**6. Other Robustness Checks**

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. The effect is amplified when the donation is made by the CEO (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.[[1]](#footnote-1) Following Loughran and Ritter (1997) and Hertzel 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.[[2]](#footnote-2)

**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 liberal and 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 through their contributions to different political parties. Specifically, we define political donations to *Democrats* as 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.

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. Our results, in 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.

1. The results for different categories of director are largely consistent with those reported in Section B. Details of these results are available upon request. [↑](#footnote-ref-1)
2. Further details on these results are available upon request. [↑](#footnote-ref-2)