politicians and civil servants migrate to the corporate world after a career in public service, the majority built their careers in the same departments – an indication that such previous political and governmental experience and connections perform a significant role in defining their post-career trajectories in the corporate world. The evidence suggests that three

premier departments – the Treasury, Foreign Office and Ministry of Defence – provide greatest opportunities for access to the corporate world, with former public officials strongly represented (in relative terms) in the defence sector. Whether such a pattern is due to the prestige of these departments, close ties to industry or other types of interdependencies requires further investigation.

Further limitations of this study that should motivate future research include the limited time frame of the BoardEx database, which offers full coverage from 1999 onwards, but not historical data on corporate boards and directors. This prohibits us from offering more wide-ranging analysis of lifetime career earnings (e.g. Eggers and Hainmueller 2009) in particular for the period from the late 1970s onwards which is said to have marked a shift in the club-like relationship between the institutions of British government and the private sector (Moran 2003). Nevertheless, this detailed mapping of the political and corporate network over a period of a decade offers insights into the financial returns to office of an elite group of politicians and civil servants. Further, it enables us to determine whether the pattern of recruitment of individuals with a background in politics or government to corporate boards is distinct from other directors in terms of connectedness and remuneration

The second limitation is that this analysis focuses upon the public face of financial returns to office: appointments to corporate boards. Given the pressure on the earnings of both politicians and senior civil servants, observed across democratic systems, directorships of companies might have become less attractive in comparison to less transparent earning possibilities such as consulting roles, where the public disclosure of the corporate relationship is not required. The corporate governance role undertaken in non-executive directorships might, in fact, make such positions less suited to the skills and/or interests of former politicians in comparison to advisory

positions more oriented toward networking and advocacy (*The Financial Times*, 14 September 2009, p. 7). Such a shift in patterns of migration from public life to the corporate world might be expected given that the internal labour market of the British civil service has become more porous in recent times. This is a promising area for future research, using longitudinal methods to investigate the recruitment of former politicians and civil servants to corporate boards, consultancies and advisory roles over time.

Overall, this analysis has shown that there is a connection between service in parliament or British government and levels of connectedness and remuneration in the corporate world. However, these patterns are not significant when essential features of individual directors and the corporate network are controlled for. This contributes to understanding of governing and business elites and the translation of connections and expertise from one realm into another. The pattern of post-career earnings and network positions also reflects the prestigious status of a few elite departments in government. There is a correspondence between certain and highly select high offices of state and business.

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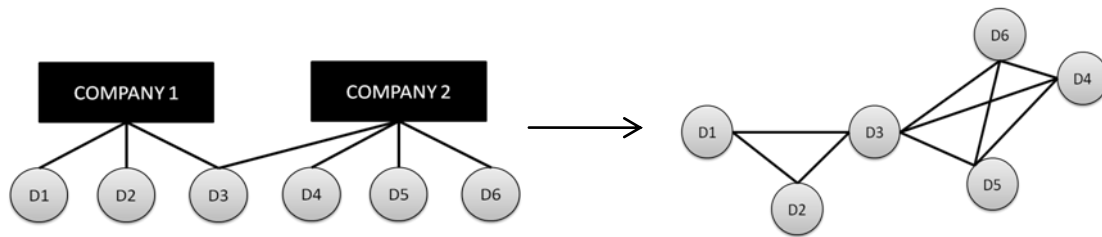
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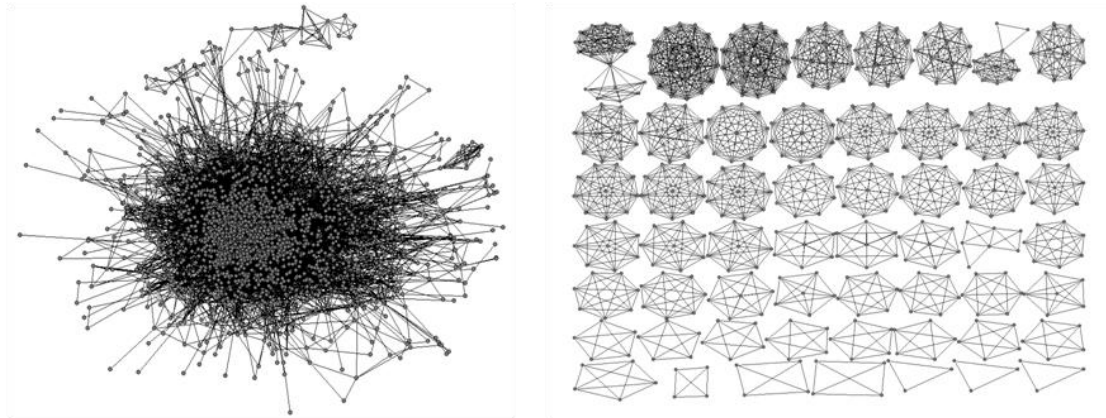
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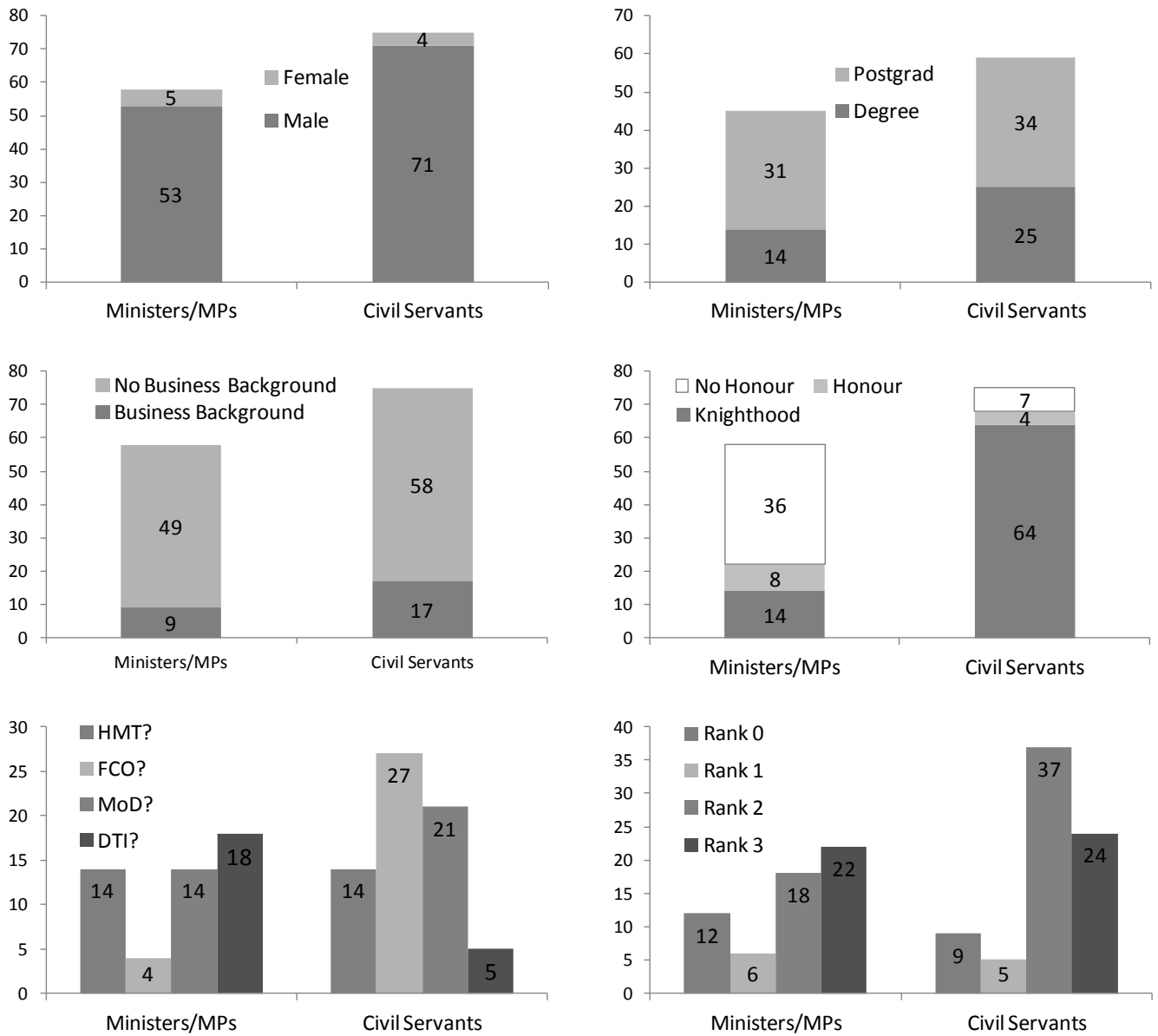
**Figure 1.** One-Mode Projection of the Network of Corporate Directors



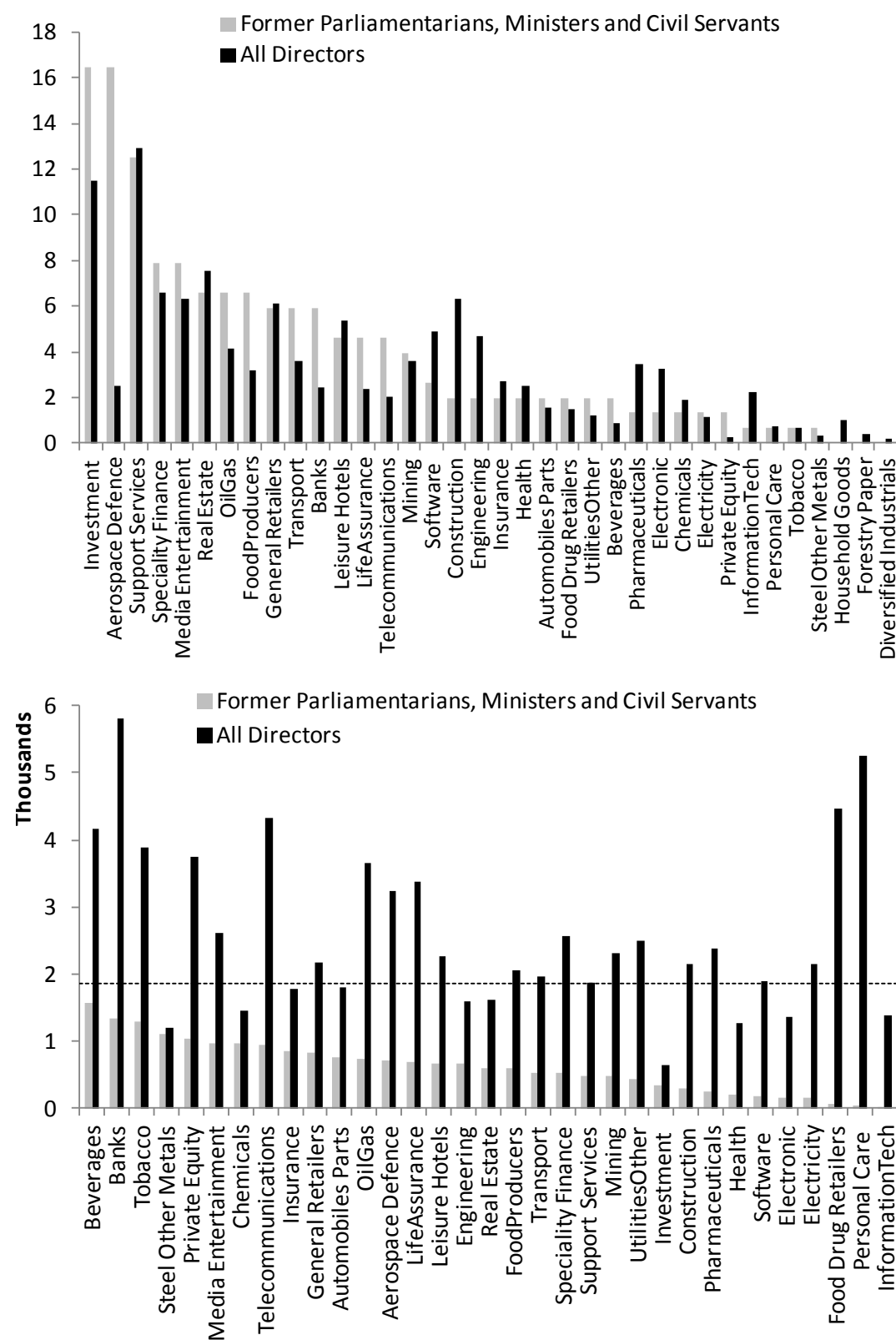
**Figure 2.** Components in the Network of Interlocking Directorates



**Figure 3.** Comparison of Characteristics of Ministers/MPs and Civil Servants with Non-Executive Positions (1999-2008)



**Figure 4.** Percentage of Directors in Industry Sectors (Upper Panel) and Total Compensation by Sector (Lower Panel)



**Figure 5.** Factors Explaining Degree Centrality and Compensation

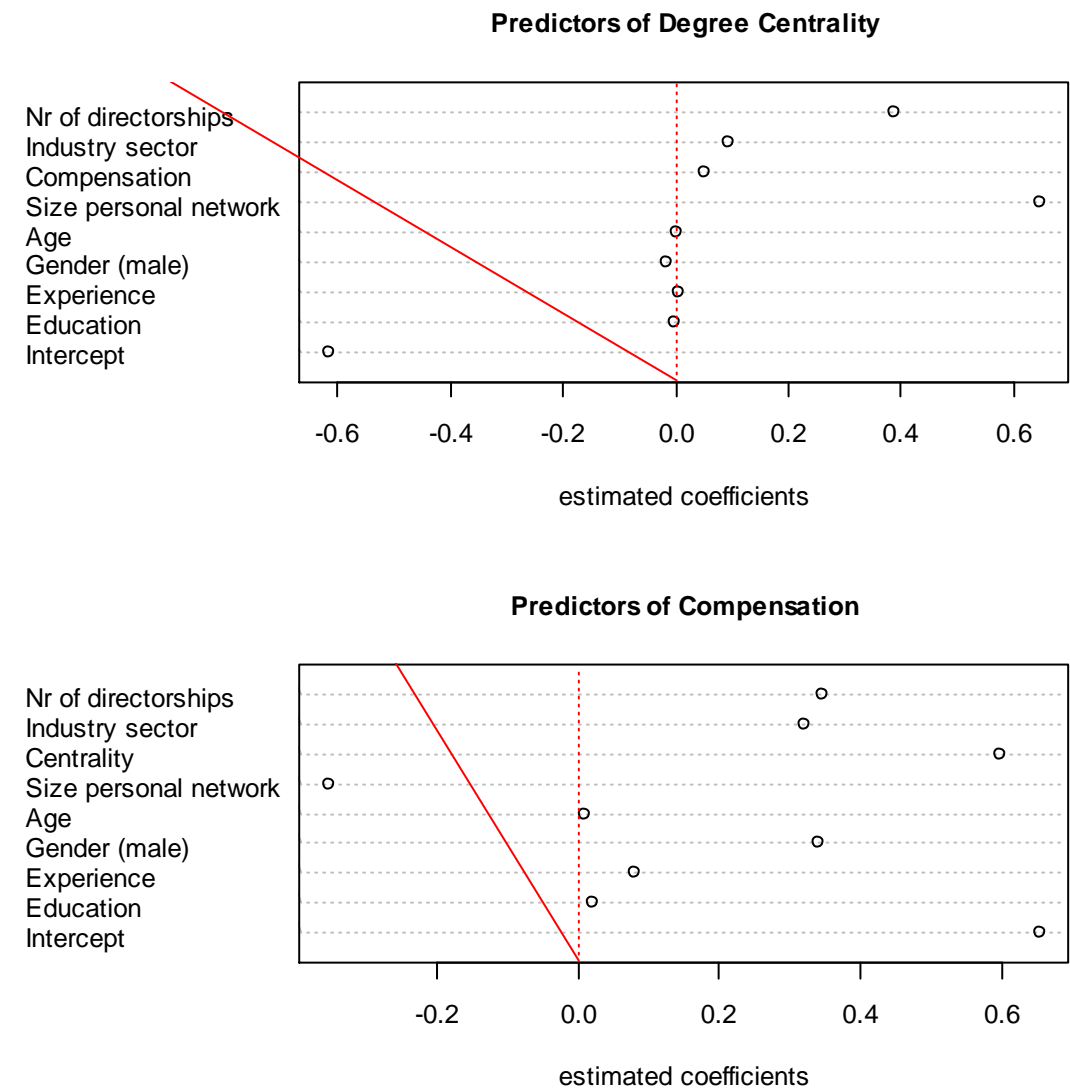


Table 1. Characteristics of Directors in the Network for the 1999-2008 Period (10 years)

		N	Avg. Age	Avg. Comp. (000's)	Avg. Yrs. Experience	Avg. Degree
Interlock	Yes	1494	<b>53</b>	<b>3106</b>	<b>2.15</b>	<b>43</b>
	No	6442	<b>52</b>	<b>1543</b>	<b>1.80</b>	<b>16</b>
Gender	Male	7435	<b>52</b>	<b>1923</b>	<b>1.90</b>	<b>21</b>
	Female	501	<b>48</b>	<b>888</b>	<b>1.34</b>	<b>24</b>
Education	Degree	1501	<b>51</b>	1991	1.98	22
	Postgrad	4128	<b>52</b>	2101	1.97	23
Board Role	Executive	3744	<b>47</b>	<b>3477</b>	<b>0.85</b>	<b>22</b>
	Non-Executive	4192	<b>56</b>	<b>382</b>	<b>2.78</b>	<b>21</b>
Former Politicians & Civil Servants	No	7784	<b>52</b>	<b>1893</b>	1.85	<b>21</b>
	Yes	152	<b>60</b>	<b>511</b>	2.49	<b>29</b>
<i>Politics &amp; Government</i>						
	Ministers	48	59	328	2.98	27
	MPs	53	60	339	3.20	24
	Civil Servants	81	61	575	1.66	32
<i>Corporate Position</i>						
	CEO	3	63	548	1.20	28
	ED	8	55	1564	1.30	38
	OPS	0	n/a	n/a	n/a	n/a
	CHAIR	40	59	1141	3.23	38
	NED	133	60	343	2.18	30

Note: bold figures represent differences that are statistically significant at the 1% level according to both the Student's t-test and the Wilcoxon rank-sum test. The tests were not run for the shadowed rows because these statistics refer to overlapping categories (i.e. the same director might be classified in more than one group: while 152 directors have a background in high public office, some public officials are counted more than once if they held two or more different positions).



Table 2. Characteristics of Former Parliamentarians, Ministers and Civil Servants with Non-Executive Positions (1999-2008)

		N	Avg. Age	Avg. Comp. (000's)	Avg. Yrs. Experience	Avg. Degree
Interlock	Yes	42	<b>59</b>	619	2.21	<b>53</b>
	No	99	<b>61</b>	373	2.75	<b>18</b>
Gender	Male	130	61	440	2.70	27
	Female	11	58	536	1.25	46
Education	Degree	39	62	281	1.98	30
	Postgrad	70	60	461	2.46	30
Business Background						
	Yes	32	60	877	2.82	32
	No	109	61	314	2.53	28
Honours	Knighthood	81	<b>62</b>	596	2.15	31
	Honour	14	<b>62</b>	232	3.20	23
	No Honour	46	<b>57</b>	437	2.89	27
HMT	Yes	28	60	573	2.00	<b>40</b>
	No	113	61	416	2.73	<b>26</b>
FCO	Yes	30	62	252	1.59	32
	No	111	60	496	2.87	28
MoD	Yes	34	62	347	<b>1.71</b>	24
	No	107	60	479	<b>2.88</b>	30
DTI	Yes	23	60	473	2.21	23
	No	118	61	442	2.67	30
Party	Conservative	51	59	474	3.84	25
	Liberal	4	62	100	3.98	<b>11</b>
	Labour	13	58	370	1.23	36

Note: bold figures represent differences that are statistically significant at the 5% level (according to both the Student's t-test and the Wilcoxon rank-sum test, and to the ANOVA test for the 'Rank' grouping variable). The tests for party affiliation refer to the binary base category (i.e. affiliated to any of the other two parties).

Table 3. Factors Explaining Degree Centrality and Compensation for Directors in Non-Executive Positions (NEDs and Chairs)

	Degree Centrality (log)		Compensation (log)	
	DM1	DM2	CM1	CM2
Intercept All Other Directors	2.755	-0.617	5.053	0.653
Intercept Former Politicians & Civil Servants	3.075	-0.617	4.798	0.653
Overall Intercept	2.915 (0.117)	-0.617 (0.065)	4.926 (0.104)	0.653 (0.229)
Education		-0.003 (0.014)		0.022 (0.050)
Age		-0.000 (0.001)		0.008 (0.003)
Experience (log)		0.004 (0.008)		0.079 (0.027)
Industry sector (avg. ntwk. comp., log)		0.094 (0.008)		0.321 (0.030)
Company size (avg. ntwk. degree, log)		0.647 (0.018)		-0.352 (0.075)
Gender (male)		-0.016 (0.024)		0.341 (0.082)
Compensation ( log)		0.049 (0.006)		
Personal Network (degree, log)				0.598 (0.067)
Number of directorships		0.389 (0.007)		0.345 (0.038)
Variance due to Between-Group Differences	4.87%	0.00%	0.866%	0.00%

Note: standard errors in parentheses. Bold figures are significant effects at the 1% level.

## APPENDIX

Table A1. Characteristics of Ministers/MPs with Non-Executive Positions (1999-2008)

		N	Avg. Age	Avg. Comp. (000's)	Avg. Yrs. Experience	Avg. Degree
Gender	Male	53	60	294	3.57	23
	Female	5	58	218	0.43	40
Education	Degree	14	61	332	2.51	27
	Postgrad	31	59	292	2.75	25
Business Background	Yes	9	62	139	2.59	22
	No	49	59	317	3.50	25
Honours	Knighthood	14	61	309	3.46	27
	Honour	8	62	278	2.64	30
	No Honour	36	58	332	3.22	23
HMT	Yes	14	59	441	2.77	<b>40</b>
	No	44	60	243	3.54	<b>20</b>
FCO	Yes	4	56	237	1.25	22
	No	54	60	292	3.52	25
MoD	Yes	14	60	349	2.41	30
	No	44	59	269	3.66	23
DTI	Yes	18	61	242	2.46	22
	No	40	59	309	3.76	26
Rank	(Parliamentarian) 0	12	<b>59</b>	727	3.5	23
	(Junior Minister) 1	6	<b>58</b>	214	4.5	29
	(Minister) 2	18	<b>60</b>	383	1.8	28
	(Secretary of State) 3	22	<b>63</b>	409	2.5	32

Note: bold figures represent differences that are statistically significant at the 5% level (according to both the Student's t-test and the Wilcoxon rank-sum test, and to the ANOVA test for the 'Honors' and 'Rank' grouping variables).

Table A2. Characteristics of Civil Servants with Non-Executive Positions (1999-2008)

		N	Avg. Age	Avg. Comp. (000's)	Avg. Yrs. Experience	Avg. Degree
Gender	Male	71	62	471	1.64	31
	Female	4	57	395	2.08	39
Education	Degree	25	62	252	1.68	31
	Postgrad	34	61	577	1.79	33
Business Background	Yes	17	<b>59</b>	<b>1060</b>	1.59	39
	No	58	<b>63</b>	<b>279</b>	1.69	29
Honours	Knighthood	64	<b>62</b>	577	1.7	33
	Honour	4	<b>62</b>	155	1.5	13
	No Honour	7	<b>55</b>	715	1.7	36
HMT	Yes	14	61	696	1.23	42
	No	61	62	409	1.77	29
FCO	Yes	27	62	247	1.59	33
	No	48	62	586	1.71	30
MoD	Yes	21	63	330	1.18	<b>20</b>
	No	54	61	516	1.86	<b>36</b>
DTI	Yes	5	60	1261	1.32	26
	No	70	62	406	1.69	32
Rank	(Other) 0	9	60	965	1.21	33
	(Grade 2, Executive) 1	5	60	362	2.83	43
	(Director-General, Ambassador) 2	37	62	367	1.47	27
	(Permanent/Cabinet Secretary) 3	24	63	440	1.95	34

Note: bold figures represent differences that are statistically significant at the 5% level (according to both the Student's t-test and the Wilcoxon rank-sum test, and to the ANOVA test for the 'Honors' and 'Rank' grouping variables).