

Do Politically Connected Boards Affect Firm Value?

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Abstract

In countries with a weak legal system and a high level of corruption it has been shown that political connections are valuable to a corporation. This paper explores whether political connections are also important in the U.S., which has well-developed financial markets as well as a strong legal system. The paper uses an original hand-collected data set on the political connections of board members of S&P500 companies to sort companies into those connected to the Republican Party and those connected to the Democratic Party. An analysis of the stock price response to the announcement of the board nomination of a politically connected director shows a positive abnormal stock return. The paper also analyses the stock price response to the Republican win in the 2000 Presidential Election and finds that companies connected to the Republican Party increase in value while companies connected to the Democratic Party decrease in value. The results further suggest that these effects are more pronounced for larger corporations. Finally, the paper controls for political donations by corporations prior to the 2000 election and finds that, unlike board connections, donations do not predict industry-adjusted abnormal post-election returns.

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1. Introduction

In countries with a well functioning legal system, the preferential treatment of companies due to their political connections should not be widespread. Government officials with the power to affect the economic value of public corporations would risk serious legal and political costs if they chose to help companies for private reasons rather than for reasons of public merit.¹

While this argument should be true in general, anecdotal stories about the potential influence of political connections in the U.S. do exist. For example, a 2004 AP news wire reports that “*the Army awarded Vice President Dick Cheney's former company a contract Friday to rebuild Iraq's oil industry. Halliburton won a competitive bid to rebuild the oil industry in southern Iraq, a contract worth up to \$ 1.2 billion over two years...*” On the other side of the political spectrum, a 2000 USA Today report says that “*True powerbrokers such as Clinton confidante Vernon Jordan, who's listed on 10 boards, are considered a good fit for many boards. Jordan now is senior managing director at investment bank Lazard Freres. His wife, consultant Ann Dibble Jordan, is a director at Johnson & Johnson, Citigroup, Automatic Data Processing, three non-profit groups and, until they were acquired, Coleman and Salant.*” The article goes on to claim that this phenomenon is becoming more and more prevalent: “*Among Fortune 1,000 companies, about 55% have at least one director with public service experience, up from 39% in 1992*”.

In light of the examples above, the goal of this paper is to explore how pervasive is the impact of political connections on the value of publicly traded U.S. companies. The paper attempts to investigate whether these examples merely represent isolated idiosyncratic cases in which political connections may have affected value or whether they are the tip of the iceberg of a much larger widespread phenomenon.

To address this question, the paper focuses on analyzing the value impact of political connections of major U.S. companies, including all companies in the S&P500. Testing for whether political connections impact value requires addressing two basic challenges. The first challenge is to identify and define an *exogenous* measure of political connections. Given a

¹ Possible ways in which government officials can influence the economic value of a corporation can include the awarding of lucrative government contracts, imposing tariffs on competitors, or reducing regulatory requirements to name a few. For a more comprehensive list see, for example, Agrawal and Knoeber (2001).

definition of political connections, the second challenge is to find a setting that would allow one to test whether they do indeed affect company value.

To address the first challenge, the paper employs a unique definition of a company's political connections based on new hand-collected data, detailing the former political positions held by each of the board members of all companies that are in the S&P500 during the years 1996 and 2000.² Information about the political background of board members is then used to sort companies into those that are connected to the Democrats and those that are connected to the Republicans.

To address the second challenge, the paper looks at two different events. The first is the 2000 Presidential Election on November 7, 2000.³ The second is the announcement of the board nomination of all of the directors that are identified as having a political connection. The hypothesis is that if political connections matter then: 1) companies with political connections to the Republican Party will increase in value upon the Republican win while companies connected to the Democratic Party will suffer a drop in value; and 2) the nomination of a politically connected director to the board will result in an increase in firm value due to the anticipation of future political benefits.

The first main result of the paper is that a portfolio of S&P500 companies classified as having a Republican board significantly outperforms in the post-election period a portfolio of S&P500 companies classified as having a Democrat board. This is true regardless of whether the portfolios are formed based on equal weighting or value weighting. A company is defined as having a Republican (Democrat) board if it has at least one board member who has a former affiliation to the Republicans (Democrats) but no such member with ties to the Democrats (Republicans). The results also show that, considered separately, the Republican portfolio exhibits a positive and significant cumulative abnormal return (CAR) following the election. Conversely, the Democrat portfolio exhibits a negative CAR following the election. This last result is significant though only in the value-weighted average, which suggests that the effect of political connections is more pronounced for the larger companies in the sample.

² There are of course other ways in which a company may get connected, e.g. through lobbyists or consultants. This implies that the number of politically connected companies identified in this study is a lower bound on the actual number of politically connected companies.

³ The election results can only be a viable event if the outcome of the election is a surprise. The 2000 election provides such an event as the polls suggest a very close race up to the election date. Figure 1 shows the polling predictions for years 1992, 1996, and 2000. The figure shows that the election result is uncertain only in the 2000 election where the difference between the two candidates in the last poll amounts to roughly two percentage points.

The second main result is that a company experiences a positive and statistically significant abnormal stock return following the announcement of a board nomination of a politically connected individual. In particular, this announcement effect is stronger for a value-weighted than for an equally-weighted portfolio average. In addition, the positive announcement effect holds true both for Republican and Democrat connected directors.

In sum, these results indicate the following two points: First, a company's value goes up in anticipation of future benefits following the nomination of politically connected individuals. Second, when the director's political party gains control of the presidency, the value generated by her increases while the value generated by a director connected to the opposing party decreases.

These findings also suggest a new way in which boards can increase firm value. While past studies have argued that the board can add value either by monitoring or by advising management (see for example, Adams and Ferreira, 2006), this paper shows that the board can also add value via the connections it provides with politicians.

The results in the paper are robust to a number of different specifications. For example, the election results remain strongly significant for different choices of event windows surrounding the 2000 elections, and in the cross-section after controlling for several company characteristics such as size, past returns (momentum) and book to market ratio.

The paper also specifically addresses a number of different interpretations for the results at hand and controls for them. First, it might be argued that the post-election returns are not due to the fact that companies are politically connected but rather that these abnormal returns simply mirror the political preferences of the company's industry. As an example, Republican boards may serve in companies in a particular industry that stands to benefit from a win of the Republican Party due to its specific political platform and regardless of whether or not the company itself is politically connected.

To deal with this issue, the analysis is repeated by calculating abnormal returns using industry-adjusted returns. The results remain significant, indicating that companies with politically connected boards outperform their industry in the post-election period. This suggests that political board members represent connections rather than preferences of the industry. To further illustrate this point, the paper employs a second (less direct) measure of connections based on information regarding all money donations made by corporations to the two political

parties prior to the 2000 election.⁴ Using this measure, the paper finds that, unlike politically connected board members, political donations seem to represent political preferences rather than political connections. Namely, controlling for both donations and political board affiliations, the results indicate that companies that donate more to Republicans (Democrats) do not outperform (underperform) their industry in the post-election period, but companies with a Republican (Democrat) board do.

Further industry analysis shows that companies with politically connected boards are relatively evenly distributed across the 30 Fama-French industry groups. It is also worth noting that the industry distribution of Republican companies is statistically not different from the industry distribution of Democrat companies. This further suggests that the results are not driven by any specific industry.

A second interpretation deals with the announcement returns following the board nominations of politically connected directors. One question that arises is whether the same abnormal returns are observed when non-political directors are added to the board of the same company. It might be argued that the observed effect is due to the characteristics of the company itself or to the fact that these directors are independent rather than politically connected. To address this issue, each announcement of the board nomination of a former politician is matched with an announcement by the same company of another nomination of an independent director who is not politically connected. The results suggest that independent non-political directors do not generate a positive abnormal return. These results are consistent with Shivdasani and Yermack (1999) and Fich and Shivdasani (2006) who also show that the announcement effect of the nomination of independent directors is either insignificantly different from zero or negative. While Rosenstein and Wyatt (1990) do find a very small positive announcement effect of the order of 0.2%, this effect is much smaller than the effect found here. Furthermore, they find the effect to be significant only for small firms. This is again different from the findings here, which suggests that the announcement effects documented in this paper are due to the unique political characteristics of the sample of directors.

A final interpretation of the positive announcement returns following the board nomination could be that these abnormal returns are not due to the board members being

⁴ This second data set comes from the Center of Responsive Politics (CRP), which collects information provided by the Federal Election Commission.

politically connected but rather to their superb quality and expertise. The paper controls for this possibility by sorting politically connected board members into two groups; those individuals that had a political position that was functionally related to the company for which they receive their board nominations and those individuals whose political position was unrelated. If expertise was indeed the only driving force behind the positive announcement returns, then positive announcement returns should only be observed for board members with related experience. The results in the paper show that the announcement return of *related* board members is indeed higher than that for *not related* board members, but that the announcement returns for the latter group are consistently positive and significant.

This study relates to two main strands of the literature: the first studies the relation between politics and business and the second studies how board attributes and director characteristics affect the corporation.

The literature on the importance of political connections and on its value implications is relatively small. Fisman (2001), Faccio (2006), and Faccio and Parsley (2006) all document the impact of political links on firm value in countries with weak legal systems. Fisman (2001) looks at companies in Indonesia that are connected to the Suharto family and shows that these companies lose value following several announcements regarding the deteriorating health of President Suharto. Faccio (2006) studies political connections across many countries and documents that most politically connected companies are listed in countries with high levels of corruption and a weak legal system. She further shows that the value of these companies increases when their executives enter politics. Faccio and Parsley (2006) show that companies located in a politician's home town decrease in value upon the announcement of the politician's unexpected death. Finally, Faccio et al. (2005) show one direct way in which connections create value by demonstrating that politically connected firms are more likely to be bailed out by the government.

Several studies provide limited evidence that is suggestive of the existence of political biases in the U.S. For example, Roberts (1990) shows that following the death of the ranking Democrat on the Senate Armed Service Committee the value of firms located in the Senator's state decreased in value. However, he shows that this is true both for firms that made donations to the Senator as well as those that did not. Kroszner and Stratmann (1998) show that interest-group political action committees (PACs) donate more to a politician who is a member of a

House Committee that is of relevance to them, but that rival PACs do not. Finally, Agrawal and Knoeber (2001) show that companies in industries that have larger dealings with the government also have a larger number of board members with political experience. Thus, the paper does not have any implications on whether these connections create value.

As mentioned above, this paper promotes the idea that political connections *create* value by generating future benefits to the firm. Three recent papers that use donation data stop short of making this point. These papers include Jayachandran (2006), Knight (2006), and Shon (2004). Jayachandran (2006) looks at the 2001 departure of Senator Jim Jeffords from the Republican to the Democrat party. She shows that this event results in a decrease in value of firms donating to the Republicans. However, as she argues in the paper “*An important open question that the results do not fully resolve is whether the relationship is casual, that is, whether firms contribute to politicians whose intrinsic views match the firms’ interests or whether donations affect politicians’ behavior*” (p. 2).

Knight (2006) analyzes the stock return around the 2000 Presidential Election of a sample of firms that are identified by financial analysts as likely to fare well under Bush and Gore administrations. His objective is to show that policy platforms are capitalized into equity prices. While Knight (2006) also uses these firms’ donation data as a robustness check for the categorization made by the financial analysts, the thrust of his work is that firms in *industries*, which stand to benefit from the Bush administration, will donate more to the Bush Campaign. Thus, again, his results cannot be used to show that connections *bring about* or *cause* future financial benefits. Similarly, Shon (2004) looks only at donations at an industry level and shows that firms in industries that donate more to Republicans exhibit a positive stock price return following Bush’s win in the 2000 election.⁵

To summarize, all three of these papers are close to our paper in that they show that there exists a positive relation between donations to one of the two Parties and a positive stock return following an increase in power of that Party. However, to our knowledge, our paper is the first to use an exogenous and direct measure of the political connections of the board of directors to show that political connections in the U.S. are viewed by the market as *creating* value.

⁵ Looking at campaign contributions in Brazil, Claessens et al. (2006) find that donating companies experience higher stock returns around elections. Using a different cut of donation data, Cooper et al. (2006) consider the long-run performance of donating companies in the U.S.

More specifically, unlike political contributions, which are likely to affect election outcomes and hence may represent a company's political preferences rather than its political influence, it is more difficult to argue that a company nominates a former politician to its board (on average these directors are nominated more than five years before the 2000 election) in order to increase the chance that that politician's party will win the elections. It is also more difficult to argue that the positive stock price response to the announcement of the nomination itself is a signal that the government is planning to start implementing policies that are favorable to the company. Thus, again, the unique contribution of this paper is in showing that the impact of political connections on value is more likely to be due to the market's belief that these connections provide companies with political influence.

The second strand of the literature related to this study includes papers that explore whether or not the board of directors can add value to the corporation (see Hermalin and Weisbach (2003) for a recent survey of this literature). Even more closely related to this paper is the growing body of work that looks at director characteristics. For example, Kroszner and Strahan (2001) and Guner et al. (2006) focus on boards with directors that have banking experience. Ferris et al. (2003), Perry and Peyer (2005), and Fich and Shivdasani (2006) all analyze different implications of having directors with multiple board seats. Finally, Adams and Ferreira (2004) analyze boards that have female directors. In the context of these papers, this study focuses on directors with the unique characteristic of having a political background.

The rest of the paper is organized as follows. The next section describes the data used in this paper. Section 3 presents the empirical analyses and the main results of the paper. Finally, Section 4 concludes.

2. Data description

The analyses in this paper utilize two types of data. The first data set consists of original data containing information regarding the political affiliation of each board member of all companies in the S&P500. The second data set consists of information on donations made by publicly traded companies to the Republican and Democratic Parties. Both data sets are described in more detail below. In addition to these data, the paper uses CRSP and Compustat

data for the sample companies as well as CRSP data for the market indexes and Fama-French industry return data.

2.1. Board data

Board connections are derived by considering the composition of the board of directors of all S&P500 companies in the years 1996 and 2000 and analyzing the background of each board member. Section 14 of the Securities and Exchange Commission (SEC) Act requires companies to file definite proxy statements (submission type Def 14a), containing information about their board members. These filings, which are hand-collected from the EDGAR database of the SEC, contain a brief description of each board member's career background. Based on these data, it is possible to identify whether board members are connected to the Republicans, to the Democrats, or to neither. A board member is defined as being politically connected if he or she at any time in their past held a position such as Senator, Member of the House of Representatives, Member of the Administration, or has been a Director of an organization such as the CIA. A full list of these positions is provided in Table 1.

Politically connected board members are further sorted into two sub-groups based on whether their former political position is related to the industry sector of the company for which they become a board member. A former politician is classified as being *related* if she is nominated to a company that operates in an industry that is related to her past political duties. More specifically, a board member is classified as being *related* if she served in a committee, department, or government agency that deals with the industry in which the nominating company operates. For example, a senator who served on the Energy and Natural Resources Committee and joins the board of an oil company is classified as being related.

We use the sample of directors serving on the boards of S&P500 firms in November 2000 to analyze the stock price response of connected firms to the announcement of the results of the Presidential Election. Table 1 shows descriptive statistics for the sample of these politically connected boards. According to the definition used in this paper, 153 of the S&P500 companies are politically connected at the time of the 2000 election. Out of these 153 companies, 78 companies have at least one board member connected to the Republicans, but no board member connected to the Democrats, while 47 companies have at least one board member connected to

the Democrats, but no board member connected to the Republicans. The remaining connected companies have at least one board member connected to the Republicans and at least one board member connected to the Democrats. The vast majority of politically connected board members serve as independent directors, while only four politically connected board members have an internal appointment, mainly as CEO. The descriptive statistics in Table 1 show that, on average, connected companies tend to be larger than non-connected companies. They also document that, at the time of the 2000 election, politically connected board members have served an average of 5.5 years on their boards. The board member with the longest tenure was nominated in 1981, while the board member with the shortest tenure was nominated in the election year 2000.

When analyzing the announcement effect of the nomination of politically connected directors, we start with a sample of 254 connected board members in S&P500 companies in 1996 and 2000. For this set of directors, we perform a Lexis-Nexis press search to obtain the announcement date of a nomination of these directors to any publicly traded company. This procedure provides a total of 592 nominations, which occur in the time period between 1981 and 2005. A number of 243 nominations are eliminated as the announcement of the nomination coincides with other price-relevant events such as a dividend or an earning announcement, a share repurchase, or an M&A activity. The final sample of 349 nominations is then analyzed. In this sample, directors serve on average on 4.46 boards (not necessarily at the same time). The maximum number of positions for one board member in the sample amounts to 13.⁶ Nominations are only considered if the board member already has a political career at the time of the announcement of the nomination. This restriction rules out the case of board members who are not yet politically connected at the time they are nominated.

2.2. Donation data

Donation data are provided by the Center for Responsive Politics (CRP). The CRP is a non-partisan, non-profit research organization supported by a combination of foundation grants and individual contributions. It collects information on companies' donations to the Democratic and Republican Parties. The underlying information comes from the Federal Election

⁶ Ann McLaughlin, Secretary of Labor between 1987 and 1989, and Frank Carlucci, Secretary of Defense between 1987 and 1989, have served on a total of 13 boards between the years 1989 and 2005.

Commission, which publicly discloses funds raised and spent.⁷ The Federal Election Campaign Act requires candidate committees, party committees and political action committees (PACs) to file periodic reports, disclosing the amount and source of money raised and spent.⁸ For each election cycle, candidates must identify all party committees and PACs that contribute to their campaigns, all individuals who donate more than \$200, and all expenditures exceeding \$200.

The CRP classifies 80 donating industries, from agricultural services to waste management. Among these industries are labor unions and various groups that do not fall into a genuine business, including retired individuals and government employees. Donation amounts in each industry are the sum of contributions to federal candidates of \$200 or more from individuals and PACs and contributions to political parties from PACs, soft money and individual donors.⁹

For each election cycle, the CRP provides information on the 20 largest contributors in each of the 80 industries. The sample in this paper is constructed by using this information for the 1999 and 2000 election cycle. A company is included in the sample if it belongs to the 20 largest contributors in the 80 industries classified by the CRP, if it is publicly listed, and if the total donation exceeds \$100,000. This results in a total of 315 sample companies. Table 2 provides an overview of the amounts of money that these companies donate to the Republican and the Democratic Parties. The total donations amount to \$246 million, with \$88 million going to the Democrats and \$158 million going to the Republicans. This compares to total donations of \$1,634 million recorded by the CRP. The donation share to the Republicans is higher in the sample than in the overall population, as the largest contributors to the Democrats are not publicly listed organizations (e.g. labor unions). Most of the sample companies donate to both parties, but the relative shares vary substantially. Only 18 of the 315 sample companies donate to

⁷ The Federal Election Commission (FEC) was created in 1975 to administer and enforce the Federal Election Campaign Act (FECA), which governs the financing of federal elections. The FEC is an independent regulatory agency, and its duties are to disclose campaign finance information, to enforce the provisions of the law, and to oversee the public funding of Presidential Elections. The Commission is made up of six members, who are appointed by the President and confirmed by the Senate. No more than three Commissioners can be members of the same political party.

⁸ A Political Action Committee (PAC) is a political committee that is organized to raise and spend money to elect and defeat candidates. Most PACs represent various groups such as business, labor, or ideological interests.

⁹ Donations are composed of soft money and hard money. Soft money is raised and spent for use in state and local elections, but is not officially allowed for use in federal elections. It is made mostly by corporations, labor unions and individuals. Hard money is raised and spent for use in federal elections. It is mostly from individuals, PACs, and parties. It is noteworthy to point out that donations come in many cases not only from the companies or organization in one industry themselves, but rather from the companies' or organizations' PACs, their members, owners, or employees, including their family members.

only one of the two major parties. The sample companies donate on average \$779,985. The maximum donation made by one of the sample companies is \$5,075,311, while the minimum amounts to \$100,443.

3. Empirical results

The empirical analysis consists of three parts. The first part provides univariate results on the impact of politically connected board members (and corporate donations) on companies' post-election stock returns. The second part tests for the multivariate cross-sectional impact on stock returns after controlling for a number of other potentially relevant factors. While the previous two analyses focus on the stock returns after the Election Day, the third analysis concentrates on the announcement of the nomination to the board of politically connected board members.

3.1. Univariate results

The first part of the empirical analysis tests for the stock price reactions of politically connected companies to the 2000 Presidential Election in a univariate setup. The first piece of this analysis focuses on the original measure of politically connected board members, while the second piece of this analysis considers corporate donations.

3.1.1. Board connection results

The first measure of connections is defined based on the political background of the board members in each S&P 500 company in the year 2000. Board members with the previously described former political positions may help a company build and maintain close links to the administration. The hypothesis is that if connections matter, then board members linked to Republicans should be more valuable than board members linked to Democrats, when the Republicans win the election.

Table 3 analyzes the relation between stock returns following the Election Day and several definitions of political connections of board members for all S&P500 companies. The

first analysis considers only those companies in which there is at least one board member with a connection to one party and no board member with a connection to the other party. These are defined as *pure* connections. In 78 companies, board members have connections only to the Republicans, while in 47 companies board members have connections only to the Democrats. The results in Panel a) of Table 3 show that the market-adjusted post-election returns for companies with connections to the Republicans are positive and significant. This holds for both the equally-weighted and the value-weighted average. The market-adjusted post-election stock returns for companies with connections to the Democrats are insignificant in the equally-weighted average, but significantly negative in the value-weighted average. This suggests that mainly large companies with connections to the Democrats decrease in value following the election. The difference in returns between companies with connections to the Democrats and Republicans is statistically significant for all event windows and for all specifications, in both the equally-weighted and the value-weighted averages.¹⁰

The subsequent analysis focuses on those companies that are connected to the Republicans and considers the specific political positions that the connected board members held before being nominated to the companies' boards. In the second classification, the sample of Republican companies is thus divided based on whether at least one of its board member's former political positions is related to the industry sector of the company. The goal is to test whether, in addition to the pure existence of a political connection, the expertise and knowledge that the board member gained through her political position has an impact. Recall that a board member is defined as being related if she is nominated to a company that operates in the same functional area in which she served in her political career. Among the sample companies, 34 Republican companies have at least one related board member and 44 companies have no related board member.

Panel b) of Table 3 reports the results for this classification. The market-adjusted returns for both related and not related companies with connections to the Republicans are positive and significant in each event window both in the equally-weighted and value-weighted average. This suggests that the pure existence of a political connection, independent of the specific nature of

¹⁰ The results for the 28 companies in which there is at least one board member with an affiliation to the Republicans and at least one board member with an affiliation to the Democrats are inconclusive in the equally-weighted and the value-weighted averages. A more thorough analysis of this sample of mixed companies would require considering different sub-groups based on the relative importance of the Republican versus Democrat board members. However, the number of observations for these sub-samples is too small for a meaningful analysis.

that connection, creates value for the company. At the same time, the difference in returns between related and not related Republican companies is positive for each event window and significant for some event windows, which suggests that the specific expertise that a politically connected board member gained through her political position generates additional value.

As a third classification of board connections, companies are sorted based on the political position that a board member held before being nominated to the board. Panel c) of Table 3 shows that there are 44 companies in which at least one board member was a senator, a member of the House, or a member of the administration; while there are 23 companies in which politically connected board members held positions other than the ones stated above. The results are again significant for both groups in each event window and in both the equally-weighted and value-weighted average, while the difference in returns between the two groups fails to be significant.¹¹ The results suggest that the specific political position that a board member held is not important beyond the pure existence of a political position.

In conclusion, the results in this analysis suggest that companies benefit substantially from connections to the election-winning party. Their stock returns are positive and statistically significant and they are statistically significantly higher than the returns for companies with links to the losing party. Furthermore, political connections generate value independent of the specific nature of those connections, while specific expertise generates additional value.

3.1.2. Donation results

As mentioned before, the majority of the sample companies donate to both parties, which implies that hedging considerations are one important determinant of their donations. Nevertheless, the cross-sectional variation in the relative donations made to the two parties provides an opportunity to categorize companies as benefiting more from one party or another.

Table 4 provides results for different portfolios of companies, which are sorted by their tendency to donate to either of the two parties. Panel a) reports the results for the case in which companies are sorted by the dollar difference between their donations to the Republicans and

¹¹ Further classification of the second group into Strong Others and Weak Others shows that stock returns for Strong Others tend to be higher than for Weak Others. In addition, Weak Others are positive, but not uniformly significant. Directors are defined as Strong Others if they were, for example, Chair in presidential commission, CIA Director, or SEC Commissioner. Directors are classified as weak if they were, for example, Ambassador, or Advisor to a certain department.

their donations to the Democrats. Based on this measure, the 315 sample companies are sorted into three portfolios. Portfolio 3 (Pf3) comprises the 50 companies that donate more to the Democrats than to the Republicans. The remaining 265 companies donate more to the Republicans than to the Democrats and are sorted into two portfolios, Pf1 and Pf2, with an equal number of companies in each, based on the difference of their donations to the two parties.

The results in Panel a) of Table 4 show that the market-adjusted abnormal stock returns for Pf1 are positive and consistently statistically significantly different from zero over a period of one to seven days after the Election Day, in both the equally-weighted and the value-weighted average. The analysis is repeated using an alternative sorting criterion. Instead of creating portfolios based on the *difference* in donation amounts, companies are sorted into portfolios based on their *relative share* of donations made to the Republicans. This sorting criterion emphasizes those companies that donate the highest percentage to the Republicans, regardless of how small is the amount donated. Companies with higher donations to the Democrats are sorted again into the Portfolio Pf3 and the remaining companies are sorted in Portfolio Pf4 and Portfolio Pf5, where Pf4 comprises those companies that have the highest share of donations to the Republicans.

Panel b) of Table 4 shows a similar picture as Panel a). The portfolio of companies that lean most heavily to the Republicans experiences positive and statistically significant returns, both in the equally-weighted and in the value-weighted average, whereas the returns for the Democrat portfolio are negative and significant in the value-weighted average.

To draw further statistical inferences from the comparison of companies with different donation preferences, companies are sorted into two larger portfolios: Pf6 comprises those companies that donate more to the Republicans, while Pf3 comprises again those companies that donate more to the Democrats. The test results show that the return differences between these two portfolios are positive and highly statistically significant for each observation period in both the equally-weighted and value-weighted average.

3.2. Cross-sectional results

The previous analysis compares the post-election stock returns for different portfolios of companies and provides evidence for the impact of board connections on company value by showing that companies that are connected to the Republicans experience positive and significantly higher returns than companies that are connected to the Democrats. It is important to test for this relation cross-sectionally and to control for other firm characteristics.

In the multivariate tests, the dependent variable is the post-election CAR for days (+1,+3) for each S&P 500 company. Each company's return is adjusted by the CRSP value-weighted market index. The control variables comprise several firm characteristics: the log of each company's market capitalization, its book-to-market ratio, and a momentum variable, which is the average of the company's CAR in the 3rd quarter of 2000. The variables of interest are different categorical and dummy variables that indicate whether a company is connected or donates to either of the two parties.¹² The results are reported in Table 5.

Model 1 tests for the impact of companies' board connections. This is measured by the variable dBoard, which takes a value of one if a company's board is politically connected only to the Republicans, a value of minus one if a company's board is politically connected only to the Democrats and a value of zero otherwise. The results show that the coefficient is positive and significant at the 1% level. This implies that the political connection of a company's board remains a significant determinant of its post-election stock return even after controlling for other firm characteristics. The same holds true for the variable dDon in Model 2, which is constructed analogously to dBoard based on the donation data. Model 3 includes both dBoard and dDon, and both variables are again positive and significant at the 1% level.

Starting with Model 4, the estimations consider this relation in more depth by analyzing whether it is driven by either or both of the two parties. For this purpose, four more dummy variables and one interaction variable are introduced. dBoardRep takes a value of one if a company is politically connected only to the Republicans and a value of zero otherwise, whereas dBoardDem takes a value of one if a company is politically connected only to the Democrats and a value of zero otherwise. In analogy for the donation part, dDonRep takes a value of one if a

¹² The correlation between dBoard and dDon is positive with a coefficient of 0.07, but fails to be significant. This implies that connections of board members and donations do not necessarily go hand in hand.

company donates more to the Republicans than to the Democrats and a value of zero otherwise, whereas *dDonDem* takes a value of one if a company donates more to the Democrats than to the Republicans and a value of zero otherwise. Motivated by the findings in Faccio and Parsley (2006), who show the impact of the geographic proximity of company headquarters to a politician's home town, this paper constructs a dummy variable *dRepState*. This variable takes a value of one if the Republicans win the majority of the presidential votes in the state in which a company is headquartered and a value of zero otherwise. This variable is interacted with *dBoard Rep* to test whether there is an effect for companies that are connected to the Republicans and located in a Republican state. The results in Models 4 to 10 show that all but one of the dummy variables are significant at least at the 5% level. While companies with board connections to the Republicans experience a significantly positive post-election return (Model 4), companies with board connections to the Democrats suffer a significant drop in value (Model 6). These returns are also economically significant. Companies with board connections to the Republicans experience nearly a 3% increase in value, while Companies with board connections to the Democrats experience nearly a 3% drop in value. Model 5 shows that there is no additional effect for companies with Republican board connections from having their headquarters in a Republican state. The coefficient for the interaction variable is positive, but fails to be significant. The insights from Models 4 and 6 still hold when both variables are included simultaneously (Model 7) and when the two donation dummy variables are included in Models 8 to 10. The results for the two donation dummy variables show that the coefficient for donations to the Republicans is positive and significant, while the coefficient for donations to Democrats is negative, but not significant. This might be due to the fewer number of companies donating more to the Democrats than to the Republicans and in particular the even fewer number of those companies with a clear donation tendency to the Democrats.

The results so far suggest that political connections affect company value in the post-election period. An alternative explanation for this evidence could be motivated by the findings in Knight (2006) who points out that each party follows certain policies that will have differing effects on the outlook of certain industries. As two examples, a reform of the health care system may benefit or hurt the pharmaceutical industry, while a specific foreign policy may benefit or hurt the defense industry. Thus, a company may be affected by these general policies merely due to the fact that it is in a specific industry and not due to its political connections. To address this

issue, the next specification controls for the return in the industry in which the company operates.

Table 6 reports the results for the case in which the return for each company in the S&P500 index is adjusted by the equally-weighted return of its industry. The industry classification of each company is defined by the Fama-French 30 industries. The explanatory variables are identical to those in Table 5. The results in Table 6 show that all the board connection variables of interest that are significant with market-adjusted returns are still significant with industry-adjusted returns. In particular, neither the categorical variables in Models 1 to 3 lose their significance nor do the dummy variables for board connections in Models 4, 6, and 7. In fact, the coefficients for the variables that characterize a company's board connections are significant again at least at the 5% level. In contrast, the dummy variables for donations in Models 9 and 10 become insignificant under this specification. This suggests that while the donation variable may likely represent an (endogenous) industry effect, our measure of political connections based on the board data does not. Namely, our measure of connections comes out as being significant even after controlling for these industry effects.

In total, the results in Tables 5 and 6 provide evidence that the political connections of companies' board members have a significant impact on their post-election stock returns. This result holds even after controlling for other important firm characteristics and in particular the industry reaction to the election outcome.

3.3. Nomination of politically connected board members

An additional approach to test for the impact of politically connected board members is to analyze the abnormal returns following the announcement of their nominations. The hypothesis is that if politically connected board members are valuable to companies, the companies' stock prices should increase when the nomination of these board members is announced. The analysis in Table 7 focuses on the sample of connected board members found in S&P 500 companies in the years 1996 and 2000. As described before, these board members are nominated for a total of 349 positions in companies for which stock market data are available and for which the nominations do not coincide with other price-relevant announcements. The first row of Table 7 shows that the announcement effect of the nomination of politically connected board members is

positive and statistically significant in the equally-weighted and in the value-weighted averages. The two-day abnormal announcement return amounts to 0.69% in the equally-weighted and to 1.20% in the value-weighted average.

Nominations are subsequently categorized by several methods to further analyze the announcement returns for different types of board members. First, nominations are classified into two groups by whether the nominated board member has a former political affiliation with the Republicans or with the Democrats. Returns are significantly positive for board members with connections to either party in the equally-weighted and value-weighted averages. The results suggest that the value impact is not unique to a connection to either of the two parties.

These results are particularly noteworthy as the previous literature has shown that announcements of the nomination of independent board members are associated with returns that are indistinguishable from zero. While the significantly positive returns for our sample of independent board members who are connected to either of the two parties are indicative of the value of political connections, it is important to consider additional explanations for the results at hand.

The observed positive stock price reactions might not only be due to the fact that a board member is politically connected, but also to her expertise. As an example, a senator who serves in the Finance committee during her political tenure may learn about general trends including risks and challenges in the finance industry, and this knowledge might be of highest importance to companies that operate in banking or insurance. The positive announcement effect in this case would thus be partly due to her expertise as well as to her being politically connected. While it might be hard to differentiate between expertise in a specific field and general political connection in each given case, it is still possible to distinguish between related and not related politically connected board members. Thus, in the second classification, Panel b) of Table 7 reports the results for the announcement returns for both groups of board members. The results suggest that the nomination of both related and not related board members generates positive and significant abnormal returns. At the same time, the abnormal returns for related board members are higher than those for not related board members. This result suggests that expertise and knowledge are valuable, but that the pure existence of political connections independent of their content also generates abnormal positive returns.

Third, two further groups are formed based on a nominee's specific former political career. Consistent with the classification in Table 3, a politically connected board member is classified into the first group if she was a senator, a member of the house, or a member of the administration; otherwise she is classified into the second group. The results suggest that the nomination of a politician from the first group results in positive and significant abnormal returns, while the returns for the nomination of a politician from the second group are positive, but fail to be significant. The lack of significance for the second group might at first seem surprising given the significantly positive post-election stock return for companies with this type of politically connected board members. However, a further analysis of the 85 announcements in the latter group shows that the announcement return for Strong Others (defined in Footnote 11) are positive and significant, while the returns for Weak Others fail to be significant.¹³ This is consistent with the earlier results.

Fourth, announcements are separated based on whether they refer to a director's 1st and 2nd or subsequent nominations. The hypothesis is that politically connected board members are particularly valuable for the first companies whose board they join as they are less likely to have worn out their welcome in the political circles at that point. While the announcement returns are positive and significant for both groups, the magnitude of the impact for the 1st and 2nd nomination is much greater than that for subsequent nominations in the value-weighted average. This suggests that, for the larger companies, in the early nominations the director has a greater impact, which may decrease as the director joins more companies.

Finally, nominations are divided based on whether or not a director's political party has the presidency at the time of the announcement. The results indicate that the abnormal returns in both cases are positive but that the abnormal return in the value-weighted average is significantly higher if the director's party is in control of the presidency as well.

While the above analyses consider different groupings based on characteristics of the board member, one still needs to show that other independent directors nominated to the same companies do not generate a similar abnormal return. For this purpose, the announcement returns of the nomination of politically connected board members are compared to those of nominations of other board members in the same company at the same time. A matching sample of those

¹³ 39 of the 85 nominations for Others are classified as strong, while 46 nominations are classified as weak. The equally-weighted (value-weighted) return for the first group amounts to 1.12% (0.92%) and is significant at the 1% level, while that return for the second group amounts to 0.17% (-0.24%) and fails to be significant.

board members is constructed in the following way. For each announcement in a company in the original sample, the closest possible announcement of another board member in the same company is chosen. Those announcements are identified by a search in LexisNexis. To ensure time consistency, the matching announcement has to occur in a maximum interval of [-3, 3] years around the day of the announcement in the original sample. This procedure yields 319 announcements in the matching sample.

The results in Panel a) of Table 8 show that the announcements in the matched sample do not result in positive stock returns. While they are not statistically different from zero in the equally-weighted average, they are even negative and significant in the value-weighted average. The lack of a positive price reaction in the matched sample is thus consistent with the results in the previous literature. Most importantly, the returns for the original sample are significantly higher than for the matched sample, and this holds for both the equally-weighted and value-weighted average.

To guarantee the highest level of comparability of the results, in the next step announcements of CEOs and internal promotions (e.g. CFOs) are excluded from the matching sample, as these may cause different stock price reactions than those for outside board members. This procedure generates a sub-sample of 287 announcements. The results are reported in Panel b) of Table 8 and show that the announcement returns in the matched sample are still not significantly positive, albeit not significantly negative any more in the value-weighted average. Again and most importantly, the difference in returns between the original and the matched sample is positive and highly significant. Finally, 28 more observations are dropped in which multiple board members are announced on the same day. The results, shown in Panel c) of Table 9, are qualitatively the same as before.

Overall, all classifications show positive stock returns following the nomination of a politically connected board member. In particular, the results suggest that while expertise matters, the pure existence of a political connection generates positive and significant abnormal returns. This is consistent with the results for the post-election stock returns and suggests that the results in this paper are driven by political connections independent of their specific nature.

3.4. Further tests and robustness

Apart from the empirical tests discussed above, a number of further analyses and robustness tests are performed. These tests are described below.

3.4.1. Choice of event window

To test for the robustness of the event window, the analyses are repeated for different events around the election. First, the 2000 Presidential Election gave Governor Bush only a disputed and tiny lead of votes, ranging from 300 to about 1,800 throughout the period of uncertainty with a final margin of 537 votes. As a consequence, the election was finally decided only on December 13, 2000 after the Federal Court's decision to halt the manual recount of ballots in Florida and the subsequent concession by Vice President Gore. Between the election and the final decision, there are a number of exogenous events as for example court decisions that increase or decrease the probability of a Republican win. These exogenous events provide a unique laboratory in which the value of political connections can be tested. Two events deserve particular attention: First, on December 8, the Florida Supreme Court orders a state-wide recount of ballots in counties with under-votes, thereby increasing the chances for the Democrats to win the election. Second, on December 13, Mr. Gore accepts Mr. Bush as the President in a public speech, thereby resolving the uncertainty about the election outcome. The event study for politically connected board members in Table 3 is repeated for these two events. While the value-weighted portfolio of companies with pure connections to the Democrats provides a one-day positive return of 1.45% on December 8, the respective Republican portfolio provides a negative return of -1.26%. In contrast, the return for the Republican portfolio on December 13 amounts to 0.32%, while the return for the Democratic portfolio amounts to -1.63%. The differences in returns between the Democratic and the Republican portfolio on both December 8 and December 13 are statistically significant at the 1% level. In general, the correlation between the daily abnormal returns of the Democratic and the Republican portfolio in the time period between November 8 and December 20 is highly negative with a coefficient of -0.46, which is significant at the 1% level. This provides further evidence for the value impact of political connections, independent of the choice of the specific event window. Overall, the uncertainty

around the 2000 Presidential Election is expected to aggravate any attempt to find evidence for the impact of political connections on stock returns. The fact that the results in this paper are substantial and significant despite the existing uncertainty on the final election outcome, stresses even more the importance of political connections for firm value.

Second, the analyses are repeated using November 7 as the start date for the event period. This choice is motivated by the fact that even though the first election results were announced only after the end of trading on the Election Day, November 7, it is possible that the stock market already incorporates information arriving during the Election Day. The results are qualitatively the same as the results for the event period starting on November 8.

3.4.2. Industry clustering

While Table 6 controls for industry effects, it is still important to consider whether there is a concentration of politically connected companies in certain industries and in particular a concentration of Republican/Democrat companies in certain industries. The analysis of the distribution of the sample companies across the Fama-French 30 industries shows that Republican/Democrat companies based on board connections are relatively evenly distributed across all of these industries. There are two exceptions to this in the Utilities industry, which has 11% of the sample companies, and Banking, Insurance, Real Estate and Trading industry, which includes 15% of the sample. However, both industries have almost the same number of Republican firms as Democratic firms (6 republican and 8 democrats in Utilities and 10 and 9 in Banking, respectively). More formally, a chi-square test of the difference in the industry distribution between Republican and Democrat companies fails to be significant (p -value = 0.40). Thus, there is no clear industry bias in the distribution of Republican and Democrat companies and no obvious industry clustering.

3.4.3. Weighing of observations

The analysis of the announcement returns in Table 7 gives equal weight to each announcement of a nomination. This means that an individual with many board nominations will appear more often in the data set than an individual with only a few board nominations. To rule

out the possibility that the announcement returns are driven by those board members with many nominations, the analysis is repeated by giving equal weight to each individual. This means that first the average announcement return is computed for each individual, and then the average is taken across individuals. The results are positive and economically and statistically significant. The average announcement return in this approach amounts to 0.78% for the two-day window around the announcement and is significant at the 1% level. Further analyses are conducted for the same sub-groups as in Table 7, and the results are qualitatively the same as before. This suggests that the significantly positive announcement returns represent a general phenomenon across politically connected board members and are not driven by a small number of individuals.

4. Conclusion

This paper shows that political connections have a pervasive impact on the value of public corporations even within the confine of the strong legal system in the U.S. The paper sorts companies into those that are more connected to the Republican Party and those that are more connected to the Democratic Party and analyses the value of these connections by looking at two events: the 2000 Presidential Election and the nomination of politically connected directors to the board.

Using a measure of connections based on hand-collected data of the political background of all directors on the boards of S&P500 companies in the year 2000, the paper derives the following two main results: First, following the announcement of the Republican win, the return difference between companies classified as having a Republican board and those classified as having a Democratic board is positive. Furthermore, the announcement returns are positive for the Republican portfolio and negative for the Democratic portfolio. These results remain robust after controlling for several firm characteristics as well as for industry effects.

Second, following the announcement of the board nomination of a politically connected individual, there is on average a positive and significant stock price response. This positive announcement effect is more pronounced for the larger companies in the sample but holds for both Republican directors as well as for Democrat directors. It is independent of the specific nature of the political position held.

In conclusion, the evidence presented in this paper regarding the value of political connections opens a number of interesting avenues for future research. In particular, it will be interesting to explore the specific actions that create this value and their legal and political ramifications.

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Figure 1: Weekly polls for the Presidential Elections in 1992, 1996, and 2000

Figure 1 presents the weekly polls for the Presidential Elections in 1992, 1996, and 2000. The x-axis represents the pre-election period in weeks and the y-axis shows the poll difference (in percent) between the Democrat and Republican presidential candidates. These numbers are based on CNN/USA Today/Gallup poll data provided for each election year.

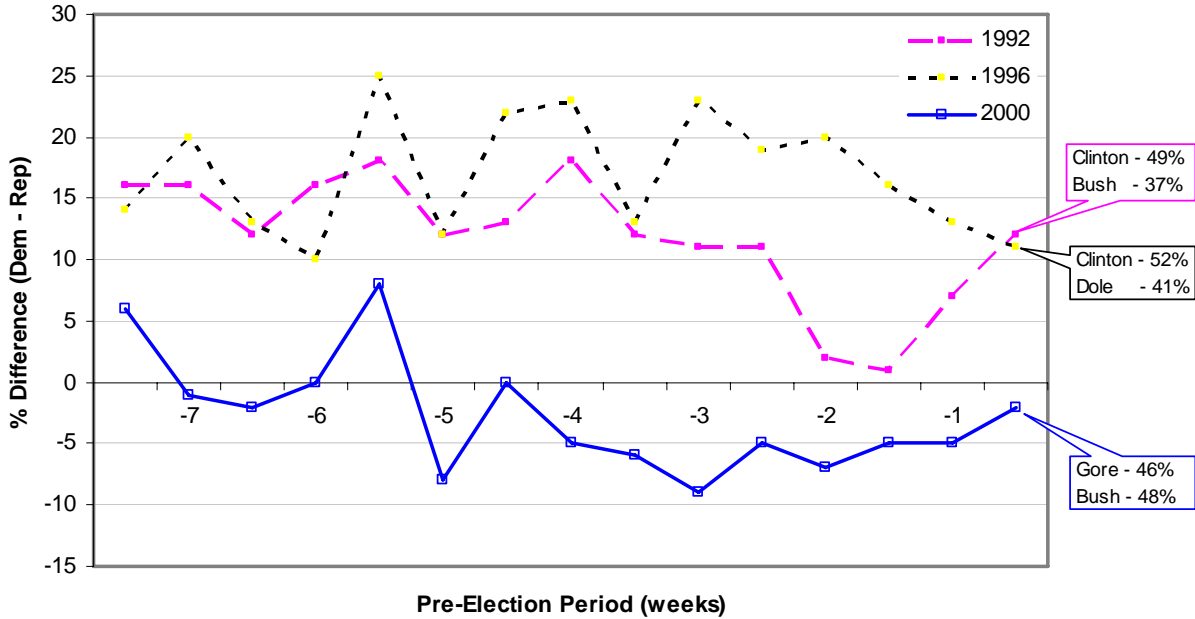


Table 1: Board connections

Table 1 presents descriptive statistics of the S&P 500 companies in 2000 sorted based on the political connections of their board members. The reported values for Market Cap, Sales, Assets, and P/E Ratio are measured as of the end of 1999. This information is (partly) missing for seven companies at the end of 1999. A company is classified as politically connected if it has at least one board member with the following former position: President (Gerald R. Ford), Presidential (Vice-Presidential) Candidate, Senator, Speaker or Member of the House of Representatives, (Assistant) Secretary, Deputy Secretary, Deputy Assistant Secretary, Under Secretary, Associate Director, Governor, Director (CIA, FEMA), Deputy Director (CIA, OMB), Commissioner (IRS, NRC, SSA, CRC, FDA, SEC), Representative to the United Nations, Ambassador, Mayor, Staff (White House, President, Presidential campaign), Chairman of the Party Caucus, Chairman or Staff of the Presidential Election campaign, and Chairman or member of the President's Committee/Council.). A company is classified as Pure Rep (Pure Dem) if it has only Republican (Democratic) affiliated board members.

	Independent companies		Connected companies		Pure Rep companies		Pure Dem companies	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Market Cap (in \$ Million)	20,894	7,246	32,028	10,201	31,270	10,693	21,621	7,784
Sales (in \$ Million)	9,014	4,534	15,308	8,640	13,931	8,520	14,267	6,103
Assets (in \$ Million)	23,545	6,140	37,137	13,077	21,747	12,079	49,792	15,149
P/E Ratio	35.6	19.8	33.0	19.6	38.1	22.2	24.5	14.9
N	340	340	153	153	78	78	47	47
Tenure of politically connected board members (years)	NA	NA	5.48	5.5	6.07	6.5	3.32	3.5

Table 2: Donations

Table 2 presents descriptive statistics for the sample of donating companies. The reported values for Market Cap, Sales, Assets, and P/E Ratio are measured as of the end of 1999. Donation data are provided by the Center for Responsive Politics (CRP) and are based on information furnished by the Federal Election Commission regarding political contributions to the two parties that exceeding \$200. These contributions come from Political Action Committees (PACs), soft money donors, and individuals in the 1999-2000 election cycle. For each election cycle, the CRP defines 80 industries and provides information on the 20 largest contributors in each of these industries. A company is included in the sample if it belongs to these contributors, it is publicly listed, and its total donations exceed \$100,000.

	Population	Sample companies	
<i>a) Donations</i>			
Total Donations (in \$1,000)	1,634,288	245,695	
Republicans (in \$1,000)	896,520	157,502	
in % of Total Donations	54.9	64.1	
Democrats (in \$1,000)	722,256	87,764	
in % of Total Donations	44.2	35.7	
N		315	
<i>b) Company characteristics</i>			
		Mean	Median
Market Cap (in \$ Million)		31,478	7,671
Sales (in \$ Million)		13,516	6,288
Assets (in \$ Million)		38,038	9,375
P/E Ratio		28.5	16.5
N		315	315

Table 3: CARs of S&P500 companies with board connections

Each company in the S&P 500 index in the year 2000 is classified based on the political connection of members of its board of directors. The information about the board of directors is taken from Def 14a filings from the EDGAR database of the Securities and Exchange Commission (SEC). A company is classified as Pure Rep (Pure Dem) if it has only Republican (Democratic) affiliated board members. A company is classified as related (not related) if it has at least one (no) board member whose former political duties are related to the industry in which the company operates. A company is classified as Senate/House, Administration if it has at least one board member that served as a senator, member of the House, or member of the administration; it is classified as Others if it has at least one board member that served in any other political position and no board member that served in Senate/House or Administration. All abnormal returns are adjusted by the CRSP value-weighted index. The cumulative abnormal returns (CARs) of the value-weighted portfolio are weighted by the value of each company, and the CARs of the equally-weighted portfolio are equally weighted across the companies. The estimation period is from day 300 to day 46 before the Election Day, while the test period is from 1 day until 7 days after the Election Day. All company returns and index returns are taken from the CRSP files. Unless indicated otherwise, z-values are in parentheses. Symbols \$, * and ** denote statistical significance at the 10%, 5% and 1% level, respectively.

Connection type	N	Equally-weighted CAR(%)				Value-weighted CAR(%)			
		(+1,+2)	(+1,+3)	(+1,+5)	(+1,+7)	(+1,+2)	(+1,+3)	(+1,+5)	(+1,+7)
<i>a) Exclusivity of Connection</i>									
Pure Rep (A)	78	2.80 (6.16**)	4.69 (8.69**)	3.46 (4.81**)	5.31 (6.16**)	3.10 (7.00**)	4.22 (8.12**)	3.63 (4.93**)	4.94 (5.73**)
Pure Dem (B)	47	-0.41 (0.28)	0.06 (1.42)	-0.51 (0.39)	0.31 (1.45)	-3.99 (6.00**)	-4.87 (5.70**)	-5.34 (5.11**)	-4.36 (3.02**)
Difference (A-B) t-test		3.21 (2.56**)	4.63 (6.71**)	3.97 (2.94**)	5.00 (4.49**)	7.09 (9.34**)	9.09 (9.79**)	8.97 (7.29**)	9.30 (6.00**)
<i>b) Relatedness of Republican firm</i>									
Related (C)	34	3.54 (5.08**)	6.10 (7.33**)	5.12 (4.49**)	7.02 (5.26**)	3.49 (4.57**)	4.52 (5.04**)	6.05 (4.62**)	7.00 (4.57**)
Not related (D)	44	2.22 (3.74**)	3.60 (5.13**)	2.18 (2.46*)	4.00 (3.58**)	2.87 (5.29**)	4.04 (6.32**)	2.21 (2.78**)	3.72 (3.78**)
Difference (C-D) t-test		1.32 (1.47)	2.50 (2.34**)	2.94 (2.09*)	3.02 (1.77)	0.62 (0.69)	0.48 (0.45)	3.84 (2.66**)	3.28 (1.90)
<i>c) Former Career of connected board of Republican firm</i>									
Senate/House, Administration (E)	44	2.79 (4.50**)	4.41 (6.14**)	3.05 (3.23**)	5.22 (4.64**)	3.21 (5.10**)	4.52 (6.19**)	2.97 (3.14**)	5.14 (4.53**)
Others (F)	23	2.84 (3.30**)	5.30 (4.96**)	3.89 (2.73**)	5.82 (3.31**)	2.97 (3.78**)	4.79 (4.89**)	3.27 (2.44*)	5.14 (3.19**)
Difference (E-F) t-test		-0.05 (-0.05)	-0.89 (-0.72)	-0.84 (-0.51)	-0.60 (-0.30)	0.24 (0.23)	-0.27 (-0.22)	-0.30 (-0.19)	0.00 (0.00)

Table 4: CARs of companies with donations to political parties

The sample consists of the 315 donating companies described in Table 2. Companies are sorted into different portfolios based on their relative donations to the Republicans and to the Democrats. Panel a) reports post-election CARs for portfolios of sample companies sorted by the dollar difference in their donation amounts to the Republicans and to the Democrats. Portfolio 1 (Pf1) consists of the 132 companies with the largest difference between donations to the Republicans and to the Democrats, while Pf3 consists of the 65 companies in which donations to the Democrats outweigh donations to the Republicans. Panel b) reports the post-election CARs for portfolios sorted based on the donation share (in %) to the Republicans. Pf4 consists of the 132 companies with the highest donation share to the Republicans, while Pf3 consists, again, of the 65 companies in which donations to the Democrats outweigh donations to the Republicans. Finally, Pf6 is the combination of Pf4 and Pf5 (or Pf1 and Pf2). Abnormal returns are calculated in the same way as in Table 3. Unless indicated otherwise, z-values are in parentheses. Symbols \$, * and ** denote statistical significance at the 10%, 5% and 1% level, respectively.

Portfolio	Average donation (\$1,000)	Average % to Republicans	N	Equally-weighted CAR(%)				Value-weighted CAR(%)			
				(+1,+2)	(+1,+3)	(+1,+5)	(+1,+7)	(+1,+2)	(+1,+3)	(+1,+5)	(+1,+7)
<i>a) Portfolios by difference amount</i>											
Pf1	1,152	72.8	132	2.84 (8.30**)	4.19 (10.25**)	3.99 (7.46*)	5.19 (8.17**)	2.08 (6.64**)	2.52 (6.87**)	2.33 (4.41**)	3.37 (5.41**)
Pf2	360	65.2	133	2.02 (6.34**)	2.88 (7.46**)	3.23 (6.06**)	3.54 (5.61**)	0.27 (1.41)	-0.48 (0.39)	0.99 (2.24**)	0.45 (1.05)
Pf3	915	34.0	50	-0.02 (0.85)	1.02 (2.10*)	0.39 (1.20)	-0.83 (0.75)	-1.89 (2.84**)	-1.89 (2.13*)	-1.81 (2.07*)	-3.66 (2.85**)
<i>b) Portfolios by percentage</i>											
Pf4	553	86.1	132	2.72 (7.89**)	3.99 (9.66**)	4.25 (7.90**)	4.87 (7.53**)	2.03 (5.73**)	2.73 (6.67**)	3.04 (5.27**)	4.10 (6.08**)
Pf5	954	62.3	133	2.14 (6.75**)	3.08 (8.05**)	2.96 (5.61**)	3.86 (6.24**)	1.24 (4.62**)	0.95 (3.48**)	1.30 (2.90**)	1.56 (2.95**)
Pf3	915	34.0	50	-0.02 (0.85)	1.02 (2.10*)	0.39 (1.20)	-0.83 (0.75)	-1.89 (2.84**)	-1.89 (2.13*)	-1.81 (2.07*)	-3.66 (2.85**)
<i>c) Republican and Democratic Portfolios</i>											
Pf6	754	71.0	265	2.43 (10.35**)	3.53 (12.52**)	3.61 (9.56**)	4.36 (9.74**)	1.52 (7.08**)	1.58 (6.52**)	1.91 (5.28**)	2.46 (5.73**)
Pf3	915	34.0	50	-0.02 (0.85)	1.02 (2.10*)	0.39 (1.20)	-0.83 (0.75)	-1.89 (2.84**)	-1.89 (2.13*)	-1.81 (2.07*)	-3.66 (2.85**)
Difference (Pf3-Pf6) t-test				2.45 (4.55**)	2.51 (3.70**)	3.22 (3.67**)	5.19 (4.60**)	3.41 (6.01**)	3.47 (5.17**)	3.72 (4.10**)	6.12 (5.44**)

Table 5: Cross-sectional analysis of CARs adjusted by the market index

The sample comprises all S&P 500 companies in 2000. The dependent variable is the CAR adjusted by the CRSP value-weighted market index in a period of (+1,+3) days following the 2000 Presidential Election on Nov. 7, 2000. lnCap is the log of the company's market capitalization at the end of 1999. BM is the ratio of book value of equity and market value of equity at the end of 1999. Mom is the average market-adjusted returns for each company during the 3rd quarter of 2000. dBoard is a dummy variable that takes a value of one if a company is politically connected to the Republicans, a value of minus one if a company is politically connected to the Democrats, and a value of zero otherwise. dDon is a dummy variable that takes a value of one if a company donates more to the Republicans than to the Democrats, a value of minus one if a company donates more to the Democrats than to the Republicans, and a value of zero otherwise. dBoardRep is a dummy variable that takes a value of one if a company is politically connected only to the Republicans and a value of zero otherwise. dRepState is a dummy variable that takes a value of one if the Republicans win the majority of the presidential votes in the state in which a company is headquartered and a value of zero otherwise. dBoardDem is a dummy variable that takes a value of one if a company is politically connected only to the Democrats and a value of zero otherwise. dDonRep is a dummy variable that takes a value of one if a company donates more to the Republicans than to the Democrats and a value of zero otherwise. dDonDem is a dummy variable that takes a value of one if a company donates more to the Democrats than to the Republicans and a value of zero otherwise. All models are adjusted for heteroskedasticity. The t-values are in parentheses. The symbols \$, * and ** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Model	1	2	3	4	5	6	7	8	9	10
Constant	3.715 (1.47)	5.649 (2.19*)	5.369 (2.15*)	3.992 (1.57)	2.588 (1.02)	3.712 (1.44)	3.840 (1.53)	6.371 (2.52*)	3.458 (1.35)	6.261 (2.37*)
lnCap	-0.361 (1.39)	-0.570 (2.15*)	-0.568 (2.21*)	-0.416 (1.59)	-0.276 (1.05)	-0.312 (1.19)	-0.381 (1.48)	-0.691 (2.60*)	-0.336 (1.26)	-0.678 (2.40*)
BM	4.118 (4.11**)	3.089 (3.04**)	3.528 (3.47**)	3.898 (3.95**)	4.272 (4.20**)	3.981 (3.94**)	4.115 (4.14**)	3.324 (3.29**)	4.174 (4.18**)	3.347 (3.30**)
Mom	0.133 (3.15**)	0.131 (3.06**)	0.128 (3.01**)	0.128 (3.01**)	0.121 (2.77**)	0.143 (3.33**)	0.133 (3.11**)	0.125 (2.90**)	0.135 (3.14**)	0.125 (2.90**)
dBoard	2.101 (3.68**)		1.992 (3.47**)							
dDon		1.745 (3.63**)	1.626 (3.43**)							
dBoardRep				2.977 (4.51**)	2.353 (2.94**)		2.710 (4.07**)	2.443 (3.63**)	2.668 (4.02**)	2.443 (3.63**)
dBoardRep x dRepState					1.810 (1.46)					
dBoardDem						-2.853 (2.53**)	-2.375 (2.10*)	-2.353 (2.08*)	-2.358 (2.08*)	-2.350 (2.08*)
dDonRep								1.937 (3.30**)		1.908 (3.10**)
dDonDem									-1.278 (1.14)	-0.243 (0.21)
R-squared	0.1200	0.1139	0.1381	0.1218	0.1210	0.1099	0.1333	0.1507	0.1349	0.1508
N	493	493	493	493	493	493	493	493	493	493

Table 6: Cross-sectional analysis of CARs adjusted by Fama-French 30 industry returns

The sample comprises all S&P 500 companies in 2000. Each company is sorted into one of the 30 industries according to Fama-French. The dependent variable is the CAR adjusted by the equally-weighted industry return of the Fama-French 30 industries and calculated over a period (+1,+3) days following the 2000 Presidential Election on Nov. 7, 2000. The explanatory variables are the same as in Table 5. All models are adjusted for heteroskedasticity. The t-values are in parentheses. The symbols \$, * and ** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Model	1	2	3	4	5	6	7	8	9	10
Constant	1.562 (0.70)	2.578 (1.14)	2.298 (1.06)	1.801 (0.80)	1.723 (0.77)	1.560 (0.69)	1.656 (0.75)	2.786 (1.26)	1.503 (0.66)	12.764 (1.20)
lnCap	-0.253 (1.10)	-0.351 (1.51)	-0.345 (1.53)	-0.296 (1.27)	-0.286 (1.23)	-0.211 (0.91)	-0.263 (1.15)	-0.401 (1.74)	-0.244 (1.04)	-0.398 (1.63)
BM	1.767 (2.04*)	1.119 (1.27)	1.503 (1.72\$)	1.569 (1.80\$)	1.548 (1.78\$)	1.675 (1.92\$)	1.776 (2.05*)	1.423 (1.62)	1.800 (2.08*)	1.427 (1.62)
Mom	0.035 (0.96)	0.037 (0.97)	0.033 (0.89)	0.031 (0.85)	0.027 (0.74)	0.044 (1.17)	0.036 (0.98)	0.033 (0.87)	0.037 (0.99)	0.033 (0.87)
dBoard	1.845 (3.69**)		1.786 (3.54**)							
dDon		0.851 (1.99*)	0.723 (1.72\$)							
dBoardRep				2.288 (3.73**)	1.507 (2.09*)		2.035 (3.28**)	1.916 (3.07**)	2.026 (3.26**)	1.916 (3.07**)
dBoardRep x dRepState					2.253 (2.04*)					
dBoardDem						-2.617 (2.79**)	-2.259 (2.39*)	-2.249 (2.37*)	-2.252 (2.37*)	-2.248 (2.36*)
dDonRep								0.964 (1.66)		0.859 (1.58)
dDonDem									-0.513 (0.50)	-0.047 (0.04)
R-squared	0.0474	0.0263	0.0522	0.0426	0.0487	0.0388	0.0566	0.0613	0.0570	0.0613
N	493	493	493	493	493	493	493	493	493	493

Table 7: The announcement effect of the nomination of connected board members

The sample is based on politically connected board members in S&P 500 companies in 1996 and 2000. For these board members, a search in the Lexis-Nexis database yields 592 announcements of board nominations. The press reports on 243 of these announcements contain other price-relevant information such as dividend or earning announcements, share repurchases, or M&A activity. This results in a final sample of 349 announcements that are used. Companies are categorized by five methods: a) based on the nominated directors' party affiliation, b) based on the relatedness of the connection (as detailed earlier), c) based on the nominated directors' former political position, d) based on the order in time of the nomination: first two times a directors is nominated versus third nomination and above, e) based on whether or not the nominee's party and the president party at nomination day are the same. The CARs for each of the sample portfolios are calculated in the same way as before. In parenthesis are z-values. The symbols \$, * and ** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Connection type	N	Equally-weighted CAR(%) : (0,+1)	Value-weighted CAR(%) : (0,+1)
All companies	349	0.69 (3.88**)	1.20 (9.41**)
a) Nominee's party			
Rep nominee (A)	233	0.44 (2.21*)	0.88 (5.54**)
Dem nominee (B)	116	1.21 (3.61**)	1.40 (6.42**)
difference (A-B) (t-value)		-0.77 (-3.05**)	-0.52 (-2.88**)
b) Relatedness			
Related nominee (C)	108	1.16 (3.89**)	2.28 (11.56**)
Not related nominee (D)	241	0.49 (2.09*)	0.77 (4.03**)
Difference (C-D) (t-value)		0.67 (1.82)	1.51 (5.50**)
c) Former career			
Senate, House, Administration (E)	264	0.72 (3.69**)	1.43 (9.60**)
Others (F)	85	0.60 (1.37)	0.19 (1.10)
difference (E-F) (t-value)		0.12 (0.29)	1.24 (5.22**)
d) Nomination order in time			
1st & 2nd Nomination (G)	178	0.63 (3.16**)	1.70 (10.96**)
Over 2nd Nomination (H)	171	0.76 (2.33*)	0.80 (3.30**)
difference (G-H) (t-value)		-0.13 (-0.48)	0.90 (4.44**)
e) Board party and president party at the nomination			
Same board & president party (I)	176	0.62 (2.34*)	1.85 (10.54**)
Different board & president party (J)	173	0.77 (3.15**)	0.71 (3.77**)
difference (I-J) (t-value)		-0.15 (-0.59)	1.14 (6.27**)

Table 8: Comparison of announcement effect to matching sample

The original sample is constructed in the same way as in Table 7 and results in 349 announcements. The matching sample is constructed by a search in LexisNexis. A matching observation is identified in the following way: For each announcement in a company in the original sample, the closest possible announcement of another board member in the same company is chosen. This has to occur in a maximum interval of [-3, 3] years around the day of the announcement in the original sample. This search yields 319 announcements in the matching sample. Panel a) reports the results for the comparison of this sample. Panel b) excludes 32 announcements of CEOs and internal promotions (e.g. CFOs). Panel c) excludes 28 more observations in which multiple board members are announced on the same day. The CARs for each of the sample portfolios are calculated in the same way as before. In parenthesis are z-values. The symbols \$, * and ** denote statistical significance at the 10%, 5% and 1% levels, respectively.

	N	Equally-weighted CAR(%) : (0,+1)	Value-weighted CAR(%) : (0,+1)
a) Full sample			
Original Sample (A)	319	0.76 (3.98**)	1.28 (9.63**)
Matched Sample (B)	319	0.07 (0.86)	-0.37 (1.72\$)
difference (A-B) (t-value)		0.69 (4.70**)	1.65 (9.21**)
b) Excluding CEOs and promotions			
Original Sample (C)	287	0.81 (4.18)***	1.38 (9.81**)
Matched Sample (D)	287	0.10 (0.71)	-0.13 (0.80)
difference (C-D) (t-value)		0.71 (4.19**)	1.51 (9.93**)
c) Excluding CEOs, promotions, and multiple board announcements			
Original Sample (E)	259	0.83 (3.99**)	1.47 (9.98**)
Matched Sample (F)	259	-0.09 (0.33)	-0.26 (1.95\$)
difference (E-F) (t-value)		0.92 (3.77**)	1.73 (12.31**)