

# CEO's Political Contribution and Rewards

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## **Abstract**

Existing literature on company political connections often proxies these connections solely by company PAC contributions, overlooking the CEO's political contributions. This assumes that the CEO's contributions are driven by ideology and are not expected to generate benefits. This paper challenges that perspective, seeking to unravel the economic outcomes of the CEO's political contributions. Using various measures of CEO contributions, this study finds that CEO contributions significantly enhance a firm's procurement contracts, after controlling for other firm political connections. Additionally, CEOs with substantial political contributions tend to secure better contract terms and experience improved firm investment and market value. CEO political contributions thus emerge as a key channel for firms to engage in political activities, especially for those without PACs.

# 1 Introduction

Over the past two decades, the increasing overlap between businesses and politicians, along with the clear political leanings of corporate leaders in the United States, has sparked more interest and lively debates in academia. Political connections are often identified through various means, such as companies being headquartered in the politician's birthplace or the region they represent (Faccio and Parsley (2009); Kim et al. (2012); Kostovetsky (2015)), firm campaign contributions (Claessens et al. (2008); Goldman et al. (2009)), or the presence of a politician or former politician on the company's board or as a significant shareholder (Faccio (2006); Chaney et al. (2011); Duchin and Sosyura (2012)).

In research focusing on campaign contributions as an indicator of political connection, the primary emphasis has been on corporate Political Action Committees (PACs), with limited attention given to contributions made personally by CEOs. This is based on the assumption that the CEO's contributions are driven by ideology (Akey, 2015) and are not expected to generate benefits. However, overlooking the CEO's contribution might cause problems.

While CEOs can directly contribute to candidates, parties, and various PACs (including those associated with their own companies), corporations themselves cannot donate money directly to politicians. Instead, they must establish PACs to aggregate contributions from employees, which are then disbursed under the company's name. These PACs are typically overseen by a treasurer, often an individual with a background as a lobbyist, former government official, or political expert, tasked with maximizing the impact of the PAC's resources. However, the financial burden of operating PACs rests on the firms, making them costly. Consequently, not all publicly traded companies choose to establish PACs. Cooper et al. (2010) revealed that only 9.49% of firms in the CRSP/Compustat database engage in such contributions, primarily larger entities. Similarly, Correia (2014) noted a contribution rate of just 12.84% among sampled firms.

Conversely, Fremeth et al. (2013) assert that a significant 87.0% of CEOs in the S&P

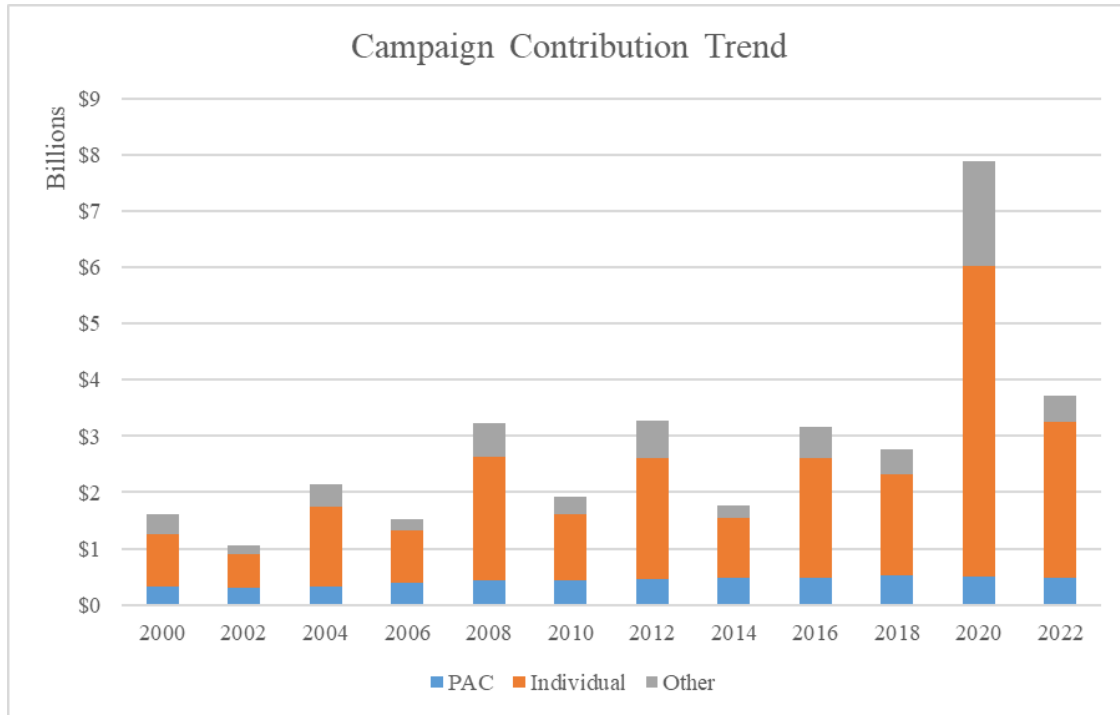


Fig. 1: Campaign Contribution Trend between 2000 and 2022

500 made at least one personal contribution during their research period, while Fulmer et al. (2022) contend that 36% of executives in their sample also contributed individually. This significance is further underscored by the total contribution amount from both individuals and PACs. As depicted in Figure 1, the proportion of individual campaign contributions has risen from 57% to 74% between 2000 and 2022. Based on Babenko et al. (2024), The top 0.1% of individual donors ("mega-donors") contributed from 2.3% of campaign funds in 2010 to 12.7% in 2018, with 48% of these donors having been a CEO. Hence, CEOs' personal contributions emerge as a crucial avenue for corporate involvement in political endeavors, particularly in the absence of company PACs.

In prior literature, academics believe that corporate elites demonstrate more pronounced ideological differences with considerable heterogeneity (Bonica, 2016). Consequently, it is also possible to explore the persistence of CEO contributions as a new dimension. Previous research has established that CEOs' political inclinations significantly influence various corporate decisions (Di Giuli and Kostovetsky (2014); Hutton et al. (2014)). Additionally, Babenko et al. (2020) demonstrates that CEO campaign contri-

butions can influence employees' choices. However, these studies often treat the CEO's contribution merely as a reflection of their political preference, aligning with the consumption view, and do not consider the possibility that CEO contributions could bring any real benefits.

An opposing view, known as the investment view, posits that CEOs' motivations for campaign contributions are driven by interests or political influence. Gordon et al. (2007) find that CEOs' personal contributions are motivated by pecuniary interests. Richter and Werner (2017) find that CEOs strategically contribute on behalf of their firms' interests, while Teso (2023) find that CEOs use campaign contributions as a tool for company political influence. These strategic contribution behaviors are driven by potential interests and influence, suggesting that there should be economic benefits.

However, there is a notable scarcity of research focusing on the direct economic outcomes of CEO contributions. The limited literature in this area suggests that CEO personal contributions can potentially reduce the probability of individual SEC prosecution, as evidenced by studies such as those conducted by Cao et al. (2021) and Fremeth et al. (2013). Additionally, there is an indication that such contributions may increase the likelihood of government grants to non-profit organizations, as noted by Cox (2020). Importantly, these studies are relatively recent, highlighting the emergence of this as a novel area of research.

To further investigate the potential economic benefits arising from CEO political contributions, I explore directly firm-level rewards. Government procurement contracts serve as a direct indicator of firm-level economic outcomes resulting from political connections. In Fiscal Year 2022, the federal government allocated approximately \$695 billion for contracts, reflecting a \$3.6 billion increase from FY 2021 when adjusted for inflation. This amount constitutes 2.73% of the Gross Domestic Product (GDP) in 2022 and represents 11.5% of the 2022 federal government current expenditures.<sup>1</sup> The distribution of these contracts stands out as one of the most direct pathways through which CEOs'

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<sup>1</sup>Contract values obtained from <https://www.gao.gov/>. GDP data of \$25.46 trillion and government current expenditures data of \$6,038.5 billion are sourced from <https://www.bea.gov/>.

political connections may impact company values in the US (Goldman et al., 2013). Previous literature has provided ample evidence of how politicians influence government resource allocation to their favored connected firms, not only within the executive branch (Dahlström et al. (2021); Gitterman (2013); Brown and Huang (2020)), but also through the legislative branch (Tahoun (2014); Goldman et al. (2013)). While not all companies are reliant on government contracts, the value of such contracts serves as a robust proxy for gauging the support and rewards received from the government. This metric is easily quantifiable and is linked to potential advantages, including the prospect of renegotiation after contract signing (Brogaard et al., 2021). In addition to government procurement contracts, I also examine the correlation between CEO political contributions and firm performance.

This study's sample comprises companies from the intersection of Execucomp and BoardEx datasets. This sample encompasses their financial metrics, government procurement contract values from each government department, and CEO information spanning the years from 2000 to 2022. To ensure an ample political contribution track record before assuming the CEO role, I gather both companies' and CEOs' contribution records from 1989 to 2022.

The methodology entails assessing the CEO's political contributions through four primary metrics: (i) the total CEO contribution amount to the congressmen who oversaw the department over the previous  $T$  years, (ii) the total CEO's supported congressmen who oversaw the department over the previous  $T$  years, (iii) the total CEO contribution amount to all congressmen over the previous  $T$  years, and (iv) the total CEO's supported congressmen over the previous  $T$  years

The study's key findings indicate that When a CEO contributes more or contributes to more congressmen who oversee the department, the firm will receive more government procurement contracts awarded by the department. Additionally, these contributions are associated with favorable contract terms and better firm performance. Controlling for the fixed effects of CEO, firm, year and department, as well as potential political economic

confounders and firm fundamentals does not affect the results. CEO's contributions serve as an important channel to construct firm political connections and bring corporate benefits.

Given the variations in CEO participation in campaign contributions, the diversity of companies with government contracts, and potential biases from industries highly reliant on government, particularly defence, I conducted subsample tests. These subsamples contain subsample excluding CEOs who never contributed, subsample excluding firms that had no government contracts, and subsamples based on industries' relationship with the government. Remarkably, the results remain robust even after implementing these subsample tests.

To address potential biases stemming from PAC contributions, I control for PAC contributions in all regressions, and I exclude all companies with PACs and proceed with a subsample regression analysis. Encouragingly, the results retain their significance in this subsample devoid of PAC contributions. This reaffirms the hypothesis that CEO political contributions constitute a vital channel for a firm's political engagement, particularly in the absence of a PAC.

To address concerns about potential reverse causality, I include lagged independent variable. If procurement contracts are awarded first and politicians then seek rent, it is more likely that the firm's contributions would increase rather than the CEO's contributions, given that PAC contributions are typically larger. Conversely, this scenario is less likely because CEOs' contribution behavior tends to persist even after they retire from their CEO position (Fremeth et al., 2013).

This paper relates to studies of political connections. Distinguishing itself from previous studies that employed varied measures to define a company's political connections, this research uniquely explores the often-overlooked avenue of the CEO's campaign contributions as a crucial channel of political connection. The findings of this paper establish and validate the effectiveness of this particular connection channel for the company and test the direct economic benefits of this channel.

The existing literature delves into the impact of company political connections on firm returns and value, yielding mixed results. Some studies suggest that politically connected firms benefit from preferential access to external financing (Dinç (2005); Claessens et al. (2008)) and are more likely to receive government bailouts during financial distress (Faccio et al. (2006); Duchin and Sosyura (2012)). Moreover, politically connected firms exhibit a higher likelihood of securing government procurement contracts (Tahoun (2014); Goldman et al. (2013); Brogaard et al. (2021)) or receiving favourable terms (Ferris et al., 2019), along with government subsidies and other forms of support (Johnson and Mitton, 2003). However, findings regarding the association between firm campaign contributions and future returns diverge. Cooper et al. (2010) and Akey (2015) report a positive relationship, while Aggarwal et al. (2012) and Coates IV (2012), employing different empirical approaches, identify a negative association, which they interpret as evidence of agency problems. On the other hand, political connections can pose challenges to corporate governance. Political spending affords firms the ability to impede fraud detection (Yu and Yu, 2011), and politically connected firms exhibit a lower likelihood of being entangled in SEC enforcement actions (Correia, 2014). Moreover, political contributions are linked to diminished civil and criminal sanctions for executives implicated in fraudulent activities (Fulmer et al., 2022).

This paper also has practical implications. Individual campaign contributions influence government resource allocation and serve as a crucial pipeline for bypassing regulations and restrictions targeting PAC contributions. Thus, for policymakers, regulating solely PAC contributions is not enough to stop money from interest groups from influencing politics.

## **2 Sample and data**

My sample comprises the intersection of all companies listed in Execucomp and BoardEx datasets during the sample period from 2000 to 2022, excluding companies with

insufficient observations or significant merger and acquisition activities. This process resulted in a final sample size of 2531 companies. For analytical purposes, these firms have been categorized into the Fama-French 49 industries, providing a representative proxy for a comprehensive set of companies. Company financial and fundamental data are sourced from Compustat.

CEO information is obtained from the Execucomp and BoardEx datasets. Throughout the sample period, a total of 4813 individuals served as CEOs in the selected firms. The average CEO tenure for these individuals stands at 7.59 years. A comprehensive overview of descriptive statistics for all variables is provided in Table 1.

## **2.1 Campaign contributions**

Political contribution data is from the Federal Election Commission (FEC), which offers transaction-level information by election cycle. Individual donors participating in federal election campaigns are required to report their employer and job title to the FEC. While companies cannot make direct contributions, they can establish political action committees (PACs) to consolidate campaign contributions. For each firm in the sample, contribution records for the CEO, other executives, and the company have been collected since 1989, facilitating the tracking of their long-term contribution behavior.

Among the 4813 CEOs, 1626 of them have never contributed, while 3187 of them have contributed in at least one year between 1989 and 2022. Of the contributors, 346 individuals contributed exclusively to the Democratic party, 836 contributed exclusively to the Republican party, whereas 2005 contributed to both parties or other parties. An intriguing case is Leonard Lauder, who persistently contributed to the Democratic party for all 34 years, even after retiring from his CEO position in 2000. Additionally, he contributed to the Republican party for 19 years. J. Larry Nichols, a prominent Republican, contributed to the Republican Party for an impressive 30 years.

Within the sample of 2594 companies, 1678 firms refrained from contributing, while



916 companies actively participated in campaign contributions. Of these, 5 firms exclusively supported the Democratic party, while 33 companies solely contributed to the Republican party. All the rest 878 firms contributed to both parties, which confirms the fact that PAC contributions are strategic with more hedges of bets.

In summary, the contribution records reveal a tendency for companies to engage in contributions to both parties. Conversely, CEOs are more inclined to align with a single party. This observation aligns with existing research findings suggesting that corporate elites exhibit greater ideological alignment in campaign contributions compared to corporate PACs (Bonica, 2016). It's essential to consider that the sample period represents a subset of the contribution record, and given variations in CEOs' tenures, the distribution of CEOs' contributions may exhibit greater dispersion than the summary spanning from 1989 to 2022. In the sample, only 37% of all observations reflect CEO contributions, while approximately 26% of all observations show the companies demonstrate a contribution presence.

## **2.2 Government procurement contract**

Procurement data utilized in this study are sourced from the Federal Procurement Data System (FPDS) and are acquired through sam.gov, the official US government platform for accessing contract opportunities and pertinent contract data.

The federal acquisition process initiates with an agency defining its requisites and determining the appropriate procurement approach. Subsequently, the agency publishes a solicitation on the Federal Business Opportunities (FedBizOpps) website. Upon the conclusion of the submission period for company proposals, agency personnel undertake a thorough evaluation of offerors' submissions. This evaluation adheres to the source selection method and criteria outlined in the solicitation. Unless circumstances necessitate the engagement of multiple suppliers or firms, as is the case with a supply schedule, the agency proceeds to award a contract to a singular firm (Halchin, 2006).

Brogaard et al. (2015) found that the average government procurement contract length is approximately 7 months, with a standard deviation of 10 months, a statistic also corroborated by Girth and Lopez (2019). Most contract durations fall within a span of around 1 year, with the maximum duration reaching 5 years. According to information from the U.S. Department of the Interior<sup>2</sup> and the U.S. General Services Administration<sup>3</sup>, the average processing time is expected to range from 3 to 6 months, with a maximum of around 1 year.

Moreover, procurement contracts are integral components of the federal government's annual spending budget, and thus are influenced by the annual nature of the budgeting process and fiscal cycles, including the timing of contract awards, budget allocations, and spending patterns. Consequently, I evaluate the annual newly awarded procurement contract value as the dependent variable to align with the annual patterns of government budget and average contract duration. Additionally, I lag one-year independent variables and control variables to accommodate the processing time required for awarding a contract.

In the study cohort comprising 2594 companies, 1096 entities did not engage in any procurement contracts, while 1498 companies were recipients of at least one contract during the observed sample period. Notably, the leading four companies, characterized by the highest average annual contract values, are exclusively defence-oriented, exemplified by industry giants such as Lockheed Martin and Boeing. Specifically, 21 companies boast an average annual contract value surpassing one billion dollars, and 672 companies exhibit an average annual contract value exceeding one million dollars, contingent upon securing contracts in a given year. Concerning the reliance on government procurement contracts, only 74 companies exhibit an average contract value to total revenue ratio surpassing 5%. The majority of the sample firms exhibit limited dependence on procurement contracts, a trend congruent with their substantial size and operational maturity.

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<sup>2</sup><https://www.doi.gov/cloud/faq/process>

<sup>3</sup><https://www.gsa.gov/small-business/small-business-resources/training-resources/getting-on-the-gsa-schedule>

Within the 49 industries represented, Defense, Aircraft and Shipbuilding emerge as sectors boasting the highest average annual contract values, each exceeding one billion dollars per annum. Intriguingly, these industries also demonstrate a heightened reliance on government contracts. A total of 25 companies fall within these categories, with two of them persistently participating in campaign contributions each year throughout the sample period. Notably, six companies refrain from active participation in PAC contributions, while four contribute for less than five years. This subset encompasses a total of 56 CEOs, of whom 11 individuals never participated in campaign contributions, while only 25 individuals exhibited some sort of persistent contribution behaviour throughout their tenure. The available evidence does not sufficiently support the notion that companies reliant on government contracts are inclined to appoint CEOs with pronounced political activism.

### **2.3 Election results and committee assignment**

CEOs and companies can contribute to any candidate, while election results are from the FEC (Federal Election Commission) website. The FEC gathers and publishes certified election results from past federal elections, with data officially reported by each state or territory's election office. Every two years, the FEC publishes Federal Elections, which is a comprehensive record of certified results for primary, runoff, and general elections for federal offices, including the Senate, House of Representatives, and, in presidential election years, the President.

Congress organizes its legislative, oversight, and internal administrative responsibilities across nearly 200 committees and subcommittees. These specialized groups focus on specific policy areas to efficiently manage the vast scope of congressional work. Within their assigned domains, committees gather information, evaluate legislative alternatives, identify policy issues, and propose solutions. They are also responsible for preparing and reporting bills for consideration by the full chamber, conducting oversight of the executive branch, and investigating potential misconduct. The investigatory role, in particular,

has been a foundational responsibility for congressional committees, underscoring their role in checks and balances. Given their oversight and investigatory responsibilities regarding the executive branch, congressional committees play a documented role in influencing government resource allocation. Literature highlights how these committees shape policy and resource distribution through their scrutiny and regulatory functions, impacting executive decisions and prioritizing specific areas based on committee interests and mandates (Clinton et al. (2014), Brogaard et al. (2024)).

Committees allow members to develop expertise on issues within their jurisdiction, enabling informed and efficient handling of legislative responsibilities. While the full Senate and House of Representatives officially appoint members to their respective committees, the selection is largely managed by the political parties. Each party typically respects members' preferences, often prioritizing committee assignments based on seniority. This approach allows for a balance between members' interests and the party's legislative strategy, facilitating specialized focus areas across Congress.

Committee assignment data is manually gathered from sources such as Wikipedia, Congress, and Ballotpedia on a per-cycle basis. Typically, every congressperson serves on at least one committee during their tenure, with many serving on multiple committees, which allows them to exert influence over a range of executive branch functions. Agencies responsible for distributing government procurement contracts fall under U.S. Cabinet departments, the executive branches of the government, each of which is monitored and guided by specific congressional committees.

This structure establishes a clear path between CEO or corporate political contributions and government procurement outcomes: when a CEO or company supports a candidate, and if that candidate is elected, they are likely to be assigned to committees with influence over government resource allocation. This oversight can lead to favourable procurement outcomes for the contributing company from the relevant government departments supervised by these committees.

### 3 Empirical strategy and descriptive statistics

My main objective is to analyze how a CEO's political contributions can benefit their firm. I use four primary metrics for this analysis:

1. The total contribution amount made to committee members related to a specific cabinet department over the previous T years.
2. The total number of committee members supported within these related committees over the previous T years.
3. The total contribution amount made to all congressional members over the previous T years.
4. The total number of congressional members supported over the previous T years.

It is important to note that congressional members in this analysis are election winners, reflecting their influence and established positions within the government.

The first measure is an individual-department-annual level total contribution amount made to committee members related to a specific cabinet department over the previous T years:  $TYearContriDep$ , while T is the moving windows. This measure refers to Correia (2014) and Ovtchinnikov et al. (2020) and is in line with the long-term view of political investment in Snyder Jr (1992) and Kroszner and Stratmann (2005).

$$TYearContriDep_{i,d,t-1} = \sum_{k=1}^T Contribution_{i,d,t-k} \quad (1)$$

Here,  $Contribution_{i,d,t-k}$  represents CEO  $i$ 's total contribution to committee members overseeing department  $d$  in year  $t - k$ . Since a congressperson may serve on multiple committees and a committee may oversee multiple cabinet departments, contributions are scaled to avoid double counting. Specifically, the contribution amount is divided

by the number of committees the congressperson belongs to and further divided by the number of departments each committee supervises. For instance, if CEO A contributes \$100 to Congressman B, and B serves on 5 committees, each committee is attributed \$20 of the contribution. If Committee AA, one of these, oversees 2 departments, then each department receives an allocation of \$10.

Some argue that political contributions are too trivial to impact real outcomes, making it inappropriate to rely solely on amount-based measures. As an alternative, the second measure is the total number of committee members supported within these related committees over the previous  $T$  years ( $TYearCandiDep$ ), which assesses the breadth of the CEO's political connections through their contributions. This measure is based on the approaches of Cooper et al. (2010) and Ovtchinnikov et al. (2020).

$$TYearCandiDep_{i,d,t-1} = \sum_{j=1}^J Cand_{j,t-1,t-T} \quad (2)$$

while  $Cand_{j,t-1,t-T}$  is an indicator variable equal to one if the CEO has contributed money to candidate  $j$  over the years  $t - T$  to  $t - 1$ .

The third measure,  $TYearContri$ , and fourth measure,  $TYearCandi$ , are similar to  $TYearContriDep$  and  $TYearCandiDep$ . However, these two measures represent the total contribution amount and the total number of congressional members supported at the individual-annual level, but across all congressional members, not just those related to a specific department. Additionally, I constructed four parallel measures for company (PAC) contributions to control for the potential influence of company-level political contributions.

Furthermore, to account for other potential avenues of political connections, I incorporate additional control variables beyond CEO characteristics and firm fundamentals. *Lobby* is the total lobby expenses last year. *Pol-connected director ratio* is the ratio of political-connected directors, measured by prior working experience, to the total board members. These variables serve as proxies for the extent to which the firm engages in political contributions in a given year. *HQ in Homestates* sets to 1 if the firm's headquarter

is located in the birth state of any of the three government leaders (President, Speaker of the House, Senate Majority Leader), while *HQ in Represented states* sets to 1 if the firm's headquarter is in the represented state of either the Speaker of the House or the Senate Majority Leader, and 0 otherwise. These variables contribute to controlling for potential political connections stemming from geographical affiliations.

A comprehensive overview of descriptive statistics for main variables is provided in Table 1. Both the government contract and CEO contribution data are strongly right-skewed, so in the regression, I take natural logarithms of values plus 1 to normalize the distribution for continuous variables. I also use alternative measures for *ContractValue*, including the proportion of contracts relative to the total distributed by the department and the ranking by contract value within the department. To address zeros in the dependent variable, indicating that some firms do not participate in government procurement, I apply alternative regression models as a robustness check. To handle zeros in the independent variable, where some CEOs do not participate in campaign contributions, I use the Heckman Selection model to examine the main results. Additionally, I construct subsamples excluding non-participating firms or CEOs for robustness tests. My main regression is OLS, which allows for the inclusion of multiple fixed effects, however, Poisson regression is applied for robustness check as well. Note that the distributions of government contract and CEO contribution data commonly exhibit strong right-skewness in the literature. In Babenko et al. (2020), CEOs donated 38.6% of the time, which is very close to my sample, where 36.63% of observations are associated with nonzero CEO contributions. Similarly, Brogaard et al. (2015) found that contracts were awarded in 34.5% of firm-election years, and in Brown and Huang (2020), the median procurement contract value was also 0.

I examine the relationship between economic benefits and the CEO's political contribution within a multivariate framework by estimating the panel model:

**Table 1**

**Descriptive statistics.** Sample comprises the intersection of all Execucomp and BoardEx companies in the sample period of 2000 to 2022, removing companies with too few observations or major M&A activities, and resulting in a final company size of 2594. Over the sample period, a total of 4813 individuals served as CEOs in the selected firms, accounting for instances of co-CEOs. Variable definitions can be found in Appendix A.

Stats	N	SD	Mean	p5	p25	p50	p75	p95
Contract value (M)	528122	1,080.00	19.60	0.00	0.00	0.00	0.00	0.44
Contracts in quarter 4 (M)	528122	347.00	5.17	0.00	0.00	0.00	0.00	0.10
Unfixed contracts (M)	528122	689.00	10.60	0.00	0.00	0.00	0.00	0.00
Multi-year contracts (M)	528122	172.00	1.70	0.00	0.00	0.00	0.00	0.00
Noncompetitive contracts (M)	528122	649.00	7.85	0.00	0.00	0.00	0.00	0.04
Rank in department	528122	7,694.94	1,673.86	0.00	0.00	0.00	0.00	9,394.00
Percent in department	528122	0.3361	0.0123	0.0000	0.0000	0.0000	0.0000	0.0010
4YearContriDep	528122	2,577.35	273.44	0.00	0.00	0.00	0.00	1350.00
4YearCandiDep	528122	2.07	0.59	0.00	0.00	0.00	0.00	3.00
4YearContri	31066	40,219.93	5,641.27	0.00	0.00	0.00	4,200.00	26,200.00
4YearCandi	31066	6.39	2.07	0.00	0.00	0.00	2.00	10.00
4YearContriDep_PAC	528122	23,731.52	5,031.49	0.00	0.00	0.00	316.67	24,360.42
4YearCandiDep_PAC	528122	19.85	6.33	0.00	0.00	0.00	1.00	39.00
4YearContri_PAC	31066	397,624.90	104,104.70	0.00	0.00	0.00	14,551.00	565,000.00
4YearCandi_PAC	31066	63.86	23.41	0.00	0.00	0.00	7.00	151.00
HQ in Homestates	31066	0.25	0.07	0.00	0.00	0.00	0.00	1.00
HQ in Represented states	31066	0.29	0.09	0.00	0.00	0.00	0.00	1.00
Pol-connected director ratio	31066	0.19	0.23	0.00	0.10	0.20	0.36	0.58
ln Lobby	31066	6.29	4.47	0.00	0.00	0.00	11.85	15.00
CEO age	31066	7.32	56.40	45.00	52.00	56.00	61.00	69.00
CEO gender	31066	0.19	0.96	1.00	1.00	1.00	1.00	1.00
Tenure	31066	7.62	7.69	0.00	2.00	5.00	11.00	23.00
Bachelor	31066	0.39	0.81	0.00	1.00	1.00	1.00	1.00
Is Director	31066	0.17	0.97	1.00	1.00	1.00	1.00	1.00
Is Chairman	31066	0.50	0.49	0.00	0.00	0.00	1.00	1.00
Policital Exp	31066	0.38	0.18	0.00	0.00	0.00	0.00	1.00
Leverage	31066	1.12	0.55	0.00	0.05	0.23	0.57	1.99
BM	31066	0.41	0.51	0.06	0.25	0.44	0.68	1.26
ln Revenue	31066	1.65	7.32	4.74	6.18	7.24	8.41	10.16
Captex/sales	31066	0.11	0.06	0.00	0.02	0.03	0.06	0.24
Cogs/sales	31066	0.23	0.59	0.15	0.43	0.63	0.76	0.91
3-year sales growth rate	31066	0.18	0.10	-0.12	0.00	0.07	0.16	0.41
HHI	31066	0.19	0.21	0.02	0.08	0.16	0.28	0.63
Insholding	31066	0.36	0.60	0.00	0.37	0.74	0.89	1.00
Indiratio	31066	0.22	0.75	0.11	0.70	0.82	0.89	0.92



$$Y_{j,d,t} = \beta_0 + \beta_1 TYearPC_{i,d,t-1} + \beta_2 TYearPC\_PAC_{j,d,t-1} + \beta_3' X_{j,t-1} + \beta_4' Y_{j,t-1} + \beta_5' Z_{i,t} + c_i + \lambda_j + \delta_d + \gamma_t + \epsilon_{j,t}, \quad (3)$$

where  $Y$  is one of the dependent variables of interest;  $i$  indexes CEOs;  $j$  indexes firms;  $d$  indexes government departments;  $t$  indexes years;  $TYearPC$  is one of the CEO's contribution measures;  $TYearPC\_PAC$  is one of the company's contribution measures;  $X$  is a set of additional control variables on the political connection (*Lobby, Pol-connected director ratio, HQ in Homestates, HQ in Represented states*);  $Y$  includes firm fundamentals (*Leverage, BM, Revenue, CapEx/Sales, CoGS/Sales, 3yearsSalesGrowth, HHI, Insholding and Indi ratio*); and  $Z$  is a set of CEO-level potential confounding variables and characteristics of CEO (*Is Director, Is Chairman, Age, Tenure, Policial Exp*). Fixed effects for CEO, firm, department, and time are incorporated to ensure a comprehensive control for unobserved factors that could influence the relationships under consideration.

## 4 Empirical results

### 4.1 CEO's political contribution and government procurement contract

Table 2 presents the OLS regression results following equation 3, with the natural logarithm of contract values as the dependent variables. The political contribution measure is the natural logarithm of *4YearContriDep*, representing the total political contribution amount by the CEO over the preceding four years to related congress members for a given government department. The baseline regression findings suggest that within this four-year window, a 100% increase in the total contribution amount leads to a 1.76% rise in government contract value in addition to PAC contributions. Using the conditional median values of *4YearContriDep* and *Contract Value*, a \$480 increase in the total contribu-

tion amount corresponds to a \$0.27 million increase in contract value, resulting in a ratio of approximately 1:580. The coefficient of *4YearContriDep\_PAC* shows a 100% increase in the total PAC contribution amount leads to a 2.57% rise in government contract value. In previous literature, Akey (2015) found that the average political connection leads to an increase in sales of \$300 million, Goldman et al. (2013) estimated that firms connected to the winning party experience an average increase in procurement contracts of \$270 million over the following four years, Tahoun (2014) claimed that politically-contributed firms have a 7% higher procurement contract value, and Brown and Huang (2020) found that the change in government procurement contracts following visits by executives of firms that contributed to Obama more than his opponent is 0.706 percentage points.

This study's sample size is much larger than that of the existing literature. It includes smaller firms and the CEO's contribution is relatively modest. Therefore, the economic magnitude observed is reasonable. It's worth noting that the dollar contribution to a politician is unlikely to be the sole cost of establishing and maintaining a political connection, suggesting that the real return on investment should be lower.

Procurement contracts are integral components of the federal government's annual spending budget, thus exhibiting annual patterns. Consequently, I evaluate the annual newly awarded procurement contract value as the dependent variable to align with the annual nature of the government budget and average contract duration. Additionally, I lag one-year independent variables and control variables to accommodate the processing time required for awarding a contract. See Section 2.2 for more discussion. Other measures of dependent variables, independent variables and different time windows are tested in Table 4. Subsample tests can be found in Section 5. Other regression models can be found in Appendix B.

**Table 2**

**The impact of CEO's political contribution on company procurement contracts.** This table examines the determinants of cross-sectional variation in the value of government procurement contracts from specific government departments between 2000 and 2022. The dependent variable is the natural logarithm of the annual contract value. The analysis tests the natural logarithm of measures for the CEO's political contributions and PAC contributions, including *4YearContriDep* and *4YearContriDep\_PAC*, which represent the total contributions made to relevant congressmen who oversees the department in the prior four years by the CEO and the company PAC, respectively. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm. More measures and different time windows can be found in robustness tests.

Ln of	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Contr Val	Contr Val	Contr Val	Contr Val	Contr Val	Contr Val	Contr Val
In 4YearContriDep	0.0574*** (26.62)	0.0341*** (15.41)	0.0631*** (27.73)	0.0176*** (7.52)	0.0176*** (3.32)	0.0191*** (3.66)	
In 4YearContriDep_PAC	0.1787*** (117.74)	0.0417*** (19.35)	0.0547*** (17.25)	0.0257*** (7.42)	0.0257** (2.53)		0.0280*** (2.78)
Controls		Y	Y	Y	Y	Y	Y
Year FE			Y	Y	Y	Y	Y
Firm FE			Y	Y	Y	Y	Y
CEO FE				Y	Y	Y	Y
Dpt FE				Y	Y	Y	Y
Cluster SE Firm					Y	Y	Y
Observations	528,122	528,122	528,122	528,122	528,122	528,122	528,122
R-squared	0.0582	0.3268	0.4247	0.430	0.4222	0.4222	0.4222

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## 4.2 Which categories of contracts increase

FPDS provides detailed information on each government procurement contract, facilitating the analysis of contract characteristics and terms. Ferris et al. (2019) documents a link between corporate political connections and favorable procurement contract terms, while Liebman and Mahoney (2017) finds that government spending spikes at the end of the fiscal year, with year-end projects generally receiving lower quality ratings. In this study, I filter contracts based on the following criteria: (1) distributed in the last quarter of a fiscal year, (2) involving the purchase of supplies or services extending beyond one year, (3) not fixed-value, and (4) awarded non-competitively. These contract values are used as independent variables, and I replicate the prior regression analysis.

Table 3 presents OLS regression results for various categories of procurement contracts. CEO political contributions show a positive association with a higher value of fourth-quarter contracts, multi-year contracts, unfixed contracts, and non-competitive

contracts. However, the coefficient for multi-year contracts is not statistically significant. These findings suggest that companies are more likely to receive favorable contract terms if their CEOs make contributions to congressmen who oversee the contracting department. Additionally, the largest coefficient is observed for fourth-quarter contracts, possibly because departments may face incentives to use up budgets that expire at the end of the fiscal year, leading them to favor companies with strong relationships.

**Table 3**

**Which categories of contracts increase.** This table examines the impact of the CEO’s political contributions on various categories of government procurement contracts. The analysis includes four contract categories: (1) contracts distributed in the last quarter of the fiscal year, (2) contracts for the purchase of supplies or services extending beyond one year, (3) non-fixed-value contracts, and (4) non-competitive contracts. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm.

Ln of	(1) Contracts in Q4	(2) Multi-year contracts	(3) Unfixed contracts	(4) In Noncompetitive contracts
ln 4YearContriDep	0.0194*** (3.94)	0.0044 (1.46)	0.0136*** (3.73)	0.0147*** (3.24)
ln 4YearContriDep_PAC	0.0261*** (2.88)	0.0093* (1.93)	0.0161** (2.37)	0.0236*** (2.99)
Controls	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
CEO FE	Y	Y	Y	Y
Dpt FE	Y	Y	Y	Y
Cluster SE Firm	Y	Y	Y	Y
Observations	528,122	528,122	528,122	528,122
R-squared	0.392	0.194	0.287	0.3363

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

### 4.3 More measures and different time windows

Table 4 explores additional measures and time windows in the main regression. *TYearCandiDep* and *TYearCandiDep\_PAC* are introduced as alternative measures of CEO political connections. The time window *T* is expanded to 1, 2, 4, and 6 years to capture the period over which relationships are built.

Comparing columns (1)–(4) in Table 4, Panel A, with column (1), the coefficients for *4YearContriDep* are marginally higher than those for other time windows. All coefficients across the different windows remain statistically significant, suggesting that a

CEO's political contributions help establish a long-term relationship rather than a one-time resource exchange. Columns (5)-(8) present the results for *TYearCandiDep*, that a 100% increase in supported candidates will result in a 7%-12% increase in contract value. The magnitude is slightly higher than that of contribution amounts (columns (1)-(4)), possibly because the breadth of connections adds value. For example, a 100% increase in contribution amount might only strengthen existing connections, whereas a 100% increase in the number of supported candidates could broaden connections to department supervisors, thereby amplifying influence. These regression outcomes substantiate the hypothesis that higher CEO political contributions are linked to elevated government contract value, thereby constituting direct firm-level economic benefits.

#### **4.4 Contribution and firm's performance**

The existing literature extensively examines the correlation between a company's political connections and its performance (Akey (2015); Brown and Huang (2020); Ovtchinnikov et al. (2020)). In Table 5, I investigate whether a CEO's political contributions also influence firm performance. While different metrics demonstrate varying explanatory powers in assessing performance, the observed positive relationship resonates with findings in prior literature. Firms with greater CEO political contributions exhibit higher SG&A expenses, firm investment and market capitalisation. This additional effect is likely from reducing uncertainty and offering firms key resources and benefits (e.g., policy information, credits, legitimacy, subsidies) Faccio et al. (2006), Akey (2015), Brown and Huang (2020)). Note that the magnitudes of coefficients may not appear substantial due to dilution effects stemming from the inclusion of full samples with long sample periods.

**Table 4**

**More measures of main regression.** This table examines additional measures of the main regression. *TYearCandiDep* and *TYearCandiDep\_PAC* are introduced as alternative measures of CEO political connections. The time window *T* is expanded to 1, 2, 4, and 6 years to capture the period over which relationships are built. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm.

Ln of	(1) Contr Val	(2) Contr Val	(3) Contr Val	(4) Contr Val	(5) Contr Val	(6) Contr Val	(7) Contr Val	(8) Contr Val
ln 4YearContriDep	0.0176*** (3.32)							
ln 4YearContriDep_PAC	0.0257** (2.53)							
ln 1YearContriDep		0.0142*** (3.02)						
ln 1YearContriDep_PAC		0.0188** (2.23)						
ln 2YearContriDep			0.0164*** (3.33)					
ln 2YearContriDep_PAC			0.0205** (2.11)					
ln 6YearContriDep				0.0141*** (2.62)				
ln 6YearContriDep_PAC				0.0275*** (2.81)				
ln 1YearCandiDep					0.0727** (2.23)			
ln 1YearCandiDep_PAC					0.1488*** (3.89)			
ln 2YearCandiDep						0.0937*** (2.80)		
ln 2YearCandiDep_PAC						0.1412*** (3.55)		
ln 4YearCandiDep							0.1215*** (3.48)	
ln 4YearCandiDep_PAC							0.1347*** (3.38)	
ln 6YearCandiDep								0.1121*** (3.23)
ln 6YearCandiDep_PAC								0.1340*** (3.49)
Controls	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y
CEO FE	Y	Y	Y	Y	Y	Y	Y	Y
Dpt FE	Y	Y	Y	Y	Y	Y	Y	Y
Cluster SE Firm	Y	Y	Y	Y	Y	Y	Y	Y
Observations	528,122	528,122	528,122	528,122	528,122	528,122	528,122	528,122
R-squared	0.43	0.4222	0.4222	0.43	0.43	0.4223	0.43	0.43

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**Table 5**

**CEO contribution and firm's performance.** This table analyzes the impact of the CEO's political contribution on the firm's performance. Two different measures of the CEO's political contribution are tested, including *Ln4YearContr* and *Ln4YearCandi*, which represent the total contribution amount to all congressmen and total number of supported congressmen. Columns (1)-(2) present the regression results with firm's SG&A expenses serving as the dependent variable, columns (3)-(4) display the regression results for firm investment, and columns (5)-(6) present the regression results for firm market value. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm.

Ln of	(1) SGA expense	(2) SGA expense	(3) Investment	(4) Investment	(5) Market Value	(6) Market Value
ln 4YearContri	0.0068* (1.90)		0.0047*** (3.47)		0.0029 (1.59)	
ln 4YearContri_PAC	0.0017 (0.37)		0.0026 (1.02)		-0.0013 (-0.38)	
ln 4YearCandi		0.0587 (1.66)		0.0409*** (3.21)		0.0210** (2.01)
ln 4YearCandi_PAC		-0.0196 (-0.94)		0.0050 (0.66)		-0.0046 (-0.35)
Controls	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
CEO FE	Y	Y	Y	Y	Y	Y
Dpt FE	Y	Y	Y	Y	Y	Y
Cluster SE Firm	Y	Y	Y	Y	Y	Y
Observations	30,546	30,546	30,546	30,546	30,546	30,546
R-squared	0.949	0.949	0.9524	0.963	0.9279	0.9279

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## 5 Robustness tests

### 5.1 Close election results

To mitigate potential endogenous concerns regarding reverse causality and omitted time-varying variables, I implement a regression discontinuity design inspired by Akey (2015). This approach leverages exogenous changes in CEOs' political contribution networks by comparing the outcomes of firms with CEOs connected to politicians who narrowly won an election with those connected to politicians who narrowly lost. The underlying assumption is that the randomness inherent in the outcome of a closely contested election provides a natural experiment to isolate exogenous variation in CEOs' political networks.

I begin by gathering election data from the Federal Election Commission (FEC) for all federal elections held between 2000 and 2020. Elections with a winning margin of less than 5% are classified as close elections. I then identify CEOs who contributed to any candidates in these close elections and track their firms' government procurement activity before and after the election. Referring to Akey (2015), I construct six new independent variables to capture the dynamics of CEOs' political connections.

$$Won(Lost)P_{i,t} = \sum_p (Donated_{i,p,t} * ElectionOutcome_{p,t}) \quad (4)$$

where  $Donated_{i,p,t}$  equals one if CEO  $i$  donated to candidate  $p$  in election cycle  $t$  and zero otherwise.  $ElectionOutcome_{p,t}$  equals one if politician  $p$  won a close election in cycle  $t$ . The variable  $TotalP_{i,t}$  is defined as  $WonP_{i,t} - LostP_{i,t}$ , capturing the CEO's net political connection portfolio. Similarly, I construct  $AmountWonP_{i,t}$ ,  $AmountLostP_{i,t}$ , and  $AmountTotalP_{i,t}$  to measure the total contribution amounts donated by the CEO to winning or losing candidates in the election cycle, rather than using binary participation.

The dependent variable measures the change in procurement contract value awarded by the department overseen by politicians involved in the close election, comparing the cycle before the election to the cycle after it. For example, if the CEO participated in a close election during the 2012 cycle, the difference in contract value is calculated as the total procurement contract value awarded from the related departments to the firm in the 2014 cycle minus the value in the 2012 cycle.

Table 6 presents the OLS results for the close election sample, revealing a significant average effect of connections to winning politicians. A net one-dollar increase in contributions to winning candidates is associated with a 0.13 million increase in procurement contract value in the subsequent cycle based on specification (2). Similarly, an additional instance of participation to support a winning candidate corresponds to an average increase in contract value of approximately 500 million based on specifications (4) and (7). The magnitude of this increase is comparable to the findings of Akey (2015), which



report a 300 million rise in sales in the following year. However, this effect is notably larger than the main results in Table 2, where a \$480 increase in total contribution amount corresponds to a \$0.27 million increase in contract value, yielding a ratio of approximately 1:580. This difference may arise from the intuition that supporting a candidate in a close election, where the outcome is uncertain, carries greater significance compared to supporting a candidate who is highly likely to win. Consequently, the returns on such strategic support and connections are proportionately higher.

**Table 6**

**Close election results.** This table presents coefficient estimates from regressions of one-cycle-forward changes in government procurement contracts (in millions) on various measures of CEO's political connections to candidates in close Congressional elections from 2000 to 2020, where elections with a winning margin of less than 5% are classified as close elections. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm.

(Mil)	(1) Δ Contr Val	(2) Δ Contr Val	(3) Δ Contr Val	(4) Δ Contr Val	(5) Δ Contr Val	(6) Δ Contr Val	(7) Δ Contr Val	(8) Δ Contr Val
Total P	397.01 (1.36)							
Amount Total P		0.13* (1.94)						
Lost P			-354.15 (-0.60)				-280.52 (-0.48)	
Won P				553.48** (2.36)			521.12** (2.33)	
Amount Lost P					-0.03 (-0.44)			-0.03 (-0.37)
Amount Won P						0.17** (2.07)		0.17** (2.06)
Controls	Y	Y	Y	Y	Y	Y	Y	Y
Year Firm FE	Y	Y	Y	Y	Y	Y	Y	Y
Cluster SE Firm	Y	Y	Y	Y	Y	Y	Y	Y
Observations	1,378	1,378	1,378	1,378	1,378	1,378	1,378	1,378
R-squared	0.254	0.257	0.253	0.254	0.252	0.258	0.254	0.258

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## 5.2 Alternative dependent variables

The absolute increase in government procurement contract value might be partially attributed to a general rise in U.S. government spending. To better assess the strength of the relationship between a firm and a specific government department, I introduce two alternative dependent variables: *Percent in department* and *Rank in department*. The variable *Percent in department* represents the firm's total contract value from a department as a percentage of the department's total contract value for a given year. The variable

*Rank in department* denotes the firm's relative rank among all contractors within the department, ordered in ascending rank, meaning the firm with the highest contract value receives the highest rank. For example, if a department has 1,000 contractors in a given year, the firm with the highest contract value would have a *Rank in department* value of 1,000.

Table 7 presents the OLS results for the alternative dependent variables. All coefficients for the CEO's political connection measures are positive and significant. A 100% increase in a CEO's political contributions over the past four years to congressmen overseeing the department is associated with a 0.08% increase in the firm's share of the department's total contracts and a 1.2% increase in its rank among all contractors. Additionally, the coefficients for *4YearCandiDep* are larger than those for *4YearContriDep*, reinforcing the value of connection breadth.

**Table 7**

**Contract value percent and rank in department.** This table examines two alternative dependent variables instead of contract value: *Percent in department* and *Rank in department*. The variable *Percent in department* represents the firm's total contract value from a department as a percentage of the department's total contract value for a given year. The variable *Rank in department* denotes the firm's relative rank among all contractors within the department, ordered in ascending rank, meaning the firm with the highest contract value receives the highest rank. Two different measures of the CEO's political contribution are tested. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm.

	(1) Pct in Dep	(2) Pct in Dep	(3) ln Rank in Dep	(4) ln Rank in Dep
ln 4YearContriDep	0.0008** (2.06)		0.0120*** (3.41)	
ln 4YearContriDep_PAC	0.0006 (1.07)		0.0181*** (2.81)	
ln 4YearCandiDep		0.0059** (2.31)		0.0818*** (3.59)
ln 4YearCandiDep_PAC		0.0035 (1.49)		0.0892*** (3.50)
Controls	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
CEO FE	Y	Y	Y	Y
Dpt FE	Y	Y	Y	Y
Cluster SE Firm	Y	Y	Y	Y
Observations	528,122	528,122	528,122	528,122
R-squared	0.082	0.082	0.4025	0.4026

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

### 5.3 Subsamples based on industries

To address concerns regarding potential influences from firms or industries highly dependent on government contracts or sensitive to government policies, I constructed three subsamples: one comprising normal industries (1769 companies), the second one comprising finance industries (496 companies), and the third one comprising government-dependent industries, including defense, aircraft, medicine, healthcare (266 companies). Table 8 presents the analysis of the baseline regression in these three subsamples.

Compared to the baseline regression, the results for the normal industry subsample remain positive and statistically significant, with slightly larger magnitudes. This suggests that the main findings in Table 2 are not driven by special industries but are common across normal industries. Notably, the coefficient for contribution amount in the finance industry and the coefficient for the number of candidates in the government-dependent industry are not statistically significant, possibly reflecting heterogeneity in political connection strategies across industries.

**Table 8**

**Subsample based on industries.** This table examines three subsamples: Columns (1) (4) are the subsample of normal industries; Columns (2) (5) are the subsample of industries that are more sensitive to regulations, including finance (496 companies); Columns (3) (6) are the subsample of industries that are highly dependent on government contracts, including defense, aircraft, medicine, healthcare (266 companies). Two different measures of the CEO's political contribution are tested. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm.

	(1)	(2)	(3)	(4)	(5)	(6)
Ln of	Normal Ind	Finance Ind	Gov-dep Ind	Normal Ind	Finance Ind	Gov-dep Ind
	Contr Val	Contr Val	Contr Val	Contr Val	Contr Val	Contr Val
In 4YearContriDep	0.0205*** (2.98)	0.0108 (1.25)	0.0284** (2.00)			
In 4YearContriDep_PAC	0.0309** (2.44)	0.0228 (1.19)	-0.0008 (-0.03)			
In 4YearCandiDep				0.1541*** (3.32)	0.0917* (1.81)	0.1257 (1.38)
In 4YearCandiDep_PAC				0.1492*** (2.96)	0.1129* (1.76)	0.0778 (0.73)
Controls	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
CEO FE	Y	Y	Y	Y	Y	Y
Dpt FE	Y	Y	Y	Y	Y	Y
Cluster SE Firm	Y	Y	Y	Y	Y	Y
Observations	374,544	101,354	52,224	374,544	101,354	52,224
R-squared	0.453	0.274	0.4455	0.4450	0.275	0.4455

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## 5.4 Subsamples based on participation

Additionally, to mitigate potential biases from non-donating CEOs or non-contractor firms, I constructed two subsamples: one excluding all non-donating CEOs and another excluding all non-contractor firms. The results, presented in Table 9, show slightly smaller magnitudes compared to the baseline regression; however, in all specifications, the coefficients of interest remain positive and statistically significant. This suggests that the baseline findings are unlikely to be driven by zero values.

**Table 9**

**Subsample based on participation.** This table examines two subsamples: Columns (1) (2) are the subsample after excluding CEOs who never contributed (removing 1626 CEOs), and Columns (3) (4) are the subsample after excluding firms that never had government contracts during the sample period (removing 1096 companies). Two different measures of the CEO's political contribution are tested. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm.

Ln of	(1) ever donated CEOs Contract value	(2) ever donated CEOs Contract value	(3) firms ever had contracts Contract value	(4) firms ever had contracts Contract value
ln 4YearContriDep	0.0143*** (2.73)		0.0119* (1.70)	
ln 4YearContriDep_PAC	0.0199* (1.89)		0.0187 (1.44)	
ln 4YearCandiDep		0.1073*** (3.11)		0.0977** (2.15)
ln 4YearCandiDep_PAC		0.1183*** (2.93)		0.0871* (1.79)
Controls	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y
CEO FE	Y	Y	Y	Y
Dpt FE	Y	Y	Y	Y
Cluster SE Firm	Y	Y	Y	Y
Observations	398,395	398,395	352,104	352,104
R-squared	0.436	0.436	0.442	0.4348

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## 5.5 Mitigating concerns from PAC contribution

To address potential influences from company PAC contributions—given that fewer than 40% of companies in the sample have PACs—I constructed a subsample excluding firms with PACs, focusing only on those with no PAC contributions during the sample period. This approach aimed to remove potential noise from PAC contributions, even though they were controlled for in all regressions. The results continue to show a positive and statistically significant relationship between CEO political contributions and both procurement contract value and firm rank within the department. While the coefficients are smaller than in the baseline regression, CEO personal contributions remain a key mechanism for firms to build political connections, especially for those without PACs.

**Table 10**

**Mitigating concerns from PAC contribution.** This table examines the subsample of firms that have no PACs during the sample period to remove the impact from PAC contribution. Three different dependent variables and two different measures of the CEO's political contribution are tested. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses. Standard errors are clustered by firm.

	(1)	(2)	(3)	(4)	(5)	(6)
	In Contract Value	In Contract Value	Pct in Dep	Pct in Dep	In Rank in Dep	In Rank in Dep
In 4YearContriDep	0.0140** (2.03)		0.0001 (0.92)		0.0105** (2.20)	
In 4YearCandiDep		0.0852* (1.96)		0.0005 (0.83)		0.0647** (2.13)
Controls	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y
CEO FE	Y	Y	Y	Y	Y	Y
Dpt FE	Y	Y	Y	Y	Y	Y
Cluster SE Firm	Y	Y	Y	Y	Y	Y
Observations	316,693	316,693	316,693	316,693	316,693	316,693
R-squared	0.376	0.3668	0.1029	0.1029	0.360	0.360

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## 6 Conclusion

The study finds that higher CEO contributions, both in amount and in the number of candidates supported, are associated with an increase in government procurement contracts for the firm, a larger share of the department's total contracts, and a higher rank among contractors. Additionally, CEOs with substantial political contributions tend to secure better contract terms and experience improved firm investment and market value. CEO political contributions thus emerge as a key channel for firms to engage in political activities, especially for those without PACs. The results remain robust after controlling for CEO, firm, and year fixed effects, as well as political-economic confounders and firm fundamentals. Robustness tests further suggest that the findings are unlikely to be driven by estimation bias, skewness, or issues related to omitted variables.

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# Appendices

## A Variable definitions

### 1. Dependent Variables

*Contract Value*: Firm-department-year level; total procurement contract values for sample companies distributed by a given department in a given year, including those awarded to subsidiaries.

$\Delta$  *Contract Value*: Firm-cycle level; the change in total procurement contract value awarded to sample companies by departments overseen by politicians in close elections supported by the CEO, calculated as the value in the following cycle minus the value in the prior cycle. This includes contracts awarded to subsidiaries.

*Contract in quarter 4*: Firm-department-year level; total procurement contract values for sample companies awarded in the 4th quarter of the fiscal year by a given department in a given year, including those awarded to subsidiaries.

*Unfixed contracts*: Firm-department-year level; total procurement contract values for non-fixed pricing contracts awarded to sample companies by a given department in a given year, including those awarded to subsidiaries.

*Multi-year contracts*: Firm-department-year level; total procurement contract values for multi-year supply or service purchases awarded to sample companies by a given department in a given year, including those awarded to subsidiaries.

*Noncompetitive contracts*: Firm-department-year level; total procurement contract values awarded non-competitively by a given department in a given year, including those awarded to subsidiaries.

*Rank in department*: Firm-department-year level; the firm's relative rank among all contractors within the department, ordered in ascending rank, meaning the firm with the highest contract value receives the highest rank.

*Percent in department*: Firm-department-year level; firm's total contract value from a department as a percentage of the department's total contract value for a given year.

*SGA expense*: Firm-year level; total SGA expense from Compustat.

*MV*: Firm-year level; total market capitalisation from Compustat.

*Investment*: Firm-year level; capital expenditure plus R&D expenses plus 0.3 of SG&A costs.

## 2. Independent Variables

*TYearContriDep*: Person-department-year level; total CEO contribution amount to congressmen who oversee the department over the previous T years, while T is the moving windows.

*TYearCandiDep*: Person-department-year level; the total number of congressmen who oversee the department supported by the CEO over the prior T years.

*TYearContri*: Person-year level; total CEO contribution amount to congressmen over the previous T years, while T is the moving windows.

*TYearCandi*: Person-year level; the total number of congressmen supported by the CEO over the prior T years.

*TYearContriDep\_PAC*: Firm-department-year level; total PAC contribution amount to congressmen who oversee the department over the previous T years, while T is the moving windows.

*TYearCandiDep\_PAC*: Firm-department-year level; the total number of congressmen who oversee the department supported by the PAC over the prior T years.

*TYearContri\_PAC*: Firm-year level; total PAC contribution amount to congressmen over the previous T years, while T is the moving windows.

*TYearCandi\_PAC*: Firm-year level; the total number of congressmen supported by the PAC over the prior T years.

*Won P*: Person-cycle level: the total number of winning politicians in close elections supported by the CEO in a given cycle.

*Lost P*: Person-cycle level: the total number of losing politicians in close elections supported by the CEO in a given cycle.

*Total P*: Person-cycle level: the total net number of winning politicians in close elections supported by the CEO in a given cycle, calculated by  $Won P - Lost P$ .

*Amount Won P*: Person-cycle level: the total contribution amount to winning politicians in close elections donated by the CEO in a given cycle.

*Amount Lost P*: Person-cycle level: the total contribution amount to losing politicians in close elections donated by the CEO in a given cycle.

*Amount Net P*: Person-cycle level: the total net contribution amount to winning politicians in close elections donated by the CEO in a given cycle, calculated by  $Amount Won P - Amount Lost P$ .

### 3. Control variables and other

*Lobby*: Firm-year level; the value of total lobby expenses last year.

*Pol-connected director ratio*: Firm-year level; the ratio of political-connected directors, measured by prior working experience, to the total board members.

*HQ in Homestates*: Firm-year level dummy; set to 1 if the firm's headquarter is located in the birth state of any of the three government leaders (President, Speaker of the House, Senate Majority Leader), and 0 otherwise.

*HQ in Represented states*: Firm-year level dummy; set to 1 if the firm's headquarter is in the represented state of either the Speaker of the House or the Senate Majority Leader, and 0 otherwise.

*Age*: Person-year level; indicates the CEO's current age in a given year.

*Gender*: Person level; a binary variable with 1 denoting male and 0 denoting female. Absorbed by CEO FE.

*Bachelor*: Person level; a binary variable indicating whether the CEO holds a bachelor's degree or higher. Absorbed by CEO FE.

*Tenure*: Person-year level; reflects the CEO's current tenure in years in a given year.



*Is Director*: Person-year level dummy; indicates if the CEO is also a board director in a given year.

*Is Chairman*: Person-year level dummy; indicates if the CEO is also the board chairman in a given year.

*Policial Exp*: Person-year level dummy; indicates if the CEO has political-related experience in a given year.

*Leverage*: Firm-year level; indicates the financial leverage level of the firm at the beginning of the year.

*BM*: Firm-year level; denotes the book-to-market ratio of the firm at the beginning of the year.

*Revenue*: Firm-year level; signifies the total revenue of the firm in the previous year.

*CapEx/Sales*: Firm-year level; the ratio of capital expenditure to total sales in the previous year.

*CoGS/Sales*: Firm-year level; the ratio of cost of goods sold to total sales in the previous year.

*3yearsSalesGrowth*: Firm-year level; the average sales growth rate in the previous three years.

*HHI*: Industry-year level; Herfindahl-Hirschman Index to proxy competition in an industry.

*Insholding*: Firm-year level; the proportion of shares held by institutional investors.

*Indiratio*: Firm-year level; the ratio of independent directors in the board.

## B Alternative regression models

**Table 11**

**Alternative regression models for the main results.** This table presents the results of Poisson regression, Tobit regression, and Heckman two-step regression for contract value (*Contract Value*) on the explanatory variables *4YearContriDep* and *4YearCandiDep*. In the Poisson regression, the raw values of contract value, contribution amount, and number of supported candidates are used, while in the Tobit and Heckman models, the natural logarithms of these values are applied. Detailed definitions of variables can be found in Appendix A. *t*-statistics are in parentheses.

	(1) Poisson Regression Contract value	(2) Contract value	(3) Tobit Regression Contract value	(4) Contract value	(5) Heckman two-step Contract value	(6) Contract value
4YearContriDep	0.0000*** (3.15)		0.4287*** (12.56)		0.0992*** (27.40)	
4YearContriDep_PAC	0.0000*** (8.23)		0.3002*** (5.43)		0.0914*** (17.31)	
4YearCandiDep		0.0344 (0.76)		2.3158*** (11.61)		0.5504*** (26.96)
4YearCandiDep_PAC		0.0067*** (3.06)		0.9864*** (5.48)		0.3443*** (22.28)
Controls	Y	Y	Y	Y	Y	Y
FEs	Y	Y	Y	Y	Y	Y
Robust SE	Y	Y	Y	Y	Y	Y
Observations	528,122	528,122	528,122	528,122	528,122	528,122

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$