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The Consequences of Directors' Political Donations for IPO Premium and Performance

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Abstract

This study explores the effect of directors' political contributions on IPO valuations and performance. We find that such contributions bring significant benefits to IPO firms. More specifically, we show that the political contributions of board members, particularly those of CEOs and founders, improve both IPO value and performance (in terms of underpricing and subsequent firm survival). We also find that the impact of directors' political contributions on the IPO premium and underpricing is particularly strong among non-venture-backed firms, while the link between directors' political contributions and firm survival is more pronounced for venture-backed firms with strong corporate governance. Our findings are robust to endogeneity concerns and to alternative measures of political donation and IPO performance. The results confirm the relevance of signaling and resource dependency theories.

Keywords: IPO; offer price; political contributions; firm survival; signaling theory, resource dependency theory; political power.

JEL classification: G10, G14, G39.

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1. Introduction

The engagement in corporate political strategies by firms and wealthy individuals, either in the form of campaign contributions or lobbying activity, has become increasingly controversial. This is especially so given the significant escalation in the scale and scope of such giving in the USA and other major developed economies, trends toward greater political polarization, and abiding concerns as to the rationales behind such giving, as well as the relationship between corporations and non-corporate donors (Beets and Beets, 2019). Political engagement by firms and/or those associated with them may also affect subsequent corporate strategies (Gupta et al., 2017) and shift public spending in favor of private interests (Flavin, 2015). However, while several studies suggest that political involvement might be value-enhancing (e.g., Faccio and Parsley, 2009; Goldman et al., 2009; Cooper et al., 2010; Ovtchinnikov and Pantaleoni, 2012; Faccio and Hsu, 2017), others conclude that political contributions might ultimately destroy value (e.g., Chaney et al., 2011; Lee et al., 2014; Piotroski et al., 2015).

In short, political giving is likely to have significant implications for firms, economies, and society. Yet, because of the lack of transparency around directors' political activities (Beets and Beets, 2019), the link between such giving and corporate performance remains largely under-investigated. Corporations may funnel money to politicians via foundations or interest groups; this is not the same as those with close personal ties to the firm, such as directors, spending their own money, which provides the scope for this study. Li (2018) argues that corporate political action committees (PACs) may draw in money from everyone associated with a firm and, hence, may alienate potential contributors with different political affiliations; in turn, this may limit their scope and potential influence. Individual directors donate in their own right, without directly compromising others on the payroll, and, hence, the latter eventuality is less likely. On the one hand, this means that directors' giving may be more focused on maximizing shareholder value, in comparison to managers seeking to promote their personal prestige at corporate expense. On the other hand, directors may be guided primarily by personal sentiment and political ideology, and accordingly discount any negative effects on the corporations they are associated with from incurring the hostility of opposing politicians. In this regard, the escalation of campaign financing has made the stakes much higher

(Gilbet, 2017). Given this theoretical ambiguity, the impact of directors' donations on the value and performance of IPOs remains an open empirical issue that warrants further investigation.

Given the heightened demand for information in support of the prediction of IPO failure or success (Demers and Joos, 2007), the signaling effect of political donations may play a pivotal role in enhancing the viability of the market for newly listed firms. Despite the abundance of research on the determinants of IPOs, none of the prior studies examine the impact of the political activities of corporate directors in this regard. We argue that political donations may play a more significant role in the IPO context for several reasons. First, the influence of political shocks is elevated in the IPO setting, because newly listed firms operate in an environment of heightened uncertainty, which in turn makes it difficult for potential investors to discern how these firms will respond to the pressures and rigors of public trading (Certo et al., 2003). Second, IPO firms are more concerned with raising their profile in the investor community during this phase than other phases of the organizational life cycle, exposing themselves to much greater scrutiny (Certo et al., 2009). This is because an IPO constitutes an important milestone for a firm, because the success of an IPO largely determines the amount of cash raised and consequently influences the ability of a firm with otherwise limited resources to fuel its growth and solidify its competitive advantage (Borisov et al., 2017). Finally, a vibrant market for IPOs is a vital asset to the aggregate economy, because of its role in facilitating innovation, venture capitalism, and job creation (Black and Gilson, 1998; Fisman, 2001; Doidge et al., 2013; Butler et al., 2020).

The IPO literature proposes several strategies that issuers use to combat *ex ante* uncertainty and instill confidence in investors. These strategies include the use of prestigious auditing firms (Beatty, 1989), sharing ownership with venture capitalist (Megginson and Weiss, 1991), selecting reputable underwriters (Carter et al., 1998), filling top-echelon positions with revered executives (Certo et al., 2003), and obtaining a credit rating (An and Chan, 2008). We expand this list by proposing directors' political donations as a hitherto unacknowledged yet potentially powerful non-market strategy.

Although an IPO's performance is, in part, a product of existing visibility (Certo et al., 2009; Bell et al., 2012), prior evidence shows that IPO firms may be prone to engage in corporate political strategies

not only to try to secure favorable treatment by governments, but also to communicate to markets that the company may benefit from such action in the future and/or that the firm has secured or enhanced its legitimacy and standing with the political establishment (e.g., Gounopoulos et al., 2017). In addition, there is strong support for the notion that PAC contributions are a form of investment in political capital (Ovtchinnikov and Pantaleoni, 2012). For example, Google, wherein several top executives were supporters of President Obama, obtained important benefits from his administration. In particular, following donations (approximately \$814,540) by Google and its directors to Obama's campaign, his administration used taxpayers' money to purchase Google advertising, providing an illustration that corporate directors understand their economic dependency on their firms, and exercise pressure on government in the interest of this.

Hence, IPOs serve as an ideal context for enriching our understanding of the implications of individuals' political donations and, in particular, how the market perceives such contributions.² This raises several interesting questions. First, do politically connected boards affect the success of the public offering process? Resource dependency theory suggests that firms/directors are politically active in return for more favorable resource allocations from government (e.g., lower cost of capital, lower taxes, more government contracts) (Claessens et al., 2008; Goldman et al., 2013; Hill et al., 2013). Second, is it primarily CEOs who get involved in political activities, or do other members of the executive board also donate to political campaigns with similarly noticeable effects? Goldman et al. (2013) explore whether the political connections of publicly traded firms in the US affect the allocation of government procurement contracts and conclude that companies with boards connected to the winning party experience a significant increase in such contracts after an election (connection to the losing party producing a corresponding decrease). This raises questions as to the impact of donations on the longer-term survival of a firm, given that in

² We explain that through these donations, directors' 'values' can be expected to manifest in executives' choices via two mechanisms. First, a director's values may have a direct influence on their choices. Having weighed available alternatives, facts, probabilities, and eventualities, the director selects a course of action that suits their values. England (1967) referred to this direct influence of values on action as "behavior channelling." The second mechanism, which we envision as far more prevalent, occurs when values affect choices indirectly, through "perceptual filtering." In this process, the director selectively searches for information that suits their values and then perceives and interprets that information in a value-congruent way. We recognize that executives' political ideologies, specifically their stance on the conservatism-liberalism dimension, will manifest in their managerial actions.

democracies there are regular changes of ruling party. Drawing on social comparison theory, Chizema et al. (2015) also document negative relationships between politically connected boards and both top executive pay and pay dispersion. Earlier work suggests that the role of the CEO has a particularly significant, but not necessarily favorable, effect (Fan et al., 2007). Finally, to what extent does the impact of an individual's donation depend on their political ideology? For example, Goldman et al. (2009) explore whether political connections are important in the US by classifying boards into those connected to the Democratic or Republican parties, and conclude that boards associated with the Republican party create value, while those associated with the Democratic party destroy value.

To answer these questions, we use directors' political contributions (DPCs) in the US and analyze whether these have any bearing on the value and performance (in terms of relative underpricing and subsequent survival) of IPO firms. In other words, we explore, in a way that is distinct from previous literature on politically connected boards (e.g., Fan et al., 2007; Goldman et al., 2009, 2013; Chizema et al., 2015), whether directors' involvement in the political landscape affects the amount of capital raised at the time of listing and the subsequent performance of IPO firms. We conduct our analysis on a sample of 1,874 IPOs listed on US exchanges during the period 1998–2014. Our findings suggest that individual contributions by directors bring significant benefits to the IPOs. Specifically, we show that the political contributions of board members, particularly of CEOs and founders, are positively associated with both IPO premium and corporate longevity, and negatively related to IPO underpricing. In economic terms, the average offer price of IPOs with politically connected board members is \$1.63 (or 11.79%) higher than that of IPOs whose directors are not involved in political activity. Our finding also suggests an economically meaningful effect for individuals' political donations on initial IPO returns, with a one-standard deviation increase in donations being associated with a reduction of 8.92% in underpricing. Further, we find that these benefits of political donations do not depend on the political ideology of the donor. Finally, we examine the individual contributions of directors over time and observe a steady increase from \$362k in 1998 to \$1.6m in 2013 (\$1.58m in 2014).

The primary focus of this study is on internal directors and, in particular, CEOs and founders, because they will be closest to corporate operations, most aware of the resource needs of the firm, and will also have the most immediate personal interest in matters. Hence, they will have the greatest incentives to expend their own money in betting on politicians. Although it is recognized that external directors donate more, the depth and breadth of their ties to a firm is very uneven and it was not possible from our data to explore the latter. This represents a limitation of the current study and a plausible direction for future research. Nevertheless, we also take account of the role of external directors in shaping the quality of corporate governance of a firm, and hence the relative priorities assigned to internal projects vis-à-vis shareholder returns (Chen et al., 2017).

Our findings are robust to the inclusion of industry and year fixed effects and to the use of alternative measures. We also use the Heckman (1979) two-step model as well as a one-to-one propensity score-matching procedure to mitigate any sample selection bias or endogeneity concerns. To gain further insights into the impact of political donations on the value and performance of IPOs, we employ extensive cross-sectional tests along various dimensions. First, we investigate the effect of DPCs in relation to different presidential administrations and election periods and find that their effects on the initial performance and the survival of IPOs are more pronounced in non-election years. In terms of the role of firm characteristics, we document that the influence of DPCs on IPO premiums and underpricing is weaker among venture-backed firms, while the association between DPCs and corporate survival is stronger for IPOs with high-quality governance.

Our study contributes to the literatures on the impact of political connections on stock returns (e.g., Faccio, 2006; Jayachandran, 2006; Knight, 2007; Jia and Zhang, 2014) and on politically connected boards (e.g., Fan et al., 2007; Goldman et al., 2009, 2013; Chizema et al., 2015). The vast bulk of this literature examines the impact of political connections on the ongoing operations of established firms. As such, prior studies focus on regulatory or legislative change that might affect existing operations. Our contribution is to consider the IPO phase of the company as a key element of its integrated strategy, where success is not only a function of the company's interaction with other market actors (underwriters, the investment

community), but also with legislators and regulators. We further add to the literature by focusing our analysis on the political connectedness of boards of directors, the key agents in the development and implementation of integrated strategy. Furthermore, compared to mature firms, IPOs are characterized by greater *ex ante* valuation uncertainty (e.g., Beatty and Ritter, 1986; Derrien and Kecskes, 2007), and our work extends the literature in this regard by showing that DPCs furnish a useful signal of corporate quality to various IPO participants.

Our paper extends that of Gounopoulos et al. (2017), who show that political money contributions reduce IPO underpricing, price revisions, and aftermarket volatility. However, while Gounopoulos et al. (2017) focus on the political donations of firms, the present study investigates the effect of the political donations of individual directors on the IPO process over the longer term. What sets the personal political contributions of directors apart is that they are using their own money. This may be in furtherance of their own personal ideologies and beliefs, a perceived investment in the future of their corporation, or simply to enhance their rents. This of course, poses significant personal risk, especially in recent years as US election outcomes have become increasingly difficult to predict. It may represent an example of collaboration with managers in furthering a shared agenda and gaining influence, rather than being an attempt to exert direct control over them (Krause, 2017). Of course, the boundaries between personal beliefs and corporate interests are unlikely to be clear-cut, and it is very difficult to untangle these two rationales (Reiman and Leighton, 2015). Given this theoretical ambiguity, we address this important question empirically by investigating whether individual directors' donations affect the value and performance of IPO firms.

The remainder of our study proceeds as follows: in the next section, we provide a brief review of the relevant literature and develop our hypotheses; in the subsequent sections, the sample, variables and methodology are discussed, followed by a presentation of our empirical results. Finally, we discuss our findings and draw conclusions from the study.

2. Related Literature and Theoretical Foundations

2.1. Signaling

A large strand of the existing literature on IPOs uses the concept of signaling to explain some of the ways in which firms communicate their future prospects to potential investors and the wider community. However, the primary focus of such signaling has been confined to specific internal or external governance features and/or the influence firms have with prominent figures in the investment and managerial communities (Certo et al., 2009; Pollock et al., 2010; Bell et al., 2012). Yet, firms may also signal their worth through links to the politically powerful by holding out the prospect of future political patronage and support. Useem (1984) argues that, within the US and the UK, the politicized leadership of corporations has given coherence to the broad advancement of corporate purposes by political means. Corporations, directors, and institutional investors closely allied to leading politicians have driven legislation favorable to their common interests, leading to the emergence of an inner circle of aligned interests (Useem, 1984). Directors may have a particular interest in enhancing IPO performance (e.g., Cooper et al., 2010; Witko, 2015), and donations in support of politicians that broadly support the interests of institutional investors signal to the latter that a firm and its leaders are closely aligned with and sympathetic to their concerns (Useem, 1984). Other work confirms that instinctive interpretations by investors during the roadshow phase play an important role in IPO outcomes (Blankespoor et al., 2017). One prominent player involved in IPOs justified a high-profile donation as follows: "If you saw \$4 million lying on the ground, would you take it?" (Tannenbaum, quoted in Pottle, 2014); investors could draw their own conclusions from such remarks. Indeed, political donations appear to be associated with a strong emphasis on generating shareholder value (Cooper et al., 2010).

Consequently, it could be argued that the disclosure of DPCs and donations to political candidates' campaigns may help investors to comprehend the links that will help entrepreneurs secure the funding that allows them to achieve their future investment plans. In other words, such disclosure may signal political debts, for which there might be rewards in due course (Ayres and Bulow, 1998; Bernhagen and Bräuninger, 2005). In other words, political donations could provide an indication of political connections and the potential reciprocal extension of patronage or concessions by client politicians (Scherer and Palazzo, 2007; Claessens et al., 2008; Boubakri et al., 2012). Jia and Zhang (2014) highlight the impact of donating money

at the IPO-issuance stage for what it signals to the wider investor community. Thus, if political donations can mitigate information asymmetry between issuers and other market participants in the IPO process, they should enhance the IPO premium. This leads to the following hypothesis:

H1. Directors' political donations enhance IPO premiums.

There may be a similar explanation for why political donations might influence IPO underpricing: investors will never have perfect information as to the corporate capacity for good future performance, and may use political donations as one possible guide in mitigating such asymmetries.

Information asymmetry has been a focal point for many explanations of the initial performance of IPOs. For instance, Rock (1986) argues that because well-informed investors do not participate in overpriced offerings, uninformed investors are likely to receive a larger allocation of “lemons” than “peaches”. To mitigate the *winners' curse* and to ensure the involvement of uninformed trading, issuers tend to underprice their offerings. Several studies, including Koh and Walter (1989) and Keloharju (1993), provide direct evidence in support of Rock's model. In a similar vein, Benveniste and Spindt (1989) develop a model in which underwriters use pricing and allocation rules to induce well-informed investors to truthfully reveal information. In this model, underwriters favor investors who reveal good information in the allocation process, and use underpricing to compensate them for truthfully revealing information. Direct support for Benveniste and Spindt's model is provided by Hanley (1993), who shows that shares in an offering are rationed and prices only partially adjust to new information.

Thus, if directors' donations signal positive news about the future prospects of a firm – in other words, investors interpret such giving as being more focused on maximizing shareholder value than empire building – then such donations will mitigate the winners' curse and reduce underpricing. However, if investors believe that directors' donations are guided primarily by personal sentiment and political ideology, and thereby represent an inefficient or undervalued device for conferring future corporate worth (and/or represent vanity spending by directors), then underpricing may be deployed as a strategy for

attracting investors. Hence, we also evaluate the effects of political donations on undervaluation and subsequent returns, and propose the following hypothesis:

H2. Directors' political donations reduce levels of IPO underpricing.

2.2. Resource dimensions

A significant body of IPO research ties performance outcomes to the type of social influence that may be secured through access to and the deployment of material resources (Beckman et al., 2007; Certo et al., 2009). Resource dependency approaches have also long held that a power imbalance between participants in an inter-organizational transaction will enable those in superior positions in material resource terms to influence and extract a larger share of exchange surplus (e.g., Casciaro and Piskorski, 2005). Although such behavior is often associated with developing-world settings, it should be noted that, within the so-called advanced societies, large-scale privatizations and the outsourcing of government functions (and, indeed, historically large spending on the security/penal functions of government) has created a large ecosystem of firms that are dependent to a greater or lesser extent on political goodwill, and the resources that flow from it (Wood and Wright, 2015). Hence, party political funding may be in direct furtherance of particular strategic agendas, reflecting this resource dependency within an ecosystem of firms (e.g., Scherer and Palazzo, 2007; Wood and Wright, 2015).

Client politicians who receive financial support may use various political tools and resources at their disposal to help IPO directors enhance the legitimacy and competitive position of their firms (e.g., Bell et al., 2014). It is possible that political donations provide IPO ventures with an initial advantage; however, this may diminish over time, with donors becoming accustomed to disbursing resources largely in order to shore up their own prestige and support their continued social standing. That said, McWilliams et al. (2002) note that political activity by firms and their owners may also enable the blocking of rivals' access to substitute resources, shoring up the longer-term performance of a firm. For example, those with extensive interests in coal, such as the Koch brothers in the USA, have funded politicians that are not only hostile to environmental regulation, but who also fight the adoption of, and support for, alternative energy sources

(Schulman, 2014). Such activities can increase the costs faced by rivals, constrain their activities, and shore up the value of the resources of a firm (McWilliams et al., 2002). In other words, political donations may not only facilitate direct state concessions or other largesse, but may also help to ensure that a firm's existing resources remain valuable, and/or restrict the advance of competition. Similarly, donations may also make for greater regulatory predictability (Hillman, 2005). Indeed, Faccio (2006) finds that political connections generate significant financial benefits worldwide: Johnson and Mitton (2003) show that political involvement is particularly beneficial to firms operating in heavily regulated sectors; Faccio et al. (2006) document a positive association between political connectedness and government bailouts; Brown and Huang (2020) suggest that following meetings with federal government officials (evidencing political connectedness), firms receive more government contracts and are more likely to receive regulatory relief (as measured by the tone of regulatory news).

Thus, if directors' political donations help enhance the value and durability of organizational resources and constrain the ability of competitors to secure substitute resources, they should be associated with higher firm survival. This leads to the following hypothesis:

H3. Directors' political donations result in lower risk of corporate failure.

3. Research Design

3.1. Data and sample

Performance data was compiled from the Securities Data Company (SDC) covering the entire population of IPOs that have been floated on US exchanges over the period from January 1, 1998 to December 31, 2014. Consistent with prior literature (Loughran and Ritter, 2002), we eliminate those IPOs priced at less than \$5 per share, limited partnerships, reverse LBOs, ADRs, and foreign issuers whose shares may already be trading in local markets. In addition, while allowing for financial firms, we exercise caution not to include closed-end funds, REITs, royalty trusts, and special-purpose investment vehicles. To this end, we do not consider firms with SIC codes between 6723 and 6999 or companies that bypass Thomson Reuters' filters for closed-end funds, but still operate as such. We also exclude corporate spin-offs, as these firms

have typically been part of large, mature businesses and thus entail considerably less uncertainty than the average issuer. The remaining sample is supplemented from the databases of Compustat and the Center for Research in Security Prices (CRSP) with information about IPO firms' accounting fundamentals and aftermarket performance data, respectively. Following these refinements, we end up with a sample of 1,870 unique IPO ventures.

Information on DPCs is obtained from the Federal Election Commission.³ DPCs comprise one of the main avenues available to firm's top-echelon executives to reach out to the Congress chambers with the explicit purpose of supporting or opposing a candidate's election. We investigate political money spent by company Chairmen/Chairwomen, CEOs, CFOs, other executives, and founders within a time frame of up to five years prior to the offering date.⁴ We also examine each IPO firm within the 'Candidate Master' and 'Contributions to Candidates from Committees' files to obtain the detailed profiles of the recipients (party affiliation, House membership, state represented, and more). Ultimately, this methodology generates a sample of 887 IPOs with executive contributions to political activity (i.e., 73 by Chairmen/Chairwomen, 349 by CEOs, 70 by CFOs, 349 by other executives, and 160 by founders).

We use the zip codes of corporate headquarters (obtained from Compustat) as a proxy for corporate locations (see, for example, Malloy, 2005; Loughran and Schultz, 2005; Nielsson and Wójcik, 2016). To capture the proximity of companies to the center of political decision-making (i.e., The White House and the Capitol Building), we measure the distances between corporate locations and Washington, D.C. To account for the financial employment, we use the County Business Patterns database of the US Census Bureau, which also furnishes the congressional districts in terms of the US political map. In addition, we collect election data, which includes election dates, winning candidates/parties in each state, and vote margins, from the State line database and CQ Electronic Library. A presidential election takes place on the first Tuesday in November every four years. We define a 12-month period prior to these elections as an election year (or Year 0 relative to the election), that is, the year before the political uncertainty associated

³ https://classic.fec.gov/finance/disclosure/candcmte_info.shtml and [OpenSecrets.org](https://www.opensecrets.org)

⁴ Note that focusing on a time frame up to five years before the IPO date means that some donations may have occurred before the director joined a firm. For robustness purposes, we also use time frames of up to three, and up to two, years prior to the IPOs and our conclusions remain unchanged. Further details of these tests are available upon request.

with the election is resolved (Çolak et al., 2017). Finally, we extract state-level data, such as gross domestic product (GDP) per capita, GDP growth rate, and population, from the Regional Economic Accounts database provided by the Bureau of Economic Analysis (BEA).

3.2. Method and variables

To investigate the impact of directors' political donations on the success of IPOs, we estimate the following regression model:

$$IPOvalue/performance = \alpha + \beta Donations + \gamma Controls + YEAR + INDUSTRY + \varepsilon \quad (1)$$

where the dependent variable is a measure of IPO value or performance. Following others, we use IPO premiums, defined as the difference between the offer price and the pre-IPO book value per share expressed as a fraction of the offer price, as a measure of the IPO value (Nelson, 2003). This measure is popular among studies that explore the causes and consequences of difficult-to-quantify assets and capabilities (Bayar and Chemmanur, 2012). The IPO premium captures the value assigned to growth opportunities. Specifically, it combines easy value assets with what investors perceive as the future value (Bell et al., 2014; Chahine, Saade et al., 2019). As such, it takes account of assets which may be hard to readily quantify in determining overall corporate value (Nelson, 2003; Bell et al., 2014). In other words, it captures investors' judgments of the worth of assets, reputational issues, and associated capabilities (Chahine, Filatotchev et al., 2019).

We also use two measures of IPO performance, namely underpricing and subsequent survival. The relative efficiency of the IPO market may be assessed by the extent to which issues are undervalued (Chambers and Dimson, 2009). IPO underpricing is a widely used measure and may be explained by information asymmetries associated with the nature of corporate control (Nielsson and Wójcik, 2016). Existing work also highlights the importance of firm survival as a measure of aftermarket performance (Gounopoulos and Pham, 2018). The main benefit of survival analysis relative to other methods (e.g., OLS,

and/or tobit or probit models) is that it allows us to take into consideration the survival time of each firm.

We use a Cox proportional-hazards model and estimate the following:

$$h(t) = h_0(t)[\beta_1 Donations_{i,t} + \beta_2 Control Variables_i + Fixed Effects] \quad (2)$$

where $h_0(t)$ is the baseline hazard function, and t is the time to failure (i.e., the duration to the delisting date). The dependent variable is a dummy variable that indicates the failure risk (i.e., whether the firm delists within five years of the issue date).⁵

The main explanatory variable, *Donations*, is the natural logarithm of 1 plus the amount of money spent by IPO directors on political activities. We focus our analysis on the political money spent by Chairman/Chairwoman, CEOs, CFOs, other executives, and founders within a time frame of up to five years prior to the offering date. To separate the effect of the political contributions of each category of directors on the IPO success, we replace the variable *Donations* in Equation (1) with *Donations_CEO*, *Donations_CFO*, *Donations_Chairman*, *Donations_Board*, and *Donations_Founder*.⁶

Our regressions also contain a set of control variables that have been shown by existing studies to affect IPO valuation and performance. We use *IPO Proceeds* as a proxy for firm size. Large IPOs suffer less from valuation uncertainty and should therefore exhibit lower premiums. We also use the number of years elapsing from a firm's foundation to its IPO as a measure of *Firm age*. Previous literature commonly employs age as a surrogate for risk (e.g., Ritter, 1984, 1991; Schultz, 1993; Carter et al., 1998). The assumption is that firms with longer-running operations have proven their resilience against market swings and thus constitute safer investments. Again, we expect age at IPO to be associated positively with IPO valuation accuracy and negatively with the IPO premium. In addition, we use *Earnings Per Share* (EPS) in the fiscal year immediately before the IPO to capture issuers with a positive bottom line in the year preceding the IPO. Firms achieving a sizeable accounting return should be associated with lower

⁵ Our sample selection starts by identifying all of the initial public offerings (IPOs) between 1998 and 2014 in the SDC database. Because our minimum survival window is five years, we track these IPO issuers until 31 December 2019 to determine whether or not they were ever delisted.

⁶ In addition, *DCEO*, *DCFO*, *DChairman*, *DBoard*, and *DFounder* are dummy variables with a value of 1 if the donor is a CEO, CFO, Chairman, board member, or founder, respectively, and 0 otherwise.

uncertainty and higher valuation accuracy. We also include a *NASDAQ* dummy, which takes a value of 1 if an IPO is listed on NASDAQ and 0 otherwise, as a control variable in our regressions. Because of its relatively less-restricted regulatory environment, NASDAQ has been the preferred marketplace for small, young, and high-tech IPOs. Since such firms are particularly difficult to value, the effect of the *NASDAQ* dummy on IPO premium and performance may reflect more dependence on investor sentiment (Baker and Wurgler, 2006).

Underwriter reputation is also considered to be an important determinant of IPO performance. We use *Underwriter ranking* to measure the perceived quality of the agent underwriting the issue. Arguably, an established underwriter would not risk impairing their reputational capital by facilitating an offering of dubious quality. Thus, IPOs that are underwritten by reputable underwriters are likely to attract more investors and have a greater premium. Because the involvement of venture capitalists (VCs) is also shown to affect IPO performance (Hsu, 2004; Megginson and Weiss; Chahine et al., 2007; Gerasymenko and Arthurs, 2014), we also include in our regressions a *Venture capital* dummy, which equals 1 if an IPO firm receives funding from VCs, and 0 otherwise. We also use *Share overhang*, defined as the ratio of shares retained by pre-IPO shareholders to the total equity given up in the IPO, to control for the potential dilution effect associated with IPOs (Bradley and Jordan, 2002). Furthermore, we include *Market return*, estimated as the average return realized on the value-weighted CRSP index over the 20 trading days preceding the offering, to control for the effect of overall market sentiment on IPO valuation (e.g., Derrien and Womack, 2003; Lowry and Schwert, 2004; Gao and Jain, 2012). We further include industry and year dummies to control for differences in valuation and survival between industries and over time. Finally, we correct for heteroscedasticity and standard errors clustered at the year and industry level.

4. Results

4.1. Descriptive statistics

Table 1 provides a preliminary description of the full sample (N = 1,874) and the subsamples of firms with (N = 889) and without (N = 985) DPCs. Panel A shows that the mean individual contribution for political

activities is \$10,450, with more being donated after appointment than before. ‘Other directors’ are also becoming increasingly involved in political contributions, presumably reflecting their interests in building connections for better future appointments. On average, Chairmen contribute \$7,878 to DPCs, while CEOs offer \$10,473 (39.04% of the total sample), with the amount given increasing during the period of the sample. Finally, the average pre-IPO political contribution for founders is \$5,083.

Panel B presents descriptive statistics for the overall sample as well as for the DPC and non-DPC subsamples. It shows that firms with DPCs exhibit higher value and better performance than their counterparts without DPCs. Specifically, IPOs of firms with DPCs exhibit a premium of 69% on the day of listing, and a buy-and-hold return of 14% in the three years thereafter. These figures are higher than the corresponding values of the non-DPC subsample, which are 67% and 3%, respectively. The results in relation to one-year long-term returns indicate that IPOs of firms with DPCs produce a positive average buy-and-hold return of 5%, while those without experience a negative average buy-and-hold return of 4%.

Panel B also presents the IPO characteristics used as control variables in the subsequent regressions. On average, newly listed public companies in the US raise \$153.26 million and have a history of 15.5 years’ operation before going public; VCs back IPOs with a contribution of 46.7% of the invested capital. In terms of sector categorization, 35.1% are technological companies. This is not surprising because 31.3% of the sample IPOs were issued during the dot.com period. NASDAQ appears to be the favored stock exchange, accounting for 67.4% of the sample; the world’s first electronic market has been popular among public offerings because it has less strict listing requirements when compared to NYSE. Share overhang is 3.571, implying that newly issued shares represent a small proportion of the overall IPO ownership. Our data indicates that 61.9% of our IPO ventures choose a reputable underwriter with which to go public, consistent with the view that issuers use the underwriters’ network to attract institutional investors and assure the success of the process (e.g., Pollock et al., 2004; Hong et al., 2004).

Furthermore, Panel B shows that IPOs of firms with DPCs are considerably larger than their counterparts without DPCs. The average gross proceeds raised by firms with DPCs is \$189 million, while it is only \$120 million for firms without DPCs. Firms with DPCs are also shown to deliver superior

profitability (captured by the *Earnings Per Share* dummy) and tend to rely less on leverage than their non-DPC counterparts. In addition to having stronger fundamentals, firms with DPCs are, on average, about three years older than their non-DPC counterparts. Consistent with the overall image of better quality, the IPOs of firms with DPCs are less likely to resort to VC financing and are mainly taken public by top-ranked underwriters. Stocks from the Internet or the broader technology sectors, which often have IPOs at an earlier, infant stage (so as to fuel further growth), are relatively underrepresented in the DPC subsample. This may explain why so many DPC firms do not choose NASDAQ, the technology issuers' favorite listing platform, for their IPOs. Interestingly, the dot.com period of 1999–2000, for all of its record-level IPO activity, gave rise to fewer IPOs of firms with DPCs, in proportional terms, than the credit-crunch crisis of 2007–2008. Finally, there is no significant difference in the percentage of retained ownership between the DPC and non-DPC subsamples. On the whole, many of these characteristics have been shown to exert influence on IPO pricing: any effect caused on short-/long-term returns by the new covariate in the valuation equation (i.e. DPCs) must result net of the confounding factors.

Panel C classifies IPO firms by sector, because prior research indicates that the sensitivity of firms' activities to politics may vary across sectoral lines. It reveals a relatively high IPO premium in the wholesale and retail trade sectors, with the lowest IPO premium in the food product sector. It is also interesting to note that computer equipment and services, together with chemical products, represent the sectors with the largest number of directors' political donations.

The correlation matrix, which we include in Table IA.11, indicates that our main independent variable of interest, *Donations*, is not highly correlated with control variables other than *Donations_DCEO*. This should moderate the econometric difficulties (such as multicollinearity concerns) in disentangling any effects of donation variables on the value and performance of IPOs. The correlation between *Donations_DCEO* and the overall *Donations* is relatively high (0.57), implying that CEOs engage in political donation to ensure the success of their listing. This high correlation is not of concern in our study, because these variables are not combined in the same regression model.

To communicate the essence of DPCs in a more visual way, we refer the reader to Panel A of Table

2, that is, the top-fifteen IPOs ranked by intensity of DPCs. Overall, the highest pre-IPO contributions (\$339,000) were made by the directors of General Motors, which contributed to the success of one of the biggest IPOs in American history. The company raised an astonishing \$20.1 billion and also achieved a comparatively modest underpricing of 3% in a year (2010) where the average amount of ‘money left on the table’ was 8.7%. Interestingly, this remarkable achievement came from a corporation that was bailed out by the US federal government after filing for Chapter 11 bankruptcy protection in 2009.

In a striking example, the IPO with the second-largest level of DPCs, Select Medical Holdings, records a return of 0.9% in an IPO that took place only five years after its establishment. All of the directors of this company, except the CFO, were involved in political contributions. From a complementary angle, Panel B of Table 2 presents an analysis of the individual contributions of the various categories of director. We observe that CEOs were political donors in twelve of the top-fifteen cases, but in only four cases each were Chairmen or CFOs involved in financing political campaigns.

4.2 The effect of directors’ political contributions on IPO premium and underpricing

Table 3 reports our empirical results in exploring the effect of DPCs on IPO premiums for the full sample of firms (N = 1,870). Column 1 presents the OLS estimates associated with using the overall individual contributions as the main independent variable of interest, while Columns 2 through 6 display the resulting coefficients from the political contributions of the different categories of directors. IPO premium remains the dependent variable in all specifications and the key variables that have been shown to account for much of the variability in IPO returns are included as controls.

The significantly positive coefficient on *Donations* in Column 1 suggests that DPCs enhance IPO premium. Column 2 likewise indicates that CEOs’ political contributions are positively and significantly associated with IPO premiums. Thus, hypothesis H1 is supported. In addition, Columns 3 and 6 show that CFOs’ and founders’ involvements in political activities significantly enhance IPO premiums. Further, we classify the DPCs into two groups. The first group consists of DPCs that were made before a director joined an IPO firm (*Before Joining*), while the second represents DPCs made after a director’s appointment to a

firm (*After Joining*). The coefficient on *After Joining* is positive and significant (Column 8), while that on *Before Joining* is insignificant (Column 7). This implies that the timing of the political contributions is also relevant to the IPO valuations. We argue that this finding is consistent with the behavioral hypothesis that when valuing assets, investors place more weight on recent than old news (see, for example, De Bondt and Thaler, 1985; Morck et al., 1989).

The results pertaining to the control variables are interesting in their own right. We obtain a negative and significant coefficient on earnings per share, even though earnings might be expected to lead to a higher, rather than lower, IPO premium. This indicates that high pre-IPO profitability does not result in more accurate valuations, but instead attracts more investors and increases the value of the IPO. The coefficients on *Firm age* and *Technology firms* are positive and significant, indicating that long-lived and high-tech companies are valued higher in stock markets (see also Chan et al., 2001). We also find that corporate value increases significantly with technology stocks. This explanation may naturally extend to the coefficient (likewise negative and significant) on *NASDAQ*, it being the preferred listing platform for technology issuers. The coefficient on the dot.com period is significantly positive, implying high corporate value for this sector. The effect of overall market sentiment on corporate value is also captured by the coefficient on *Market return* (positive and significant at the 1% level). Surprisingly, the coefficient on *Underwriter ranking* is significantly negative, suggesting that a less prestigious underwriter does not necessarily reduce IPO premium. This also indicates that IPO performance is linked to quite superficial impressions; less prestigious underwriters may be more inclined to engage in hyperbole. Notably, we document no evidence of a significant relationship between firm size and IPO premium. Finally, market returns, despite their heavy impact on the public offering process, do not affect IPO premiums.

Panel B of Table 3 presents the results of our OLS regressions on the association between DPCs and IPO underpricing. Column 1 shows a highly significant negative relation between donations and IPO first-day returns. Our finding also suggests an economically meaningful effect for individuals' political donations on initial IPO returns, with a one-standard-deviation increase in donations associated with a decrease of 8.92% in underpricing. Similar findings are obtained from the coefficients for donations by

CEOs, CFOs, and founders. Overall, our results suggest that individual donations reduce levels of IPO underpricing, consistent with the view that political contributions bring significant benefits to IPO firms, and confirming hypothesis H2.

Finally, in untabulated analysis, we examine whether DPCs are associated with IPO costs (e.g., management and underwriting fees). Apart from underwriters, there are other agents (for example, advisors, accountants, and lawyers) who also have temporary relationships with IPO firms. These agents earn a fee in order to evaluate the issuer's credibility. Prior literature finds that corporate political strategies help enhance relationships with governments, because they reduce the cost and effort associated with satisfying complex bureaucratic procedures and various regulatory bodies during the IPO process. Thus, we predict and find that firms with DPCs are negatively associated with management and underwriting fees.⁷

4.3 The effect of directors' political network on firm survival

Table 4 examines the impact of DPCs on the probability of IPO survival using a Cox proportional-hazards model after controlling for various firm and IPO characteristics. Column 1 shows a strong and significant negative coefficient on directors' donations, suggesting that the latter reduce IPO failure risk. This finding supports our third hypothesis (H3). The economic effect is also meaningful, with the average failure risk of firms with DPCs in the 75th percentile being 31% lower than that of firms without DPCs in the 25th percentile.⁸

The remaining columns of Table 4 display the results of using the donations of different categories of director (i.e., CEO, CFO, founder, Chairman, etc.) as the independent variable of interest. Our findings suggest that firms in which CFOs, founders, and Chairmen donate money have a lower probability of failure and survive longer. Specifically, the significantly negative coefficients on the donations by CFOs and Chairmen indicate that the political involvement of these board members generates good long-term returns for investors. The founders of firms are also involved in political contributions, presumably because of an

⁷ The results are available upon request.

⁸ This estimate represents the change in the hazard rate for a firm that moves from the 25th to the 75th percentile of the distribution of the natural logarithm of DPCs ($8.97 - 6.91 = 2.06$) and is calculated as follows: $\exp(-0.18 \times 2.06) - 1 = -30.65\%$.

intention to bridge the gap between existing capital stock and the desired capital stock of the future, thus viewing political contributions and the utilization of connections as the vehicles that will drive their firms' investment to the next level. Surprisingly, the association between CEO donations and corporate survival is not significant. However, we find that firms with directors who donate money after their appointments have higher survival rates, suggesting that making DPCs after recruitment is more beneficial for a company.

The results for the control variables are generally in line with prior studies. Consistent with Gounopoulos and Pham (2018), we document a negative association between IPO firms with high proceeds and failure risk. In addition, our results suggest that firms with positive earnings have higher survival rates, while those that belong to the technology sector have higher probabilities of failure.

5. Endogeneity Issues

Thus far, our results establish positive relationships between DPCs and both IPO value and performance. It is possible, however, that endogeneity concerns undermine our empirical analysis. Specifically, our model may suffer from biases due to (i) omitted corporate variables that affect both IPO value/performance and individual political contributions in a similar manner, and/or (ii) endogenous director–firm matching (i.e., non-random assignment of directors to a firm) due to observable distributional differences of corporate and directors' characteristics between firms with and without individual donations. In this section, we conduct various tests to mitigate the impact of unobserved characteristics or endogeneity on our results.

5.1 Omitted variables and sample selection bias

We initially examine the possibility that instead of individual political donations, omitted corporate-level characteristics that can be related to both IPO value/performance and DPCs are driving our findings. For instance, it is plausible that only large firms with favorable growth prospects are able to attract directors with political power. Alternatively, it might be the case that firms with a need for favorable public policies are more likely to hire a director with the power to influence government for the benefit of the firm. This suggests that better controls for corporate quality should dissipate the effects of individuals' political

donations. One way to address this issue is by including additional firm characteristics that can be assumed to remain reasonably stable throughout the IPO process and the immediate aftermarket period. In this regard, we include the pre-IPO sales of a firm to control for firm size. Furthermore, we control for the presence of Internet firms, as this type of firm tends to be associated with greater risk.

An interesting finding is that DPCs made after joining an IPO company have a positive effect on IPO premium and a negative impact on IPO underpricing, while DPCs do not affect the initial performance of IPOs (see Panels A and B of Table 3). This evidence is consistent with the behavioral finance hypothesis, which suggests that when evaluating securities, investors tend to put more weight on recent news than older news (De Bondt and Thaler, 1985; Morck et al., 1989). Table 4 shows that DPCs, made both before and after joining an IPO firm, exert a significantly positive influence on corporate survival. Inspired by upper echelon theory (i.e., Hillman et al., 1999), resource dependency theory (Hillman et al., 2009), and prior empirical studies (Funk and Hirschman, 2015),⁹ we believe that the donations of both newly appointed directors and existing ones are relevant to firm value. Specifically, directors who are newly appointed to a board may engage in political involvement in order to build a network of client politicians who will, in turn, be more likely to dispense patronage to the IPO company. Similarly, directors involved in political contributions for many years prior to their appointments may have been appointed because of their political contacts and, as such, ‘may be valuable resource providers’ (El Nayal et al., 2019). Table 5 also shows that donations made by directors prior to their appointment have a stronger positive effect on the survival of IPO firms than those made by newly appointed directors. These results are consistent with the underreaction hypothesis of Hong and Stein (1996) and Hong et al. (2007). Specifically, we have already suggested that investors place more weight on more recent news, with donations by newly appointed directors being, in part, reflected in IPO prices, while donations by existing directors did not seem to affect IPO premiums and underpricing. Thus, the differential effect on the long-term IPO performance between donations of newly

⁹ Prior evidence indicates that directors implement various corporate political activities to help handle the uncertainty in their competitive environment by gaining access to political processes and influencing public policy.

appointed directors and those of existing directors may be attributed to correction of initial mispricing, which is expected to be stronger in the case of the latter.

Finally, we consider the quality of corporate governance as an additional control (*Board Size and Board Independence*) to capture the most relevant governance in the decision-making process. In Table 5, we repeat the baseline regressions of Table 3 after inclusion of these additional corporate characteristics. The results show that these controls do not significantly alter the effect of DPCs, thereby alleviating to some extent the concern that omitted variables might be driving our findings.

To further address the issue of sample selection bias, we perform the two-stage self-selection model of Heckman (1979) (e.g., Jia and Zhang, 2014). In the first stage, we estimate a probit model for the likelihood of a given IPO firm having at least one director that has made a political donation. In the second stage, the Inverse Mills ratios (IMRs) from the probit model are included as additional variables in our baseline models. The results of this Heckman two-stage approach are reported in Table 6. We find that DPCs are more common among large firms and venture-backed firms, which also belong to the technology sector. The second-stage results in Columns 2 and 4 of Table 6 indicate that the coefficients on the IMRs are statistically insignificant, while those on DPCs remain highly significant.

5.2 Propensity score-matching

Panel B of Table 1 demonstrates the presence of substantial differences in some characteristics between firms with and without DPCs. Firms with DPCs are larger, older, more profitable, and brought to the market by more prestigious underwriters. These differences raise the possibility that the effect of DPCs on IPO value and performance might be a statistical artifact stemming from distributional differences in corporate characteristics between firms with and without DPCs.

To mitigate any potential endogenous selection biases relating to observable characteristics and to determine whether our findings are robust to the above considerations, we perform a propensity score-matching procedure. This method includes the creation of pairs that are comparable for all covariates, but for directors' propensity to donate. As a result, it assures with greater confidence that the variation in IPO value and performance can be ascribed to the variation in the test variable (DPCs).

Initially, we run a probit regression to estimate propensity scores, that is, the probability of receiving the treatment (i.e., DPCs) conditional on a set of selected variables. For each treatment firm with DPCs, we select a matching control firm without DPCs from the same year, with the requirement that the absolute difference of the propensity score among pairs does not exceed 0.01. We apply this method without repetition and estimate the propensity score for each firm, after considering a set of controls that essentially capture all of the firm and IPO characteristics used in the baseline regression. We also include Fama–French industry membership, because some industries (e.g., computer equipment and services) are more likely to feature directors that have made political money contributions than others (e.g., food products).

This method yields 555 unique pairs of firms, which is approximately 30% of the initial sample.¹⁰ Panel A of Table 7 reports difference-in-difference means of the control variables for firms with and without DPCs for both matched samples. As expected, the corresponding difference-in-difference means become statistically insignificant for the matched sample, confirming that the propensity score-matching succeeds in making the sample of firms with DPCs comparable to that of firms without DPCs.

Panel B of Table 7 presents the results for the average treatment effect for those IPOs with directors involved in political contributions in comparison to those with no political involvement by directors. Our estimates document that IPO firms with politically active directors experience less underpricing than those without such donations. The magnitude of the estimate is also economically meaningful, implying that DPCs reduce underpricing by 1.46%.

Based on the matched set of treatment and control firms, we re-estimate the OLS and Cox models of Table 3. Column 1 in Panel C of Table 7 shows that political donations are significantly and positively associated with IPO premium and significantly and negatively related to failure risk. Overall, the propensity score results continue to support our initial findings, reinforcing the baseline inferences that directors' donations enhance both IPO value and firm survival.

6. Other Robustness Checks

¹⁰ We apply the same method for firm survival, which yields 612 unique pairs of firms, around 33% of the initial sample.

In this section, we conduct a number of checks to ensure that the impact of political donations on IPO success is robust to alternative specifications and measures of the key variables. We begin by excluding some key industries and then employing alternative definitions of the dependent variable.

6.1 Excluding industries

In the descriptive statistics section, we show that the chemical products sector and the computer equipment and services sector account for the highest concentrations of political donations. Panels A and B of Table 8 show that our baseline results are not driven only by these two industry sectors.

6.2 Accelerated failure time (AFT)

As a further robustness check, and for the purposes of comparison, we also use the accelerated failure time (AFT) as an alternative model of survival, to examine the impact of political donations on corporate survival. In contrast with the Cox model, in the AFT method the dependent variable is the survival time (the length of time since listing) of each firm. The results in Table 8 suggest that IPO firms with DPCs have longer survival times, with the effect being amplified when the donation is made by the CEOs (and, to a lesser extent, the founder) and especially if made after their appointment to the firm.

6.3 Sarbanes–Oxley Act (SOX)

We also consider using the Sarbanes–Oxley Act (SOX) of 2002 as an exogenous shock in our analysis. We find a significantly positive relation between political contributions during the SOX period and IPO premium, consistent with the view that DPCs lead to higher market valuations for IPOs. Similar inferences apply to donations from non-executive (independent) directors. Furthermore, we document a stronger negative association between political donations and underpricing during the SOX period. Finally, we uncover evidence that SOX encouraged interaction between politicians and the business world (detailed results are reported in the Internet Appendix).

6.4 Other robustness checks

We also verify the sensitivity of our findings to the choice of IPO performance measures by computing our sample firms' operating performance for three years after their listing. To conserve space, we only report the results of the total contributions (or *Donations*) as a measure of political donations.¹¹ Following Loughran and Ritter (1997) and Hertz et al. (2002), we use the ratio of operating income to total assets (OIBDA) and the ratio of net income to total assets (ROA) as operating performance measures. Columns 1 and 2 of Table 8 report the results with ROA and OIBDA, respectively, as the dependent variable in Equation (1). In line with the baseline finding, Columns 1 and 2 indicate that individual directors' donations are associated with improved IPO performance.¹²

7. Additional Tests

7.1 *The role of directors' political ideology*

Since the development of upper echelons theory, many studies have focused on how individual directors affect corporate policies and performance and find that top managers' political preferences are related to tax avoidance (Christensen et al., 2014; Francis et al., 2016), conservatism (Hutton et al., 2014), compensation packages, and corporate social responsibility (Chin et al., 2013). These studies suggest that Republican top managers are more conservative and risk-averse in relation to uncertainty and ambiguity, while Democratic top managers are more liberals and more risk-seeking. In this section, we endeavor to enhance this literature by studying the implications of directors' political preferences on firms conducting IPOs.

We attempt to capture directors' political ideology and/or party support by their contributions to different political parties. Specifically, we define the political donations to *Democrats* as the directors' campaign contributions to federal democratic candidates, the Democratic party, and political action committees, and political donations to *Republicans* as directors' donations to the Republican party and its candidates; *Dual* contributions involve directors' simultaneous contributions to both parties.

¹¹ The results for different categories of director are largely consistent with those reported in Supplementary Material. Details of these results are available upon request.

¹² Further details on these results are available upon request.

Table 9 shows that the effect of directors' political orientation is strongest in the short term. Panel A suggests that the coefficients of CEOs' individual contributions to the Democratic and Republican parties, and both parties together, are all positive and statistically significant. Our results are also economically significant, with a one-standard-deviation increase in CEO donations to Democrats, Republicans, and both parties at the same time being associated with 1.29%, 0.7%, and 2.7% increases, respectively, in IPO premium. What might account for the lower premium for Republican donations? It may be that because Republicans are significantly more successful in attracting large corporate donations (Bonica, 2016), not only does it require a much larger donation to draw the attention of Republican politicians, but it is more challenging to obtain a significant share of any associated government patronage, and this is recognized by investors. We obtain similar results in relation to CFOs, albeit with weaker significance. Panel A of Table 9 shows that CEOs' donations to politicians of both main parties are associated with a 1.92% reduction in IPO underpricing. The role of Chairman proves to be critical, because their contributions to both parties bring a 1% reduction in the first-day IPO returns. Overall, it appears to be a good strategy for directors to establish connections through donations to politicians of both Democratic and Republican parties. Panel A indicates that the impact of contributions to either or both parties has no long-term effect on IPO survival, the only exception being the donations of CEOs to the Democrats (which are negatively associated with failure risk). Overall, our results suggest that public offerings with politically active CEOs are associated with higher first-day trading prices in comparison to offer prices.

7.2 The role of elections and presidential administrations

The vast majority of the literature on the impact of political environment on firms uses quasi-experimental settings, such as US election events, as a source of political uncertainty (see, for example, Julio and Yook, 2012, Çolak et al., 2017). Therefore, it is reasonable to expect the effect of DPCs on IPO value and performance to vary over the electoral cycle. To examine this possibility, we examine the donation impact across two aspects of the political cycle: Democratic vs Republican presidencies, and election vs non-election years. Panels C, D and E of Table 9 show that the effect of DPCs is stronger in non-election years,

but there is no clear-cut case when it comes to the different administrations. Thus, in particular, the impact of DPCs on IPO premium is more pronounced when the president is a Republican, whereas the impact on firm survival is reinforced when the president is a Democrat.

Contributions to politicians who subsequently lose an election (Table IA.8) exert a negative influence on IPO premium, presumably because investors conclude that political rents will not be forthcoming. Thus, we anticipate that such events will affect IPO premium and long-term performance (i.e., survival), and we invoke more tests based on election loss by a ‘*Presidential Candidate*’ and ‘*Senate Candidates*’. The former is negatively and significantly associated with IPO premiums, whereas the latter does not have any material impact on political contributions. The results hold regardless of whether we use as a donation measure the total amount of contributions or a dummy variable, with a value of 1 when a director is involved in political activities.

Our results are consistent with Bertrand et al. (2007), who examine the influence of politicians on corporate performance and show that political connections contribute to increased employment rates and factory builds in such firms in election years.

8. Cross-sectional Analysis

In this section, we explore cross-sectional variations in DPCs on IPO value and performance across IPOs with different characteristics (e.g., media sentiment, VC backing, and corporate governance). This analysis may give a more complete picture of the effect of DPCs by accentuating the particular mechanisms through which they are related to IPO premium, IPO underpricing, and corporate survival.

8.1 Media sentiment

Jia and Zhang (2014) show that media tone negatively moderates the relationship between corporate philanthropy and IPO performance, while Bajo and Raimondo (2017) find that positive media coverage is positively related to IPO first-day returns. These findings are consistent with the notion that negative media coverage increases institutional investors’ information asymmetry in relation to the risk associated with a newly listed firm (Pollock and Rindova, 2003). However, institutional investors understand that corporate

philanthropy can often offset negative images that media reports might portray. In consideration of this reasoning, Chen et al. (2020) use a sample from 39 countries and report that higher levels of pre-IPO media coverage are negatively associated with IPO underpricing.

In this study, we test how media sentiment mitigates or amplifies the signal of DPCs. To do so, we follow previous studies (e.g., Tetlock, 2007) and create a dummy variable for firms that were the subject of negative media reports in their pre-IPO period.¹³ Table 10 reports the results for the subsamples of negative and positive media coverage. We find that DPCs are more positively related to IPO premium and less negatively related to both IPO underpricing and corporate failure in the subsample of firms with negative media coverage. Therefore, taking the role of the media at face value, we document that negative pre-IPO media tones moderate the relationship between DPCs and firm survival, but this is not the case for the association between DPCs and IPO premium. Furthermore, we find that negative media coverage prior to going public drives a negative association between DPCs and IPO underpricing. Thus, donations seem to enhance investors' confidence in an IPO firm and mitigate the adverse effect of negative media sentiment on IPO underpricing.

8.2 *Venture capitalists*

Venture capitalists are short-term investors who seek to add value and then move on. Consequently, such investors may be concerned about protecting an IPO firm in the longer run. In general, VCs examine thoroughly the investment risks of a firm that is going public, and so it is expected that VCs may also have information about a firm's corporate political strategy. Prior literature (e.g., Jia and Zhang, 2014; Nanda et al., 2020) suggests that VCs tend to avoid IPOs with political money contributions, because they believe that political involvement increases uncertainty around a firm, which is inconsistent with their goals. In addition, they are concerned with how firms or their directors utilize their money, and may perceive corporate political activism as a waste of resources.

¹³ We thank Emanuele Bajo and Carlo Raimondo for sharing the media coverage data.

As a consequence, we anticipate that the positive relationship between DPCs and IPO premium will be weaker, and that between DPCs and corporate survival will be stronger, for VC-backed firms. Table 10 shows that the association between DPCs and IPO premium and IPO underpricing is, indeed, weaker among VC-backed firms, while the positive impact of DPCs on corporate survival is, as predicted, more pronounced among VC-backed firms.

8.3 Corporate governance

Do firms with high-quality governance require directors to engage in corporate political activities? Hadani and Schuler (2013) suggest that firms with larger boards and greater board independence are more likely to engage in politics. In a similar vein, Mathur et al. (2012) find that powerful managements have a greater tendency to engage in corporate political activism via lobbying. One plausible explanation is that firms with strong corporate governance often have better access to loan facilities. On the other hand, firms that engage in corporate political activism may be treated favorably by government. In this regard, firms may prefer to have strong corporate governance and be politically active or have politically active directors to increase the chances of business success.

In this subsection, we examine whether a company with strong corporate governance benefits from its directors' engagement in political activities.¹⁴ That is, we investigate whether corporate governance and political activism complement each other. Panel A of Table 10 indicates that the association between DPCs and IPO premium is stronger among strongly governed firms, which means that well-governed firms focus more on building political connections through their individuals' political donations. Panel B of Table 10 reveals that well-governed companies exhibit lower levels of underpricing than their poorly governed counterparts, indicating that investors reward governance quality during the public offering process. Finally, Panel C shows that the effect of DPCs on firm survival is stronger among firms with politically

¹⁴ We construct a corporate governance quality index by applying the first factor of principal components analysis to the following proxies of corporate governance: board independence, measured as the ratio of the number of independent outside directors to the total number of directors; the percentage of outside directors on the board that were appointed after the current CEO took office; the natural logarithm of the average number of other directorships held by independent directors serving on the board; a dummy variable, equal to 1 if the majority of outside directors on the board serve on three or more other boards; the natural logarithm of the number of board meetings; the natural logarithm of the number of directors serving on the board.

active directors.

9. Discussion and Conclusion

The results of this study highlight one of the main avenues through which corporate political connections add value to IPO ventures. We show that the individual contributions of directors of IPO firms have tripled over the time period under review, a likely consequence of the *Citizens United* Supreme Court ruling of 2010 that virtually abolished restrictions on corporate political spending, and that such contributions result in superior IPO outcomes. Our findings suggest that the political donations of directors and/or senior managers communicate to investors that a firm is politically well-connected, and would be likely to benefit from the subsequent disbursement of political patronage. Donations may be to those politicians who, if they gain office, would be most likely to reciprocate through facilitating the direct allocation of resources to a firm, which might include favorable treatment in the allocation of government contracts or in the outsourcing of services previously performed by the state. Although a large proportion of the existing literature associates such behaviors with the developing world (e.g., Fan et al., 2007), the latter is likely to also be strongly associated with sectoral dynamics (e.g., Wood and Wright, 2015). A network of client politicians may help block a competitor's accumulation of substitute resources, work to enhance the legitimacy and competitive position of the firm, and enable the receipt of state contracts and concessions (e.g., McWilliams et al., 2002). If CEOs are rewarded in part via stock options, this means that personal donations may also reap handsome personal dividends.

However, political donations may also add to the cost of doing business. In many developing-world contexts, the cost of supporting client politicians may be seen as necessary, but it often reaches exorbitant levels, making doing business nearly impossible for those who do not have sufficient resources to participate in such practices (Boddewyn and Brewer, 1994). Burgeoning corporate political donations in the USA may lead to similar outcomes. Furthermore, a flood of emulation by firms in a similar position may result in diminishing returns (Hillman, 2005). Once again, if political funding is primarily about securing the immediate allocation of government resources (and if this is recognized as such by the

investment community), then there is a risk that party funding becomes a bidding war, with the state ultimately weakened by the excessive demands of competing business interests dependent upon it. This is likely to weaken institutions, or at least render them more fluid, in turn making such non-market strategies even more attractive as a greater range of opportunities opens up (Dorobantu et al., 2017). In times of budgetary austerity, this could lead to ever more intense and bitter competition over a diminishing pool of resources.

Although a slimmer state might reduce the opportunities for direct patronage, the outsourcing of government functions is likely to result in a significant increase in patronage resources, at least in the short term (Wood and Wright, 2015). In other words, even if outsourcing undermines existing patronage relations (e.g., between the state and public-sector workers), it may increase patronage relationships with corporations. Politicians may cope with bidding wars by moving from preferential treatment to exclusion, cutting out corporations that depend on state patronage from future opportunities. This may lead the system to degenerate into a quasi-tax, leaving firms and investors worse off, and could also be fueled by a surplus of potential political donations competing for suitable outlets.

The IPO premium may not only reflect sentiment on the day, but also potential underpricing by the investment bank issuing the equity shares. In the face of such pressures toward underpricing, directors may feel under more duress to devise ways of signaling the potential of their firm. However, overpricing brings its own risks, again placing pressure on directors, in this case so as not to disappoint market expectations. Although, in the case of underpricing, directors with share options might be more likely to seek to cash in them in as soon as possible (hence, extracting rents), in both instances they would have good reasons to engage in political donations. Nevertheless, if signaling is the aim, such donations will only ‘work’ if noticed by potential investors, who may have more confidence that they can evade the winners' curse if they have adequate information on the scale and scope of political donations. Although the extent of such investor awareness would constitute the subject of a study in its own right, it is worth noting that while some political donors avoid publicity, others seek to publicize their association with politicians as widely as possible.

We show that CEOs are the most active executives both in terms of total contribution and serial donations. Well-connected CEOs may signal to investors and the media their political clout, and the potential of their firm to accrue patronage, making potential personal gains if their reward packages are linked to share price performance (Certo et al., 2003; Bergstresser and Philippon, 2006). Other board members may not be so closely identified with a firm and, hence, may benefit less from such activities: a high political profile will not necessarily result in the same perceptual benefits for a firm. It should be acknowledged that DPCs only represent a small proportion of the overall political spending of corporations. However, given that directors may have strong personal incentives, such as preferential share allocations, to maximize the IPO premium, it is likely that their donations will be particularly prominent at this stage. Again, the ability to make rewarding financial donations on a company's behalf shifts the balance of power towards donor board members and away from other investors and wider stakeholders in the firm. As such, it provides an example as to how the independent strategic choices of autonomous agents allied to a firm may directly impact on its fortunes, simultaneously enhancing those agents' leverage over what the firm does.

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Appendix A: Variable Definitions

Panel A: IPO pricing	
<i>First-day return</i>	The difference between the first secondary market closing price available on CRSP and the IPO offer price, divided by the IPO offer price. This variable is transformed into the regression models by adding 1 and taking the natural logarithm.
<i>IPO Premium</i>	The amount by which the first trading of an IPO exceeds its offering price.
<i>Long-term Returns (1-, 2-, 3-Year)</i>	Long-term returns for the newly listed company for a period of 1, 2 and 3 years after listing, adjusted with the general index.
<i>Firm Failure</i>	Dummy variable equal to 1 if the firm is delisted within five years of its IPO, and 0 otherwise.
Panel B: Political contributions	
<i>Donations</i>	The natural logarithm of 1 plus the amount of money spent by directors on political activities.
<i>Donations Dummy</i>	Dummy variable set to 1 for IPOs with involvement of political contributions, otherwise 0.
<i>Donations_CEO</i>	The natural logarithm of 1 plus the amount of money spent by CEO on political activities.
<i>Donations_CFO</i>	The natural logarithm of 1 plus the amount of money spent by CFO on political activities.
<i>Donations_Chairman</i>	The natural logarithm of 1 plus the amount of money spent by Chairman on political activities.
<i>Donations_Board</i>	The natural logarithm of 1 plus the amount of money spent by Board on political activities.
<i>Donations_Founder</i>	The natural logarithm of 1 plus the amount of money spent by Founder on political activities.
<i>Before Joining</i>	Dummy variable set to 1 for IPOs with directors involved in political contributions before joining the company, otherwise 0.
<i>After Joining</i>	Dummy variable set to 1 for IPOs with directors involved in political contributions after joining the company, otherwise 0.
Panel C: IPO characteristics	
<i>Proceeds</i>	Gross proceeds raised by the IPO, estimated as shares offered times the offer price.
<i>Firm age</i>	The number of years elapsed between firm's foundation and IPO date, using foundation dates from the Field-Ritter database. The variable is transformed into the regressions by adding 1 and taking the natural logarithm.
<i>Earnings Per Share</i>	The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.
<i>Venture capital</i>	Dummy variable set to 1 for venture-capital-backed firms, otherwise 0.
<i>Share overhang</i>	The ratio of shares retained by the pre-IPO shareholders to the shares issued in the offering.
<i>Dotcom period</i>	Dummy variable set to 1 for IPOs within the 1999–2000 period, otherwise 0.
<i>Underwriter ranking</i>	Dummy variable set to 1 for IPOs engaging underwriters of the most prestigious ranking (a value of 9) in the Loughran and Ritter (2004) database, otherwise 0.
<i>Internet firm</i>	Dummy variable set to 1 for IPOs of Internet firms, otherwise 0. Internet firms are classified as those with business description sections in the Thomson Financial SDC database containing any of the words: "Internet", "Online", "eBusiness", "eCommerce", "Website".
<i>Technology firm</i>	Dummy variable set to 1 for IPO firms with SIC codes 3571, 3572, 3575, 3577 or 3578 (i.e. computer hardware), 3661, 3663 or 3669 (i.e. communications equipment), 3671, 3672, 3674, 3675, 3677, 3678 or 3679 (i.e. electronics), 3812 (i.e. navigation equipment), 3823, 3825, 3826, 3827 or 3829 (i.e. measuring and controlling devices), 3841 or 3845 (i.e. medical instruments), 4812 or 4813 (i.e. telephone equipment), 4899 (i.e. communications services), 7371, 7372, 7373, 7374, 7375, 7378 or 7379 (i.e. software); otherwise 0.
<i>Market return</i>	The compounded daily return on the CRSP value-weighted index over the 20 trading days preceding the IPO.
<i>NASDAQ</i>	Dummy variable set to 1 for NASDAQ-listed IPOs, otherwise 0.

Table 1: Breakdown of Directors' Contributions and Descriptive Statistics of IPO Firms

This table presents statistics for a sample of 1,874 US IPOs announced from 1 January 1998 to 31 December 2014. Panel A provides a breakdown of directors' political contributions (DPCs) on a special sample of 889 US IPOs. Those directors comprise the Chairman, the CEO, the CFO, the founder(s) of the company, and other members of the board. Panel B reports descriptive statistics for the full sample and the subsamples of IPOs with and without directors that participate in political donation. Panel C presents the distributional analysis by industry. All IPOs come from the Securities Data Company (SDC) database. The statistics provided include the mean, median, minimum, maximum and standard deviation (SD) for the dependent variables and all of the control variables used in the subsequent regression analysis. The presentation of each variable concludes with a test for difference in the subsample means. Panel B also describes our main measures of IPO pricing, that is, *IPO Premium* and *Long-term Returns*, and the IPO firm characteristics that are used as controls in our regression analysis. Share price data is from CRSP; accounting data is from Compustat.

Panel A: Breakdown of Directors' Contributions					
Variable	N	Sum	Mean	SD	Maximum
All contributions	889	9,280,435	10,450	21,167	339,001
Before Joining	40	237,400	5,935	1,867	64,050
After Joining	446	2,810,580	6,301	7,720	187,195
<i>Role in the company</i>					
Chairman	70	551,494	7,878	2,895	70,900
CEO	346	3,623,058	10,473	4,904	110,395
CFO	68	152,100	2,236	1,044	41,500
Founder	157	976,373	6,219	5,083	170,400
Other directors	346	3,948,697	11,412	15,015	328,501

Table 1 (continued)

Panel B: Descriptive Statistics of IPO firms

	Full Sample (N = 1,874)				IPOs with DPCs (N = 889)				IPOs without DPCs (N = 985)				Difference in means (p-value)	Difference in medians (p-value)
	Mean (SD)	Median	Min	Max	Mean (SD)	Median	Min	Max	Mean (SD)	Median	Min	Max		
<i>IPO pricing</i>														
IPO Premium	0.67 (0.30)	0.71	-1.14	3.25	0.69 (0.31)	0.70	-1.13	2.93	0.57 (0.29)	0.73	-1.14	3.26	0.044	0.482
IPO Underpricing	0.17 (0.28)	0.10	-0.70	2.05	0.14 (0.22)	0.09	-0.70	1.79	0.20 (0.33)	0.10	-0.51	2.05	0.000	0.537
Long-term Returns (1-Year)	0.00 (0.72)	-0.12	-1.21	6.09	0.05 (0.68)	-0.06	-1.04	3.88	-0.04 (0.79)	-0.18	-1.20	6.09	0.142	0.043
Long-term Returns (2-Year)	0.05 (1.27)	-0.18	-0.50	0.50	0.09 (1.02)	-0.13	-1.27	9.56	0.01 (1.09)	-0.24	-1.27	8.07	0.748	0.538
Long-term Returns (3-Year)	0.08 (1.04)	-0.17	-1.52	7.44	0.14 (1.09)	-0.12	-1.52	7.45	0.03 (1.00)	-0.22	-1.46	6.55	0.530	0.331
<i>IPO characteristic</i>														
Proceeds	153.26 (459.02)	70.16	0.864	11,805	189.31 (500.82)	84.04	2.84	11,805	120.78 (210.37)	60.00	0.86	3010	0.001	0.000
Firm age	15.55 (22.41)	8.00	0.00	172	17.31 (22.95)	9.00	0.00	158	13.98 (21.82)	7.00	0.00	172	0.001	0.001
Earnings Per Share	0.45 (0.49)	0.00	0.00	1.00	0.49 (0.50)	0.00	0.00	1.00	0.42 (0.49)	0.00	0.00	1.00	0.002	-
Dotcom period	0.31 (0.46)	0.00	0.00	1.00	0.18 (0.39)	0.00	0.00	1.00	0.42 (0.49)	0.00	0.00	1.00	0.000	-
Venture capital	0.46 (0.49)	0.00	0.00	1.00	0.45 (0.49)	0.00	0.00	1.00	0.47 (0.49)	0.00	0.00	1.00	0.399	-
Share overhang	3.57 (2.89)	2.89	0.00	50.33	3.64 (0.31)	2.98	0.00	50.33	3.50 (3.73)	2.85	0.00	80.74	0.380	0.273
Leverage	1.33 (1.88)	0.91	0.00	41.00	1.26 (1.53)	0.90	0.00	27.46	1.40 (2.15)	0.92	0.00	41.00	0.124	0.381
Underwriter ranking	0.61 (0.48)	0.00	0.00	1.00	0.70 (0.45)	1.00	0.00	1.00	0.54 (0.49)	1.00	0.00	1.00	0.000	-
NASDAQ	0.67 (0.46)	1.00	0.00	1.00	0.62 (0.48)	1.00	0.00	1.00	0.71 (0.45)	1.00	0.00	1.00	0.000	-
Technology IPOs firm	0.35 (0.47)	0.00	0.00	1.00	0.33 (0.47)	0.00	0.00	1.00	0.36 (0.40)	0.00	0.00	1.00	0.167	-

Panel C: IPO Distribution by Industry

Industry	SIC(s)	IPO Premium	No. of Failures	No. of Donations
Oil and Gas	(13)	0.71	14	26
Food Products	(20)	0.63	9	7
Chemical Products	(28)	0.70	105	108
Manufacturing	(30–34)	0.63	14	20
Computer Equipment & Services	(35, 73)	0.70	243	235
Electronic Equipment	(36)	0.63	38	54
Scientific Instruments	(38)	0.67	40	56
Transportation & Public Utilities	(41, 42, 44–49)	0.61	60	73
Wholesale & Retail Trade	(50–59)	0.76	54	64
Entertainment Services	(70, 78, 79)	0.68	10	18

Table 2: Top-fifteen Donors and Directors' Profiles

This table identifies, on a top-fifteen basis, cases of intense political money contribution, PMC activity. The sample consists of 1,874 US IPOs announced from 1 January 1998 to 31 December 2014, which we retrieve from the Securities Data Company (SDC) database. We manually search for evidence of directors' political contributions in the OpenSecrets website and the Federal Election Commission (FEC) archive. Panel A presents the IPO firms topping our list for largest directors' political contributions, along with the offer price recorded. Panel B presents a breakdown of the political contributions of directors within those same top-fifteen politically active companies.

Panel A: Top-fifteen IPO Donors

IPO date	Company	Total contributions	Offer price	Investor valuation	Tobin's Q
18/11/2010	General Motors Co	339,001	33	0.771	0.250
25/09/2009	Select Medical Holdings	308,500	10	0.923	2.773
13/10/2006	SAIC Inc	282,095	15	0.884	0.794
17/11/2010	Booz Allen Hamilton Hldg	277,079	17	0.724	0.927
27/06/2014	NextEra Energy Partners LP	252,205	25	0.996	9.572
16/04/2014	Moelis & Co LLC	246,100	25	0.605	1.740
02/10/2013	RE/MAX Holdings, Inc	242,336	22	1.067	2.812
11/04/2014	Phibro Animal Health	215,535	15	1.016	1.967
14/05/1998	Federated Investors Inc	179,900	19	0.912	1.682
02/05/2014	Ares Management LP	148,000	19	1.016	5.979
07/10/1999	Neuberger Berman Inc	126,200	32	0.804	0.719
11/08/2006	Evercore Partners Inc	118,000	21	0.779	0.566
17/07/2013	NRG Yield Inc	108,915	22	0.698	0.979
19/07/2013	Diamond Resorts International	108,790	14	0.925	2.222
27/06/2013	Silvercrest Asset Mgt	107,700	11	0.610	0.730

Panel B: Individual Contributions

Company	Chairman	CEO	CFO	Founder	Other executives
General Motors Co	3,000	3,400	0	0	328,501
Select Medical Holdings	70,900	101,100	0	170,400	138,100
SAIC Inc	0	0	0	0	0
Booz Allen Hamilton Hldg	0	0	0	0	277,079
NextEra Energy Partners LP	0	34,400	4,650	0	197,155
Moelis & Co LLC	0	20,600	0	13,200	212,300
RE/MAX Holdings, Inc	0	0	0	0	242,336
Phibro Animal Health	0	110,395	41,500	0	69,840
Federated Investors Inc	0	21,000	250	21,000	0
Ares Management LP	0	27,100	0	83,200	64,800
Neuberger Berman Inc	8,000	3,500	0	0	0
Evercore Partners Inc	0	60,900	0	60,900	0
NRG Yield Inc	0	21,800	5,400	0	78,115
Diamond Resorts International	58,600	5,000	0	0	45,190
Silvercrest Asset Mgt	0	4,000	0	4,000	102,950

Table 3: Effect of Directors' Political Contributions on IPO Premium and Underpricing

This table reports the results from regressing IPO premium (i.e., (IPO offer price – Pre-IPO book value per share)/IPO price) on a directors' political contribution (DPC) dummy and other control variables. Our analysis is based on a sample of US IPOs (N = 1,870) over the period 1 January 1998 to 30 December 2014. The dependent variable is *IPO Premium*. DPC level is defined as the aggregate US dollar contributions resulting from directors' personal donations to political action committees (PACs): organizations that pool campaign contributions from members and donate those funds to campaign for or against candidates' ballot initiatives, or legislation. Federal multi-candidate PACs may contribute to candidates as follows: \$5,000 to a candidate or candidate committee for each election (primary and general elections count as separate elections); \$15,000 to a political party per year; \$5,000 to another PAC per year. The p-values (reported in parentheses) and t-statistics are adjusted for heteroscedasticity-robust standard errors clustered by industry and year. ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Effect of Directors' Political Contributions on IPO Premium								
VARIABLE	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Proceeds	0.0004 (0.9250)	0.0150 (0.2170)	0.0160 (0.1710)	0.0160 (0.1550)	-0.0018 (0.8130)	0.0172 (0.1540)	0.0172 (0.1550)	0.0156 (0.1960)
Firm age	0.0632 (0.2160)	0.1440* (0.0901)	0.1180 (0.2050)	0.1550 (0.1830)	0.0856 (0.1640)	0.1930* (0.0846)	0.1670 (0.1480)	0.1130 (0.1830)
Earnings Per Share	-3.6580** (0.0140)	-3.1140* (0.0950)	-3.3050* (0.0840)	-4.9190** (0.0310)	-3.9310** (0.0180)	-4.8700** (0.0320)	-4.1300* (0.0550)	-3.7550** (0.0460)
Venture capital	-1.5680 (0.3280)	-0.5810 (0.6350)	-1.1920 (0.3780)	-2.4760 (0.2120)	-3.5380* (0.0676)	-3.1500 (0.1140)	-2.9050 (0.1270)	-0.6120 (0.6220)
Share overhang	-0.0408 (0.8350)	-0.1060 (0.5930)	-0.1090 (0.6300)	-0.0591 (0.7470)	0.1330 (0.3370)	-0.1120 (0.5440)	-0.0301 (0.8680)	-0.1030 (0.6050)
Underwriter ranking	-3.2401** (0.0130)	-5.1710** (0.0460)	-4.9550* (0.0613)	-6.1620** (0.0340)	-2.2540 (0.1510)	-5.7280** (0.0485)	-5.7200* (0.0527)	-5.2730** (0.0396)
Market returns	2.7920* (0.0780)	4.5680* (0.0655)	4.3750* (0.0923)	4.3980 (0.1040)	2.1550 (0.1590)	4.5080* (0.0958)	4.3290 (0.1020)	4.5440* (0.0678)
NASDAQ	2.2270* (0.0880)	1.6560 (0.3870)	-0.8880 (0.7060)	-0.0381 (0.9880)	1.0170 (0.4890)	0.9050 (0.7100)	-0.1740 (0.9440)	0.8810 (0.6560)
Technology firm	4.0590** (0.0210)	4.0770* (0.0717)	2.4690 (0.2860)	4.7190 (0.1330)	3.3610* (0.0972)	4.5720 (0.1450)	4.2590 (0.1790)	3.7080* (0.0977)
Donations	0.0012*** (0.0080)							
Donations_CEO		0.0033*** (0.0001)						
Donations_CFO			0.0115*** (0.0010)					
Donations_Chairman				0.002 (0.168)				
Donations_Board					0.001*** (0.009)			
Donations_Founder						0.0020*** (0.0010)		
Before Joining							0.0008 (0.4410)	
After Joining								0.0020*** (0.0012)
Year Effects	Y	Y	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,870	1,870	1,870	1,870	1,870	1,870	1,870	1,870
Adjusted R-squared	0.579	0.436	0.318	0.190	0.482	0.275	0.133	0.466

Panel B: Effect of Directors' Political Contributions on IPO Underpricing

VARIABLE	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Proceeds	0.0754*** (0.0000)	0.0733*** (0.0000)	0.0712*** (0.0000)	0.0689*** (0.0000)	0.0666*** (0.0000)	0.0701*** (0.0000)	0.0654*** (0.0000)
Firm age	-0.0309* (0.0560)	-0.0311** (0.0500)	-0.0347** (0.0477)	-0.0357** (0.0475)	-0.0351** (0.0477)	-0.0345* (0.0695)	-0.0354** (0.0494)
Earnings Per Share	0.0162 (0.5900)	0.0147 (0.6260)	0.0124 (0.6740)	0.0133 (0.6560)	0.0147 (0.6150)	0.0150 (0.6180)	0.0161 (0.5680)
Venture capital	0.0792*** (0.0024)	0.0810*** (0.0019)	0.0769*** (0.0025)	0.0769*** (0.0034)	0.0779*** (0.0036)	0.0808*** (0.0029)	0.0817*** (0.0027)
Share overhang	0.0162*** (0.0022)	0.0161*** (0.0019)	0.0159*** (0.0020)	0.0159*** (0.0017)	0.0157*** (0.0016)	0.0161*** (0.0011)	0.0159*** (0.0020)
Underwriter ranking	0.1130*** (0.0023)	0.1150*** (0.0022)	0.1080*** (0.0024)	0.1080*** (0.0020)	0.1090*** (0.0021)	0.1080*** (0.0025)	0.1100*** (0.0023)
Market returns	0.1310*** (0.0000)	0.1340*** (0.0000)	0.1300*** (0.0000)	0.1320*** (0.0000)	0.1320*** (0.0000)	0.1290*** (0.0000)	0.1300*** (0.0000)
NASDAQ	0.1090*** (0.0019)	0.1110*** (0.0014)	0.1030*** (0.0013)	0.1080*** (0.0018)	0.1080*** (0.0011)	0.1130*** (0.0010)	0.1080*** (0.0007)
Technology firm	0.0754*** (0.0000)	0.0733*** (0.0000)	0.0712*** (0.0000)	0.0689*** (0.0000)	0.0666*** (0.0000)	0.0701*** (0.0000)	0.0654*** (0.0000)
Donations	-0.0131*** (0.0084)						
Donations Dummy		-0.1070*** (0.0061)					
Donations_CEO			-0.0115** (0.0193)				
Donations_CFO				-0.0136*** (0.0000)			
Donations_Chairman					-0.00530 (0.468)		
Donations_Board						-0.0145** (0.0241)	
Donations_Founder							-0.0078*** (0.0018)
Year Effects	Y	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y	Y
Observations	1,870	1,870	1,870	1,870	1,870	1,870	1,870
Adjusted R-squared	0.282	0.185	0.192	0.179	0.168	0.161	0.189

Table 4: The Effect of Directors' Political Network on Firm Survival

This table reports the estimation of a Cox proportional-hazards model for probability of failure. Our dependent variable is whether or not a firm survived 5 years after its IPO. DPC level is defined as the aggregate US dollar contributions resulting from a director's personal contributions to political action committees (PACs): organizations that pool campaign contributions from members and donate those funds to campaign for or against candidates' ballot initiatives, or legislation. Regressions control for industry and year fixed effects whose coefficients are suppressed. The p-values are reported in parentheses. ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

VARIABLE	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Proceeds	-0.2476*** (0.0000)	-0.2289*** (0.0000)	-0.2319*** (0.0000)	-0.1619*** (0.0000)	-0.2429*** (0.0000)	-0.2374*** (0.0000)	-0.2211*** (0.0000)	-0.2368*** (0.0000)
Firm age	-0.0504 (0.3960)	-0.1787** (0.0130)	-0.1814** (0.0140)	-0.1614** (0.0210)	-0.1755** (0.0130)	-0.1825** (0.0150)	-0.1701** (0.0170)	-0.1791** (0.0190)
Earnings Per Share	-0.0839 (0.5730)	-0.3329*** (0.0060)	-0.3258*** (0.0080)	-0.3561*** (0.0030)	-0.3259*** (0.0060)	-0.3190*** (0.0090)	-0.3314*** (0.0060)	-0.3161** (0.0100)
Venture capital	-0.1546 (0.4220)	-0.0802 (0.5710)	-0.0757 (0.6000)	-0.0633 (0.6570)	-0.0540 (0.7080)	-0.0816 (0.5680)	-0.0756 (0.5880)	-0.0779 (0.5890)
Share overhang	-0.0472 (0.2060)	-0.0251 (0.1760)	-0.0245 (0.1940)	-0.0140 (0.2790)	-0.0248 (0.2010)	-0.0259 (0.1810)	-0.0239 (0.1810)	-0.0246 (0.1970)
Underwriter ranking	-0.0413 (0.7170)	-0.2897*** (0.0000)	-0.2854*** (0.0000)	-0.3133*** (0.0000)	-0.2884*** (0.0000)	-0.2794*** (0.0000)	-0.2946*** (0.0000)	-0.2845*** (0.0000)
Market returns	0.0326 (0.8160)	0.1918*** (0.0020)	0.1944*** (0.0010)	0.1551*** (0.0050)	0.1942*** (0.0010)	0.1956 (0.0010)	0.1894*** (0.0020)	0.1951*** (0.0010)
NASDAQ	0.1265 (0.3630)	0.0206 (0.8980)	0.0232 (0.8870)	-0.0619 (0.6950)	-0.0095 (0.9490)	0.0168 (0.9170)	0.0040 (0.9790)	0.0229 (0.8890)
Technology firm	0.5214*** (0.0010)	0.5274*** (0.0010)	0.5364*** (0.0010)	0.5982*** (0.0010)	0.5487 (0.0010)	0.5362*** (0.0010)	0.5295*** (0.0010)	0.5375*** (0.0010)
Donations	-0.1777*** (0.0000)							
Donations_CEO		-0.3638 (0.1170)						
Donations_CFO			-0.0651*** (0.0050)					
Donations_Board				-0.1519*** (0.0000)				
Donations_Founder					-0.0738*** (0.0000)			
Before Joining						-0.0896* (0.0720)		
After Joining							-0.0499*** (0.0010)	
Donations_Chairman								-0.0609*** (0.0000)
Year Effects	Y	Y	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,673	1,673	1,673	1,673	1,673	1,673	1,673	1,673
Chi-squared	4,301	4,201	4,105	3,900	3,850	3,740	3,730	3,840

Table 5: Controlling for Firm Characteristics

This table reports the results from regressions of *IPO Premium* and *Firm Failure* on directors' political contributions. Compared to our initial models, we also control for additional firm characteristics: Sales, Leverage, Internet firm, Board Size, and Board Independence. Panels A and B present the effect of directors' contributions on IPO premium and IPO underpricing, while Panel C illustrates the estimation of a Cox proportional-hazards model for probability of failure and time to failure. Regressions control for industry and year fixed effects whose coefficients are suppressed. The p-values (reported in parentheses) are based on standard errors adjusted for heteroscedasticity. ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: IPO Premium						
	(1)	(2)	(3)	(4)	(5)	(6)
Donations	0.0202*** (0.0005)	0.0190*** (0.0018)	0.0193*** (0.0024)	0.0145** (0.0376)	0.0150** (0.0334)	0.0193*** (0.0045)
Sales	-0.0082 (0.2110)					-0.0073 (0.3560)
Leverage		0.0257 (0.2660)				0.0344 (0.2350)
Internet firm			-0.0720** (0.0303)			-0.0627** (0.0306)
Board Size				-0.0021 (0.9150)		-0.0063 (0.7220)
Board Independence					0.1090** (0.0480)	0.1450*** (0.0047)
Control Variables	Y	Y	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y
Observations	1,870	1,870	1,870	1,870	1,870	1,870
Adj. R-squared	0.458	0.448	0.445	0.442	0.436	0.345
Panel B: IPO Underpricing						
	(1)	(2)	(3)	(4)	(5)	(6)
Donations	-0.104*** (0.030)	-0.111*** (0.030)	-0.108*** (0.030)	-0.106*** (0.024)	-0.109*** (0.022)	-0.019* (0.011)
Sales	-0.021** (0.008)					-0.007 (0.012)
Leverage		-0.001 (0.003)				-0.014 (0.012)
Internet firm			0.148** (0.064)			0.031 (0.053)
Board Size				0.006** (0.003)		0.006** (0.003)
Board Independence					0.006 (0.007)	0.002 (0.006)
Control Variables	Y	Y	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y
Observations	1,824	1,822	1,824	1,824	1,824	1,824
Chi-squared	0.183	0.180	0.185	0.146	0.142	0.146
Panel C: Firm Failure						
	(1)	(2)	(3)	(4)	(5)	(6)
Donations	-0.1032*** (0.0060)	-0.1113*** (0.0020)	-0.1126*** (0.0030)	-0.0912** (0.0440)	-0.0925 (0.0312)	-0.1040*** (0.0042)
Sales	-0.1562*** (0.0000)					-0.1613*** (0.0000)
Leverage		0.1414* (0.0770)				0.2547*** (0.0030)
Internet firm			0.2857** (0.0390)			0.3808** (0.0130)
Board Size				-0.2238* (0.0480)		-0.1079 (0.2300)
Board Independence					-1.6960*** (0.0000)	-1.5320*** (0.0000)
Control Variables	Y	Y	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y
Observations	1,673	1,673	1,673	1,673	1,673	1,673
Chi-squared	4,100	4,024	3,805	3,750	3,740	3,610

Table 6: Heckman Two-Step Model

This table shows the estimation results of a Heckman two-step model. Column 1 presents the (first-stage) results from a probit model using as dependent variable the directors' political contributions dummy (*Donations Dummy*), including as additional control variables *Sales*, *Leverage*, *Internet firm*, *Board Size*, and *Board Independence*. Column 3 shows the results from an initial OLS model (as well as the aforementioned control variables), including *Inverse Mills Ratio* as additional control variable. Column 4 presents the results from the Cox model (as well as the aforementioned control variables including *Inverse Mills Ratio* as additional control variable) (of Column 1). The p-values (reported in parentheses) are based on standard errors adjusted for heteroscedasticity. ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Dependent Variable	Selection (1)	Outcome (2)	Outcome (3)	Outcome (4)
Donations	Donations Dummy	IPO Premium	IPO Underpricing	Failure Risk
		0.0163*** (0.006)	-0.263*** (0.003)	-0.1292*** (0.0020)
Proceeds	0.1360*** (0.0087)	-0.0484*** (0.001)	0.000*** (0.000)	0.8183*** (0.0000)
Firm age	0.00262 (0.1710)	-0.00135** (0.0295)	-0.001* (0.001)	0.5771*** (0.0000)
Earnings Per Share	-0.0280 (0.7530)	0.0153 (0.496)	0.292 (0.202)	-0.1202 (0.3888)
Venture capital	0.2390** (0.0134)	-0.0524 (0.210)	-0.0345 (0.372)	0.4689** (0.0440)
Share overhang	0.0140 (0.2310)	0.00578 (0.513)	0.012 (0.008)	0.0078 (0.8100)
Underwriter ranking	0.0899 (0.3570)	-0.107*** (0.00299)	0.015 (0.050)	0.7639*** (0.0000)
NASDAQ	0.0525 (0.6040)	-0.0231 (0.3200)	0.074** (0.036)	0.5018*** (0.0070)
Technology firm	0.2040** (0.0230)	-0.0379* (0.0927)	0.069** (0.033)	0.6060*** (0.0000)
Sales	0.0514*** (0.0056)	-0.0166* (0.0792)	-0.0335 (0.0571)	-0.1442*** (0.0000)
Leverage	-0.0411 (0.1920)	0.0366 (0.2140)	-0.025** (0.010)	0.2447*** (0.0020)
Internet firm	-0.1960 (0.1410)	-0.0241 (0.2610)	0.024 (0.061)	0.4367*** (0.0000)
Board Size	0.1800*** (0.0054)	-0.0121 (0.5110)	0.001 (0.003)	-0.1902** (0.0300)
Board Independence	-0.3950* (0.0563)	0.1470*** (0.0016)	0.000 (0.038)	-1.2547*** (0.0000)
Inverse Mills Ratio		1.5181 (0.1080)	0.366 (0.391)	0.4244 (0.1140)
Year & Industry Effects	Y	Y	Y	
Observations	1,870	1,870	1,870	1,673
Pseudo R-squared	0.069			
Adjusted R-squared		0.325	0.372	
Chi-squared				4,280

Table 7: Propensity Score-Matching (PSM)

This table presents an analysis of the association between directors' political contributions and IPO premium, IPO underpricing and firm failure. The first three columns of Panel A report univariate analysis for 555 firms with directors' political contributions and 555 firms without (matched sample for IPO premium). The last three columns of Panel A report univariate analysis for 612 firms with directors' political contributions and 612 firms without (matched sample for firm survival). We use the control variable from Table 6. Furthermore, we require that the treated and control observations match exactly on industry (two-digit SIC) and year. Panel B provide the Propensity Score Matching. Panel C displays the results from the OLS and Cox models on the matched sample. The p-values (reported in parentheses) are based on standard errors adjusted for heteroscedasticity. ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Mean Differences Between Treatment and Control Group of PSM Samples						
	Treatment	Control	Difference (p-value)	Treatment	Control	Difference (p-value)
Proceeds	121.225	125.889	0.7057	117.041	137.211	0.3503
Firm age	15.31	15.01	0.8138	14.66	14.25	0.7246
Earnings Per Share	0.44	0.44	1.0000	0.41	0.42	0.7718
Venture capital	0.48	0.48	0.9045	0.53	0.54	0.9088
Share overhang	3.55	3.52	0.8878	3.51	3.56	0.6819
Leverage	0.67	0.81	0.2772	0.70	0.73	0.7986
Underwriter ranking	0.64	0.65	0.6158	0.64	0.66	0.5489
NASDAQ	0.68	0.68	0.9488	0.72	0.71	0.7518
Technology firm	0.36	0.36	0.9008	0.42	0.39	0.3517

Panel B: Propensity Score-Matching for the Total Sample			
Dependent Variable: Underpricing Variable	Treatment Variable: Political Contribution		
(Donations vs No Donations)			
Nearest-neighbor matching	-0.144***		
	(0.013)		
Kernel matching		-0.147***	
		(0.019)	
Stratification matching			-0.146***
			(0.018)
Observations	1,873	1,873	1,873
Year Fixed Effects	Y	Y	Y
Industry Fixed Effects	Y	Y	Y

Panel C: OLS and Cox Regressions on the Matched Samples

	(1)	(2)	(3)
Dependent Variable	IPO Premium	IPO Underpricing	Failure Risk
Donations	0.0225** (0.0101)	-0.1048*** (0.0034)	-0.1144*** (0.0010)
Proceeds	0.00454 (0.7830)	0.039 (0.026)	-0.3326*** (0.0000)
Firm age	-0.0008 (0.3470)	-0.000 (0.001)	-0.1482 (0.1710)
Earnings Per Share	-0.0119 (0.5870)	0.046 (0.029)	0.1489 (0.3820)
Venture capital	0.0082 (0.880)	0.086*** (0.029)	-0.3549*** (0.0080)
Share overhang	0.0150 (0.141)	0.015** (0.007)	-0.0377 (0.4490)
Underwriter ranking	-0.1080** (0.0221)	0.013 (0.039)	0.0124 (0.9070)
NASDAQ	-0.0356 (0.1790)	0.060** (0.027)	0.1679 (0.3010)
Technology firm	0.0297* (0.0983)	0.065** (0.032)	0.2921*** (0.0000)
Sales	-0.0089 (0.2870)	0.211** (0.098)	-0.1447*** (0.0000)
Leverage	0.0281 (0.3130)	-0.013 (0.011)	0.1943** (0.0120)
Internet firm	-0.0628 (0.1160)	0.024 (0.054)	0.4100*** (0.0000)
Board Size	0.1590* (0.0535)	0.006** (0.003)	-0.0647 (0.4880)
Board Independence	-0.0027 (0.9110)	0.000 (0.006)	-2.2060*** (0.0000)
Year & Industry Effects	Y	Y	Y
Observations	555	614	612
Adjusted R-squared	0.373	0.152	
Chi-squared			4,129

Table 8: Robustness Checks

This table reports the results of the robustness checks. Panels A, B and C present the results on the effect on IPO premium, IPO underpricing, and failure risk having excluded certain industries. Panel D shows the estimation results of the accelerated failure time (AFT) model. Our dependent variable is the natural logarithm of the time to delist (survival time), which is measured in months. In Panel E, Columns 1 and 2 present the results with return on assets (ROA) and the ratio of operating income to total assets (OIBDA), respectively, as alternative measures of IPO success. As an alternative measure of political connectedness, Columns 3, 4 and 5 report the results with a dummy variable that equals 1 for companies where directors were involved in personal political donation, and 0 otherwise. The p-values (reported in parentheses) are based on standard errors adjusted for heteroscedasticity. ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: The Effect of Directors' Contributions on IPO Premium in Selected Industries								
	(1)	(2)	(3)	(4)	(5)			
	Exclude Financial Firms	Exclude Utility Firms	Exclude Financial and Utility Firms	Exclude Chemical Products Sector	Exclude Computer Equipment & Services Sector			
Donations	0.0174*** (0.0010)	0.0162*** (0.0040)	0.0177** (0.0110)	0.0159*** (0.0080)	0.0161** (0.0280)			
Control Variables	Y	Y	Y	Y	Y			
Year Effects	Y	Y	Y	Y	Y			
Industry Effects	Y	Y	Y	Y	Y			
Observations	1,646	1,756	1,532	1,617	1,343			
Adjusted R-squared	0.349	0.343	0.351	0.347	0.363			
Panel B: The Effect of Directors' Contributions on IPO Underpricing in Selected Industries								
	(1)	(2)	(3)	(4)	(5)			
	Exclude Financial Firms	Exclude Utility Firms	Exclude Financial and Utility Firms	Exclude Chemical Products Sector	Exclude Computer Equipment & Services Sector			
Donations	-0.013*** (0.004)	-0.012*** (0.004)	-0.012*** (0.004)	-0.013*** (0.004)	-0.012** (0.005)			
Control Variables	Y	Y	Y	Y	Y			
Year Effects	Y	Y	Y	Y	Y			
Industry Effects	Y	Y	Y	Y	Y			
Observations	1,624	1,673	1,574	1,759	1,303			
Chi-squared	0.187	0.183	0.182	0.184	0.138			
Panel C: The Effect of Directors' Contributions on Failure Risk in Selected Industries								
	(1)	(2)	(3)	(4)	(5)			
	Exclude Financial Firms	Exclude Utility Firms	Exclude Financial and Utility Firms	Exclude Chemical Products Sector	Exclude Computer Equipment & Services Sector			
Donations	-0.1409** (0.0250)	-0.1502** (0.0120)	-0.1275** (0.0490)	-0.1608** (0.0220)	-0.1825*** (0.0040)			
Control Variables	Y	Y	Y	Y	Y			
Year Effects	Y	Y	Y	Y	Y			
Industry Effects	Y	Y	Y	Y	Y			
Observations	1,449	1,559	1,335	1,420	1,146			
Chi-squared	3328.70	2824.40	2728.30	2723.5	2628.42			
Panel D: Accelerated Failure Time Method								
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Donations	0.1239*** (0.0000)							
Donations_CEO		0.0202*** (0.0010)						
Donations_CFO			0.0342* (0.0510)					
Donations_Board				0.1859*** (0.0000)				
Donations_Founder					0.0290*** (0.0000)			
Before Joining						0.0069 (0.852)		
After Joining							0.0293*** (0.0000)	
Donations_Chairman								0.0086 (0.5090)

Control Variables	Y	Y	Y	Y	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,673	1,673	1,673	1,673	1,673	1,673	1,673	1,673
Chi-squared	803.17	2,288.26	2,160.85	5,044.25	2,179.83	2,124.15	1,955.19	2,430.45

Panel E: Additional Robustness Tests

	(1)	(2)	(3)	(4)	(5)
VARIABLE	ROA	OIBDA	IPO Premium	IPO Underpricing	Long-term Returns (3-Year)
Constant	-0.859*** (0.0003)	-0.691*** (0.0001)	0.577*** (0.000)	-0.383*** (0.115)	0.194 (0.238)
Proceeds	0.00034 (0.192)	-0.00002 (0.928)	-0.0002 (0.837)	0.079*** (0.024)	0.0008** (0.022)
Firm age	0.002*** (0.007)	0.002*** (0.003)	-0.0003 (0.537)	-0.001* (0.001)	-0.0002 (0.888)
Earnings Per Share	0.715*** (0.000)	0.641*** (0.000)	-0.091*** (0.0003)	0.009 (0.026)	0.133 (0.280)
Dotcom period	-0.104 (0.153)	-0.117 (0.107)	0.002 (0.918)	0.111** (0.049)	-0.211** (0.035)
Venture capital	-0.188*** (0.009)	-0.222*** (0.001)	0.044** (0.013)	0.077** (0.030)	0.105 (0.410)
Share overhang	0.002 (0.679)	0.003 (0.466)	0.006*** (0.001)	0.016*** (0.006)	-0.004 (0.712)
Underwriter ranking	0.263*** (0.001)	0.255*** (0.001)	0.0311 (0.260)	0.113*** (0.030)	0.0267 (0.826)
Market return	0.023 (0.694)	-0.003 (0.957)	0.017 (0.280)	- -	-0.397*** (0.0001)
NASDAQ	0.013 (0.882)	-0.020 (0.813)	0.0432** (0.020)	0.131*** (0.035)	-0.067 (0.541)
Technology firm	0.244*** (0.0003)	0.216*** (0.001)	0.084*** (0.0007)	0.106*** (0.032)	0.0137 (0.916)
Donations	0.0003*** (0.003)	0.0002*** (0.009)	0.050** (0.023)	-0.014*** (0.004)	0.189* (0.088)
Year Effects	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y
Observations	1,355	1,355	1,379	1,824	973
Adjusted R-squared	0.125	0.121	0.062	0.180	0.032

Table 9: Effect of Directors' Political Orientation on Short- and Long-Term IPO Performance

This table reports the results of additional tests. Panel A displays the effect of directors' political ideology on IPO premium, IPO underpricing, and firm failure while Panel B presents the impact of director's political ideology. Panels C, D and E present the time effects of directors' donations on IPO premium, IPO underpricing and firm survival, respectively. In these panels, Columns 1 and 2 present the effect of directors' donations under Democratic and Republican administrations, respectively, while Columns 3 and 4 show the results of donations made in election and non-election years, respectively. Elections take place every two years in the US (i.e., first Tuesday of November). During each such period, one-third of senators are elected to serve for a term of six years. Presidential elections take place every four years. The p-values (reported in parentheses) and t-statistics are adjusted for heteroscedasticity-robust standard errors, clustered by industry and year. ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: The Impact of Directors' Political Preference on IPO Premium, IPO Underpricing and Firm Failure

	IPO Premium	Adj. R ²	IPO Underpricing	Adj. R ²	Firm Failure	Chi-squared
CEO Dem.	0.129*** (0.0010)	0.055	-0.006 (0.005)	0.134	-0.052*** (0.0010)	41,009
CEO Rep.	0.070* (0.0960)	0.062	-0.005 (0.005)	0.134	-0.023 (0.2660)	17,953
CEO Both	0.270*** (0.0030)	0.051	-0.192** (0.049)	0.174	-0.587 (0.3030)	13,052
CFO Dem.	0.069 (0.4480)	0.062	-0.014* (0.008)	0.174	-0.036 (0.4310)	17,433
CFO Rep.	0.001** (0.0110)	0.048	-0.010 (0.015)	0.133	-0.048 (0.3220)	5,019
CFO Both	0.001*** (0.0003)	0.039	-0.080 (0.405)	0.116	-0.004 (0.2200)	10,133
COO Dem.	0.001*** (0.0003)	0.063	-0.17*** (0.000)	0.135	-0.035 (0.4690)	15,675
COO Rep.	0.005 (0.1990)	0.049	-0.025 (0.080)	0.120	0.068 (0.2820)	18,588
COO Both	0.082 (0.2090)	0.098	0.137 (0.225)	0.135	-0.017 (0.2070)	14,553
Chairman Dem.	0.143*** (0.005)	0.060	-0.003 (0.004)	0.134	0.0452* (0.0560)	18,009
Chairman Rep.	0.069 (0.106)	0.074	-0.007** (0.004)	0.122	0.008 (0.6060)	15,735
Chairman Both	0.292*** (0.0001)	0.064	-0.107*** (0.040)	0.064	-0.452 (0.4500)	20,137
Founder Dem.	0.456*** (0.007)	0.059	0.003 (0.010)	0.133	-0.0332 (0.5510)	18,554
Founder Rep.	0.385** (0.019)	0.082	0.001 (0.012)	0.120	-0.0136 (0.8500)	14,399
Founder Both	1.203*** (0.0007)	0.072	-0.122* (0.064)	0.120	-0.939 (0.2290)	15,442
Control Variables	Y		Y		Y	
Year & Industry Effects	Y		Y		Y	
Observations	1,870		1,870		1,870	

Panel B: Descriptive Statistics in Relation to Election and Non-Election Years and Different Administrations

	Election Years	Non-Election Years	Difference	Democratic Administrations	Republican Administrations	Difference
	Mean	Mean	p-value	Mean	Mean	p-value
Proceeds	153.95	153.187	0.9771	163.114	135.659	0.2155
Firm age	15.37	15.66	0.8264	13.31	19.75	0.0000
Earnings Per Share	0.43	0.46	0.3224	0.40	0.54	0.0000
Venture capital	0.56	0.44	0.0000	0.48	0.44	0.0668
Share overhang	3.80	3.51	0.1513	3.86	3.03	0.0000
Leverage	0.54	0.76	0.0274	0.77	0.63	0.0746
Underwriter ranking	0.66	0.61	0.0623	0.59	0.67	0.0005
IPO Premium	0.58	0.70	0.0000	0.72	0.60	0.0000
IPO Underpricing	0.27	0.27	0.8576	0.35	0.13	0.0000
NASDAQ	0.71	0.66	0.1092	0.67	0.67	0.4569
Technology firm	0.38	0.34	0.1370	0.39	0.29	0.0000

Panel C: Time Effects of Directors' Donations on IPO Premium

	(1)	(2)	(3)	(4)
	Democratic Administrations	Republican Administrations	Election Years	Non-Election Years
Donations	0.00892* (0.0668)	0.0236** (0.0229)	-0.0389 (0.201)	0.0223*** (0.00159)
Control Variables	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y
Observations	1,206	667	365	1,508
Adjusted R-squared	0.278	0.267	0.222	0.285

Panel D: Time Effects of Directors' Donations on IPO Underpricing

	(1)	(2)	(3)	(4)
	Democratic Administrations	Republican Administrations	Election Years	Non-Election Years
Donations	-0.014*** (0.005)	-0.010 (0.007)	-0.013** (0.007)	-0.014*** (0.005)
Control Variables	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y
Observations	1,206	667	365	1,508
Chi-squared	0.174	0.253	0.253	0.174

Panel E: Time Effects of Directors' Donations on Firm Failure

	(1)	(2)	(3)	(4)
	Democratic Administrations	Republican Administrations	Election Years	Non-Election Years
Donations	-0.1977*** (0.0040)	-0.0902* (0.0890)	-0.0654 (0.7040)	-0.1972*** (0.0000)
Control Variables	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y
Observations	1,009	667	365	1,311
Chi-squared	4,109	3,908	3,504	3,805

Table 10: Cross-Sectional Analysis

This table illustrates the estimation of OLS and Cox models. Panels A, B and C present subsample results for the effect of directors' political contributions (DPCs) on IPO premium, IPO underpricing, and firm survival, respectively, using a set of corporate characteristics. Columns 1 and 2 present the results with negative media and non-negative media exposure, respectively. Columns 3 and 4 report the results with a dummy variable that equals 1 for companies where venture capitalists (VCs) were involved, indicating their certification role, and 0 for non-VC-backed IPOs. Columns 5 and 6 classify companies with strong and weak corporate governance based on a quality index introduced in the study. The p-values (reported in parentheses) are based on standard errors adjusted for heteroscedasticity. Regressions control for industry and year fixed effects whose coefficients are suppressed. ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: The Effect of Media Sentiment, Venture Capitalists, and Board Governance on the Association between DPCs and IPO Premium						
	(1)	(2)	(3)	(4)	(5)	(6)
	Negative Media	Non-Negative Media	VC	Non-VC	Strong Corporate Governance	Weak Corporate Governance
Donations	0.0278*** (0.0000)	0.0026 (0.691)	0.0035 (0.5260)	0.0244*** (0.0000)	0.0272*** (0.0100)	-0.0070 (0.5840)
Control Variables	Y	Y	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y
Observations	935	935	876	994	936	934
Adjusted R-squared	0.218	0.227	0.249	0.235	0.234	0.224

Panel B: The Effect of Media Sentiment, Venture Capitalists, and Board Governance on the Association between DPCs and IPO Underpricing						
	(1)	(2)	(3)	(4)	(5)	(6)
	Negative Media	Non-Negative Media	VC	Non-VC	Strong Corporate Governance	Weak Corporate Governance
Donations	-0.021*** (0.008)	-0.009* (0.005)	-0.008 (0.006)	-0.015*** (0.005)	-0.027*** (0.004)	-0.013 (0.008)
Control Variables	Y	Y	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y
Observations	880	848	855	969	927	917
Adjusted R-squared	0.374	0.231	0.266	0.102	0.232	0.134

Panel C: The Effect of Media Sentiment, Venture Capitalists, and Board Governance on the Association between DPCs and Firm Survival						
	(1)	(2)	(3)	(4)	(5)	(6)
	Negative Media	Non-Negative Media	VC	Non-VC	Strong Corporate Governance	Weak Corporate Governance
Donations	-0.1508*** (0.0040)	-0.2053*** (0.0000)	-0.2110*** (0.0000)	-0.1410** (0.0130)	-0.2451*** (0.0000)	0.0135 (0.8920)
Control Variables	Y	Y	Y	Y	Y	Y
Year Effects	Y	Y	Y	Y	Y	Y
Industry Effects	Y	Y	Y	Y	Y	Y
Observations	836	837	786	887	837	836
Chi-squared	4,008	3,899	3,822	3,904	4,102	4,105