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The Consequences of Political Donations for IPO Premium and Performance

Dimitrios Gounopoulos¹, Khelifa Mazouz, Geoffrey Wood

Abstract

This study explores the effect of directors' political contributions on IPOs' valuation and firm survival. We find that individual contributions by directors bring significant benefits to the IPO firms. Specifically, we show that political contributions of board members, particularly those of CEOs and founders, increase the value and performance (in terms of underpricing and subsequent survivability) of IPO firms. We 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 donations and IPO performance. Our results confirm the relevance of signaling and resource dependence 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 as campaign contributions or lobbying activity has become increasingly controversial, especially given the significant escalation in the scale and scope of such giving in the USA and other major developed economies, trends towards greater political polarization, and abiding concerns as to a lack of transparency surrounding the rationales for such giving and the relationship between corporations and non-corporate donors (Beets et al., 2019). Again, political engagement by firms and/or those associated by them is likely to impact on subsequent corporate strategy (Gupta et al., 2017). Other work suggests that increases in political donations significantly shifts public spending in favor of private interests (Flavin, 2015). However, while several studies suggest that political involvement might be value-enhancing for some firms (e.g., Faccio and Parsley, 2009; Goldman et al., 2009; Cooper et al., 2010; Ovtchinnikov and Pantaleoni, 2012), others document that political money contributions might ultimately be value-destroying (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, economy, and society. Yet, there is an abiding lack of transparency as to the relationship between those associated with firms and their political donations (Beets et al., 2019) and the link between such giving and corporate performance remains 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, risking their own money, which forms the scope of this study. Li (2018) argues that corporate PACs may draw in money from everyone associated with the firm, and hence, may alienate potential contributors with different political affiliations; in turn, this may limit their scope and potential influence. Individual directors do so in their own right, without directly compromising those 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, rather than managers seeking to promote their personal prestige at company expense. On the other hand, directors may be guided primarily by personal sentiment and political ideology and discount any negative effects from incurring the hostility of opposing politicians on

the corporations they are associated with; the escalation of campaign financing has made the stakes much higher (Gilbet, 2017). Given the theoretical ambiguity, the impact of directors' donations on the value and performance of IPOs remains an open empirical issue that warrants further investigation.

Despite the abundance of research on the determinants of IPOs, none of the prior studies examine the impact of the political activities of firm directors on the latter. Newly-listed firms undergo a transitional phase in their life cycle, as they are required for the first time to publicly disclose information about their top executives and directors. Moreover, IPOs offer firms an opportunity to raise capital in a transparent and cost-effective manner, and, in doing so, raise their profile in the investor community; firms are typically subject to much greater scrutiny during this phase than during other phases of the organizational life cycle (Certo et al. 2009).²The IPO literature proposes several strategies that issuers' use to combat the ex ante uncertainty and instill investors' confidence. These strategies include resorting to top auditing firms (Beatty, 1989), sharing ownership with reputable (Megginson and Weiss, 1991), selecting reputable underwriters (Carter et al., 1998), filling the top-echelon positions with revered executives (Certo, 2003), and obtaining a credit rating (An and Chan, 2008). We expand this list by proposing directors' political donations as a novel 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 engage in corporate political strategies not only to potentially secure favorable treatment by governments, but also to have indirect effects in communicating to markets revealing 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 Political Action Committees (PACs) contributions are a form of investment in political capital (Ovtchinnikov and Pantaleoni, 2012).

For example, Google, whose several employees and top executives have been supporters of President Obama, has obtained important benefits from Obama's administration. In particular, after the donations of Google and its directors' (approximately \$814,540) to Obama's campaign, the Obama

²Daily et al. (2005) argue that an entrepreneur's decision to take a firm public presents existing opportunities for the growth of the firm and subjects the firm and its management to market scrutiny.

administration used taxpayer dollars to purchase Google advertising. This example illustrates that firms' directors understand their economic dependency on their firms and exercise pressure on the government. From this perspective, IPOs serve as an ideal context for enriching our understanding of the implications of individuals' political donations³ and particularly how the market perceives the role of directors' political contributions. These raise several interesting questions. Firstly, do politically connected boards affect the success of the public offering process? Resource dependence theory suggests that firms/directors are politically active in return for more favorable resource allocations from the government (e.g., lower cost of capital, lower taxes, and more government contracts) (Pfeffer and Salancik, 1978; Claessens et al., 2008; Goldman et al., 2013; Hill et al., 2013). Secondly, 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 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 (losing) party experience a significantly large increase (decline) in procurement contracts after the elections. Drawing on social comparison theory, Chizema et al. (2015) also document negative relationship between politically connected boards and top executive pay as well as pay dispersion. Earlier work suggests that the role of the CEO has a particularly significant, but not necessarily favorable effects (Fan et al 2007). Thirdly, does the timing of joining in the company affect the involvement in political networks? Also, what is the impact of directors' political contributions on firm survival? Finally, to what extent does the impact of individuals' donations depend on their political ideology?⁴ Goldman et al. (2009) explore whether political connections are important in the U.S. by classifying boards into those connected to Democratic/Republican party and document that company

³We explain that through these donations directors' values can be expected to enter executives' choices through two mechanisms. First, a director's values may have a direct influence on his or her choices. After weighing available alternatives, facts, probabilities, and eventualities, the director selects a course of action that suits his or her 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". Under this process, the director selectively searches for information that suits her/his values and then perceives and interprets information in a values-congruent way. We recognize that executives' political ideologies, specifically their stance on the conservatism-liberalism dimension, will enter their managerial actions

⁴We also address if founders' donation have higher efficiency than CEOs and directors? What happens when the contributions are directed to democratic or republican parties? What would be the impact around elections of political contributions on IPO premium? What about if the contributions were directed to the party that subsequently lost the election?

boards connected to Republican party increase in value and companies connected to Democratic party decrease in value.

To answer these questions, we use directors' political contributions (DPCs) in the US and analyze whether these enhance the value and performance (in terms of relative underpricing and subsequent survivability) of IPO firms. In other words, we explore, differently from prior literature on political connected boards (e.g. Fan et al., 2007; Goldman et al., 2009; Goldman et al 2011; Chizema et al 2015), whether directors' involvement in the political landscape affect the amount of capital raised at the time of listing and the subsequent performance of IPO firms. We conduct our analysis using a sample of 1,874 IPOs listed on US exchanges over the period 1998-2014. Our findings suggest that individual contributions by directors bring significant benefits to the IPOs. Specifically, we show that political contributions of board members, particularly those of CEOs and founders, are positively associated with both the IPO premium and the firm longevity and negatively related to the IPO underpricing. In economic terms, we find that the average offer price of IPOs with politically connected board members is \$1.63 (or 11.79%) higher than that of IPOs whose directors do not involve in political activity. Our finding also suggests an economically meaningful effect of individuals' political donations on initial IPO returns, with a one-standard deviation increase in donations is associated with a decline of 8.92% in underpricing. Furthermore, we find that the 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 and to \$1.58 in 2014.

The primary focus of this article is on inside directors⁵, and, especially CEOs and founders, as they will be closest to the operations, most aware of the resource needs of the firm, and, who will also have the most immediate personal interest in matters. Hence, they will have the greatest incentives to risk their own money in betting on politicians. It is recognized that outside directors donate more. However,

⁵The purpose of this paper is twofold. First, we empirically investigate whether individuals in fact use the power of their wallet and make political contributions strategically with their economic interests in mind. We should expect individuals to pursue a variety of motives when making political contributions, such as ideological, partisan, access-seeking, or identity-based. We ask whether individuals are also strategic, specifically whether they are likely to be motivated by rent seeking? In turn, this leads to our second and main research question of what effect, if any, individual political contribution efforts have on the performance of the nearby firms. The position that this study follows, is that individual political contributions are, at least in part, an investment in political capital and in turn, this results in a significant increase in economic capital

the depth and breadth of their ties to the 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 plausible direction for future research. However, we also take account of the role of outside directors in impacting on the quality of corporate governance of the 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 show that our results are unlikely to be driven by sample selection bias or endogeneity. 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. Firstly, we investigate the effect of DPC around different presidential administrations and election periods. We find that the impact of DPC on the initial performance and the survivability of IPOs is more pronounced in non-election years. As for the role of firm characteristics, our results suggest that the influence of directors' political donations on the IPO premium and underpricing is weaker among venture-backed firms, while the association between DPC and firm survival is stronger among IPOs with high governance quality.

We believe that our findings contribute to the literature on the impact of political connections on stock returns (e.g., Faccio, 2006; Jayachandran, 2006; Knight, 2007; Francis et al., 2012; Jia and Zhang, 2014) and on political connected boards (e.g. Fan et al., 2007; Goldman et al., 2009; Goldman et al 2011; Chizema et al 2015). The vast bulk of the literature examines the impact of political connections on the on-going operations of established firms. As such, they 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 legislators and regulators. We add further to the literature by focusing our analysis on the political connectedness of the company boards of directors, the key agents in the development and implementation of integrated strategy. Furthermore, compared to mature firms, IPOs are characterized with greater ex ante valuation uncertainty. Our work

extends the literature by showing that directors' political donations serves a useful signal of firm quality to various IPO participants.

Our paper builds on 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, our study investigates the role of the political donations of individual directors in the IPO process over the longer term. What sets personal political contributions by directors apart is that they are using their own money. This may be in furtherance of their own personal ideologies and beliefs or a perceived investment in the future of the corporation or to enhance their rents. This of course, poses significant personal risk, especially in recent years, as US election results have proven increasingly difficult to predict. It may represent an example of collaboration with managers in furthering a shared agenda and gain influence, rather than an effort to exert direct control over them (Krause, 2017). Of course, the boundaries between personal beliefs and corporate interest 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 revisit the extant literature on IPOs and the inherent risks to managers therein to subsequently develop our hypotheses. The sample, variables and methodology are discussed in the following sections, followed by a presentation of empirical results. Finally, we discuss our findings, and draw conclusions of the study.

2. Related literature and theoretical foundations

2.1. Signaling

A large strand of the existing literature on IPOs makes usage of the concept of signaling, which seeks to explain the ways in which firms communicate their future prospects to potential investors and the wider community. However, the primary focus 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 through 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 the 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). Political donations in support of politicians that broadly support the interests of institutional investors signal to the latter that the 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 road show phase play an important role in IPO outcomes (Blankespoor et al., 2017). Or as 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 reach their own conclusions from such remarks. Indeed, political donations appear to be associated with a stronger emphasis on generating shareholder value (Cooper et al., 2010; Dalziel et al., 2011).

Consequently, it could be argued that the disclosure of director political contributions and the donations to candidates' campaigns may help investors understand the links that will help entrepreneurs secure funding that allows them to achieve their future investments plans. In other words, such a disclosure may signal political debts, for which there will be rewards in due course (Ayres and Bulow, 1998; Bernhagen and Brauninger, 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; Claesens 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 (c.f. Bernhagen&Brauninger, 2005). Indeed, political donations can mitigate information asymmetry between issuers and other market participants in the IPO process, accordingly enhancing the IPO premium.

H.1. Directors' political donations enhance IPO premium.

There may be a similar explanation as to why political donations might influence IPO underpricing. Investors will never have perfect information as to the capacity for good future performance, and may take political donations as one possible guide in plugging such asymmetries. In other words, they may view political donations as a signalling device (Komenkul et al., 2017). Thus, an alternative and potentially complementary view as to how political donations might affect initial performance would be the *winners' curse* argument: if investors are uninformed, they are more likely to be enticed into investing in underpriced IPOs (Keloharju, 1993).

Information asymmetry has been a focal point for most explanations for the initial performance of IPOs. For instance, Rock (1986) argues that because 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 participation 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 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 the firm, in other words, investors interpret giving as more focused on maximizing shareholder value, rather than empire building, then we donations will mitigate winners' curse and reduce underpricing. However, if investors believe that directors' donations are guided primarily by their 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 donations on undervaluation and subsequent returns and propose the following hypothesis:

H.2. Directors' political donations reduce underpricing.

2.2. Resource dimensions

A significant body of existing research on IPOs 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 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., Pfeffer and Salancik, 1978; Casciaro and Piskorski, 2005). Although such behavior is often associated with developing world settings, it should be noted that, within the 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, which are dependent to a lesser or greater 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 resource dependency by an ecosystem of firms (e.g., Scherer and Palazzo, 2007; Wood and Wright, 2015).

Client politicians who receive financial support may use a variety of political tools and resources at their disposal to help IPO directors enhance legitimacy and competitive position of their firms (e.g., Pollock 2003; Sun et al., 2012; Bell et al., 2014). It is possible that political donations provide IPO ventures with an initial advantage, yet, over time, this may diminish, with donors becoming accustomed to disbursing resources in order to shore up their own prestige and support their continued social standing. However, McWilliams et al. (2002) note that political activity by firms and their owners may enable the blocking of rivals' access to substitute resources, shoring up the longer-term performance of the 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 regulations, but also who fight the adoption of, and support for, alternative energy sources (Dunlap and McCright, 2011; Schulman, 2014). Such activities may increase the costs faced by rivals, constrain their activities, and shore up the value of the resources of the firm (McWilliams et al., 2002). In other words, political donations may not only facilitate direct state concessions or other largesse, but may also ensure a firm's existing resources remain valuable, and/or restrict the growth of competitors (Dunlap and McCright, 2011). Donations may also ensure greater regulatory predictability (Hillman, 2005). Indeed, Fishman (2001) and Faccio (2006) find that political connections generate significant financial benefits worldwide. Johnson and Mitton (2003) show that political involvements are 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 (2018) suggest that following on meetings (evidencing political connectedness) with federal government officials, 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:

H.3. Directors' political donations result in lower failure risk.

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 U.S. exchanges for 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 be

already 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's filters for closed-end funds, but still operate as such. We also exclude corporate spin-offs; these firms have typically been parts of large, mature businesses and thus entail considerably less uncertainty than the average issuer. The remaining sample is merged with the databases of Compustat and the Center for Research in Security Prices (CRSP) from which we obtain IPO firms' accounting fundamentals and aftermarket performance data, respectively. After these interventions, we end up with a final sample of 1,870 unique IPO ventures.

Information on the Director's political contributions (DPCs) can be obtained from Federal Election Commission⁶. DPCs comprise one of the main avenues available for firm's top-echelon executives to reach out to the Congress chambers and have the explicit purpose of supporting or fighting against a candidate's election. We investigate political money spent by Chairman, CEOs, CFOs, Other Executives, and Founders within a time frame of up to five years prior to the offering date.⁷ To extract more of the informational wealth residing in these cash flows, we manually investigate each IPO firm within the 'Candidate Master' and 'Contributions to Candidates from Committees' files so that we record the detailed profiles of the recipients (party affiliation, House membership, representing state and more). Ultimately, this methodology generates a sample of 887 IPOs with contributions to political activities (i.e., 73 by Chairman, 349 by CEOs, 70 by CFOs, 349 by other Executives and 160 by Founders).

We use the zip code of corporate headquarters (obtained for all companies from Compustat) as a proxy of corporate location (see, e.g. Malloy, 2005; Loughran and Schultz, 2005; Nielsson and Wojcik 2016). To capture the proximity of companies to the decision-making center, The White House and the Capitol, we measure the distance between company location and Washington D.C. To account for the financial employment, we use the County Business Patterns database of U.S. Census Bureau, which also

⁶https://classic.fec.gov/finance/disclosure/candcmte_info.shtml and [OpenSecrets.org](https://www.opensecrets.org)

⁷ Note that focusing on a time frame up to five years before the IPO date would mean that some of donations may have occurred before the director joins the firm. For robustness purposes, we also use time frames of up to three and up to two years prior to the offerings and our conclusions remain unchanged. Further details on these tests are available upon request.

provides the Congressional Districts in the U.S. Political Map. In addition, we collect election data, which includes the election date, the winning candidate/party in each state, and the vote margin of the election, 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 before an election as an election year (or year 0 relative to the election), that is the year before the political uncertainty related to the election is resolved (Colak et al., 2017). State-level data, such as gross domestic product (GDP) per capita, GDP growth rate, and population, are extracted 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:

$$IPO\text{value}/\text{performace} = \alpha + \beta\text{Donations} + \gamma\text{Controls} + \text{YEAR} + \text{INDUSTRY} + \varepsilon$$

(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; Rasheed et al., 1997). This measure is popular on account of currency with an extensive body of research that explores the causes and consequences of difficult to quantify assets and capabilities (Bayar and Chemmanur, 2012; Chahine et al., 2018). The IPO premium captures what value is assigned to growth opportunities. In other words, it combines present easily valuable assets, with what investors see as the future value (Bell et al., 2014; Chahine et al., 2019b). 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). It has been argued that it provides evidence as to how investors judge the worth of assets, reputational issues and associated capabilities (Gemmill and Thomas, 2017; Chahine et al., 2019a). Thus, we use IPO premium as one of IPO performance measures in our study.

We also use two measures of the IPO performance: underpricing and subsequent survivability. The relative efficiency of the IPO market may be valued by how much 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 Wojcik, 2016). Existing work highlights the importance of firm survivability as a measure of aftermarket performance (Espenlaub et al., 2012; Gounopoulos and Pham, 2018). The main benefit of survival analysis relative to other methods (e.g., OLS, and/or the Tobit or Probit models) is that it allows us to take into consideration the survival time of each firm. We use the Cox proportional hazard model and estimate the following model:

$$h(t) = h_0(t)[\beta_1 \text{Donations}_{i,t} + \beta_2 \text{Control Variables}_i + \text{Fixed Effects}] \quad (2)$$

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 after the issue date).⁸

The main explanatory variable, *Donations* is the natural logarithm of one plus the amount of money spent by IPO directors in political activities. We focus our analysis on the political money spent by Chairman, CEOs, CFOs, Other Executives, and Founders within a time frame of up prior to the offering date. To separate the effect of the political contributions of each of the five categories of directors on the IPO success, we replace the variable *Donations* in equation (1) with *Donations_CEO*, *Donations_CFO*, *Donations_Chairman*, *Donations_Board*.⁹

Our regressions also contain a set of control variables, which are shown by existing studies to affect IPO valuation and performance. We use *IPOproceeds* as a proxy for firm size. Large IPOs suffer less from valuation uncertainty and should therefore have lower premiums. We also use the number of years elapsing from a firm's foundation to IPO as a measure of *Firm age*. Previous literature commonly

⁸Our sample selection starts with identifying all of the initial public offerings (IPOs) between 2000 and 2013 in the SDC database. Because our minimum survival window is five years, we track these IPO issuers until 31 December 2018 to determine whether or not they were ever delisted.

⁹In addition, *DCEO*, *DCFO*, *DChairmen*, *DBoard*, and *DFounder* are dummy variables with a value of one if the donor is a CEO, CFO, Chairman, board member, and founder, respectively, and zero otherwise.

employs age as a surrogate for risk (e.g., Ritter, 1984, 1991; Schultz, 1993; Carter et al., 1998). The assumption is that firms with operations dating back longer have proven their resilience against market swings and thus constitute safer investments. Again we expect IPO age to be associated positively with IPO valuation accuracy and negatively with the IPO premium. Additionally, 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 attaining a sizeable accounting return should be associated with lower uncertainty and higher valuation accuracy. We also include *NASDAQ* dummy which takes a value of one if an IPO is listed on NASDAQ and zero otherwise. Because of its relatively less restricted regulatory environment, NASDAQ has been the preferred marketplace for small, young, and high-tech IPOs. Since these firms are particularly difficult to value, the effect of *NASDAQ* dummy on IPO premium and performance may depend on investor sentiment (Baker and Wurgler, 2006).

Underwriter reputation is also considered to be an important determinant of IPO performance. We use *Underwriter rank* to measure the perceived quality of the agent underwriting the issue. Arguably, an established underwriter would not risk impairing his 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. The involvement of venture capitalists (VCs) is also shown to affect IPO performance. Hsu (2004) illustrates how VCs' extra-financial value may be distinct from their functionally equivalent financial capital. Reputable VCs with a proven record of successful IPOs can lend credibility to their investment portfolio firms. Moreover, Megginson and Weiss (1991) note that VCs are typically involved to oppose cashing out at the IPO time. This vision makes VCs extra cautious against any excesses on the amount of money to be left on the table. Surprisingly, Chahine et al., (2007) indicate that VCs exit from IPOs increases the risk premium required by outside investors. In a similar vein, Gerasymenk and Arthurs (2014) show that the likelihood of CEO replacement following the receipt of venture capital funding is significantly greater when the venture is perceived as a potential IPO as opposed to a trade sale. Alternatively, Loughran and Ritter (2004) reject the view that VCs have a long-time horizon and argue that VCs tend to seek the rapid release of funds to turn to the next IPO target. Of

course, a premature IPO is an opportune setting for heavy underpricing. Jia and Zhang (2014) find that at the IPO-preparation stage, corporate giving is negatively related to venture capital investment. We include *Venture capital* dummy, which equals one if an IPO firm receives funding from venture capitalists and zero otherwise, in our regressions and leave the actual direction of the relationship between this dummy and IPO valuation up to empirical investigation.

We also control for the dilution effect associated with issuance by including *Share overhang*, defined as the ratio of shares retained by pre-IPO shareholders to the total equity given up in IPO. Bradley and Jordan (2002) conclude that this is positively associated with IPO valuation and performance. 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; Derrien, 2005; Gao and Jain 2012). We further include *INDUSTRY* and *YEAR* dummies to control for differences in valuation and survival across industries and 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 those without (N=985) DPCs. It shows that the mean individual contribution for political activities is \$10,450 with an increasing trend in the periods following director appointments. ‘Other directors’ are also getting more and more involved in political contributions. This may reflect these directors’ interest in building connections in order to achieve better appointments in the future. Chairmen contribute on average \$7,878 to DPCs. CEOs offer \$10,473 (39.04% of the total sample) with an increasing tendency over the latest years of the sample. Finally, the pre-IPO political contribution of Founders is \$5,083.

Panel B presents descriptive statistics for the overall sample as well as for the DPC and non-DPC subsamples. Substantial preliminary evidence in Panel A supports the view that DPC firms exhibit better performance than their non-DPC counterparts. Specifically, DPC IPOs exhibit a premium of 69% on the day of listing and a buy and hold return of 14% in the subsequent three years. These figures are higher than their corresponding values of 67% and 3% associated with the subsample of non-DPC IPOs. The results on one-year long term returns indicate that DPC IPOs exhibit a positive average buy and hold return of 5%, while non-DPC experience a negative average buy and hold return of 4%.

Panel B of Table 1 also presents the IPO characteristics used as control variables in the subsequent regressions. It shows that, on average, newly listed public companies in the US raise \$153.26 million, estimated as shares offered times the offer price. It also shows that, on average, IPOs have a history of 15.5 years in operation before taking the decision to elevate additional capital through the stock markets. At the same time venture capitalists back IPOs with a participation of 46.7% of the invested capital. In terms of the sector categorization, 35.1% are technological companies. This is not surprising as 31.3% of the sample IPOs were issued during the dot.com period. NASDAQ appears to be the favorite stock exchange to 67.4% of the sample IPO. The world's first electronic market has been popular among public offerings as it has less strict listing requirements relative to NYSE. Share overhang, defined as the ratio of shares retained by pre-IPO shareholders to the total equity given up in IPO (Bradley and Jordan, 2002), is 3.571. This cost is incurred proportionately by all shareholders retaining equity post-offering. The high overhang ratio indicates small number of new shares issued and as a result the losses do not escalate, making incentives to underprice more compelling. In terms of the underwriter reputation, data indicates that 61.9% of our IPO ventures pick up a reputable underwriter to go public. This is consistent with the assumption that IPO firms use underwriter's network to attract higher participation by institutional investors and assure success of the process (e.g., Pollock et al., 2004; Hong et al., 2004).

On a comparative basis, Panel B of Table 1 shows that DPC IPOs are considerably larger than their non-DPC counterparts. The average gross proceeds raised by DPC firms is \$189 million, while that of the non-DPC firms is only \$120 million. DPC firms also shown to deliver superior profitability

(captured by earnings per share dummy) and rely less on leverage than their non-DPC counterparts. In addition to stronger fundamentals, DPC firms possess more years of operational experience with a mean age approximating 17.3 years; that is about 3 years older than the average of the non-DPC subsample. Consistent with the overall quality image, DPC IPOs are less likely to resort to venture capital financing and are mainly taken public by top-ranked underwriters. In contrast, stocks from the Internet or the broader technology sector, which usually have IPOs at infant stages (so as to fuel further growth), are relatively underrepresented in the DPC subsample. This may explain why many DPC firms do not choose NASDAQ, technology issuers' favorite listing platform. Interestingly, the dot.com period of 1999–2000, for all of its record-high IPO activity, gave rise to fewer DPC IPOs, in proportion 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 group. On the whole, many of these characteristics have been shown to exert influence on IPO pricing. Any effect caused on short/long term return by the new covariate in the valuation equation (i.e. DPC) must result net of the confounding factors.

The activities of some firms may be more political sensitive than others; existing work indicates that this will be particularly noticeable on sectoral lines (Faccio and Hsu, 2017). Panel C of Table 1 classifies IPO firms into sectors and reveals a relatively high IPO premium in the wholesale and retail trade sectors, while the food product sector have the lowest IPO premium. It is also interesting to note that computer equipment and services as well as chemical products represent the sectors with the largest number of directors' political donations.

We look on the correlation matrix of all the variables used in our analysis (Table IA.11). Our main independent variables of interest – *Donations* – do not exhibit a high correlation with the control variables, except in the case of *Donations_DCEO*. This should moderate the econometric difficulties (such as multi-collinearity concerns) in disentangling any effects of political contribution variables on the level of IPO premium during IPO listing. The correlation between *Donations_DCEO* contribution and the total *Donations* is relatively high (0.57), implying that CEOs are concerned with the success of the listing and make political donations to secure political support for the company's investment plans and attract

investors' attention and venture capitalists' funds. This high correlation is not of concern in our study, as these variables are not used jointly in the same regression model.

For communicating the essence of contributions in a visual way, we refer the reader to Panel A of Table 2, i.e. top-fifteen IPOs ranked by directors' political intensity. Overall, the directors of General Motors have contributed \$339 thousand prior to public offering to politicians, more than the directors of any other company. This has partly contributed to the success of one of the biggest IPOs in American history. The company managed to raise an astonishing \$20.1 billion and also incurred a modest underpricing of 3% in a year 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 U.S. federal government after filing for Chapter 11 bankruptcy protection in 2009.

In a striking example, the second largest directors' contributor, Select Medical Holding, documents a return of 0.9% in an IPO that took place only five years after its establishment. All directors of this company, with the exception of the CFO, were involved in contributions to politicians. From a complementary angle, Panel B of Table 2 presents analytically the individual contribution of the directors. We observe that the CEOs were the highest donors in twelve of the fifteen cases considered in our analysis and only four Chairmen and CFOs were among the top fifteen directors involved in financing political campaigns.

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

Table 3 reports our empirical results explaining the effect of DPC on IPO Premium for the full sample of firms (N=1,870). To demonstrate a broad range of findings, we tabulate the resulting coefficients from the political contributions of five categories of directors: CEOs (Column 2), CFOs (Column 3), Chairmen (Column 4), other members of the board of directors (Column 5) and the IPO founders (Column 6). We reserve Column (1) for the OLS estimates associated with using the overall individual contributions as the main independent variable of interest. The IPO premium remains the dependent variable in all specifications. Among the regressors, we include key variables that have been shown to account for much

of the variability in IPO returns.

The significantly positive coefficient on *Donations* in Column (1) suggests that directors' political contributions are positively associated with IPO premium. Column (2) also indicates that CFO's political contributions are positively and significantly associated with IPO premiums. Thus, hypothesis H.1 is supported. In addition, Columns (3) and (5) show that chief financial officer and founder's involvement in political actions result in a significant increase in IPO premium. Further, we classify the DPCs into two groups. The first group consists of DPCs that took place before a director joins the company that made an IPO (*Before Join*), while the second includes DPCs after the director's appointment to that firm (*After Join*). The coefficient on *After Join* is positive and significant (Column (8)), while that on *Before Join* is insignificant (Column (7)). This implies that the timing of the political contributions also affect IPO premium and firm value.

New directors may plough effort into political engagement aiming to build a network of politicians that will support their company, even if they have not done so before. Capitalization of their efforts may result in a positive effect on the value of the IPO firm. There also may be directors that are active in political contributions for many years prior to their appointment in the new listed company, and, indeed, may have been appointed owing to the political connections they bring with them; such directors may create positive effects in the long term and capitalization of their efforts will, therefore, have a positive impact on the value of the IPO.

The findings pertaining to the control variables are interesting in their own right. We obtain a negative and significant coefficient on earnings per share, while presumably earnings should lead to higher, rather than lower IPO premium. This indicates that high pre-IPO profitability does not result in more accurate valuations, but instead it attracts more investors and increases the value of the IPO. The coefficients on age and high tech 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 firm value significantly increases with technology stocks. This explanation may naturally extend to the coefficient (likewise negative and significant) on NASDAQ for being the preferred listing platform for technology

issuers. The coefficient on the dot.com period is positive and significant, implying high firm value for this sector. The effect of the overall market sentiment on firm value is also captured by the coefficient on market return (positive and significant at 1% level). Surprisingly, the coefficient underwriter rank is significantly negative, indicating that non-reputable underwriter does not necessarily reduce IPO premium. This also indicates that IPO performance is linked to quite superficial impressions; non-reputable underwriters may be more inclined to engage in hyperbole. Notably, we document no evidence of significant relation between firm size and IPO premium. Finally, the market returns, in spite of its heavy impact on the public offering process, appears to leave IPO premium unaffected.

Panel B of Table 3 presents the results of our OLS regressions on the association between the directors' political contributions and IPO underpricing. Column (1) shows a highly significant negative relation between donations and IPO first-day returns, consistent with Gounopoulos et al. (2017). Our finding also suggests an economically meaningful effect of individuals' political donations on initial IPO returns, with a one-standard deviation increase in donations is associated with a decline of 8.92% in underpricing. Similar findings are obtained from the coefficients of the CEO, CFO, and founder. Overall, our results suggest that individual donations reduce IPO underpricing, consistent with the view that political contributions bring significant benefits to the IPO firms, confirming H.2.

Finally, in untabulated analysis, we examine whether DPC is associated with the IPO costs (e.g., management and underwriting fees). Apart from underwriters, there are also some other agents (for example advisors, accountants, and lawyers) who have temporary relationships with the IPO firms. These agents earn a fee in order to evaluate the issuers' credibility. Prior literature finds that corporate political strategies help to enhance the relationships with governments, as they reduce the costs and the effort associated with complex bureaucratic procedures and various regulatory bodies during the IPO process. Thus, we predict and find that firms with DPC are negatively associated with management and underwriting fees.¹⁰

¹⁰The results are available upon request.

4.3 *The effect of directors' political network on firm survival*

Table 4 examines the impact of directors' political donation on the probability of IPO survival using Cox proportional hazards model after controlling for various firm and IPO characteristics. Column (1) shows a strong and significant negative coefficient on directors' donation, suggesting that IPO firms with political donations from their directors have lower probability of failure. This finding supports our third hypothesis (H.3) that directors' political donations result in lower failure risk. The economic effect is also meaningful, with the magnitude of the coefficient estimate suggesting that firms with directors' donations in the 75th percentile have a failure risk that is, on average, 31% lower than that of firms without directors' donations in the 25th percentile.¹¹

In the next columns we use the donations of each director (i.e., CEO, CFO, Founder, Chairperson, etc.) as the independent variables of interest. Our findings suggest that, firms in which CFOs, Founders, and Chairman donate money have a lower probability of failure and survive longer. Specifically, members of the board of directors have active role with their political contributions as the negative and significant sign indicates that they would like to see changes in consumption and investment which will have great impact in the future and will generate good long term returns to the investors. The founders of the firms are also involved in political contributions, presumably because of their intention to bridge the gap between the existing capital stock and the desired capital stock in the future; and thus view political contributions and enforcement of connections as the truck that will drive firms' investment to the next level. Surprisingly, the association between CEO donations and firm survival is not significant. However, we find that firms with directors' who donate money after their appointments have higher survival rates, suggesting that donating money after their recruitment is more beneficial for the company.

The results of 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

¹¹This 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 directors' political donations (8.97-6.91) and is calculated as follows: $\exp(-0.18 \times 2.06) - 1 = -30.65\%$.

proceeds and failure risk. Also, 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

Our results, so far, establish positive relationships between directors' donations and IPO premiums and negative relationships between directors' donations and failure risk. It is possible, however, that endogeneity concerns plague our empirical analysis. Specifically, our model may suffer from biases due to: i) omitted firm variables that affect both the IPO premium, firm survival, and the individual political contributions in a similar manner and/or ii) endogenous director-firm matching (i.e., non-random assignment of directors to the firm) due to observable distributional differences of firm and directors' characteristics between firms with and those without individual donations. In this section, we conduct various tests to mitigate the impact of unobservable 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 driving IPO premium or firm longevity, omitted firm-level characteristics that can be related to IPO value/performance and directors' political contributions 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 might hire a manager who has the power to influence the government for the benefit of the firm. This suggests that better controls for firm 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 during the IPO-process and the immediate aftermarket period. In this regard, we include the pre-IPO sales of the firm to control for firm size. Furthermore, we control for the presence of Internet firms, given that this type of firms tend to be more risky.

An interesting finding is that directors' political contributions after joining the public offering company has a positive effect on IPO premium (see Table 3), while the directors' political donations before joining the company enhance the long-term performance (see Table 5). Inspired from upper echelon theory (i.e. Hillman et al., 1999), resource dependence theory (Hillman et al., 2009) and prior empirical studies (Fun and Hirschman, 2017)¹²; we believe that this evidence stems from the presence of very different types of director. The first would be those newly appointed to the board, who place efforts to involve in political engagement in order to build a network of client politicians, who will, in turn, be more likely to dispense patronage to the IPO company, whereas the second stream consists of directors who have been involved in political contributions for many years prior to their appointments, and indeed, may have been appointed owing to their political contacts, and, as such 'may be valuable resource providers' (El Nayal, Oosterhout and Van Essen, 2019). Directors in second category may have been selected to on the basis of their strong network and continuous political involvements, which may add value to the IPO.

Finally, we consider the quality of the corporate governance as additional control (*Board Size and Independence*) to capture the most relevant governance in the decision-making process. In Table 5, we repeat the baseline regressions of Table 3 after including the additional firm characteristics. The results show that these controls do not meaningfully alter the effect of directors' contributions, therefore alleviating to some extent the concern that omitted variables are driving our findings.

To further address the issue of sample selection bias, we perform a 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 with political donation. In the second stage, the Inverse Mills Ratios (IMR) from the probit model are included as additional variables in our baseline models. The results of the Heckman Two-Stage approach are reported in Table 6. Our findings show that directors with political donations are more common among large firms and venture-backed firms, which also belong to the technology sector. The second stage results in Column 2 (Column 4) of Table 6

¹²Prior 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.

indicate that, the coefficients on IMR are statistically insignificant, while those on directors' contributions remains positive (negative) and significant.

5.2 Propensity score matching

Panel B of Table 1 demonstrates the presence of substantial differences in some characteristics among firms with and those without DPC. Firms with directors' political donations are larger, older, profitable, and brought to the market by more prestigious underwriters. These differences raise the possibility that the effect of DPC on IPO value or firm survival might be a statistical artifact stemming from distributional differences in firm characteristics between firms with and those without DPC.

To mitigate any potential endogenous selection biases relating to observable characteristics and to determine whether our findings are robust or they might be driven by the above tendencies, we perform the propensity score matching procedure. This method includes the creation of pairs that are comparable for all covariates, but differ only in terms of the preference of directors to donate money for political campaigns. As a result, it assures that the variation in IPO value and survivability can be ascribed to the variation in the test variable (DPC) with greater confidence.

Initially, we run a probit regression to estimate propensity scores, i.e., the probability of receiving the treatment (i.e., DPC) conditional on a set of selected variables. For each treatment firm with DPC, we select a matching control firm without DPC 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 the firm and IPO characteristics used in the baseline regression. We also include Fama-French membership, since some industries (e.g., computer equipment and services) are more likely to feature directors with political money contributions compared to other industries (e.g., food products).

This method yields 555 (612) unique pairs of firms, which is approximately 30% of the initial sample.¹³ Panel A of Table 7 reports difference-in-difference means of the control variables for firms with

¹³We apply the same method for firm survival which yields 612 unique pairs of firm, which is around 33% of the initial sample.

high and those without DPC 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 DPC comparable to that of firms without DPC.

Panel B of Table 7 presents the results for the average treatment effect of the treated (ATET) for those IPO with directors involving in political contributions in comparison to those with no director's political involvement. Our estimates document that IPO firms with active directors on political donations experience less underpricing than those without any donations. The magnitude of the estimate is also economically meaningful, suggesting that directors' political contributions reduces underpricing by 1.46%.

Based on the matched set of treatment and control firms, we re-estimate the OLS and Cox model of Table 3. The results of Column 1 on Panel C of Table 7 show a significantly positive association between individual political donation and IPO premium as well as a negative and significant relation between directors' donation and failure risk. Overall, the propensity score results continue to support our prior findings, reinforcing the baseline inferences that there is a systematic difference of the directors' donations effect on IPO value and firm survivability.

6. Robustness analysis

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

6.1 Excluding industries

In our baseline analysis above, we include financial and utility sectors. Furthermore, Panel C of Table 1 displays that chemical products sector as well as the computer equipment and services sectors are the two industries with the greatest number of political donations. To investigate the robustness of our main

findings, we exclude these two sectors from our analysis in Panels A and B of Table 8 and find that our reported results are not significantly affected by industry sector (once measured by value and performance). Although some industries may be particularly sensitive to pressure on reputational regulatory grounds (e.g., chemicals and pharma), privatization of state functions and the outsourcing of public services has broadened the sectoral basis of direct political patronage, in addition to a wide range of indirect benefits (O'Connor, 2017). This may account for the lack of significant sectoral variation. Political debts can further create value to non-political sensitive firms in an indirect way. Specifically, such companies can benefit from higher leverage, pay lower taxes, and have stronger market power. For example, political directors could capture value through their knowledge and influence on the development of laws that affect company performance or through the achievement of favours that benefit the company, and these advantages are expanded through pyramidal structures (e.g., Agrawal and Knoeber, 2001; Fisman, 2001; Faccio, 2006; Goldman et al., 2009; Boubakri et al., 2012; Duchin and Sosyura, 2012). Once more, the positive impact of political connections on firm value can be via a higher public profile, leading to assumptions of increasing rents, even if these are not realised (e.g., Agrawal and Knoeber, 2001; Stafsudd, 2009).

Additionally, political directors could be an important source of benefits for the company because they may gain insider knowledge on bureaucratic and regulatory procedures (e.g., Agrawal and Knoeber, 2001; Goldman et al., 2009). Faccio (2006) notes that political connections may lead to preferential treatment for companies in terms of tax benefits, award of government contracts, less regulatory control over the company or greater control over rivals. There may also be assumptions of gains via spillovers, as other actors may wish to do business with those who are perceived to have political clout, adding value to the latter.

6.2 Accelerated Failure Time (AFT)

For robustness checks and comparison purposes, we also use another survival model, known as the Accelerated Failure Time (AFT), to examine the determinants of the survival rates. 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 directors' political contributions have longer survival time. The effect is amplified when the donation is from the Chief Executive Officer (and to a lesser extent the founder) and especially after his appointment to the firm.

6.3 Sarbanes-Oxley Act (SoX)

We also consider using the Sarbanes-Oxley Act (SoX) as an exogenous shock in our analysis. Our results suggest a significantly positive relation between political contributions during the Sarbanes Oxley Period and IPO premium. This evidence is consistent with the view that directors' involvement in political contributions leads to higher market valuations for IPOs. Similar inferences apply to donations from non-executive (independent) directors. Our findings reveal that SoX encouraged the interaction between politicians and business world (detailed results are reported in 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 3 years after their listing. To conserve space, we only report the results of the total contributions (or *Donations*) as a measure of political donations.¹⁴ Following Loughran and Ritter (1997) and Hertz et al. (2002), we use the ratio of operating income to total asset (OIBD) and the ratio of net income to total assets (ROA) as operating performance measures. Columns (1) and (2) report the results with ROA and OIBDA as the dependent variable in Equation (1), respectively. In line with the baseline finding, columns (1) and (2) indicate that individual directors' donations is associated with better IPO performance.¹⁵

¹⁴ The results by different categorize of directors are largely consistent with those reported in Section B. Details on these results are available upon request.

¹⁵ Further details on these results are available upon request.

7. Additional tests

7.1 *The impact of directors' political ideology on IPO value and performance*

Since the development of the upper echelons theory, many studies have focused on how individual directors affect the firm 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 within top management teams, and corporate social responsibility (Chin et al., 2013). These studies suggest that Republican top managers are more conservative and risk averse to uncertainty and ambiguity, while Democratic top managers are liberals and more risk-seeking. In this section, we endeavor to inform 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, the political donations to *Republicans* as the directors' donations to the Republican party and its candidates, and dual contributions as the directors' simultaneous contributions to the democratic and republican parties.

Table 9 shows that the effect of directors' political orientation is stronger in the short-term. Panel A suggests that the coefficients of CEOs' individual contributions to the Democratic, Republican, and both parties are positive and statistically significant. Our results are also economically significant, with a one standard deviation increases in CEOs donations to Democrats, Republicans, and both parties are associated with a 1.29%, 0.7%, and 2.7% increase in the IPO Premium, respectively. What can account for the lower premium for Republicans? It may be because Republicans are significantly more successful in attracting large corporate donations (Bonica, 2016), not only does it require a much larger donation to come to the attention of Republican politicians, but it makes it more challenging to share out government patronage, and this is recognized by investors. We obtain similar results about the CFOs with weaker

significance. Panel A shows that CEOs' donations to politicians of both parties are associated with a 1.92% reduction in the IPO underpricing. Chairman's role turns to be critical, as their contributions to both parties bring a 1% reduction in the first day IPO returns. Overall it appears as a good strategy for the directors to establish connections through donations to the politicians of both the Democratic and Republican parties. Panel A indicates that the impact of contributions to either or both parties has no long-term effect on the IPO survival, with the only exception the donation of CEOs to the Democrats (it is negatively associated with failure risk). Overall, our results suggest that public offerings with political active CEOs are associated with greater first trading price in comparison to the offer price.

7.2 Donations around different election periods and presidential administrations

The vast majority of the literature on the impact of political environment on firms uses mainly quasi-experimental settings, such as U.S. election events, as a source of political uncertainty (see, e.g., Julio and Yook, 2012; Colak et al., 2017). Therefore, it is reasonable to expect the effect of political contributions on IPO value and performance to vary over the electoral cycle. To examine this possibility, we examine the donations impact across two aspects of the political cycle: Democratic vs Republican presidencies and election vs non-election years. Our results in Panels C and D of Table 9 show that effect of directors' contributions is stronger in non-election years, while this is not the case for the different administrations. In particular, the impact of directors' donations on IPO premium is more pronounced when the president is a republican, while that on firm survival is reinforced when the president is a democrat.

When contributions take place to politicians that subsequently lost the election (Table IA.8), we document that the IPO premium is negatively affected as investors conclude rents will not be forthcoming. Thus, we do expect that such changes will affect the premium and long-term performance (i.e. survival). We invoke on more tests based on loss of election by a '*Presidential Candidate*' and '*Senate Candidates*'. The earlier appears to be negative and significantly associated with IPOs Premium, whereas the later does not have any material impact on political contributions. The results hold regardless

of whether we use the total amount of contribution or a dummy variable, with a value of unity when a director is involved in political activities, as the donation measure.

Our results are consistent with Bertrand et al (2007), who examine the influence of politicians on firms performance and show that political push connects the firms, increases employment rates, and builds factories during election

7.3 Founders donation efficiency

Founders can engage in exits (Souitaris et al 2019) following the public offering, including a managerial partial exit in which the founder leaves management but keeps ownership or a financial partial exit in which the founder divests ownership but remains in management. Partial and not full exodus means continuous interest to the company. Involvement in continuous donations in the long term would indicate their devotion and loyalty. This signal can be stronger from donations by CEOs and other Directors which aim for a good short-term performance, which they can use to negotiate their job transfer elsewhere (i.e. once they depart, they rarely look back). Thus, it would be interesting to investigate whether donations of founders exhibit higher efficiency than those of CEOs and directors.

The results in Table 4 reveal that there is no efficiency difference in donations between founders and CEOs once we focus in short term. However, in the long term, the political contributions of CEOs are irrelevant to the IPOs' survival, but the donations made by the founders exert a significant influence on the IPOs' survival. A closer investigation of the qualitative characteristics of the contributions further suggests that founders are highly selective of the politicians they support (i.e., long term serving individuals, having knowledge or prior experience in the sector of company's operation, and proximity to the president of the country)

8. Cross-sectional analysis

In this section, we explore cross-sectional variations in the importance of directors' political contributions on IPO value and survivability across IPOs with different characteristics (e.g., media sentiment, venture capitalists, and corporate governance). This analysis is likely to form a more complete picture of the effect

of DPC by accentuating the particular mechanisms through which they are related to IPO premium and firm longevity.

8.1 Media sentiment

Jia and Zhang (2014) show that in the IPO-issuance stage, negative media tones moderate the association between corporate philanthropy and market premiums, 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 increase institutional investors' information asymmetry about a newly listed firm risk (Pollock and Rindova, 2003). However, institutional investors understand that corporate philanthropy can often offset negative images that media reports might portray. Based on this reasoning, Chen et al. (2019) use a sample of 39 countries and document that higher pre-IPO media coverage is negatively associated with IPO underpricing.

In contrast to earlier salient research (e.g., Gounopoulos et al., 2017), we focus on IPO premiums, rather than pricing. IPO premiums are often a result of prevailing sentiments (e.g., Gemill and Thomas, 2017), and hopes of securing political patronage. In this study, we test how media sentiment mitigates or amplifies the signal of directors' political donations. To do so, we follow previous studies (e.g., Tetlock, 2007) and create a dummy variable for the firms which were subject of negative media reports in the pre-IPO period.¹⁶ Panels A, B, and C of Table 10 report the results for the subsample of negative and positive media coverage, respectively. Our results suggest DPC is more positively with IPO premium and less negatively related to IPO underpricing and IPO failure in the subsample of firms with negative media coverage compared with their counterparts with positive media coverage. Therefore, relying on the role of media, we document that pre-IPO negative media tones moderate the relationship between directors' political donation and firm survival, while this is not the case for the association between individuals' donation and IPO premium. Further negative media coverage prior going public generate negative association between directors' donations and IPO underpricing. Thus, donations in a negative media

¹⁶We thank Emanuele Bajo and Carlo Raimondo for sharing the media coverage data.

environment reduce the level of underpricing as it signals trust to the company despite the negative exposure.

8.2 Venture capitalists

Venture Capitalists are short-term investors, in that they seek to add value and then move on, and as a result, they are less likely to protect an IPO firm's long-term interests. In general, VCs examine thoroughly the investment risks of a firm that is going public. Thus, it is expected that VCs may also have information about firms' corporate political strategies. Prior literature (e.g., Jia and Zhang, 2014) suggests that VCs may be discouraged to invest in IPO firms with political money contributions. One of the reasons is that, VCs support the notion that benefits of political contributions lead to an uncertainty, which is not consistent with their goals. In addition, they are concerned with how firms or individuals utilize their money, and may not perceive corporate political activism as waste of resources.

As a consequence, we anticipate that the positive relationship between DPC and IPO premium (firm survival) to be weaker (stronger) for venture-backed firms. As expected, our findings in Panels A, B and C of Table 10 show that the association between individuals' political donations with IPO premium and IPO underpricing is weaker among VC-backed firms, whereas the positive impact of DPC on firm survival is more pronounced among VC-backed firms.

8.3 Corporate governance

Do firms with high governance quality still require directors to engage in corporate political activities? Hadani and Schuler (2013) suggest that firms with high board size and independence are more likely to engage in corporate political strategies. In a similar vein, Mathur et al. (2013) find that powerful management has a greater tendency to engage in corporate political activism via lobbying. A plausible explanation is that firms with strong corporate governance often have better access to loan facilities. On the other hand, firms which engage in corporate political activism can be treated favorably by the

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 their business success.

In this subsection, we examine whether a company with strong corporate governance benefits from its directors' engagement in political activities.¹⁷ That is, we investigate whether corporate governance and political activism complement each other. Our findings in Panel A of Table 10 indicates that the association between DPC 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. Evidence from Panel B reveals that in well governed companies exhibit lower underpricing than their poor governed counterparts, indicating that investors are reward governance quality during the public offering process. We also find that the effect of DPC on firm survival is stronger among firms with politically 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 individual contributions of IPOs' directors have tripled over the time period under review, a possible consequence of *Citizens United*, and that political funding results in superior IPO outcomes. Our findings suggest that directors' or senior managers' donations communicate to investors that the firm and its directors are politically well-connected, and would be likely to benefit from the subsequent disbursement of political patronage. Donations may be to politicians, who, if gaining office, would be most likely to reciprocate through facilitating the direct allocation of resources to the firm; this could 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 this with the developing world (e.g., Fan et al., 2007), the latter is likely to also be

¹⁷We construct a corporate governance quality index taking the first factor of applying principal components analysis to the following proxies of corporate governance: board independent 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 one if the majority of outside directors on the board serve on three or more other boards; the natural logarithm of the number; the natural logarithm of the number of board meetings; the natural logarithm of the number of directors serving on the board.

strongly associated with sectoral dynamics (e.g., Wood and Wright, 2015). A network of client politicians may help block the competitors' accumulation of substitute resources, work to enhance the legitimacy and competitive position of the firm, and result in the receipt of state contracts and concessions (e.g., McWilliams et al., 2002). If CEOs are partially rewarded via stock options, this also means that personal donations may 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 necessary, but it often reaches exorbitant levels, making doing business nearly impossible for those who do not have sufficient resources to participate in political activities (Boddewyn and Brewer, 1994). The implications of burgeoning corporate political donations in the USA may lead to similar outcomes. Again, a flood of emulation by firms in a similar position may result in diminishing returns (Hillman, 2005). Once more, if political funding is primarily about securing the immediate allocation of government resources (and that this is recognized by the investment community) then there is a risk that party funding becomes a bidding war, with the state weakened by the excessive demands of competing business interests dependent on it. This may weaken institutions, or render them more fluid, in turn, making such non-market strategies even more attractive, as a greater range of opportunities open 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 patronage, the outsourcing of government functions is likely to result in a significant increase in patronage resources, at least in the short term (Muller, 2006; Wood and Wright, 2015). In other words, even if it undermines existing patronage relations (e.g., between the state and public-sector workers), it may increase them with corporations. Politicians may cope with bidding wars through moving from preferential treatment to exclusions, cutting off corporations depending state patronage from future opportunities (Muller, 2006). This may result in the system degenerating to a quasi-tax, leaving firms and investors worse off (Blyth and Katz, 2005). The latter may also be fueled by a surplus of potential political party donations competing for suitable outlets.

The IPO premium may not only reflect sentiment on the day, but potentially underpricing by the investment bank issuing the equity shares. In the event of such pressures towards underpricing, directors may feel under more pressure to devise ways of signaling the potential of the firm. However, an overpricing brings with it risks of its own, again, placing pressure on directors, in this case so as not to disappoint market expectations. Although directors with share options may be more likely to seek to cash in their shares as soon as possible (hence, extracting rents) in the case of the former, in both instances, they would have good reasons to engage in political donations. Nevertheless, if the aim is signaling, the donations will only 'work' if noticed by potential investors. Again, investors may have more clarity that they may evade the winners' curse if they have adequate information on the scale and scope of political donations. Specifically, although the extent of investor awareness would constitute the subject of a study in its own right, it is worth noting that whilst 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 amount of contribution and serial donations. Well-connected CEOs may signal to investors and the media their political clout - and the potential of the firm to accrue patronage - potentially gaining 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 the firm, and, hence, may benefit less through such activities, i.e., a high political profile will not necessarily result in the same perceptions that the firm may gain. It should be recognized that directors' donations only represent a small proportion of overall political funding by corporations. However, given that directors may have strong personal incentives, in the form of preferential share allocations, to maximize the IPO premium (Griffith 2003), it is likely that their donations may be particularly pronounced at this stage. Again, the ability to make favorable financial donations on its behalf would shift the balance of power towards the board member donor and away from other investors and wider stakeholders in the firm. This provides an example of how the independent strategic choices of autonomous agents allied to the firm may directly impact on its fortunes and enhance their own leverage over what it does.

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Appendix A: Variables Definitions

Panel A: IPO pricing	
<i>First-day return</i>	The difference between the first secondary market closing price available on CRSP and IPO offer price, divided by 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 in 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 after its IPO, and 0 otherwise.
Panel B: Contributions	
<i>Donations</i>	The natural logarithm of one plus the amount of money spent by IPO directors in political activities
<i>Donations Dummy</i>	Dummy variable set to 1 for IPOs with involvement into political contributions, else 0.
<i>Donations_CEO</i>	The natural logarithm of one plus the amount of money spent by CEO in political activities.
<i>Donations_CFO</i>	The natural logarithm of one plus the amount of money spent by CFO in political activities.
<i>Donations_Chairmen</i>	The natural logarithm of one plus the amount of money spent by Chairmen in political activities.
<i>Donations_Board</i>	The natural logarithm of one plus the amount of money spent by Board in political activities.
<i>Donations_Founder</i>	The natural logarithm of one plus the amount of money spent by Founder in political activities.
<i>Before Join Political Contribution</i>	Dummy variable set to 1 for IPOs with directors involved in political contributions before joining the company, else 0
<i>After Join Political Contribution</i>	Dummy variable set to 1 for IPOs with directors involved in political contributions after joining the company, else 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 since firm's foundation to 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 shares 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, else 0.
<i>Shares Overhang</i>	The ratio of shares retained by the pre-IPO shareholders over shares issued in the offering.
<i>Dotcom period</i>	Dummy variable set to 1 for IPOs within the 1999-2000 period, else 0.
<i>Underwriter ranking</i>	Dummy variable set to 1 for IPOs engaging underwriters of the highest prestige ranking (a value of 9) in the Loughran and Ritter (2004) database, else 0.
<i>Internet firm</i>	Dummy variable set to 1 for IPOs of Internet firms, else 0. As Internet firms are classified those with business description sections in Thomson Financial SDC containing any of the words "Internet", "Online", "eBusiness", "eCommerce", and "Website".
<i>Technology firm</i>	Dummy variable set to 1 for IPO firms with SIC codes 3571, 3572, 3575, 3577, 3578 (i.e. computer hardware); 3661, 3663, 3669 (i.e. communications equipment); 3671, 3672, 3674, 3675, 3677, 3678, 3679 (i.e. electronics); 3812 (i.e. navigation equipment); 3823, 3825, 3826, 3827, 3829 (i.e. measuring and controlling devices); 3841, 3845 (i.e. medical instruments); 4812, 4813 (i.e. telephone equipment); 4899 (i.e. communications services); and 7371, 7372, 7373, 7374, 7375, 7378, 7379 (i.e. software), else 0.
<i>Underwriter Ranking</i>	Dummy variable set to 1 for IPOs engaging underwriters of the highest prestige ranking (a value of 9) in the Loughran and Ritter (2004) database, else 0.
	The compounded daily return on the CRSP value-weighted index over the 20 trading days trailing the IPO.
<i>NASDAQ</i>	Dummy variable set to 1 for NASDAQ-listed IPOs, else 0.

Table 1: Breakdown of directors' contributions and descriptive statistics of IPO firms

This table presents statistics for a sample of 1,874 U.S. IPOs announced from 1 January, 1998 to 31 December, 2014. Panel A provides the breakdown of directors' contributions on a special sample of 889 U.S. IPOs. Those directors involve the Chairman, the CEO, the CFO, the Founder of the company, and other members of the board. Panel B reports the descriptive statistics for the full sample and the sub-samples of IPOs with and without Directors that participate in political donations. 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 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 sub-sample means. Panel B also describes our main measures of IPO pricing, i.e. *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	Std Dev	Maximum
All contributions	889	9,280,435	10,450	21,167	339,001
Before join	40	237,400	5,935	1,867	64,050
After join	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 DPC (N = 889)				IPOs without DPC (N=985)				Difference in means (p-value)	Difference in medians (p-value)
	Mean s.d.	Median	Min	Max	Mean s.d.	Median	Min	Max	Mean s.d.	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 characteristics</i>														
Gross 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	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: IPOs Distribution by Industry

Industry	SIC	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 PMC activity. The sample consists of 1,874 U.S. 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 analytically the political contributions by directors ranking in the most highly director's political 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 Corp	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 Corp	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	0	34,400	4,650	0	197,155
Moelis & Co LLC	0	20,600	0	13,200	212,300
ORE/MAX Holdings	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	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 dummies and other control variables. Our analysis is based on a sample of U.S. 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 U.S. dollar contributions resulting from directors personal donations to political action committees (PAC), organizations that pools campaign contributions from members and donates 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; and \$5,000 to another PAC per year. The p-values reported in parentheses and t-statistics are adjusted for heteroskedasticity robust standard errors clustered by industry and year. The asterisks ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Effect of Directors Political Contributions on IPO Premium								
VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Gross 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 IPOs	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 Join							0.0008 (0.4410)	
After Join								0.0020*** (0.0012)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
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

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Gross 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 IPOs	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 Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes
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 Cox proportional hazards model of 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 U.S. dollar contributions resulting from director's personal donations to political action committees (PAC), organizations that pools campaign contributions from members and donates those funds to campaign for or against candidate's ballot initiatives, or legislation. Regressions control for industry and year fixed effects whose coefficients are suppressed. The p-values reported in parentheses. The asterisks ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Gross 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 IPOs	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 Join						-0.0896* (0.0720)		
After Join							-0.0499*** (0.0010)	
Donations_Chairman								-0.0609*** (0.0000)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,673	1,673	1,673	1,673	1,673	1,673	1,673	1,673
Chi-Square	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 regression IPO Premium and Firm Failure on Directors' Political Contributions. Compared to our initial models, we also control for additional firm characteristics: Sales, Leverage, Internet, Board Size, Board Independence. Panel A presents the effect of directors' contributions on IPO Premium, while Panel B illustrates the estimation of Cox proportional hazards model of probability of failure and time-to failure. Regression 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. The asterisks ***, ** 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			-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	Yes	Yes	Yes	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes
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			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	Yes	Yes	Yes	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,824	1,822	1,824	1,824	1,824	1,824
Chi-Square	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			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	Yes	Yes	Yes	Yes	Yes	Yes
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,673	1,673	1,673	1,673	1,673	1,673
Chi-Square	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 the Heckman Two-Step Model. Column (1) presents the (first-stage) results from a probit model using as dependent variable the Directors' Political Donations Dummy, including as additional control variables Sales, Leverage, Internet, Board Size, and Board Independence. Column (2) shows the results from initial OLS model (as well as the aforementioned control variables), including Inverse Mills Ratio as additional control variable. Column (3) presents the results from the Cox model, (as well as the aforementioned control variables including Inverse Mills Ratio as additional control variable) (from Column (1)). The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity. The asterisks ***, ** and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	Selection (1)	Outcome (2)	Outcome (3)	Outcome (4)
Dependent Variable	Donations Dummy	IPO Premium	IPO Underpricing	Failure Risk
Donations		0.0163*** (0.006)	-0.263*** (0.003)	-0.1292*** (0.0020)
Gross 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 IPOs	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	-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 and Industry Effect	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-Square				4,280

Table 7: Propensity Score Matching

This table presents the analysis on the association between Directors' Political Donations with IPO Premium and IPO Underpricing and the relationship between Directors' Political Donations and Firm Failure. The first three columns of Panel A report univariate analysis for 555 firms with directors' contributions and 555 firms without political contributions (matched sample for IPO Premium). The last three columns of Panel A report univariate analysis for 612 firms with directors' contributions and 612 firms without political contributions (matched sample for Firm Survival). We use the control variable from Table 6. Furthermore, we require that the treated and the control observation(s) match exactly on industry (two-digit SIC) and year. Panel B 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. The asterisks ***, ** 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)
Gross 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 IPOs	0.36	0.36	0.9008	0.42	0.39	0.3517

Panel B: Propensity score matching for the total sample			
Dependent Variable: Underpricing			
Variables	Treatment Variable: Political Contribution		
(Donations vs No Donations)			
Nearest neighbour 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 FE	YES	YES	YES
Industry FE	YES	YES	YES

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)
Gross 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 IPOs	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	-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 and Industry Effect	Yes	Yes	Yes
Observations	555	614	612
Adjusted R-squared	0.373	0.152	
Chi-Square			4,129

Table 8: Robustness checks

This table reports the results of the robustness checks. Panel A and B presents the results on the effect on IPO Premium and Failure Risk by excluding certain industries. Panel C 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 D, Columns (1) and (2) present the results with return on assets (ROA) and the ratio of operating income to total assets (OIBD) are alternative measures of IPO success, respectively. Columns (3) and (4) report the results with a dummy variable which equals one for companies where directors were involved in personal political donation and zero other as an alternative measure of political connectedness. The p-values reported in parentheses are based on standard errors adjusted for heteroscedasticity. The asterisks ***, ** 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	Yes	Yes	Yes	Yes	Yes			
Year Effect	Yes	Yes	Yes	Yes	Yes			
Industry Effect	Yes	Yes	Yes	Yes	Yes			
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	Yes	Yes	Yes	Yes	Yes			
Year Effect	Yes	Yes	Yes	Yes	Yes			
Industry Effect	Yes	Yes	Yes	Yes	Yes			
Observations	1,624	1,673	1,574	1,759	1,303			
Chi-Square	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	Yes	Yes	Yes	Yes	Yes			
Year Effect	Yes	Yes	Yes	Yes	Yes			
Industry Effect	Yes	Yes	Yes	Yes	Yes			
Observations	1,449	1,559	1,335	1,420	1,146			
Chi-Square	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 Join						0.0069 (0.852)		
After Join							0.0293*** (0.0000)	
Donations_Chairman								0.0086

Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	(0.5090)
Year Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,673	1,673	1,673	1,673	1,673	1,673	1,673	1,673
Chi-Square	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)
VARIABLES	ROA	OIBD	IPO Premium	Underpricing	BHAR3
Constant	-0.859*** (0.0003)	-0.691*** (0.0001)	0.577*** (0.000)	-0.383*** (0.115)	0.194 (0.238)
Gross 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 returns	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 IPOs	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 Effect	Yes	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes	Yes
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 the additional tests. Panel A displays the effect of directors' political ideology on IPO Premium, while Panel B presents the impact of directors' political ideology on Firm Failure. Panel C and D present the time effects of directors' donations on IPO Premium and Firm Survival, respectively. In Panel C1, Columns (1) and (2) present the effect of Directors donations under Democratic and Republican administration respectively. Columns (3) and (4) report the results on donations that took place in Election years and non-Election years respectively. Elections take place every two years in the U.S. (i.e. first Tuesday of November). During this period one third of senators are elected to serv 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 heteroskedasticity robust standard errors clustered by industry and year. The asterisks ***, ** 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 Square
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 and Industry Effect	Y		Y		Y	
Observations	1,870		1,870		1,870	

Panel B: Descriptive Statistics under 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
Gross 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
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 IPOs	0.38	0.34	0.1370	0.39	0.29	0.0000

Panel C: Time Effects of Directors' Donation 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 Effect	Y	Y	Y	Y
Industry Effect	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' Donation 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 Effect	Y	Y	Y	Y
Industry Effect	Y	Y	Y	Y
Observations	1,206	667	365	1,508
Chi-Square	0.174	0.253	0.253	0.174

Panel E: Time Effects of Directors' Donation 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 Effect	Y	Y	Y	Y
Industry Effect	Y	Y	Y	Y
Observations	1,009	667	365	1,311
Chi-Square	4,109	3,908	3,504	3,805

Table 10: Cross-Sectional Analysis

This table illustrates the estimation of OLS and Cox models. Panel A and B present sub-sample results on the effect of DPC and firm failure using a set of firm characteristics. In Panel A, 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 which equals one for companies where venture capitalists were involved indicating their certification role and zero for non-venture capital backed IPOs. Columns (5) and (6) classify companies with strong and weak corporate governance based on a quality index introduced in the study. Panel B presents the impact firm characteristics on Firm Failure. 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. The p-values reported in parentheses. The asterisks ***, ** 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 DPC 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 Effect	Y	Y	Y	Y	Y	Y
Industry Effect	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 DPC 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 Effect	Y	Y	Y	Y	Y	Y
Industry Effect	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 DPC 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 Effect	Y	Y	Y	Y	Y	Y
Industry Effect	Y	Y	Y	Y	Y	Y
Observations	836	837	786	887	837	836
Chi-Square	4,008	3,899	3,822	3,904	4,102	4,105