Buying Local Favor?
Establishment-Level Evidence on the Insurance Effect of Corporate Philanthropy and Political Connections[†]

Emdad Islam[§], Lubna Rahman[€], Cara Vansteenkiste[#]

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Abstract

Based on a large establishment-level dataset, we find evidence of a strategic substitution effect between corporate philanthropy and political connections as insurance mechanisms against regulatory noncompliance costs. Quasi-exogenous adverse shocks to firms' local political connections following closely contested elections trigger reverse changes in local charitable donations targeting stakeholders of establishments that face high noncompliance costs. We use staggered large increases in unemployment insurance benefits to show that the use of corporate philanthropy is amplified when regulatory noncompliance costs increase. These effects become stronger for firms facing higher financial constraints and decrease for firms that hedge against political connection losses.

JEL Classification: M14, G38, D64, D72, G32

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[§] Monash University. Email: Emdad.Islam@monash.edu; Address: W1014, Robert Menzies Building, School of Banking and Finance, Clayton, Melbourne, VIC-3800, Australia.
[€] Monash University. Email: Lubna.Rahman@monash.edu; Address: W1013, Robert Menzies Building, School of Banking and Finance, Clayton, Melbourne, VIC-3800, Australia.
[#] University of New South Wales. Email: c.vansteenkiste@unsw.edu.au; Address: BUS 338, School of Banking and Finance, UNSW Business School, UNSW, 2052 Sydney, Australia.

1. Introduction

The growth in corporate philanthropic giving has paralleled the increasing emphasis on corporate social responsibility (CSR) and Environmental, Social, and Governance (ESG)-focused investments in recent years. In 2021, charitable giving by U.S. corporations amounted to more than $21 billion, reflecting an 18% increase relative to 2020 (Giving USA, 2022). Although some corporate giving may be motivated by agency concerns, corporate philanthropy often also brings strategic benefits for firms by reflecting stakeholders' demand for corporate citizenship (Bénabou and Tirole, 2010). Nevertheless, despite the mammoth charitable giving programs by U.S. corporations, "doing well by doing good" does not always begin at home. Corporate mistreatment of stakeholders, such as employees and local communities, has been staggering. Our data shows that, between 2006 and 2021, approximately 60% of U.S. foundation-owning firms were penalized by regulatory agencies for committing at least one employment- or environmental-related offense.

Firms' past misconduct considerably increases the risk of future regulatory screening and increased penalties (Blundell et al. 2020; Johnson, 2020).[1] Firms facing high regulatory noncompliance costs tend to seek preferential treatment and insulation against regulatory enforcement actions by establishing connections to legislators (Yu and Yu, 2011; Goldman et al., 2013; Correia, 2014; Heitz et al., 2021). At the same time, pro-social corporate behavior, particularly direct CSR investment in the form of charitable donations, can also act as a regulatory insurance mechanism (Godfrey, 2005 Koh et al., 2014; Hong et al., 2019). A firm's political and social intangible capital from catering to the interests of local stakeholder groups can minimize regulatory noncompliance costs by reducing the risk and consequences of, for example, stakeholders acting as whistleblowers to corporate watchdogs, future litigation, and other monetary penalties and regulatory liabilities (Liu et al., 2020).

Although firms may therefore exploit corporate resources to buy favor with both local legislators *and* local stakeholders, corporate resources are finite. Moreover, the relative efficacy of both

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[1] For example, a significant number of Occupational Safety and Health Administration (OSHA) inspections are triggered by an event specific to the facility. A complaint (by an employee or member of the public) alleging safety and health hazards, a "referral" (an allegation of hazards made by an inspector, government agency, or media), or a serious accident (worker fatality or hospitalization of three or more workers, or what OSHA calls a "catastrophe") can trigger inspections by regulatory watchdogs (see, Johnson, 2020).

insurance mechanisms may vary substantially based on the firm's specific situation and operational context. In this paper, we examine the strategic interactions between corporate philanthropy and political connections as substitute insurance mechanisms against regulatory noncompliance costs.

We exploit a sample of more than 800,000 U.S. establishments over a 15-year period to investigate the use of corporate philanthropy as an insurance mechanism against regulatory noncompliance costs, focusing on its relation to firms' political insurance. We combine detailed data on corporate charitable giving, political connections, and corporate non-financial misconduct to trace a strategic substitution effect between charitable giving and political connections at a granular geographic level where such interactions are likely to play out—the local community. A firm's past misconduct in a local community is likely to require re-establishing its reputational capital with local affected stakeholders, and local legislators can play an important role in minimizing regulatory noncompliance costs. Moreover, this setting also enables us to exploit *within-firm* variation in local noncompliance costs, an attractive feature that becomes unavailable when aggregating misconduct at the headquarter level. We find evidence of a strong positive nexus between a firm's risk of local noncompliance costs, proxied by having a history of local misconduct, and its propensity to (i) provide charitable donations to local communities surrounding establishments in districts where the misconduct occurred, and (ii) establish political connections with local congress representatives in those districts. These patterns indicate the strategic use of targeted community-focused philanthropic contributions and political connection-building by firms facing high regulatory noncompliance costs.

A complicating factor, however, is that firms may also use charitable giving as a means to achieve political influence by targeting foundations in districts with legislators whose interests align with those of the firm. Indeed, Bertrand et al. (2020) show that firms' charitable giving patterns parallel those of political action committee (PAC) spending and that up to 6.5% of firms' charitable contributions may reflect political lobbying. Consistent with Bertrand et al. (2020), we document a positive association between a firm's local political connections and local charitable giving, although only for firms facing low local regulatory noncompliance costs. This association is untethered and reverses for establishments facing higher regulatory noncompliance costs: firms with a local political

connection in districts where they face increased noncompliance costs donate *less* to local stakeholders, relative to firms without a local political connection.

When conditioned on firms' local regulatory noncompliance costs, the negative association between political connections and charitable giving points towards firms' incentives to establish connections to local legislators to obtain favorable regulatory treatment. This potential political protection, in turn, lowers the marginal benefits of seeking insurance through community charitable giving to prop up local stakeholder support. In other words, we argue that substitution effects exist between local corporate philanthropy and political connections as insurance mechanisms against regulatory noncompliance costs.

The decision to establish a local political connection is, however, likely endogenous on dimensions that may be related to a firm's donation decision. We address this concern by exploiting plausibly exogenous variation in firms' local political connections following closely contested elections, which induce reasonable randomness in firms' connections to local legislators (Lee, 2008; Do et al., 2012; Do et al., 2015; Akey, 2015). We estimate the effect of a firm unexpectedly losing its connection to a local district representative on the likelihood of providing charitable donations to local stakeholders, conditional on the firm's prior misconduct in that district. We tighten our identification strategy by augmenting our empirical models with highly restrictive fixed effects at the congressional district-year and firm level, and at the firm-year and congressional district level. The former approach enables us to compare the likelihood of local stakeholders receiving donations for establishments located in the same congressional district in the same year that support different electoral candidates and establishments owned by the same parent firm located in different districts. The latter approach compares establishments owned by the same parent firm in the same year, facing different closely contested election outcomes, and establishments in the same district owned by different firms.

Consistent with our hypothesis on strategic substitution effects, we find that the likelihood of providing charitable donations to local stakeholders of establishments in districts where the firm committed prior violations more than triples after it unexpectedly loses its local political connection. Whereas establishments in those districts are 3.1% more likely to provide charitable donations to local stakeholders in the absence of changes to their local political capital, the likelihood of providing local

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donations increases to 9.4% after the unexpected loss of a political connection. Corporate philanthropy as an insurance mechanism, therefore, becomes increasingly salient if firms can rely less on political insurance to minimize local noncompliance costs.

Although our high-level fixed effects absorb many potentially confounding variables, including time-varying attributes at the firm and district level, one could argue that establishments that built and lost a local political connection are different from establishments that never built a political connection to begin with. We address this potential self-selection bias by only considering establishments that supported a local candidate in the election cycle. We thereby compare (i) establishments that supported a local candidate in the same congressional district and election cycle, owned by different firms, and (ii) establishments that supported a local candidate owned by the same parent firm in the same election cycle, facing different close election outcomes. Even in this highly restrictive setting, we find evidence consistent with the increased use of local charitable giving when firms' political insurance mechanism disappears.

To gain insight into the specific mechanisms through which changes in an establishment's local political connections operate, we distinguish between established connections (i.e., incumbent legislators) and new or potential connections (i.e., new candidates). Intuitively, the strategic interactions between political connections and local charitable contributions are likely to manifest more strongly in establishments that lose a well-established connection relative to the loss of a potential or new connection. Our findings support such a hypothesis: our effects accrue primarily in the unexpected loss of an existing local political connection rather than the loss of a potential connection.

While our setting utilizes the reasonable randomness in changes to local political connections induced by closely contested election outcomes, one caveat is that a firm's likelihood of being subject to violation penalties in a given district is unlikely to be completely exogenous. Establishments in districts where the parent firm received penalties for prior violations are likely different from establishments in districts where no violations occurred on dimensions that also affect their local charitable contributions. We, therefore, further refine our identification strategy by augmenting our closely contested election setting with a second shock that induces arguably exogenous variation in firms' local regulatory noncompliance costs. Specifically, we utilize large, staggered increases in

unemployment insurance benefits (UIBs) across states that, by reducing the cost of retaliation borne by employees, increases the likelihood of employees acting as whistleblowers about their employer's labor (mis)practices to regulatory agencies. Such an exogenous spike in the probability of retaliatory whistleblowing is akin to increasing the potential cost of regulatory noncompliance, as UIB increases tend to be followed by more official workplace complaints and violations (Heese and Pérez-Cavazos, 2021).

Armed with these two shocks that induce plausibly exogenous variation in both an establishment's local political connections and its local regulatory noncompliance costs, we find that, in the absence of losing a local political connection, the likelihood of providing local charitable contributions decreases after a large UIB increase. Intuitively, the marginal strategic value of donating as an insurance mechanism decreases if firms can rely on a political insurance mechanism. However, the unexpected loss of political insurance is associated with a 6.6% to 9.4% higher likelihood of providing local charitable contributions in the three years after a state-level UIB increase. Thus, our findings consistently suggest a substitution effect between corporate local political connections and local philanthropic contributions. More specifically, corporate philanthropy is used by firms as an insurance mechanism against regulatory noncompliance costs, especially when they can no longer rely on political connections to obtain favorable regulatory outcomes.

A residual potential concern is that a higher propensity to provide local donations may reflect an increase in charitable donations to buy the newly elected legislator's favor for lobbying purposes, as in Bertrand et al. (2020), rather than to buy support from local stakeholders that are directly involved in the firm's activities. Although such an interpretation does not necessarily contradict our hypothesis, since seeking regulatory favor to minimize noncompliance costs can be considered a specific form of lobbying, we nevertheless attempt to distinguish between these interpretations. If an establishment's incremental charitable contributions following the loss of a political connection are purely aimed at buying the local legislator's favor, one would expect an increase in charitable donations in all communities within the legislator's congressional district and not just in the local community where the establishment's target stakeholders are likely to reside. Distinguishing donations made to recipients

located in a 25-mile radius around an establishment's ZIP Code from donations made to recipients located in the establishment's district but outside of the establishment's 25-mile radius, we find that the likelihood of providing local donations increases by 17%-18.5% following a local political connection loss for establishments in districts with local prior violations. In contrast, the donation likelihood to non-local communities decreases by approximately 2%. These charitable contribution patterns again point to the use of corporate philanthropy as a regulatory insurance mechanism by building the firm's intangible social capital with local stakeholders.

We rule out further potential concerns that the increase in donation likelihood may reflect a general increase in a firm's charitable giving by investigating shocks to the demand for charitable giving for reasons unrelated to changes in political connections or regulatory noncompliance costs in the form of large natural disasters.[2] Intuitively, natural disasters increase the demand for corporate philanthropy in affected localities, leaving fewer corporate charitable funds available for communities not exposed to natural disasters. However, a disaster-induced shock to demand for philanthropy should not lead to significant differences in local charitable giving when conditioning on establishments' regulatory noncompliance costs. We indeed find that local donations to communities of non-exposed establishments decline and, importantly, that there is no evidence for strategic interaction between high regulatory noncompliance costs and disaster-induced shocks to corporate philanthropy.

Finally, we investigate the channels that drive the substitution effect between local political capital and philanthropy-based insurance. Utilizing standard proxies for financial constraints (e.g., the Whited-Wu index (Whited and Wu, 2006), the Kaplan-Zingales index (Kaplan and Zingales, 1997), and firm-level credit scores), we find that our results are driven by more financially constrained firms, which have relatively less access to financial resources. In addition, we find that donations show opposite patterns following local political connection increases and for firms that hedged their losses by supporting both parties. We further find that our results reflect regulatory noncompliance costs related to workplace violations rather than environmental violations. We confirm that our results are

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[2] Using micro data, Perez-Truglia et al. (2023) find that foreign natural disasters, which are positive shocks to charitable giving, crowd out individual-level political giving, and that political advertisement campaigns, which are positive shocks to political giving, crowd out individual-level charitable giving.

robust to examining firm-level political connections and various sample specifications, fixed effects (including a combination of firm-by-year and district-by-year fixed effects, and establishment and district-by-year fixed effects), and definitions of local donations and local violations.

We contribute to several strands of the literature. First, we contribute to the emerging literature on corporate philanthropy. This literature suggests various motives and incentives for corporate philanthropy, ranging from pure altruism (Bénabou and Tirole, 2010), performance enhancement (Choi et al., 2023a), reputation rebuilding (Akey et al., 2021; Choi et al., 2023b; Liang and Vansteenkiste, 2023), talent attraction and retention (Rice and Schiller, 2023), agency-motives (Brown et al., 2006; Masulis and Reza, 2015; Cai et al., 2021) and political lobbying (Bertrand et al., 2020; 2021). We contribute to this strand of the literature by highlighting the role of corporate philanthropy as an insurance protection mechanism against regulatory noncompliance costs and its strategic interaction with political connection-building.

Second, we contribute to the literature on the strategic use of political connections as insurance devices against regulatory enforcement. (Yu and Yu, 2011; Correia, 2014; Cuny et al., 2020; Mehta and Zhao, 2020; Akey et al., 2021; Heese et al., 2022; Gulen and Myers, 2022; Fulmer et al., 2022). We confirm the use of political connections as a regulatory insurance mechanism and identify the substitution between local political connections and local corporate philanthropy as insurance mechanisms against strict regulatory enforcement. Bertrand et al. (2020) highlight that some corporate philanthropy can be politically motivated. We complement these findings by showing that in the presence of high regulatory noncompliance costs, firms strategically donate in ways that do not necessarily parallel their political contributions - suggesting a previously unidentified strategic substitution effect between firms' political connections and corporate philanthropy.

Finally, we contribute to the literature on the economics of corporate violations and non-financial misconduct. The extant literature shows that employer misconduct, particularly in terms of workplace violations, is widespread across industries, locations, and time (Cohen et al., 2023) and that potential employer retaliation costs influence employee whistleblowing (Johnson et al., 2020; Heese and Pérez-Cavazos, 2021). We add to this strand of the literature by showing that high regulatory

noncompliance costs induce firms to strategically deploy corporate resources to afford insurance-type mechanisms against such regulatory risk.

2. Sample, Methodology, and Summary Statistics

2.1 Sample

Our main analysis is based on an establishment-year panel dataset from Your Economy Time Series (YTS), spanning 2006-2021. YTS collects establishment-level ownership, location, employment, sales, and credit score data for public- and privately-owned U.S. establishments. The YTS database compiles data from Infogroup's historical business files and is increasingly used in finance and economics research (e.g., Campello et al., 2022; Houde et al., 2023; Flynn and Ghent, 2023).

We merge the establishment-level panel data with firms' corporate giving data from Candid's Foundation Directory Online (FDO) and Foundation Maps based on CIK and CUSIP codes of establishments' parent firms. Candid collects and digitizes donation-level data for U.S. not-for-profits from their Form-990 IRS filings, in which charities report donations to domestic (U.S.) recipients, press releases, and other publicly available data sources. In addition, many funders and recipients self-report their donation data to Candid to source grant opportunities. Setting up a corporate foundation is not a random choice, as foundations involve significant start-up and ongoing administrative costs. We therefore restrict the sample to establishments owned by firms that have a corporate foundation and that are dedicated to engaging in corporate philanthropy on a consistent, ongoing basis. In doing so, we eliminate the concern that a firm's political connections and prior violations may be correlated with unobservable omitted variables that also affect the overall decision to engage in corporate philanthropy.[3]

Although coverage of the YTS dataset goes back to 1998, our sample coverage is guided by the availability of corporate giving data. Candid's coverage significantly improves after 2006. To avoid a reporting bias prior to 2006, we collect data for all foundations owned by publicly listed U.S. corporations between 2006 and 2021. This process results in over 1,000,000 individual donations made

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[3] In Table IA.2 in the Internet Appendix, we ensure that our baseline results are comparable in significance and size when including firms that do not own a corporate foundation in our sample. We also confirm our results for closely contested elections for this sample in the Robustness Tests section.

by 905 corporate foundations and giving programs.[4] After matching the donations data with the establishment-level data, we obtain a sample of 4,827,491 establishment-year level observations, covering 878,080 establishments owned by 535 unique parent firms.[5]

2.2 Methodology

We first provide baseline estimations for the full sample of establishments owned by U.S. publicly listed, foundation-owning, parent firms to investigate our key assumptions and hypotheses. First, we estimate the relation between prior violations incurred by the parent firm in an establishment's congressional district and the likelihood of the firm seeking insurance through (i) community charitable donations to recipients located near the establishment and (ii) establishing local political connections, proxied by making PAC contributions to the local congressional representative of that district. We obtain data on firms' PAC contributions from the Federal Election Commission (FEC) and match it to our establishment-level dataset using Dane Christensen's PAC-GVKEY link table (Christensen et al., 2021; 2022).

We capture an establishment's regulatory noncompliance costs based on whether its parent firm was subject to violations by workplace or environmental regulators in the establishment's congressional district in the prior five years. We obtain establishment-level violations from Violation Tracker, which covers violations data for approx. 310,000 civil and criminal cases with penalty amounts larger than $5,000 filed by 44 federal regulatory agencies. We focus on violations classified as employment-related (e.g., wage and hour offenses, work visa and leave offenses, discrimination, screening violations, labor relations offenses), safety-related (e.g., workplace health and safety, motor vehicle safety, drug or medical equipment safety), or environmental-related (e.g., environmental offenses, fuel economy, energy conservation), as these are most likely to affect local stakeholders. Firms that have received prior violations are typically subject to greater regulatory scrutiny (Blundell et al., 2020; Johnson, 2020),

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[4] We exclude company-sponsored foundations that own donor-advised funds (DAFs), as donation decisions in DAFs are made by individual donors rather than the firm or the foundation.

[5] YTS does not provide CIK or CUSIP codes for all publicly listed parent firms in the dataset. The availability of public identifiers is skewed towards larger, established corporations. This is unlikely to bias our results, however, as our filter for foundation-owning firms also skews the sample towards large corporations.

increasing their regulatory noncompliance costs. Past violations also signal local stakeholders' willingness to act as whistleblowers should the need arise.[6] If firms seek regulatory insurance via political connection-building and local charitable donations to reduce regulatory screening and minimize direct and indirect noncompliance costs and consequences, they should be more likely to do so in communities and districts where they received prior violations.[7]

Second, we estimate the relation between an establishment's local political connections and its local charitable donation likelihood, conditional on the parent firm's violation status in the establishment's local congressional district. Bertrand et al. (2020) show that firms seek political influence through charitable donations to districts of representatives that cover issues of importance to the firm and highlight that charitable giving patterns closely follow PAC spending patterns. We therefore expect to find a positive relation between an establishment's local political connections and its local charitable donations for establishments that face relatively lower regulatory noncompliance costs. Charitable giving for these establishments is likely to, at least partly, reflect political lobbying to, e.g., secure government contracts or seek other forms of political influence.

For establishments that face increased noncompliance costs, we expect to find a negative relation between local political connections and charitable giving. A firm's incentives to establish a local political connection in a district where it faces high regulatory noncompliance costs are more likely to be insurance-related, i.e., aimed at avoiding regulatory scrutiny and minimizing consequences from regulatory violations. If firms can reduce regulatory noncompliance costs via a local political connection, we expect a lower likelihood of seeking insurance through community charitable giving to build stakeholder support and reputational capital for establishments in such districts.

2.3 Identification Strategy

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[6] In addition, regulators' inspections are at least partly based on geographic proximity to other establishments on the inspection schedule (Shimshack, 2014; Dasgupta et al., 2022), increasing the risk of inspection for establishments located nearby other prior violators.

[7] In the remainder of the paper, we consider "noncompliance costs" to include the risk of regulatory screening as well as other direct and indirect consequences of noncompliance, such as the risk of employee whistleblowing, litigation costs, reputational damage, monetary penalties, and other liabilities.

The decision to establish a political connection is endogenous on dimensions that may be related to a firm's donation decision. Therefore, we employ an identification strategy based on unexpected political connection losses following closely contested elections, while controlling for confounding variables at the congressional district-year, firm level, firm-year, and district level. In this analysis, we restrict the sample period to years following an election year, excluding the election years themselves since firms may change their donation behavior during the year an election is held, and our charitable donation data does not allow us to distinguish pre- versus post-election donations in the same year. Our main specification is:

$$D[Local\ Donations]_{e,t} = \alpha + \beta_1 Local\ Violations_{e,t-5,t-1} + \beta_2 Lost\ Local\ Connection_{e,t-1} +$$
$$\beta_3 Local\ Violations_{e,t-5,t-1} \times Lost\ Local\ Connection_{e,t-1} + Establishment\ Controls_{e,t-1} +$$
$$\gamma_{i,t} + \delta_d + \varepsilon_{e,t} \tag{1}$$

where $D[Local\ Donations]_{e,t}$ is an indicator for whether an establishment's parent firm foundation made donations to recipients located in a 25-mile radius around the establishment's ZIP Code; $Local\ Violations_{e,t-5,t-1}$ is an indicator for whether an establishment's parent firm committed a formal violation in the establishment's congressional district in any of the five previous years; $Lost\ Local\ Connection_{e,t-1}$ is an indicator for whether the establishment lost its political connection to the local congressional district representative in a closely contested election in the previous year, where closely contested election outcomes are obtained from the Federal Election Commission (FEC). A closely contested election setting, where the winning candidate's voting share differs from that of the closest opponent by less than 5%, allows for reasonable randomness in close election outcomes (Lee, 2008; Akey, 2015; Do et al., 2015).[8]

$Establishment\ Controls_{e,t-1}$ is a vector of establishment-level control variables, including the natural logarithm of the establishment's total sales and the natural logarithm of the establishment's number of employees; and $\gamma_{i,t}$ and δ_d are parent firm-by-year and congressional district fixed effects, respectively. Firm-by-year fixed effects absorb time-varying firm-level characteristics that may affect

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[8] The mean and median winning margins for the closely contested elections in our sample are 2.58% and 2.66%, respectively.

a firm's propensity to donate, such as the parent firm's national political connections, employee relations, financing constraints, institutional ownership, among others.

In additional tests, we control for district-by-year and firm fixed effects, which absorb time-invariant firm-level characteristics such as primary industry, headquarters location, production processes, etc., as well as time-varying congressional district characteristics such as local GDP, population density, district importance, and local regulations. We also provide robustness tests that include fixed effects at the firm-by-district and establishment levels.

In our most stringent specification in Equation (1), we control for district and firm-by-year fixed effects and restrict the sample to establishments that had a political connection going into the election (i.e., at t-1). In doing so, we can compare the likelihood of local stakeholders receiving donations for (i) establishments located in the same congressional district but supporting different electoral candidates and for (ii) establishments that supported a candidate in their local district election owned by the same parent firm in the same year, but with different closely contested election outcomes.

2.3 Summary Statistics

We provide summary statistics for the full sample used in our baseline specifications in Panel A of Table 1. On average, 16% of communities located near a firm's establishments receive donations from the parent firm's foundation. Conditional on receiving donations, communities receive a median (mean) amount of \$49,284 (\$858,542). These amounts are larger than those reported in, e.g., Bertrand et al. (2020) because our setting only identifies donations made to recipients located near firms' establishments. To the extent that firms donate more often and larger amounts to areas where they have business interests, this will result in larger total donated amounts relative to donations made to more randomly distributed geographical areas. For example, some of the largest amounts donated are J.P. Morgan Chase's donations to recipients located near its New York branches, including a \$3,360,000 grant to the New York Business Development Corporation, a \$2,200,000 donation to the New York Local Initiatives Support Corporation, and several \$1,000,000 donations to support local scholarship funds, libraries, art centers, and museums.

3.4% of establishments received a penalty for committing an official violation by environmental or workplace regulators in the previous five years, resulting in an average number of violations of 0.05. More than 60% of parent firms receive penalties for committing at least one violation over the sample period, however. Violations tend to escalate once reported; some firms receive more than 200 violations in a given district over a five-year period (e.g., United States Steel Corp). 63% of establishments' parent firms have at least one political connection in any given year, and 8.4% of establishments have a connection to their local congressional district's representative. The average establishment has 31 employees and makes $5.7 million in sales. Establishments are located all over the U.S.: the average distance between the parent firm's headquarters and the establishment is 1,002 miles. Parent firms have an average credit score of 96.4 on a scale of 0-100 and a Whited-Wu (WW) and Kaplan-Zingales (KZ) index of -0.349 and -7.339, respectively.

In Panel B, we compare establishments' charitable donations and political connections based on whether they are in a district with prior local violations. We find that establishments in districts with prior local violations are 9% more likely to provide charitable donations to recipients located near the establishment. They are also 10% more likely to have made PAC contributions to their local congress representative, suggesting that establishments in districts with a history of violations seek to reduce regulatory noncompliance risk through both political and stakeholder-based insurance mechanisms. Establishments in such districts tend to have more employees and higher sales, likely reflecting the fact that some regulatory inspections and subsequent violations result from whistleblowing by employees (Johnson, 2020). They are located closer to the parent firm's headquarters, and they are owned by firms with a slightly lower credit score and lower WW index but a higher KZ index.

In Panel A of Table IA.1 in the Internet Appendix, we also compare establishments that provide charitable donations to local stakeholders and establishments that do not. We find that establishments that provide local donations have, on average, 5 more employees, $1.5 million higher sales, and are located 215 miles closer to the parent firm's headquarters, suggesting that local charitable donations are more likely for establishments that are larger or are more important to the parent firm. Consistent with charitable giving to build a stakeholder-based insurance mechanism, establishments that provide local donations are 2.3% more likely to be in a district where the parent firm committed prior violations.

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Moreover, consistent with some charitable giving being politically motivated, donating establishments are 4.7% more likely to have a connection to their local congress representative.

3. Results

3.1 Baseline Results: Corporate Philanthropy and Political Connections as Insurance Mechanisms

Our main hypothesis assumes that establishments with higher regulatory noncompliance costs are more likely to establish insurance mechanisms through political connections and charitable contributions. We test this assumption in Table 2, where we estimate the effect of an establishment's district's prior violations on the likelihood of making charitable donations to local recipients and on the likelihood of establishing a connection with the local congressional district representative. Although our main goal in these tests is to show correlations rather than causation, we include firm and district-by-year fixed effects in columns (1) and (3).[9] Firm fixed effects absorb all time-invariant variables that may affect the decision to provide charitable donations or establish political connections, such as the firm's industry, employee focus, and asset tangibility, among others. District-by-year fixed effects absorb time-varying characteristics of a given congressional district, such as its relative importance over time, its economic growth, and population growth, among others. In columns (2) and (4), we include year and establishment fixed effects, which account for individual establishment characteristics that may affect the decision to seek political or stakeholder-based insurance, such as its size, industry, or location.

The results suggest that establishments in districts with prior violations are 3.8% (column (1)) and 3.5% (column (2)) more likely to make local charitable donations and that they are 1.6% and 0.2% (columns (3) and (4)) more likely to have a connection to their local congress representative. Therefore, these baseline results indicate that establishments with higher regulatory noncompliance costs use charitable donations and political connections as insurance mechanisms against the direct and indirect costs and consequences from regulatory noncompliance.

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[9] These results are also robust to including firm-by-district fixed effects. However, the restrictiveness of these fixed effects reduces the economic magnitude of the coefficients. They also hold in a setting without controls and without most fixed effects. Results are available on request.

There are many reasons why community charitable giving and political connections may follow similar patterns. For example, firms may donate to recipients located in congressional districts of legislators that cover issues important to the firm's interests (Bertrand et al., 2020), or they may direct more charitable and political resources to specific areas that are of strategic importance. Under our insurance hypothesis, we expect that establishments in districts with prior violations use political connections to reduce noncompliance costs in the form of regulatory scrutiny and other consequences from regulatory violations. However, if firms have finite resources to spend, we expect that firms with local political support will rely less on community charitable giving as a regulatory insurance mechanism.

We investigate this hypothesis by estimating the correlation between an establishment's local political connections and its likelihood of providing charitable donations to local recipients. On average, we expect a positive relation between the presence of a local political connection and the likelihood of providing charitable donations to local stakeholders. Establishments that face relatively low regulatory noncompliance costs are likely to engage in political lobbying if their local legislator sits on committees that align with the firm's interests. Such political lobbying can take the form of formal PAC spending as well as politically-motivated charitable giving. However, establishments in districts where the firm faces high noncompliance costs may use political connections as an insurance mechanism against and the direct and indirect consequences of regulatory noncompliance. They may then need to rely less on providing charitable donations to local stakeholders as a substitute insurance mechanism.

In Table 3, we split our sample based on an establishment's parent firm's local prior violations in the establishment's district. Although our aim is again to show correlations, we include firm and district-by-year fixed effects in columns (1) and (2), and establishment and year fixed effects in columns (3) and (4). Consistent with the existing literature, we find that, for establishments in districts where the firm faces relatively low regulatory noncompliance costs, a positive relation exists between the presence of a local political connection and charitable donations to recipients located near the establishment: establishments in such districts are 1.3% (column (1)) and 0.1% (column (3)) more likely to donate if they have a local political connection. However, a negative relation exists between charitable giving and having a local political connection for establishments in districts where the firm faces high

noncompliance costs, and political connections are more likely to be used as a regulatory insurance mechanism. Conditional on a district having committed prior violations, a local political connection reduces the likelihood of providing charitable donations to local recipients near the establishment by 0.6% (column (2)) and 3.1% (column (4)). These results are consistent with charitable giving directed at local stakeholders as an insurance mechanism against regulatory noncompliance costs.

3.2 Identification: Evidence from Closely Contested Elections

Although our baseline estimations control for omitted variables at the firm and district-year level, a firm's political connections may still be correlated with variables that also affect its charitable donation patterns. The decision to establish and retain a local political connection is an endogenous choice that may be related to a firm's likelihood of providing local charitable donations. For example, a firm may be more likely to establish political connections and provide charitable donations in districts whose legislators sit on strategically important committees. Alternatively, establishments with more ESG-oriented management teams may be less inclined to build political connections while being more likely to engage in corporate philanthropy.

We exploit changes in firms' local political connections following closely contested elections to address this concern. The outcome of a closely contested election is difficult to predict ex-ante, such that firms' PAC spending patterns are less likely to differ significantly prior to the election. In Table 4, we estimate the effect of an establishment unexpectedly losing its connection to its local district representative on the likelihood of providing charitable donations to local stakeholders, conditional on the firm's prior violation status in the establishment's district. For this analysis, we restrict the sample period to establishment-year observations that follow an election year.[10]

We find that establishments in districts with local prior violations that did not lose a local political connection are 3.1% more likely to provide charitable donations to local stakeholders (column (1)). This is consistent with the general use of charitable giving as an insurance mechanism by seeking

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[10] We provide summary statistics and univariate differences for the sample following election years in Panel B of Internet Appendix Table IA.1. We find that the variables in this sample are comparable to those in the full sample, although the likelihood of having a local political connection is lower in the sample following an election as some establishments lose their connection in the election.

the favor of local stakeholders through the provision of funds and resources for the local community. By doing so, a firm may seek to reduce the likelihood of, e.g., employee whistleblowing to local regulators, which may lead to significant penalties imposed on the firm. However, this effect significantly increases to a 9.4% (= 6.3% + 3.1%) higher likelihood after an establishment unexpectedly loses its political connection, consistent with the notion that charitable giving as an insurance mechanism becomes particularly important if firms can no longer rely on political insurance to minimize noncompliance costs.

A potential concern is that we may be comparing donation likelihoods for establishments that lost a local political connection to establishments that never had a political connection to begin with. Although our inclusion of firm and district-by-year fixed effects ensures we are comparing establishments owned by the same parent firm and establishments located in congressional districts in the same close election, the decision to establish a local political connection may still be correlated with variables that also affect local charitable giving.

To address the potential concern that establishments that never had a political connection are different from those that did, we limit the sample to establishments that had a political connection to a local candidate in the t-1 election in columns (2) and (4). We find that our results also hold in this more restricted sample, indicating that they do not reflect the ex-ante decision to establish a local political connection: establishments in districts with local prior violations are 8.9% (= 3.8% + 5.1%, column (2)) more likely to provide charitable contributions after losing a local political connection.

Although the inclusion of firm fixed effects absorbs many variables at the parent firm level that may affect its charitable giving patterns, time-varying variables such as the parent firm's nationwide political connections stock, financial constraints, or employee relations are not accounted for. We, therefore, also provide results for specifications that include firm-by-year and district-level fixed effects.[11] This approach enables us to compare charitable donations provided to local stakeholders of establishments owned by the same parent firm in the same year that face different election outcomes. We again find that our results remain upheld. Establishments in districts with local prior violations are

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[11] We do not include establishment fixed effects as they absorb much of the variation that we are interested in. We however report such tests in additional robustness tests in Section 4.3.

2.3% more likely to provide charitable donations, increasing to an 8.4% (= 5.3% + 0.8% + 2.3%) higher likelihood after losing a local political connection (column (3)). We also find that the main effect of losing a local political connection on the donation likelihood is significantly positive, consistent with the notion that establishments in districts without prior violations seek to re-establish local political connections for reasons other than for insurance purposes.

These effects also hold in our most restrictive specification, where we condition on having a connection to a local candidate in the election. By including firm-by-year and district-fixed effects, we can compare the effect of unexpectedly losing a political connection on the likelihood of providing charitable donations to local stakeholders for establishments owned by the same parent firm in the same year and for establishments located in the same congressional district owned by different parent firms. In these tests, we find that violating establishments are 7.5% (= 3.2% + 1.4% + 2.9%, column (4)) more likely to provide charitable donations following the unexpected loss of a local political connection.

3.3 Political Connection Type

Not all of a firm's political connections are equally important. Well-established connections to seasoned representatives likely provide stronger insurance benefits relative to one-off or newly established connections. The unexpected loss of an existing local political connection is then a stronger shock to an establishment's regulatory risk exposure, increasing the likelihood of seeking stakeholder-based insurance via charitable donations. In Table 5, we differentiate an establishment's local political connections based on whether the connection was in place in the previous election cycle, i.e., we distinguish existing political connections to the incumbent legislator from first-time connections or potential connections to freshman representatives.

In the unrestricted sample in Panel A, we confirm that our main findings are driven primarily by the loss of an existing local political connection rather than the loss of a potential or newly established local connection. Establishments in districts with prior violations are 13% (= 10.1% + 2.9%, column (1)) and 28.5% (= 26.2% + 2.3%, column (3)) more likely to donate to local recipients after losing an existing political connection relative to establishments in other districts that did not lose a connection. The loss of a potential connection to a freshman representative has a much weaker effect

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on the donation likelihood in column (2), and the effect disappears entirely after controlling for firm-by-year fixed effects in column (4), suggesting that the decision to establish a new political connection may be a firm-level decision.

These findings also hold in the restricted sample where we only consider establishments with a (new or existing) connection to a local candidate in Panel B. In columns (1) and (2), we first confirm our findings from Table 4 that establishments in districts with prior violations are more likely to make local donations even without losing a connection. We then also find that the increase in donation likelihood after an unexpected political connection loss is driven entirely by existing political connection losses: establishments in violation districts that lost an existing political connection are 11.7% (= 7.5% + 4.2%, column (1)) up to 18.6% (= 17.1% + 1.5%, column (3)) more likely to make local donations relative to those that did not lose a connection. In contrast, the loss of a newly established or potential connection decreases the likelihood of providing local donations for establishments in non-violation districts, suggesting that any prior donations may have been politically motivated (columns (2) and (4)).

3.4 Identification: Large Unemployment Insurance Benefit Increases

One potential concern is that establishments where the firm committed prior violations, differ from those in districts where no violations occurred on dimensions that also affect the decision to donate. For example, establishments in districts that received violations may increase their investment in ESG and engage in more "good corporate citizen" behavior, which may go hand in hand with PAC spending reductions and increases in philanthropic giving.

To address this concern, we consider plausibly exogenous shocks to establishments' regulatory noncompliance costs by investigating large, staggered increases in unemployment insurance benefits (UIBs) across states over time. By providing a safety net for workers risking retaliatory behavior by their employer, UIBs increase the likelihood of employees acting as whistleblowers about their employer's labor (mis)practices to regulatory agencies (Agrawal and Matsa, 2013; Dou et al., 2016). The literature has indeed shown that large UIB increases tend to be followed by more official workplace complaints and violations (Heese and Perez-Cavazos, 2021). We, therefore, expect that establishments

whose political insurance mechanism is unexpectedly lost are more likely to donate to local communities in the years following a large state-level UIB increase.

In Panel A of Table 6, we first find that large UIB increases are indeed associated with a 0.3% higher likelihood of receiving a local violation in the following three years.[12] Moreover, consistent with the use of political connections to hedge against regulatory noncompliance costs, the unexpected loss of a local political connection increases the likelihood of receiving a violation by 1.5% (= 0.3% + 0.4% + 0.8%, column (1)) after a state-level UIB increase. In column (2), we find that the local donation likelihood decreases after a large UIB increase in the absence of losing a political connection, suggesting that firms tend to rely more on political insurance to reduce regulatory noncompliance costs. We then investigate whether the increase in establishments' exposure to noncompliance costs increases the likelihood of providing local charitable donations. We find that the unexpected loss of a local political connection is associated with 6.6% (= 6.2% + 0.8% - 0.4%, column (2)) and 9.4% (= 13.7% + 1.40% - 5.70%, column (3)) higher likelihood of providing local charitable donations in the three years after a state-level UIB increase.

A large UIB increase is more likely to increase an establishment's regulatory noncompliance costs if it relies more on workers and human capital in its day-to-day operations. In Panel B, we consider a sample of high-employment establishments, defined as establishments with an above-median number of employees relative to the parent firm's other establishments in a given year. Some of our previous results are strengthened in this subsample: losing a local political connection is associated with a 1.9% higher likelihood of future violations following a large state-level UIB increase (column (1)). In addition, the loss of a political connection is associated with a 9.5% (= 9.30% + 0.60% - 0.40%%, column (2)) and 4.7% (column (3)) higher likelihood of providing charitable donations in the three years after a large UIB increase.[13]

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[12] We define our post-treatment variable (*UIB Increase*) as an indicator variable set to one over a three-year period after the post-UIB increase because Heese and Perez-Cavazos (2021) show that most of the increase in workers' complaints disappears after three years.

[13] In additional tests, we also confirm that our results hold when excluding the establishment-level control variables to account for a potential "bad controls" issue (results available on request).

By considering unexpected losses of local political connections following arguably exogenous increases in establishments' regulatory noncompliance costs in an establishment-level panel dataset with high-level fixed effects, we account for a wide variety of potential omitted variables that may affect the investigation of a firm's use of corporate philanthropy as a regulatory insurance mechanism. Collectively, our findings indicate that corporate philanthropy is used by firms as an insurance tool against regulatory noncompliance costs, primarily if they can no longer rely on local political connections to obtain favorable regulatory outcomes.

3.5 Do Donations Reflect Political Lobbying?

Our findings show that firms are more likely to provide charitable contributions to recipients located near establishments in districts where a local political connection was lost in a close election. The next potential concern is that the increased donation likelihood reflects an increase in politically motivated charitable donations aimed at buying the favor of the newly elected legislator rather than donations targeting establishments' employees and other stakeholders. To address this concern, we distinguish donations made to recipients located in a 25-mile radius around an establishment's ZIP Code from donations made to recipients located in the establishment's district but outside of the establishment's 25-mile radius. If firms provide donations intending to buy the favor of the new incumbent legislator, they should be equally likely to target recipients near the establishment as they are to target recipients elsewhere in the congressional district.

We find in Panel A of Table 7 that the increase in donation likelihood is concentrated in donations made to recipients located close to the establishment rather than in donations made elsewhere in the district. Whereas the likelihood of providing local donations for establishments in violation districts increases by 17% (=10.3% + 2.9% + 3.8%, column (1)) and 18.5% (=13.8% + 1.4% + 3.3%, column (3)) following the loss of a local political connection, the likelihood of providing donations to other recipients in the district decreases by 1.8% (= 2.2% - 0.4%, column (2)) and 1.9% (column (4)).

We find similar results in the restricted sample conditioning on having a local connection in the election year. The likelihood of providing local donations increases by 22.8% (=13.5% + 9.3%, column (1)), but establishments in districts with a violation history are 4.7% less likely to provide donations to

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other recipients in the district following a political connection loss (column (2)). These results suggest that, following the loss of a local political connection in a district where the firm faces high regulatory enforcement costs, firms shift charitable funds towards recipients that are more likely to involve firms' employees and stakeholders instead of indiscriminately targeting all other recipients in the local legislator's congressional district.

3.6 How Do Donations Respond to Non-Political Shocks?

Another potential concern is that the increase in donation likelihood reflects a general increase in a firm's charitable giving, which may coincide with changes to its local political connections. We, therefore, investigate how a firm's propensity to donate changes following a non-political shock to the demand for corporate philanthropy. We exploit exogenous shocks to firms' local donation propensity in the form of large natural disasters, where large disasters are defined as disasters in the top decile in terms of damage and deaths caused. Large natural disasters may change firms' charitable donation patterns, but there should be no significant differences in charitable giving patterns based on establishments' exposure to local noncompliance costs. We test this hypothesis in Table 8.

We find that parent firms with exposure to the disaster (i.e., that have at least one establishment in a disaster-affected state) are 3.6% (column (1)) and 0.6% (column (2)) less likely to provide donations to local communities of establishments in unaffected states, suggesting a redistribution of corporate charitable resources from establishments in unaffected states to those in affected states. Importantly, an establishment's district's prior local violations do not significantly alter the likelihood of providing local donations, consistent with the lack of a substitution effect between non-political shocks to charitable giving and firms' regulatory noncompliance costs.

3.7 The Role of Financial Constraints

To gain further insight into the mechanisms driving a firm's decision to provide charitable donations to local stakeholders, we consider the parent firm's financial situation. Implementing the necessary changes to comply with regulators' requirements following a violation, such as implementing workplace safety measures or wage increases, is costly. Firms that are financially constrained may then

rely more on political connections to minimize noncompliance costs, such that the unexpected loss of an establishment's local political insurance mechanism leads to a higher increase in the need to seek stakeholder-based insurance.

In Table 9, we split the sample based on an establishment's parent firm's financial constraints. We condition this analysis on whether an establishment supported a local candidate in the election since firms that are very constrained are less likely to spend cash resources on PAC contributions, resulting in a lower likelihood of establishing and unexpectedly losing a connection. We consider three measures of financial constraints: the parent firm's credit score (CS) as reported by YTS, the Whited-Wu (WW) index (Whited and Wu, 2006), and the Kaplan-Zingales (KZ) index (Kaplan and Zingales, 1997). We define firms with high (low) financial constraints as having a below-(above-) median credit score or above-(below-) median WW or KZ index. We find that the use of charitable donations for insurance purposes is driven primarily by establishments owned by more credit-constrained parent firms. The loss of a local political connection is associated with a 15.8% (= 8.6% + 3.2% + 4.0%, column (1)), 9.7% (= 3.8% + 5.9%, column (2)), and 7.5% (column (3)) higher donation likelihood for establishments in districts with a violation history owned by credit-constrained parent firms. In contrast, losing a local connection does not significantly increase the provision of local charitable donations for establishments owned by non-constrained parent firms (columns (5) and (6)). There is evidence that financial constraints might even decrease the donation likelihood, suggesting that non-constrained firms may be more likely to act on regulators' requirements instead of seeking stakeholder-based insurance (column (4)).

3.8 Gaining and Hedging Political Connections in Closely Contested Elections

We next investigate whether the reverse effect holds for establishments whose political insurance increases or remains unaffected following a closely contested election. Specifically, we consider establishments whose supported candidate narrowly won a closely contested election and establishments who hedged against political connection losses by supporting both Republican and Democrat candidates in the t-1 election.

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In Panel A of Table 10, we investigate establishments that retained or gained a local political connection (in the unrestricted sample in columns (1) and (2), an election win may reflect a status quo or an increase in an establishment's local connections). We find that gaining or retaining a local connection is positively related to the provision of local donations, consistent with the notion that political spending and charitable contributions follow similar patterns. However, we also find that, for establishments in districts where the parent firm has prior violations, retaining or gaining a political connection does not increase the likelihood of providing local charitable donations. Although establishments in such districts are 3.2% (column (1)) and 2.4% (column (2)) more likely to provide charitable donations, gaining a political connection decreases this likelihood to 0.2% (= 3.2% + 1.3% - 4.3%, column (1)) and 2% (= 2.4% + 0.9% - 1.3%, column (2)), respectively. We find similar results in the restricted sample (see columns (3) and (4)). Retaining a local political connection is negatively associated with the likelihood of providing local charitable donations. This evidence suggests that establishments facing higher regulatory noncompliance costs have a lower need to build stakeholder-based insurance if they can rely on a political insurance mechanism.

In Panel B, we consider whether a firm hedged its political insurance by establishing local connections to both Republican and Democrat candidates in the establishment's district. These results follow similar patterns but are much stronger in magnitude compared to those in Panel A as, by definition, establishments with hedged connections cannot lose their local political insurance. Establishments that support both candidates in districts with local prior violations are much less likely to provide local donations, again consistent with a reduced need to establish stakeholder-based insurance.

4. Robustness Tests

In the next section, we investigate the robustness of our baseline results and our main specification in Equation (1) by conducting several sanity checks, varying the sample and variable definitions, and implementing various controls and fixed effects.

4.1 Which Types of Violations Matter?

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We first consider the type of violation penalties the parent firm received in an establishment's district. To the extent that an establishment's primary local stakeholders consist of employees and neighbors, expose to regulatory noncompliance costs should mainly be driven by potential workplace and environmental violation penalties. In Internet Appendix Table IA.4, we distinguish these different types of violations. We first distinguish workplace violations (i.e., employment-related, such as wage and hour violations, or workplace health and safety (WH&S) violations) in column (1) and find that the results echo our main findings in Table 4: establishments in districts where the parent firm received workplace violation penalties are 7.9% (= 5.2% + 1.9% + 0.8%) more likely to provide local charitable donations after the loss of a political connection. We then further separate workplace violations in employment and WH&S violations in columns (2) and (3). Our results primarily reflect employment violations related to wage and hour disputes rather than WH&S violations. This pattern is consistent with the findings of Cohen et al. (2023), which show that firms have strong incentives to avoid paying overtime, leading to wage and hour offenses being almost twice as prevalent as other offenses. We distinguish environmental violations in column (4) and find that establishments in districts with prior environmental violations are 5.7% more likely to provide charitable donations, but this effect does not increase further after losing a political connection.

In additional tests, we investigate whether different types of workplace violations play a more important role in specific industries. For example, WH&S issues are likely less important in an establishment that is mainly administrative in nature, whereas wage and hour disputes are more likely for establishments in industries notorious for underpaying workers. In Internet Appendix Table IA.3, we indeed find that the type of violations received by the parent firm in an establishment's district reflects the establishment's main type of business. We find that prior WH&S-related violations drive corporate philanthropy's insurance mechanism for establishments in construction and utilities (columns (1) and (2)), whereas wage and hour-related violations are more important for establishments with retail, wholesale, or service-based operations (columns (3) - (5)).[14]

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[14] In additional tests, we further distinguish firms in the financial industry, and find that our results are similar to those for the full sample in both magnitude and significance (results available on request).

4.2 Firm-Level Political Connections

Our main tests investigate the relation between a firm's local political connections and corporate philanthropy by considering establishment-level connections to local congressional district representatives. However, firms may also use political connections to legislators in other districts to hedge their regulatory noncompliance costs, especially if these legislators sit on committees relevant to the firm's interests.

In Panel A of Internet Appendix Table IA.5, we first repeat our baseline specifications from Table 4 but consider an establishment's political connections at the parent firm level. The findings echo our main results. For establishments in districts without local prior violations, a positive relation exists between establishing political connections and charitable donations, consistent with the notion that at least some fraction of corporate charitable giving may be politically motivated (column (1)). However, the relation turns negative for the subsample of establishments in districts where the parent firm has prior violations, suggesting a reduced need for firms to rely on a stakeholder-based insurance mechanism if they can rely on political support to reduce regulatory noncompliance costs (column (2)). Second, we repeat our main identification based on closely contested election outcomes, where we consider unexpected losses in an establishment's parent firm's political connections to capture the insurance effect of corporate philanthropy. In Panel B, we define a parent firm's political connection losses as (i) an indicator of whether the firm lost at least one political connection in a closely contested election (*Lost Connection*) or (ii) the ratio of lost connections to total connections lost and gained (*Lose Ratio*).

The results from these specifications are broadly in line with those based on establishments' local political connections. Establishments in districts where the parent firm has prior violations are 2.4% (column (1)) and 0.7% (column (2)) more likely to provide local charitable donations in the absence of losing a political connection. However, the loss of political connections at the parent firm level is negatively related to the provision of local charitable donations for establishments in districts where the firm did not commit violations. This may suggest that firms shift charitable funds from districts where they unexpectedly lost a connection and where no violations occurred to those with prior violations. We also find that the number of connections lost matters: the loss of all political connections

is still associated with a 4.3% (= 8.1% - 4.5% + 0.7%, column (2)) higher likelihood of providing local charitable donations for establishments in districts with prior violations. In additional tests in Panel B of Internet Appendix Table IA.6, we also repeat our identification based on large UIB increases for firm-level political connection losses and find that our conclusions remain upheld for non-local political connection losses.

4.3 Sample Selection and Fixed Effects

In our tests based on closely contested election outcomes, we restrict the sample to years following an election, as our political connections and charitable contributions data are at the annual level, and an establishment's PAC spending and charitable giving may change significantly during the year of an election. To rule out that our results are not specific to years following an election, we include the full sample period spanning 2006-2021 in columns (1) and (2) in Internet Appendix Table IA.7. We find that our main results remain largely unchanged.

Our main tests also restrict the sample to publicly listed firms that own a corporate foundation, as the decision to set up a foundation is not random. Most large, publicly listed firms have a corporate foundation, which is unlikely to bias our results. However, to ensure that our results are also applicable to the broader sample of publicly listed firms, we include firms without a corporate foundation in columns (3) and (4) of Table IA.7. We find that these results are comparable in size and significance to our baseline estimations.

Although our main results include firm and district-by-year or firm-by-year and district fixed effects, it is still possible that omitted variables at the establishment level or the firm-district level drive our results. For example, a legislator may have some influence in a local establishment, increasing the likelihood of establishing a political connection. At the same time, the legislator may also incentivize the firm to provide charitable contributions to its local constituents. At the firm-district level, a particular district may be strategically important to the firm if it has competitors, customers, suppliers, or other interests in the area, which may increase its incentives to establish a local political connection and provide charitable contributions.

We include these additional fixed effects in our main regression specification for closely contested elections in Internet Appendix Table IA.8. Because the inclusion of these fixed effects absorbs a lot of the overall variation, we only do this analysis for the unrestricted sample. In columns (1) and (2), we include firm-by-district and year fixed effects and firm-by-year fixed effects, respectively. We find that our main results remain upheld: establishments in districts where the parent firm has prior violations are 7% (= 7.1% - 0.8% + 0.7%, column (1)) and 5.6% (= 6.8% - 0.9% -0.3%, column (2)) more likely to provide local donations following the unexpected loss of a local political connection relative to establishments in other districts where no connection was lost. Similarly, we include establishment-level fixed effects in column (3), which absorb time-invariant establishment-level characteristics such as its specific location within a congressional district, its industry type (e.g., manufacturing, administration, storage, or service-oriented), size, among others. Again, we find that our main results remain upheld.

To ensure our results are not affected by "bad controls" issues, we repeat our main results, excluding control variables and report the results in Internet Appendix Table IA.9. We exclude control variables but include our district and firm-by-year fixed effects in column (1), include only firm-by-year fixed effects in column (2), include only firm fixed effects in column (3). We exclude all fixed effects in column (4). In all specifications, our main results remain upheld.

4.4 Definition of Local Donations

In our main tests, we consider the firm's decision to donate to recipients near each of its establishments. Conditional on donating, however, establishments may also be incentivized to donate larger amounts to increase their stakeholder-based insurance mechanism. In columns (1) and (2) in Internet Appendix Table IA.10, we take the donation decision as given and investigate whether donating establishments in districts with prior violations are also donating larger amounts to local communities after losing a local political connection.

Echoing our main results, we find that, in the absence of changes to local political connections, establishments' donated amounts are 19.7%-35.2% higher if they are in a district with local prior violations (columns (1) and (2)). We also find that conditional on donating, establishments donate more

after losing a local political connection, suggesting that establishments in districts without prior violations seek political support for reasons other than to reduce regulatory noncompliance costs. However, establishments in districts with prior violations still donate 25% to 28% more after losing a political connection. In columns (3) and (4), we define *Local Donations* at the ZIP Code level, i.e., we consider whether the parent firm's foundation donated to recipients located in an establishment's ZIP Code. Again, we find that our main results remain upheld.

4.5 Definition of Local Violations

Next, we consider changes in the definition of the violations indicator. The risk of regulatory scrutiny and other consequences of noncompliance are likely higher for establishments in districts where the parent firm received more prior violations. In columns (1) and (2) of Internet Appendix Table IA.11, we measure an establishment's district's local prior violations by taking the natural logarithm of the total number of violations received in the previous five years. The results from this specification echo our main findings: the loss of a political connection increases the likelihood of providing local charitable donations for establishments in districts with more local prior violations.

Next, we change the radius in which violations occurred. In our main tests, we capture an establishment's violations at the congressional district level, as the insurance effect of a local political connection will affect all establishments within the district. However, noncompliance costs are likely higher for establishments located closer to where the violations occurred. We, therefore, also consider whether an establishment's parent firm received violation penalties in a 25-mile radius around the establishment's ZIP Code. In columns (3) and (4), we find similar results as in our main tests, indicating that communities near violating establishments are more likely to receive charitable donations after firms lose a local political connection.

4.6 Demographic Heterogeneity

The effectiveness of donating to local charitable institutions to increase stakeholder-based insurance is likely to depend on demographic characteristics, such as the local population's openness towards altruism and volunteering. In Internet Appendix Table IA.12, we investigate state-level variation in

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volunteering and charitable giving levels. We distinguish establishments based on whether they are located in states with volunteering and charitable giving percentages above or below the national average, where the state- and national averages are obtained from AmeriCorps.[15]

We find in columns (1) and (2) that although local political connection losses in districts where an establishment's parent firm has prior local violations are positively related to local charitable giving in both types of establishments, the statistical significance and magnitude of the effect is considerably larger in states with above-average volunteering percentages. We find broadly similar results in columns (3) and (4), where we distinguish establishments based on states' individual charitable giving percentages. The provision of local donations significantly increases for establishments in violation districts where a local political connection was lost in states with high individual charitable giving ratios (column (3)). However, the effect is insignificant in states with low individual charitable giving (column (4)).[16]

5. Conclusion

Although corporate charitable giving is one of the fastest-growing forms of philanthropy, firms' incentives to engage in charitable giving are not well understood. This study investigates whether corporate philanthropy that builds a firm's intangible social capital with local stakeholders is used as an insurance mechanism against regulatory noncompliance costs.

Based on an establishment-year panel dataset consisting of more than 4.8 million observations, we document that firms allocate resources to both political connection-building and boosting local stakeholder support in districts where they had prior regulatory violations. We show that firms strategically allocate resources and rely less on local charitable giving when a local political connection is in place. Exploiting high-level fixed effects and exogenous variation in firms' local political

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[15] See https://americorps.gov/about/our-impact/volunteering-civic-life.

[16] In additional tests, we distinguish establishments based on the population density of their local ZIP Code. On the one hand, high population density areas may have a higher presence of local charitable organizations and local stakeholders that can be targeted. On the other hand, it may be more difficult for firms to have a meaningful impact in high-density communities where many other organizations may be active. We find evidence consistent with this trade-off, as local charitable giving following a local political connection loss in districts with prior violations significantly increases only in medium population-density ZIP Codes (results available on request).

connections based on closely contested election outcomes, we find that the provision of local charitable donations more than triples after a local political connection is unexpectedly lost in districts facing increased noncompliance costs. Exploiting a setting that accounts for the potential endogeneity of firms' local regulatory noncompliance costs, we find that existing political connection losses drive the increased local charitable donations. Such an effect is more pronounced in financially constrained firms. Donations targeting stakeholders close to the firm's establishments suggest no substitution effect between non-political shocks and firms' charitable giving.

Our results highlight the importance of fully understanding corporate incentives to engage in philanthropic behavior. More broadly, our findings may imply that, even if corporate charitable giving benefits the firm and local stakeholders, it may come at the cost of firms seeking favorable treatment by regulators for noncomplying firms. These findings contribute to the growing debate on the financial and social benefits of corporate social responsibility.

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Table 1: Summary Statistics

This table reports summary statistics and univariate differences for the establishment-year sample over the sample period 2006-2021. Continuous variables are winsorized at the 1% and 99% levels, and variables measured at the parent firm level are reported at the firm-year level. Variable descriptions are in Appendix A.

Panel A: Summary Statistics

Variable	N	Mean	Median	Std. Dev.	Min	Max
D[Local Donations]	4,827,484	0.159	0	0.366	0	1
Total Amount Donated	769,918	858,542	49,284	2,843,751	80	18,999,780
D[Local Violations]$_{t-5,t-1}$	4,827,484	0.034	0	0.182	0	1
Nr. of Local Violations$_{t-5,t-1}$	4,827,484	0.050	0	0.635	0	205
D[Local Political Connection]	4,827,484	0.084	0	0.277	0	1
Establishment Employees	4,827,484	31.13	10	112.0	1	49,000
Establishment Sales ($Mil)	4,827,484	5.714	1.619	12.71	0.119	82.69
Distance to HQ (mi)	4,827,484	1,002	721.6	1,070	0	8,676
D[Firm-Level Political Connection]	7,651	0.392	0	0.488	0	1
Headquarter Credit Score	7,305	96.39	97	3.373	49	100
Whited-Wu (WW) Index	5,173	-0.349	-0.407	0.418	-0.653	7.387
Kaplan-Zingales (KZ) Index	4,871	-7.339	-2.661	16.76	-521.5	22.20

Panel B: Univariate Differences

Establishment Level	Local Violations$_{t-1,t-5}$ N = 146,070	No Local Viol.$_{t-1,t-5}$ N = 4,681,414	Difference
D[Local Donations]	0.249	0.157	-0.092***
D[Local Political Connection]	0.183	0.086	-0.097***
Establishment Employees	71.48	29.87	-41.61***
Establishment Sales ($Mil)	12.58	5.500	-7.076***
Distance to HQ (mi)	797.2	1,009	212.0***

Firm Level	Local Violations$_{t-1,t-5}$ N = 3,569	No Local Viol.$_{t-1,t-5}$ N = 7,649	Difference
D[Firm-Level Political Connection]	0.521	0.392	-0.129***
Headquarter Credit Score	95.869	96.393	0.524***
Whited-Wu (WW) Index	-0.400	-0.349	0.051***
Kaplan-Zingales (KZ) Index	-5.386	-7.339	-1.953***

Table 2: Motivating Results – Violating Firms' Insurance Mechanisms

This table reports OLS estimates for the full establishment-level dataset where the dependent variables are indicators for whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code (columns (1) and (2)) or for whether an establishment made PAC contributions to its local congressional district legislator (columns (3) and (4)). The main independent variable indicates whether an establishment is in a district where its parent firm received violations in years t-1 to t-5. All specifications control for establishment-level *(ln(Establishment Sales) and ln(Establishment Employees))* controls. Columns (1) and (3) include firm and district-by-year fixed effects, and columns (2) and (4) include establishment and year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.:	(1)	(2)	(3)	(4)
	D[Local Donations]$_t$		D[Local Political Connection]$_t$	
Local Violations$_{t-5,t-1}$	0.038***	0.016***	0.035***	0.002**
	(0.001)	(0.002)	(0.001)	(0.001)
ln(Establishment Sales)$_{t-1}$	-0.014***	-0.003***	0.000	-0.000
	(0.001)	(0.001)	(0.001)	(0.001)
ln(Establishment Employees)$_{t-1}$	0.017***	0.009***	0.003***	-0.003***
	(0.001)	(0.001)	(0.000)	(0.001)
Constant	0.132***	0.143***	0.076***	0.093***
	(0.001)	(0.002)	(0.001)	(0.001)
Observations	4,827,484	4,700,979	4,827,484	4,700,979
R-squared	0.323	0.504	0.235	0.299
Firm FE	Yes	No	Yes	No
District × Year FE	Yes	No	Yes	No
Year FE	No	Yes	No	Yes
Establishment FE	No	Yes	No	Yes

Table 3: Political Connections and Violating Firms' Local Donations
This table reports OLS estimates for the full establishment-level dataset where the dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients within a 25-mile radius around the establishment's ZIP Code. The main independent variable is an indicator of whether an establishment made PAC contributions to its local congressional district legislator. The sample consists of establishments in districts where the parent firm did not receive prior violations in columns (1) and (3) and establishments in districts where the parent firm received violations in years t-1 to t-5 in columns (2) and (4). Columns (1) and (2) include firm and district-by-year fixed effects, and columns (3) and (4) include establishment and year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.:	D[Local Donations]$_t$			
	(1)	(2)	(3)	(4)
Sample:	*No Local Viol*	*Local Viol*	*No Local Viol*	*Local Viol*
	(NLV).$_{t-5,t-1}$	*(LV).$_{t-5,t-1}$*	*(NLV).$_{t-5,t-1}$*	*(LV).$_{t-5,t-1}$*
Local Political Connection$_t$	0.013***	-0.006*	0.001**	-0.031***
	(0.001)	(0.003)	(0.001)	(0.003)
ln(Establishment Sales) $_{t-1}$	-0.015***	-0.004**	-0.005***	0.028***
	(0.001)	(0.002)	(0.001)	(0.006)
ln(Establishment Employees)$_{t-1}$	0.017***	0.006***	0.010***	-0.021***
	(0.001)	(0.002)	(0.001)	(0.006)
Constant	0.129***	0.453***	0.139***	0.273***
	(0.001)	(0.005)	(0.002)	(0.011)
Observations	4,681,414	145,626	4,552,878	140,540
R-squared	0.325	0.583	0.510	0.533
NLV-LV: t-stat of difference	-2.13		-11.44	
Firm FE	Yes	Yes	No	No
District × Year FE	Yes	Yes	No	No
Year FE	No	No	Yes	Yes
Establishment FE	No	No	Yes	Yes

Table 4: Local Donations after Losing Local Political Connections in Closely Contested Elections
This table reports OLS estimates for the sample period covering all years following an election outcome, where the dependent variable is an indicator of whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election and their interaction. In columns (2) and (4), the sample consists of establishments that made PAC contributions to their local district legislator in t-1's election cycle. All specifications control for establishment-level controls and either firm and district-by-year fixed effects (columns (1) and (2)) or district and firm-by-year fixed effects (columns (3) and (4)). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.:	$D[\text{Local Donations}]_t$			
	(1)	(2)	(3)	(4)
Sample	*All Establ.*	*Local PC$_{t-1}$*	*All Establ.*	*Local PC$_{t-1}$*
Local Violations$_{t-5,t-1}$	0.031***	0.051***	0.023***	0.029***
	(0.001)	(0.012)	(0.001)	(0.009)
Lost Local Connection$_{t-1}$	0.005	-0.020	0.008***	0.014**
	(0.003)	(0.014)	(0.002)	(0.006)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.063***	0.038**	0.053***	0.032**
	(0.012)	(0.016)	(0.010)	(0.014)
ln(Establishment Sales)$_{t-1}$	-0.014***	-0.019***	-0.005***	-0.002
	(0.001)	(0.006)	(0.001)	(0.004)
ln(Establishment Employees)$_{t-1}$	0.018***	0.018***	0.011***	0.007*
	(0.001)	(0.005)	(0.001)	(0.004)
Constant	0.117***	0.186***	0.125***	0.171***
	(0.001)	(0.009)	(0.001)	(0.006)
Observations	2,611,285	32,966	2,611,220	32,809
R-squared	0.323	0.427	0.568	0.677
Firm FE	Yes	Yes	No	No
District × Year FE	Yes	Yes	No	No
District FE	No	No	Yes	Yes
Firm × Year FE	No	No	Yes	Yes

Table 5: Type of Connection Lost

This table reports OLS estimates where the dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients within a 25-mile radius around the establishment's ZIP Code. The sample consists of all establishments in Panel A and establishments that made PAC contributions to their local district legislator in t-1's election cycle in Panel B. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost an existing (columns (1) and (3)) or new/potential (columns (2) and (4)) connection to its local district legislator in a closely contested election and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and either firm and district-by-year fixed effects (columns (1) and (2)), or district and firm-by-year fixed effects (columns (3) and (4)). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Panel A: All Establishments

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Local Violations$_{t-5,t-1}$	0.029***	0.029***	0.023***	0.023***
	(0.002)	(0.002)	(0.001)	(0.001)
Lost Existing Local Connection$_{t-1}$	0.012		0.004	
	(0.008)		(0.006)	
Lost Existing Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.101***		0.262***	
	(0.037)		(0.036)	
Lost Potential Local Connection$_{t-1}$		0.006*		0.004
		(0.004)		(0.003)
Lost Potential Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$		0.042***		0.012
		(0.015)		(0.011)
Observations	1,892,736	1,892,736	1,892,659	1,892,659
R-squared	0.322	0.322	0.576	0.576
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	No	No
District × Year FE	Yes	Yes	No	No
District FE	No	No	Yes	Yes
Firm × Year FE	No	No	Yes	Yes

Panel B: Establishments with Local Political Connection at t-1

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Local Violations$_{t-5,t-1}$	0.046***	0.051***	0.037***	0.053***
	(0.010)	(0.013)	(0.009)	(0.011)
Lost Existing Local Connection$_{t-1}$	0.042***		0.015**	
	(0.013)		(0.007)	
Lost Existing Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.075**		0.171***	
	(0.031)		(0.029)	
Lost Potential Local Connection$_{t-1}$		-0.068***		-0.016**
		(0.011)		(0.007)
Lost Potential Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$		-0.000		-0.001
		(0.021)		(0.017)
Observations	22,232	22,232	22,087	22,087
R-squared	0.432	0.433	0.676	0.675
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	No	No
District × Year FE	Yes	Yes	No	No
District FE	No	No	Yes	Yes
Firm × Year FE	No	No	Yes	Yes

Table 6: Identification – Large Increases in Unemployment Insurance Benefits
This table reports OLS estimates where the dependent variable is an indicator for whether an establishment's parent firm received violation penalties in the establishment's district in year t (column (1)) or whether it made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code (columns (2) and (3)). The sample consists of all establishments (columns (1) and (2)) or establishments supporting a local candidate in the t-1 election (column (3)) in Panel A, further limited to high employment establishments in Panel B. The main independent variables are indicators of whether an establishment's state had a large UIB increase in any of the previous three years, where large UIB increases are defined as in Heese and Perez-Cavazos (2021), for whether an establishment lost its connection to its local district legislator in a closely contested election in t-1, and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and district and firm-by-year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Panel A: All Establishments

	(1)	(2)	(3)
Dep. Var.:	D[Local Violation]$_t$	D[Local Donations]$_t$	
UIB Increase$_{t-4, t-1}$	0.003***	-0.004***	-0.057***
	(0.000)	(0.001)	(0.020)
Lost Local Connection$_{t-1}$	0.004***	0.008***	0.014**
	(0.001)	(0.002)	(0.006)
UIB Increase$_{t-4, t-1}\times$ Lost Local Connection$_{t-1}$	0.008**	0.062***	0.137*
	(0.004)	(0.013)	(0.072)
Observations	2,611,220	2,611,220	32,809
R-squared	0.055	0.568	0.676
Control Variables	Yes	Yes	Yes
District FE	Yes	Yes	Yes
Firm $\times$ Year FE	Yes	Yes	Yes

Panel B: High Employment Establishments

	(1)	(2)	(3)
Dep. Var.:	D[Local Violation]$_t$	D[Local Donations]$_t$	
UIB Increase$_{t-4, t-1}$	0.002***	-0.004***	0.030
	(0.001)	(0.001)	(0.018)
Lost Local Connection$_{t-1}$	0.005***	0.006*	0.001
	(0.001)	(0.003)	(0.005)
UIB Increase$_{t-4, t-1}\times$ Lost Local Connection$_{t-1}$	0.012*	0.093***	0.047*
	(0.006)	(0.018)	(0.025)
Observations	1,013,471	1,013,471	12,993
R-squared	0.066	0.579	0.654
Control Variables	Yes	Yes	Yes
District FE	Yes	Yes	Yes
Firm $\times$ Year FE	Yes	Yes	Yes

Table 7: Donations to Establishments vs. Donations to Districts
This table reports OLS estimates for a sample of establishments in districts where the parent firm owns establishments in no more than 5 different ZIP Codes in Panel A and establishments in the same districts, further limiting to those that made PAC contributions to their local district legislator in t-1's election cycle in Panel B. The dependent variable is an indicator of whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code in columns (1) and (3) and an indicator of whether an establishment's parent firm made charitable contributions to recipients in the establishment's congressional district, but outside of the 25-mile radius around the establishment's ZIP code in columns (2) and (4). The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost a connection to its local district legislator in a closely contested election and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and either firm and district-by-year fixed effects (columns (1) and (2)), or district and firm-by-year fixed effects (columns (3) and (4)). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Panel A: All Establishments

Dep. Var.:	(1) D[Local Donations]	(2) D[District Don.>25 mi]	(3) D[Local Donations]	(4) D[District Don.>25 mi]
Local Violations$_{t-5,t-1}$	0.038***	0.004***	0.033***	0.004
	(0.004)	(0.002)	(0.003)	(0.002)
Lost Local Connection$_{t-1}$	0.029***	0.005	0.014**	0.002
	(0.008)	(0.003)	(0.006)	(0.004)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.103**	-0.022**	0.138***	-0.019*
	(0.042)	(0.011)	(0.032)	(0.011)
Observations	580,407	580,407	580,330	580,330
R-squared	0.289	0.062	0.508	0.099
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	No	No
District × Year FE	Yes	Yes	No	No
District FE	No	No	Yes	Yes
Firm × Year FE	No	No	Yes	Yes

Panel B: Establishments with Local Political Connection at t-1

Dep. Var.:	(1) D[Local Donations]	(2) D[District Don.>25 mi]	(3) D[Local Donations]	(4) D[District Don.>25 mi]
Local Violations$_{t-5,t-1}$	0.003	0.001	0.034	-0.009
	(0.038)	(0.024)	(0.037)	(0.032)
Lost Local Connection$_{t-1}$	0.093**	0.026	-0.067***	-0.005
	(0.046)	(0.019)	(0.023)	(0.012)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.135**	-0.047*	0.161***	-0.037
	(0.060)	(0.028)	(0.054)	(0.041)
Observations	4,480	4,480	4,302	4,302
R-squared	0.449	0.192	0.704	0.384
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	No	No
District × Year FE	Yes	Yes	No	No
District FE	No	No	Yes	Yes
Firm × Year FE	No	No	Yes	Yes

Table 8: Local Donations Following Non-Local Natural Disasters

This table reports OLS estimates where the dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients within a 25-mile radius around the establishment's ZIP Code. The main independent variables are indicators of whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, whether an establishment's state was unaffected by the disaster, and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and either firm and district-by-year fixed effects (column (1)), or district and firm-by-year fixed effects (column (2)). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep. Var.: D[Local Donations]	(1)	(2)
Sample	*All Establishments*	
Not Exposed to Natural Disaster$_t$	-0.036***	-0.006***
	(0.009)	(0.000)
Local Violations$_{t-5,t-1}$	0.042***	0.025***
	(0.006)	(0.001)
Local Violations$_{t-5,t-1}$ x Not Exposed to Natural Disaster$_t$	-0.014	-0.001
	(0.011)	(0.002)
Observations	4,827,484	4,827,353
R-squared	0.323	0.564
Control Variables	Yes	Yes
Firm FE	Yes	No
District $\times$ Year FE	Yes	No
District FE	No	Yes
Firm $\times$ Year FE	No	Yes

Table 9: Channels – Firm Financial Constraints

This table reports OLS estimates where the dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients within a 25-mile radius around the establishment's ZIP Code. The sample consists of establishments that made PAC contributions to their local district legislator in t-1's election cycle. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election in t-1, and their interaction. The sample consists of establishments owned by parent firms with high and low financial constraints in columns (1)-(3) and columns (4)-(6), respectively. High (low) financial constraints are defined as a below-(above-) median YTS credit score (CS) (columns (1) and (4)), above- (below-) median Whited-Wu (WW) index (columns (2) and (5)), or above-(below-) median Kaplan-Zingales (KZ) index (columns (3) and (6)). All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and district and firm-by-year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)	(5)	(6)
Sample	*High Financial Constraints*			*Low Financial Constraints*		
FC Measure	CS	WW	KZ	CS	WW	KZ
Lost Local Connection$_{t-1}$	0.040***	-0.000	0.015	-0.026***	0.029***	0.010
	(0.009)	(0.010)	(0.010)	(0.010)	(0.011)	(0.011)
Local Violations$_{t-5,t-1}$	0.032**	0.059***	-0.011	0.024*	0.048***	0.099***
	(0.014)	(0.010)	(0.010)	(0.012)	(0.014)	(0.016)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.086***	0.038**	0.075***	-0.147***	0.024	0.010
	(0.019)	(0.017)	(0.018)	(0.026)	(0.021)	(0.022)
Observations	18,347	11,448	11,313	13,746	11,954	11,266
R-squared	0.663	0.741	0.700	0.698	0.597	0.608
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
District FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 10: Gaining Political Connections and Hedging Connection Losses
This table reports OLS estimates for the sample period covering all years following an election outcome, where the dependent variable is an indicator of whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment's supported candidate in its local congressional district won in a closely contested election in t-1 (Panel A) or whether an establishment's parent firm made PAC contributions to both republican and democrat local candidates in the t-1 election (Panel B), and their interaction. In columns (3) and (4), the sample consists of establishments that made PAC contributions to their local district legislator in t-1's election cycle. All specifications control for establishment-level controls and either firm and district-by-year fixed effects (columns (1) and (3)) or district and firm-by-year fixed effects (columns (2) and (4)). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Panel A: Gained Connections				
Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Sample	*All Establishments*		*Has Local PC$_{t-1}$*	
Local Violations$_{t-5,t-1}$	0.032***	0.024***	0.112***	0.066***
	(0.002)	(0.001)	(0.013)	(0.012)
Local Connection Won$_{t-1}$	0.013***	0.009***	0.024**	-0.004
	(0.003)	(0.002)	(0.011)	(0.006)
Local Connection Won$_{t-1}$ × Local Violations$_{t-5,t-1}$	-0.043***	-0.013*	-0.078***	-0.040***
	(0.016)	(0.007)	(0.017)	(0.014)
Observations	2,611,285	2,611,220	32,966	32,809
R-squared	0.323	0.568	0.427	0.677
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	No	Yes	No
District × Year FE	Yes	No	Yes	No
District FE	No	Yes	No	Yes
Firm × Year FE	No	Yes	No	Yes
Panel B: Hedged Connections				
Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Sample	*All Establishments*		*Has Local PC$_{t-1}$*	
Local Violations$_{t-5,t-1}$	0.032***	0.024***	0.087***	0.046***
	(0.001)	(0.001)	(0.009)	(0.008)
Supported Both Local Candidates$_{t-1}$	0.061***	-0.013	0.052***	-0.030**
	(0.012)	(0.010)	(0.013)	(0.015)
Supported Both Local Candidates$_{t-1}$ × Local Violations$_{t-5,t-1}$	-0.248***	-0.038***	-0.363***	-0.075***
	(0.018)	(0.015)	(0.024)	(0.022)
Observations	2,611,285	2,611,220	32,966	32,809
R-squared	0.323	0.568	0.429	0.677
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	No	Yes	No
District × Year FE	Yes	No	Yes	No
District FE	No	Yes	No	Yes
Firm × Year FE	No	Yes	No	Yes

Appendix A: Variable Descriptions

Local Donations$_t$	An indicator variable equal to one if the foundation owned by the establishment's parent firm donated to recipients located within a 25-mile radius around the establishment's ZIP Code in year t, and zero otherwise. Source: Candid.
Total Amount Donated$_t$	The aggregate amount donated by an establishment's parent firm foundation to recipients in a 25-mile radius around the establishment's ZIP Code in year t, set to missing if no donations were made. Source: Candid.
Local Political Connection$_t$	An indicator variable equal to one if an establishment's parent firm made PAC contributions to the establishment's congressional district representative in year t and zero otherwise. Source: Federal Election Commission.
Lost Local Political Connection$_{t-1}$	An indicator variable equal to one if the legislator of an establishment's congressional district received PAC contributions by the establishment's parent firm in t-1's election cycle but narrowly lost in a closely contested election in t-1, and zero otherwise. Source: Federal Election Commission.
Lost Existing Local Connection$_{t-1}$	An indicator variable equal to one if the legislator of an establishment's congressional district received PAC contributions by the establishment's parent firm in t-1's and t-2 to t-4's election cycle but narrowly lost in a closely contested election in t-1, and zero otherwise. Source: Federal Election Commission.
Lost Potential Local Connection$_{t-1}$	An indicator variable equal to one if the legislator of an establishment's congressional district received PAC contributions by the establishment's parent firm in t-1's election cycle but not in t-2 to t-4's election cycle, and narrowly lost in a closely contested election in t-1, and zero otherwise. Source: Federal Election Commission.
Local Connection Won$_{t-1}$	An indicator variable equal to one if the legislator of an establishment's congressional district received PAC contributions by the establishment's parent firm in t-1's election cycle and narrowly won in a closely contested election in t-1, and zero otherwise. Source: Federal Election Commission.
Political Connection$_t$	An indicator variable equal to one if an establishment's parent firm made PAC contributions to at least one legislator in year t and zero otherwise. Source: Federal Election Commission.
Lost Connection$_{t-1}$	An indicator variable equal to one if at least one of an establishment's parent firm's political connections narrowly lost in a closely contested election in t-1 and zero otherwise. Source: Federal Election Commission.
Lose Ratio	The ratio of an establishment's parent firm's total number of political connections lost in closely contested elections over the total number of political connections lost and won in t-1's election cycle. Source: Federal Election Commission.
Local Violations$_{t-5,t-1}$	An indicator variable equals one if an establishment is located in a congressional district where its parent firm received employment-

	related, safety-related, or environmental-related violation penalties in any of the five previous years and zero otherwise. Source: Violation Tracker.
Nr. of Local Violations$_{t-5,t-1}$	The aggregate number of violations received by an establishment's parent firm in the establishment's congressional district over the five previous years. Source: Violation Tracker.
Local Workplace Violations $_{t-5,t-1}$	An indicator variable equals one if an establishment is located in a congressional district where its parent firm received violations related to employment or WH&S offenses in any of the five previous years and zero otherwise. Source: Violation Tracker.
Local Employment Violations $_{t-5,t-1}$	An indicator variable equals one if an establishment is located in a congressional district where its parent firm received employment-related violation penalties in any of the five previous years and zero otherwise. Source: Violation Tracker.
Local WH&S Violations $_{t-5,t-1}$	An indicator variable equals one if an establishment is located in a congressional district where its parent firm received workplace health and safety violations in any of the five previous years and zero otherwise. Source: Violation Tracker.
Local Environmental Violations $_{t-5,t-1}$	An indicator variable equals one if an establishment is located in a congressional district where its parent firm received environmental violations in any of the five previous years and zero otherwise. Source: Violation Tracker.
Local Violations near Establishment $_{t-5,t-1}$	An indicator variable equal to one if an establishment's parent firm received violations in a 25-mile radius around the establishment's ZIP Code in any of the five previous years, and zero otherwise. Source: Violation Tracker.
Establishment Employees$_t$	The number of employees in an establishment in absolute numbers. Source: Your Economy Time Series.
Establishment Sales$_t$	The total volume of sales reported by an establishment in millions of USD. Source: Your Economy Time Series.
Distance to HQ (mi)$_t$	The distance between the establishment's and the parent firm's headquarters ZIP Code in miles. Source: Your Economy Time Series.
Headquarter Credit Score$_t$	The credit score for an establishment's headquarters location. Source: Your Economy Time Series.
UIB Increase$_{t-1,t-4}$	An indicator variable equal to one if an establishment's state had a large increase in unemployment insurance benefits in the previous three years and zero otherwise. Source: Heese and Perez-Cavazos (2021).
High Employment Establishment	Establishments with an above-median number of employees relative to the distribution of all the parent firm's establishments in year t. Source: Your Economy Time Series.
Credit Score	The credit score of an establishment's parent firm as reported by YTS. Source: Your Economy Time Series.
WW Index	The Whited-Wu index of an establishment's parent firm, calculated as The Whited and Wu (2006) index, calculated as:

	WW = − 0.091 x CF − 0.062 x DIVPOS + 0.021 x TLTD − 0.044 x LNTA + 0.102 x ISG − 0.035 x SG Where CF is the ratio of cash flow to total assets; DIVPOS is a dividend dummy if the firm pays cash dividends; TLTD is the ratio of long-term debt to total assets; LNTA is the natural log of total assets; ISG is the firm's three-digit industry sales growth, and SG is the firm sales growth. Source: Compustat
KZ Index	The Kaplan-Zingales index of an establishment's parent firm, calculated following Kaplan and Zingales (1997). Source: Compustat.
Not Exposed to Natural Disaster	An indicator variable equal to one for establishments located in states unaffected by a large natural disaster, where large disasters are defined as disasters in the top decile in terms of damage and deaths caused, and owned by parent firms with at least one establishment exposed to the natural disaster, and zero otherwise. Source: Emergency Event Database (EM-DAT).
District Donation > 25 mi	An indicator variable equal to one if the foundation owned by the establishment's parent firm made donations to recipients located in the establishment's congressional district, but outside of the 25-mile radius around the establishment's ZIP Code in year t, and zero otherwise. Source: Candid.
Donations to ZIP Code$_t$	An indicator variable equal to one if the foundation owned by the establishment's parent firm made donations to recipients located in the establishment's ZIP Code, and zero otherwise. Source: Candid.

Online Appendix for

Buying Local Favor? Establishment-Level Evidence on the Insurance Effect of Corporate Philanthropy and Political Connections

Table IA.1: Univariate Differences (Local Donations and Local Violations)

Panel A reports univariate differences for the full establishment-level panel dataset, distinguishing between establishments whose parent firm's foundation made charitable contributions to recipients located in a 25-mile radius around the establishment's ZIP Code. Variables measured at the parent firm level are reported at the firm-year level. Panel B reports univariate differences for the sample period consisting of election years at t-1 only, distinguishing between establishments in districts where the establishment's parent firm received violations in years t-1 to t-5 and establishments in districts where the parent firm did not receive prior violations. Variables measured at the parent firm level are reported at the firm-year level. Continuous variables are winsorized at the 1% and 99% level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Panel A: Differences based on Local Donations

Establishment Level	Donated N = 769,918	Did Not Donate N = 4,057,566	*Difference*
D[Local Political Connection]	0.123	0.076	-0.047***
D[Local Violations]$_{t-5,t-1}$	0.054	0.031	-0.023***
Nr. of Local Violations$_{t-5,t-1}$	0.075	0.045	-0.031***
Establishment Employees	35.66	30.27	-5.387***
Establishment Sales ($Mil)	6.993	5.472	-1.521***
Distance to HQ (mi)	822.02	1,037.19	215.177***

Firm Level	Donated N = 3,279	Did Not Donate N = 7,549	*Difference*
D[Firm-Level Political Connection]	0.477	0.396	-0.081***
Headquarter Credit Score	96.278	96.393	0.116
Whited-Wu (WW) Index	-0.348	-0.352	-0.004
Kaplan-Zingales (KZ) Index	-8.134	-7.209	0.925*

Panel B: Differences based on Local Violations, Election Year at t-1

Establishment Level	Local Violations$_{t-1,t-5}$ N = 78,372	No Local Viol.$_{t-1,t-5}$ N = 2,532,913	*Difference*
D[Local Donations]	0.227	0.144	-0.083***
D[Local Political Connection]	0.107	0.058	-0.049***
Establishment Employees	70.33	29.59	-40.73***
Establishment Sales ($Mil)	12.37	5.459	-6.909***
Distance to HQ (mi)	781.5	996.9	215.3***

Firm Level	Local Violations$_{t-1,t-5}$ N = 1,870	No Local Viol.$_{t-1,t-5}$ N = 4,078	*Difference*
D[Firm-Level Political Connection]	0.490	0.374	-0.116***
Headquarter Credit Score	96.194	96.624	0.430***
Whited-Wu (WW) Index	-0.412	-0.356	0.056***
Kaplan-Zingales (KZ) Index	-5.338	-7.356	-2.018***

Table IA.2: Motivating Results – Sample Including Non-Foundation-Owning Firms
This table reports OLS estimates for our baseline estimations for the dataset, including firms without foundations. The dependent variables in Panel A are indicators for whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code (*Local Donations*, columns (1) and (2)) or for whether an establishment made PAC contributions to its local congressional district legislator (*Local Political Connection*, columns (3) and (4)). The main independent variable indicates whether an establishment is in a district where its parent firm received violations in years t-1 to t-5. The dependent variable in Panel B is *Local Donations*, and the main independent variable is *Local Political Connection*. Columns (1) and (3) include a sample of establishments with no local prior violations in years t-1 to t-5, and columns (2) and (4) include a sample of establishments with local prior violations in years t-1 to t-5. All specifications control for establishment-level controls and firm and district-by-year fixed effects in columns (1) and (3) in Panel A and in columns (1) and (2) in Panel B, and establishment and year fixed effects in columns (2) and (4) in Panel A and columns (3) and (4) in Panel B. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Panel A: Violating Establishments' Insurance Mechanisms

	(1)	(2)	(3)	(4)
Dep.Var.:	D[Local Donations]$_t$		D[Local Political Connection]$_t$	
Local Violations$_{t-5,t-1}$	0.027***	0.019***	0.027***	0.003***
	(0.001)	(0.001)	(0.001)	(0.001)
ln(Establishment Sales)$_{t-1}$	-0.008***	-0.002***	0.001*	0.002***
	(0.000)	(0.000)	(0.000)	(0.000)
ln(Establishment Employees)$_{t-1}$	0.010***	0.007***	0.002***	-0.004***
	(0.000)	(0.001)	(0.000)	(0.000)
Constant	0.078***	0.079***	0.048***	0.062***
	(0.001)	(0.001)	(0.000)	(0.001)
Observations	8,268,851	8,050,566	8,268,851	8,050,566
R-squared	0.340	0.520	0.202	0.307
Firm FE	Yes	No	Yes	No
District × Year FE	Yes	No	Yes	No
Year FE	No	Yes	No	Yes
Establishment FE	No	Yes	No	Yes

Panel B: Political Connections and Violating Establishments' Charitable Donations

	(1)	(2)	(3)	(4)
Dep.Var.:	D[Local Donations]$_t$			
Sample:	No Local Viol.$_{t-5,t-1}$	Local Viol.$_{t-5,t-1}$	No Local Viol.$_{t-5,t-1}$	Local Viol.$_{t-5,t-1}$
Local Political Connection$_t$	0.013***	-0.007***	0.004***	-0.021***
	(0.001)	(0.002)	(0.001)	(0.002)
ln(Establishment Sales)$_{t-1}$	-0.008***	-0.007***	-0.002***	0.012***
	(0.000)	(0.002)	(0.001)	(0.004)
ln(Establishment Employees)$_{t-1}$	0.010***	0.008***	0.008***	-0.009**
	(0.000)	(0.001)	(0.001)	(0.004)
Constant	0.077***	0.146***	0.077***	0.169***
	(0.001)	(0.002)	(0.001)	(0.008)
Observations	8,036,121	232,706	7,814,781	223,229
R-squared	0.341	0.367	0.527	0.564
Firm FE	Yes	Yes	No	No
District × Year FE	Yes	Yes	No	No
Year FE	No	No	Yes	Yes
Establishment FE	No	No	Yes	Yes

Table IA.3: Industry Variation

This table reports OLS estimates for the sample period covering all years following an election outcome, where the dependent variable is an indicator of whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election and their interaction. The sample consists of establishments in construction with 2-digit SIC codes from 15-17 in column (1), establishments in utilities and transportation with 2-digit SIC codes from 40-49 in column (2), establishments in retail industries with 2-digit SIC codes from 52-59 in column (3), wholesale establishments with 2-digit SIC codes from 50-51 in column (4), and service establishments with 2-digit SIC codes from 70-89 in column (5). All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and district and firm-by-year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)	(5)
Sample	*Construction*	*Utilities*	*Retail*	*Wholesale*	*Services*
Lost Local Connection$_{t-1}$	-0.045*	-0.000	0.009***	0.010***	0.003
	(0.024)	(0.008)	(0.004)	(0.003)	(0.003)
Local WH&S Violations$_{t-5,t-1}$	0.017*	0.032***			
	(0.009)	(0.006)			
Lost Local Connection$_{t-1}$ × Local WH&S Violations$_{t-5,t-1}$	0.183*	0.114***			
	(0.101)	(0.043)			
Local Employment Violations$_{t-5,t-1}$			0.016***	0.018***	-0.007
			(0.004)	(0.004)	(0.004)
Lost Local Connection$_{t-1}$ × Local Employment Violations$_{t-5,t-1}$			0.200***	0.194***	0.102**
			(0.022)	(0.021)	(0.042)
Observations	40,664	134,383	1,291,863	1,347,039	430,234
R-squared	0.438	0.601	0.531	0.530	0.426
Control Variables	Yes	Yes	Yes	Yes	Yes
District FE	Yes	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes	Yes

Table IA.4: Violation Types

This table reports OLS estimates where the dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients within a 25-mile radius around the establishment's ZIP Code. The sample consists of all establishments. The main independent variables are indicators for whether an establishment is in a district where its parent firm received workplace (column (1)), employment-related (column (2)), workplace health and safety-related (column (3)), or environmental (column (4)) violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election in t-1, and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and district and firm-by-year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Lost Local Connection$_{t-1}$	0.008***	0.008***	0.011***	0.011***
	(0.002)	(0.002)	(0.002)	(0.002)
Local Workplace Violations$_{t-5,t-1}$	0.019***			
	(0.001)			
Lost Local Connection$_{t-1}$ × Local Workplace Violations$_{t-5,t-1}$	0.052***			
	(0.011)			
Local Employment Violations$_{t-5,t-1}$		0.019***		
		(0.002)		
Lost Local Connection$_{t-1}$ × Local Employment Violations$_{t-5,t-1}$		0.125***		
		(0.017)		
Local WH&S Violations$_{t-5,t-1}$			0.020***	
			(0.001)	
Lost Local Connection$_{t-1}$ × Local WH&S Violations$_{t-5,t-1}$			0.002	
			(0.013)	
Local Environmental Violations$_{t-5,t-1}$				0.057***
				(0.003)
Lost Local Connection$_{t-1}$ × Local Environmental Violations$_{t-5,t-1}$				0.031
				(0.032)
Observations	2,611,220	2,611,220	2,611,220	2,611,220
R-squared	0.568	0.568	0.568	0.568
Control Variables	Yes	Yes	Yes	Yes
District FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes

Table IA.5: Baseline Results for Firm-Level Connections

This table reports OLS estimates for the full establishment-level dataset (Panel A) or the sample period following election years (Panel B), where the dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code. In Panel A, the main independent variable is an indicator of whether an establishment's parent firm made PAC contributions to any legislator, and the sample consists of establishments in districts where the parent firm did not receive prior violations in column (1) and establishments in districts where the parent firm received violations in years t-1 to t-5 in column (2). In Panel B, the main independent variables are an indicator for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, an indicator for whether an establishment's parent firm lost a political connection (column (1)) or the ratio of the parent firm's lost connections over won and lost connections in closely contested elections (column (2)), and their interaction. All specifications control for establishment-level controls and firm and district-by-year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Panel A: Baseline Results

Dep.Var.: D[Local Donations]$_t$	(1)	(2)
Sample	*No Local Viol.*	*Has Local Viol.*
Political Connection$_t$	0.037***	-0.077***
	(0.001)	(0.007)
ln(Establishment Sales)$_{t-1}$	-0.015***	-0.008***
	(0.001)	(0.003)
ln(Establishment Employees)$_{t-1}$	0.017***	0.009***
	(0.001)	(0.002)
Constant	0.107***	0.291***
	(0.001)	(0.006)
Observations	4,661,071	166,072
R-squared	0.326	0.575
Firm FE	Yes	Yes
District × Year FE	Yes	Yes

Panel B: Closely Contested Election Outcomes

Dep.Var.: D[Local Donations]$_t$	(1)	(2)
Local Violations$_{t-5,t-1}$	0.024***	0.007***
	(0.002)	(0.002)
Lost Connection$_{t-1}$	-0.040***	
	(0.001)	
Lost Connection$_{t-1}$ ×Local Violations$_{t-5,t-1}$	0.012***	
	(0.003)	
Lose Ratio$_{t-1}$		-0.045***
		(0.001)
Lose Ratio$_{t-1}$ ×Local Violations$_{t-5,t-1}$		0.081***
		(0.005)
ln(Establishment Sales)$_{t-1}$	0.127***	0.130***
	(0.026)	(0.026)
ln(Establishment Employees)$_{t-1}$	0.007***	0.007***
	(0.000)	(0.000)
Constant	0.148***	0.139***
	(0.001)	(0.001)
Observations	2,611,285	2,611,285
R-squared	0.324	0.324
Firm FE	Yes	Yes
District × Year FE	Yes	Yes

Table IA.6: Large Increases in Unemployment Insurance Benefits – Firm-Level Connections

This table reports OLS estimates where the dependent variable is an indicator for whether an establishment's parent firm received violation penalties in the establishment's district in year t (Panel A, column (1)) or whether it made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code (Panel A, columns (2) and (3), and Panel B). In Panel A, the sample consists of all state establishments with a large UIB increase (treated states). In Panel B, the sample consists of all establishments in states that had a large UIB increase (treated states) in columns (1) and (2) and high employment establishments in treated states in columns (3) and (4). The main independent variables are an indicator for whether an establishment's state had a large UIB increase in any of the previous three years, where large UIB increases are defined as in Heese and Perez-Cavazos (2021), an indicator for whether an establishment lost its connection to its local district legislator in a closely contested election in t-1 (Panel A), for whether an establishment's parent firm lost a political connection (Panel B, columns (1) and (3)) or the ratio of the parent firm's lost connections over won and lost connections in closely contested elections (Panel B, columns (2) and (4)), and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and firm and year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Panel A: Treated States

	(1)	(2)	(3)
Dep. Var.:	D[Local Violation]$_t$	D[Local Donations]$_t$	
UIB Increase$_{t-4, t-1}$	0.002***	-0.004***	-0.013***
	(0.000)	(0.001)	(0.001)
Lost Local Connection$_{t-1}$	-0.001	-0.010**	-0.025***
	(0.001)	(0.004)	(0.004)
UIB Increase$_{t-4, t-1}$ × Lost Local Connection$_{t-1}$	0.023***	0.140***	0.138***
	(0.004)	(0.013)	(0.010)
Observations	929,399	929,399	929,251
R-squared	0.033	0.277	0.540
Control Variables	Yes	Yes	Yes
Firm FE	Yes	Yes	No
District × Year FE	Yes	Yes	No
District FE	No	No	Yes
Firm × Year FE	No	No	Yes

Panel B: Firm-Level Connections

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Sample	*All Establishments*		*High Employment Establ.*	
UIB Increase$_{t-4, t-1}$	-0.015***	-0.014***	-0.011***	-0.012***
	(0.001)	(0.001)	(0.001)	(0.001)
Lost Connection$_{t-1}$	-0.011***		-0.007***	
	(0.001)		(0.001)	
UIB Increase$_{t-4, t-1}$ × Lost Connection$_{t-1}$	0.024***		0.021***	
	(0.002)		(0.002)	
Lose Ratio$_{t-1}$		-0.013***		-0.009***
		(0.001)		(0.002)
UIB Increase$_{t-4, t-1}$ × Lose Ratio$_{t-1}$		0.041***		0.048***
		(0.003)		(0.004)
Observations	1,717,878	1,717,878	683,024	683,024
R-squared	0.275	0.275	0.294	0.294
Control Variables	Yes	Yes	Yes	Yes
Firm and Year FE	Yes	Yes	Yes	Yes

Table IA.7: Robustness Tests – All Years and All Firms

This table reports OLS estimates for the full sample period covering all years from 2006-2021 (columns (1) and (2)), or for the sample of firms, including those without a corporate foundation (columns (3) and (4)). The dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients within a 25-mile radius of the establishment's ZIP Code. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and either firm and district-by-year fixed effects (columns (1) and (3)), or district and firm-by-year fixed effects (columns (2) and (4)). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Sample	*All Years (Firms with Foundations)*		*All Firms (Election Years)*	
Local Violations$_{t-5,t-1}$	0.028***	0.014***	0.023***	0.015***
	(0.001)	(0.001)	(0.001)	(0.001)
Lost Local Connection$_{t-1}$	-0.003	0.005**	0.007***	0.005***
	(0.003)	(0.002)	(0.002)	(0.002)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.052***	0.043***	0.071***	0.059***
	(0.012)	(0.010)	(0.011)	(0.010)
Observations	4,823,679	4,823,541	4,458,656	4,455,761
R-squared	0.329	0.569	0.331	0.584
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	No	Yes	No
District × Year FE	Yes	No	Yes	No
District FE	No	Yes	No	Yes
Firm × Year FE	No	Yes	No	Yes

Table IA.8: Robustness Tests – Various Fixed Effects

This table reports OLS estimates for the closely contested elections setting as in Equation (1), where the dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*), plus firm-by-district and year fixed effects (column (1)), firm-by-district and firm-by-year fixed effects (column (2)), and district-by-year and establishment fixed effects (column (3)). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)
Local Violations$_{t-5,t-1}$	0.007***	-0.003***	0.000
	(0.002)	(0.001)	(0.002)
Lost Local Connection$_{t-1}$	-0.008***	-0.009***	-0.016***
	(0.003)	(0.002)	(0.003)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.071***	0.068***	0.067***
	(0.013)	(0.011)	(0.014)
Observations	2,603,130	2,603,060	2,378,322
R-squared	0.409	0.665	0.522
Control Variables	Yes	Yes	Yes
Firm × District FE	Yes	Yes	No
Year FE	Yes	No	No
Firm × Year FE	No	Yes	No
District × Year FE	No	No	Yes
Establishment FE	No	No	Yes

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Table IA.9: Robustness Tests – Without Controls and Fixed Effects
This table reports OLS estimates for the closely contested elections setting as in Equation (1), where the dependent variable indicates whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election and their interaction. Column (1) includes district and firm-by-year fixed effects, column (2) includes firm-by-year fixed effects, and column (3) includes firm fixed effects. Column (4) does not include fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Local Violations$_{t-5,t-1}$	0.025***	0.027***	0.030***	0.083***
	(0.001)	(0.001)	(0.002)	(0.002)
Lost Local Connection$_{t-1}$	0.008***	0.002	0.011***	0.058***
	(0.002)	(0.002)	(0.003)	(0.003)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.052***	0.071***	0.100***	0.041***
	(0.010)	(0.011)	(0.013)	(0.015)
Observations	2,621,107	2,645,455	2,645,535	2,645,536
R-squared	0.568	0.533	0.229	0.002
District FE	Yes	No	No	No
Firm × Year FE	Yes	Yes	No	No
Firm FE	No	No	Yes	No
Year FE	No	No	No	No

Table IA.10: Donated Amount and Donations to ZIP Code

This table reports OLS estimates for the closely contested elections setting as in Equation (1), where the dependent variable is the natural logarithm of the aggregate amount donated by an establishment's parent firm's foundation to recipients in a 25-mile radius around the establishment's ZIP Code for a sample of establishments receiving donations (columns (1) and (2)), or an indicator for whether an establishment's parent firm made charitable contributions to recipients in the establishment's ZIP Code (columns (3) and (4)). The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and either firm and district-by-year fixed effects (uneven columns) or district and firm-by-year fixed effects (even columns). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

	(1)	(2)	(3)	(4)
Dep.Var.:	ln(Donated Amount)$_t$		D[Donations to ZIP Code]$_t$	
Local Violations$_{t-5,t-1}$	0.197***	0.352***	0.013***	0.013***
	(0.010)	(0.015)	(0.001)	(0.001)
Lost Local Connection$_{t-1}$	0.249***	0.294***	0.007***	0.007***
	(0.037)	(0.031)	(0.001)	(0.001)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.253**	0.276***	0.018**	0.020**
	(0.108)	(0.078)	(0.008)	(0.008)
Observations	769,911	769,762	2,611,285	2,611,220
R-squared	0.619	0.601	0.117	0.189
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	No	Yes	No
District x Year FE	Yes	No	Yes	No
District FE	No	Yes	No	Yes
Firm x Year FE	No	Yes	No	Yes

Table IA.11: Number of Violations and Violations Near Establishment

This table reports OLS estimates for the sample period covering all years following an election outcome, where the dependent variable is an indicator of whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code. The main independent variables are the natural logarithm of the total number of violations received by an establishment's parent firm in the establishment's congressional district in years t-1 to t-5 (columns (1) and (2)) or an indicator for whether an establishment's parent firm received violations in a 25-mile radius around the establishment's ZIP Code in years t-1 to t-5 (columns (3) and (4)), an indicator for whether an establishment lost its connection to its local district legislator in a closely contested election, and their interaction. All specifications control for establishment-level controls (*ln(Establishment Sales)* and *ln(Establishment Employees)*) and either firm and district-by-year fixed effects (columns (1) and (3)), or district and firm-by-year fixed effects (columns (2) and (4)). Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
ln(Number of Local Violations)$_{t-5,t-1}$	0.037***	0.029***		
	(0.002)	(0.001)		
Lost Local Connection$_{t-1}$	0.006*	0.008***	0.004	0.007***
	(0.003)	(0.002)	(0.003)	(0.002)
Lost Local Connection$_{t-1}$ × ln(Number of Local Violations)$_{t-5,t-1}$	0.041***	0.046***		
	(0.012)	(0.010)		
Local Violations near Establishment$_{t-5,t-1}$			0.050***	0.044***
			(0.001)	(0.001)
Lost Local Connection$_{t-1}$ × Local Violations near Establishment$_{t-5,t-1}$			0.078***	0.066***
			(0.013)	(0.010)
Observations	2,611,285	2,611,220	2,611,285	2,611,220
R-squared	0.323	0.568	0.324	0.569
Control Variables	Yes	Yes	Yes	Yes
Firm FE	Yes	No	Yes	No
District × Year FE	Yes	No	Yes	No
District FE	No	Yes	No	Yes
Firm × Year FE	No	Yes	No	Yes

Table IA.12: Demographic Heterogeneity

This table reports OLS estimates for the sample period covering all years following an election outcome, where the dependent variable is an indicator of whether an establishment's parent firm made charitable contributions to recipients in a 25-mile radius around the establishment's ZIP Code. The sample distinguishes establishments in states whose population volunteers (columns (1) and (2)) or engages in charitable giving (columns (3) and (4)) more (uneven columns) or less (even columns) compared to the nation average. The main independent variables are indicators for whether an establishment is in a district where its parent firm received violations in years t-1 to t-5, for whether an establishment lost its connection to its local district legislator in a closely contested election and their interaction. All specifications control for establishment-level controls and district and firm-by-year fixed effects. Robust standard errors are clustered at the establishment level. Variable descriptions are in Appendix A. ***, **, and * indicate significance at the 1%, 5%, and 10% significance level, respectively.

Dep.Var.: D[Local Donations]$_t$	(1)	(2)	(3)	(4)
Sample	High Volunteering	Low Volunteering	High Char. Giving	Low Char. Giving
Local Violations$_{t-5,t-1}$	0.021***	0.021***	0.024***	0.021***
	(0.002)	(0.002)	(0.002)	(0.001)
Lost Local Connection$_{t-1}$	-0.003	0.018***	0.004	0.008***
	(0.003)	(0.003)	(0.003)	(0.003)
Lost Local Connection$_{t-1}$ × Local Violations$_{t-5,t-1}$	0.081***	0.024*	0.081***	0.015
	(0.014)	(0.013)	(0.016)	(0.012)
Observations	1,360,380	1,249,201	903,889	1,705,692
R-squared	0.567	0.586	0.588	0.568
District FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes

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