Friends in low places: The impact of political scandals on connected firms' stock prices

Susanne Preuss, University of Amsterdam, s.c.g.preuss@uva.nl *

Jacco L. Wielhouwer, Vrije Universiteit Amsterdam, j.l.wielhouwer@vu.nl

In this study, we use the exogenous nature of political scandals to test whether political connections in the form of campaign contributions expose firms to reputational risk. We hand-collect a sample of 218 scandals of members of the U.S. Congress that occurred between 2000 and 2019 and estimate the abnormal returns around the day a scandal first appeared in the news. We find that connected firms and to a lesser extent other politically active firms experience value losses around corruption scandals involving firms or lobbyists. Our results suggest that this effect is mainly driven by reputation spillover and investors updating their beliefs about the risks of political contributions instead of by an expected loss in political benefits. Moreover, shareholders of connected firms are more likely to submit proposals on the disclosure of political contributions following scandals, implying that they require more information to actively manage these risks.

Keywords: Corruption, political connections, political scandals, reputation, shareholder activism

JEL classification: G14; G30; L14

We appreciate helpful comments by Martijn van den Assem, Hans Christensen, Maria Correia, Henri Dekker, Joachim Gassen, Roland Königsgruber, Alexander Nezlobin, Aneesh Raghunandan, Sandra Schafhäutle, Christoph Sextroh, Ane Tamayo, participants of the 2020 Topics in Accounting Research class at London School of Economics, participants of the ABRI 2020 PhD day, seminar participants at SKEMA Business School, University of Amsterdam, Tilburg University, and Vrije Universiteit Amsterdam, and conference participants at the EAA 2021 Doctoral Colloquium and the EAA 2021 Annual Congress. We further thank Benedikt Franke for providing the historical EDGAR company names, and Allen Huang for sharing the data on ex-ante litigation risk.

* Corresponding author, Plantage Muidergracht 12, 1018 TV Amsterdam, The Netherlands

"Because corporate political activities can create reputational risks, diverge from shareholders' interests, and must comply with any applicable campaign finance laws, political spending should be held to the high standards of fiduciary responsibility."

Kammer and Kennedy (2013, p.1)

"Boycott Blue Bunny! The CEOs of Blue Bunny are major campaign contributors to Steve King."

"And here are some of Steve King's big campaign contributors. They must be as crazy as he is."

Twitter users

1 Introduction

An important question is whether political connections of firms increase shareholder value. Many papers have hence set out to identify and measure benefits stemming from political relations (e.g., Faccio et al. 2006, Goldman et al. 2013). Scholars and shareholders have also emphasized that political connections generate costs for firms, including the risk that connectedness exposes firms to adverse media coverage when connected politicians are involved in dubious activities or share ideologies that are not in line with company policies (e.g., Bebchuk and Jackson Jr. 2013, Kammer and Kennedy 2013, Torres-Spelliscy 2016). However, while a number of papers suggest that firm reputation matters for connected politicians (e.g., Borghesi et al. 2014, Hung et al. 2015, McDonnell and Werner 2016), it is an unanswered empirical question whether a politician's reputation also matters to connected firms.

In this study, we exploit the exogenous nature of political scandals to shed light on the question whether political action committee (PAC) contributions expose firms to reputational risk. We hand-collect a sample of 218 scandals of members of the U.S. Congress that occurred between 2000 and 2019 and identify firms that contributed to the scandal politicians' election campaigns. Following prior literature, we refer to these firms as being connected (e.g., Correia 2014).[1] We then estimate firms'

[1] Earlier studies define firms as connected when they make PAC contributions to any politician. In this study, we differentiate between firms that directly contribute to a scandal politician and firms that contribute to any politician. All firms with active PACs (irrespective of being directly connected), are referred to as PAC firms.

cumulative abnormal returns (CARs) around the day a scandal first appeared in the news. The large sample of political scandals reduces concerns about confounding effects traditionally associated with individual events. The use of firm fixed effects further transforms the event study into a difference-in-differences-like design, which compares being directly connected to a scandal politician to the counterfactual of not being connected to a scandal politician at the moment of a scandal.

Prior literature suggests two reasons why connected firms may face a negative market reaction following a scandal of a politician. First, scandals reduce politicians' re-election chances and increase public scrutiny towards politicians and connected firms (Basinger 2012, Borisov et al. 2016). Accordingly, the political benefits hypothesis proposes that scandals decrease politicians' ability to channel economic resources to connected firms, both in the short-term and in the longer term. Second, scandals are commonly followed by adverse media coverage, consumer boycotts and litigation against affected individuals and their affiliates (Knittel and Stango 2014, Torres-Spelliscy 2016, Cline et al. 2018). Hence, the reputation spillover hypothesis assumes that links to controversial politicians impact firm value by revealing information about a firm's own corporate culture and (financial) management practices, or by alerting investors about future penalties imposed on connected firms.[2]

The question whether firms are (or should be) held accountable for their political connections is not only interesting from a scholarly perspective, but frequently becomes subject to intense public debate. In January 2021, journalist Judd Legum published a list of firms that contributed to politicians who objected to certifying Joe Biden's 2020 presidential election victory. Multiple firms responded to this list, including Deloitte executives who announced revising their political strategy because of the "high volume of questions within the firm […] and on social media on how Deloitte PAC makes decisions for PAC giving."[3] Political scandals are an ideal setting to analyze reputational consequences of corporate political spending because unlike elections, they occur unexpectedly and affect one politician at a time. While it is possible that some politicians are prone to engage in immoral behavior,

[2] Both hypotheses predict changes both in the expected present value of connected firms' future cash flows and in the risk of these cash flows. Expected cash flows decrease when investors anticipate legal fines, a decline in sales, or a decline in government subsidies. Uncertainty about managements' (financial) integrity, ideological concerns about firms' political networks, or uncertainty regarding future sales at the same time increase the returns investors require to provide capital to firms.

[3] The quote is available at https://popular.info/p/update-more-corporations-suspend (retrieved September 8, 2021)

and some firms therefore have political connections with higher risks, the actual materialization of the risk, i.e., the scandal taking place *and* the media picking up on it, is an unexpected exogenous shock.

We first analyze whether firms that are directly connected to the scandal politicians experience negative CARs around the revelation of the scandal. To account for differences between scandals, we group them into three categories: corruption, personal gain, and other scandals. Corruption consists of cases that involve quid-pro-quo relationships with lobbyists and firms, such as accepting gifts or incorrect disclosures to obscure business dealings. Personal gain describes a politician's attempt to secure political promotions or financial benefits for personal purposes without a benefiting counterparty other than the politician's immediate friends or family, including tax evasion, insider trading, or using campaign donations for family vacations. Other scandals include indiscretions or criminal behaviour unrelated to financial matters, such as homophobic or xenophobic statements, drug abuse, assault and sexual harassment. Returns to scandals may differ across categories for several reasons. Corruption and personal gain scandals are both financial in nature. Consequently, association with these scandal politicians relates to firms' *financial* reputation, while association with other scandal politicians relates to firms' general reputation. In addition, corruption scandals implicate firms and firms' lobbyists, and can thus have legal consequences for politicians *and* for firms. Personal gain and other scandals in contrast primarily affect politicians. Yet, other scandals often concern sensitive or polarizing matters which receive greater newspaper coverage and may increase the risk of politically motivated boycotts. Finally, the frequency of resignations and re-election losses, which disrupt politicians' ability to allocate federal resources to firms in the long term, differs across scandal categories, with other scandals being most affected. It is ex ante not obvious which scandal type affects connected firms the most.

We find that corruption scandals of politicians have negative value consequences for firms that support these politicians while not being directly involved in the scandals.[4] However, abnormal returns around other and personal gain scandals are insignificant. Further analysis shows that the effect is not limited to connected firms but extends to other firms that are politically active through PACs, but not *directly* connected to the scandal politician. In a 6-day window around the scandal revelation, connected

[4] Only three firms that were directly and knowingly involved in corruption scandals have available Compustat and CRSP data. Dropping them does not affect our results.

firms have a CAR that is around 0.5% lower than the CAR of other PAC contributing firms, which in turn loose on average 0.4% compared to firms without PAC contributions.

We employ two analyses to distinguish whether CARs around political scandals are driven by reduced access to political benefits, or by reputation spillover from the politician to the firm. First, we estimate an additional set of CARs around the death of a member of Congress. Deaths signal a permanent termination of political benefits but are unrelated to a connected firms' reputation (Faccio and Parsley 2009, Roberts 1990). Returns to deaths should thus indicate the size of a political benefits effect, and a negative difference between scandal and death CARs should corroborate reputation effects. We do not detect negative CARs at connected firms around these events. Accordingly, these results suggest that the disruption of an average connection established through PAC contributions does not significantly affect firm value beyond the reputation effect in the corruption sub-group.

Second, we include politician-specific indicators of political influence and firm-specific measures of political networks, prior financial integrity, and litigation risk. If CARs are driven by a loss in political benefits, we expect them to be more negative when scandal politicians hold influential political positions (e.g., Akey 2015, Cohen et al. 2011, Tahoun 2014), and less negative when connected firms maintain broad political networks including different political activities or ties to multiple politicians (Antia et al. 2013, Kostovetsky 2015, Roberts 1990). If CARs are driven by a loss in reputation, we expect them to be more negative when managers are more likely to engage in illegitimate relationships with politicians, that is, when they have a history of unethical behavior or when firms are headquartered in areas with lower ex-ante litigation risk (Borisov et al. 2016, Huang et al. 2021).

While some findings of these analyses may be interpreted as decrease in the expected value of political benefits, our combined results support a reputational explanation. We find that PAC firms with larger political networks (more lobbying expenses) suffer less from scandals, but the most noteworthy finding is that past political benefits (subsidies or loans), and managers' propensity to engage in unethical behavior (prior SEC enforcement and lower litigation risk) increase the negative market reaction at PAC firms around scandals. This means that PAC firms that may have benefited from political relations in the past, with a worse financial reputation, or located in regions with lower

likelihood of being prosecuted successfully by shareholders are perceived as riskier. In addition, we find no evidence that the losses are more severe when the politicians involved are more powerful.

We extend our study to see whether shareholders follow up on being connected to scandalous politicians in the longer term. Specifically, we examine connected firms' likelihood to experience politically motivated shareholder activism by testing whether scandals increase the likelihood that firms receive political spending-related shareholder proposals in the year following the scandal. Consistent with our earlier analyses, we find that corruption scandals (but not personal gain, other scandals, or deaths) are associated with an increase in shareholder activism. The majority of these proposals concern the demand for more transparency on firms' political expenditures suggesting that following corruption scandals, shareholders require more information to actively manage their risks.

Taken together, our results suggest that negative returns around political corruption scandals are not primarily driven by an expected loss in political benefits, but by reputation spillover and investors updating their beliefs about the risks inherent in political contributions. The absence of a significant response around personal gain and other scandals in the analyses on CARs and on political spending-related shareholder proposals, and the additional losses at PAC firms that have a higher risk of being involved in unethical behavior further indicate that the reputation spillover effect is less likely the result of shareholders' political ideology or anticipated boycotts but rather stems from concerns about connected firms' financial integrity. Our findings are robust to changes in model specification, changes in scandal categorization, subsample analyses, placebo tests and propensity score matching.

This paper adds to the literature in multiple ways. First and foremost, it adds to the discussion on the costs and benefits of political connections for firms. Whereas several papers explore whether firm controversies negatively affect the reputation of connected politicians (e.g., Fisman and Wang 2015, Hung et al. 2015, McDonnell and Werner 2016), empirical evidence on corporate reputational risk from political associations for firms is scarce. The perhaps closest contributions are Borisov et al. (2016), who investigate investors' reaction to a high-profile lobbying scandal, and Skaife and Werner (2020) who examine the returns around Citizens United v. Federal Election Commission (FEC), a Supreme Court ruling that enabled firms to make unlimited, undisclosed political expenditures. Baloria and Heese (2018) further show that political party preferences can increase firms' risk of biased media

coverage, and thus affect their reputation. To the best of our knowledge, this paper is the first to document reputation spillover of direct connections to individual politicians in a setting of political scandals in which connected firms have no visible involvement.

By analyzing returns around deaths of members of Congress, as well as various measures of political influence, we also provide insights into the question whether the interruption of a single relationship established through PAC contributions on average affects shareholder value. Prior studies on PAC contributions largely focus on ties to powerful politicians or on elections (e.g., Akey 2015, Knight 2006, Roberts 1990). Elections are different from scandals and deaths because they affect firms' overall political networks and have consequences beyond the firms' individual connections. In fact, several scholars argue that PAC contributions may be used to establish political networks but are too small and too visible to generate access to political benefits (Ansolabehere et al. 2003, Milyo et al. 2000, Milyo 2014, Snyder 1992).[5] We provide empirical support for this notion, but also provide insight in relevant reputational consequences of firms' political campaign contributions.

This paper also contributes to the discussion on corporate political spending. In recent years, shareholders have increasingly demanded better disclosures of current and intended political activities, or congruency analyses of corporate and political values (Baloria et al. 2019). Managers are seemingly less concerned about reputational risks and frequently state that it is neither in the firms' interest, nor in their ability to monitor the political position of each supported politician. Our results, documenting value losses around political scandals and subsequent proposals by shareholders, support the importance of putting transparency of political spending high on the agenda of issues related to corporate disclosure.

The remainder of this paper is organized as follows. Section 2 provides insights into political campaign financing in the U.S. Section 3 presents a review of the literature and develops the hypotheses. Section 4 summarizes the data, research design and sample construction. Section 5 presents the results. In Section 6, we investigate the longer term consequences of connections to scandal politicians in terms of shareholder activism. Section 7 contains the robustness tests. Section 8 concludes.

[5] The average sample firm donates a total of $4,053 ($3,534) to scandal (deceased) politicians in the two election cycles covering the event (i.e., the cycle that leads to the election of the politician, and the cycle during which the event takes places). One cycle covers two years for Representatives and six years for Senators, respectively.

2 Institutional background

2.1 Political contributions

Firms all over the world use multiple tactics to attract and preserve political networks. They hire (former) politicians to their board of directors (Goldman et al. 2009), engage in lobbying activities (Borisov et al. 2016), cater to a politician's career incentives by increasing employment or investments in election years (Bertrand et al. 2018b, Carvalho 2014, Boubakri et al. 2013), or make philanthropic donations to charities that are represented by the politician (Bertrand et al. 2018a). In the U.S., a popular entrance mechanism into political networks is to contribute to a politician's election campaign (Hillman and Hitt 1999, Milyo et al. 2000). This can be done through PACs. A connected PAC is directly sponsored by corporations, labor unions, or trade associations and raises money among members. Firms are prohibited from using treasury funds for PAC contributions, but they can finance a PAC's administrative expenses. Non-connected PACs raise contributions among the general public. PACs can then forward contributions to selected candidate committees. The maximum amount a multicandidate PAC may contribute is $5,000 per candidate per election. Leadership PACs are a special type of non-connected PAC. They are established by or on behalf of specific politicians and raise money in their names. The funds raised through leadership PACs are not meant to be used for the politician's own purpose, but are forwarded to other candidates, thus strengthening the politician's position among his or her colleagues.

Although corporate PAC contributions may seem small, they constitute a substantial portion of politicians' campaign funds. During the 2020 election cycle, incumbent Representatives (Senators) received a combined sum of $129 million ($37 million) from 1,277 corporations.[6] In 2010, the Supreme Court ruling Citizens United v. FEC enabled individuals and organizations to make unlimited contributions to expenditure only PACs (Super PACs), and to political non-profit groups (501(c) organizations). These parties can finance political advertisements but are not allowed to directly contribute to or coordinate with candidates.

[6] Information on contributions, contribution limits, and PAC types are available at the website of the FEC. Values are based on the FEC dataset, see also https://www.fec.gov/data/browse-data/?tab=bulk-data (retrieved on July 20, 2021).

2.2 Disclosing political contributions, shareholder involvement and reputational risk

A key difference is that 501(c) organizations, unlike PACs, are not legally required to disclose their contributors. A growing number of activists have hence asked to mandate the disclosure of past and intended political expenditures (e.g., Baloria et al. 2019). Some shareholders further call on firms to align corporate with political values, to provide cost benefit analyses or to terminate political spending entirely. Shareholders of Exxon Mobil for instance suggested that "[p]olitical spending can backfire on reputation and bottom line", and that treasury funds may not be used for "any direct or indirect political contributions intended to influence the outcome of an election or referendum […]."[7] Despite a growing number of shareholder proposals on political spending, only about 20% of such proposals are eventually implemented (Baloria et al. 2019). Managers frequently praise the benefits of connections over their potential costs, arguing that it is impossible to identify candidates who promote business-relevant policy positions and at the same time conform to all company values.

Boycotts following political scandals yet suggest that neglecting risks associated with political spending can become costly for firms. Retail giant Target faced a country-wide backlash after making contributions worth $150,000 to a Super PAC linked to Tom Emmer, a gubernatorial candidate who opposes same-sex marriage and abortions. Contributors of Representative Steve King similarly experienced protests after he made a series of xenophobic comments, and contributors to Bob Menendez' legal fund were targeted for allegedly keeping the Senator out of prison.[8] In addition, several internet platforms enable consumers and investors to monitor corporate political activities. OpenSecrets releases easy to read summaries of political spending. Citizens for Responsibility and Ethics in Washington (CREW) documents potentially illegitimate relationships between interest groups and members of Congress. The #GrabYourWallet initiative denounces firms that support or do business with the Trump family. Likewise, Zero for Zeros provides a list of firms that contribute to anti-LGBT

[7] The proposal is available at https://www.sec.gov/Archives/edgar/data/34088/000119312513152355/d460324ddef14a.htm (retrieved on September 8, 2021).
[8] See e.g., https://www.cbsnews.com/news/purina-land-olakes-cuts-ties-to-gops-steve-king-after-boycott-threats/ and https://eu.northjersey.com/story/news/new-jersey/2018/03/01/these-menendez-got-lot-help-his-friends-who-gave-more-than-5-1-million-between-early-2014-when-feder/358686002/ (retrieved on September 8, 2021).

legislators despite advertising a pro-LGBT corporate image. Finally, consumers can verify on progressiveshopper.org whether a company donates to controversial political causes.

3 Prior literature and hypotheses development

3.1 Political benefits hypothesis

Capital market reactions to changes in political networks are considered an overarching measure to summarize whether benefits outweigh costs, or vice versa. The findings are unambiguous: Establishing political networks creates benefits for connected firms and their shareholders. Conversely, the disruption of political networks signals the loss of these benefits and causes a negative share price response. The election of a company official into a political office can yield a mean abnormal return of around 2.29% to 2.7% (Faccio 2006, Hillman et al. 1999). Likewise, appointing a former politician to the board of a S&P 500 company yields an abnormal return between 0.69% and 1.20% (Goldman et al. 2009). The loss in value caused by the declining health or sudden death of a connected politician has a comparable magnitude in the opposite direction (Faccio and Parsley 2009, Fisman 2001, Roberts 1990). Moreover, when there is reasonable uncertainty about electoral outcomes, investors react positively (negatively) to the electoral victory (loss) of a connected party or politician (Akey 2015, Child et al. 2021, Ferguson and Voth 2008, Fung et al. 2015, Goldman et al. 2009, Knight 2006).

Additional evidence on the value of political connections comes from capital market reactions to corporate or political misconduct. After making money on deals between politicians and members of Native American tribes who wanted to establish gambling businesses on Indian reservations, top lobbyist Jack Abramoff was charged with fraud, conspiracy, tax evasion and bribery. Capital market participants realized that the resulting media scrutiny made it more difficult for politicians to respond to interest groups' needs and discounted the value of firms with lobbying expenditures (Borisov et al. 2016). In a similar setting, Hung et al. (2015) show that capital market participants react negatively to events that sever political relations and firms' ability to contract with the government. Fisman and Wang (2015) detect negative abnormal returns around occupational fatalities for politically connected firms. They argue that connections facilitate circumventing costly workplace safety compliance and that this advantage disappears in the event of a major violation. Finally, Pan and Tian (2017) test the effect of

ousting and arrest of corrupt Chinese politicians on performance indicators.[9] The underlying assumption is analogous; irrespective of the cause, be it death, resignation, or an increase in public scrutiny, the disruption of access to political benefits adversely affects firm performance and market value. Based on the above, we predict that political scandals cause a negative stock market reaction at connected firms due to a decrease in the expected value of future political benefits, or an increased uncertainty about it.

H1: Politically connected firms experience negative abnormal returns around political scandals due to an expected loss in future political benefits

H1 is not without tension. Many studies that investigate the value of political connections rely on international samples including countries in which political ties likely play a greater role than in the U.S. (Acemoglu et al. 2016). Moreover, prior studies use diverse types of connectedness including geographic links, board positions, and social ties (e.g., Child et al. 2021, Faccio and Parsley 2009, Goldman et al. 2009). With a limit of $5,000 per politician per election and given the existence of less visible ways to network with politicians (e.g., Bertrand et al. 2018a, Torres-Spelliscy 2017), easily traceable PAC contributions may be less qualified to establish close or illegitimate relationships (see also Ansolabehere et al. 2003, Milyo et al. 2000, Milyo 2014, Snyder Jr. 1992). In addition, firms hedge their political exposure by engaging in multiple political activities, and by contributing to politicians from different parties (Akey 2015, Hassan et al. 2019). Consequently, the possibility remains that the disruption of a connection to *one* politician on average does not affect firm value.

3.2 Reputation spillover hypothesis

An alternative explanation why connected firms may experience share price declines around political scandals is that they are subject to reputational penalties. Stakeholder theory implies that firms are held accountable for their relations (Freeman 2010). In line with this, evidence from the management field suggests that affiliations to disgraced brand ambassadors negatively affects brand reputation (e.g.,

[9] In contrast to this study, which focuses on exogenous shocks, their sample is largely based on firms that are themselves involved in the scandals.

Carrillat et al. 2014, Thwaites et al. 2012). In an event study setting, Chung et al. (2013) and Knittel and Stango (2014) find that the extramarital affairs of Tiger Woods decreased sales and market performance of firms who had contracts with the athlete. Scandals are costly to affiliated firms because they interrupt previously successful advertisement campaigns and impede product sales to consumers who feel personally offended by the scandal. Just like consumers, shareholders have ideological preferences (e.g., Friedman and Heinle 2017, Christensen et al. 2017) and may not wish to own firms with ties to scandalous politicians (Torres-Spelliscy 2016). A business association with a controversial politician may thus become a liability if the scandal concerns a morally or politically sensitive topic. In line with this, a 2012 survey among U.S. citizens revealed that 65% and 79% of the surveyed individuals would be willing to refuse products or sell company shares in order to protest a firm's political involvement.[10]

Apart from negative returns because of ideological reasons, firms may experience value losses if investors anticipate future legal penalties against connected firms. Information about corruption cases is often revealed gradually and can affect more firms than initially assumed. The scandal of House Majority Leader Tom Delay for instance started with emails linking him to bribery allegations against executives of an energy firm. It took two years until Delay was indicted and six more years until he was sentenced. In the meantime, multiple companies were publicly scrutinized, of which seven were ultimately indicted on charges of making illegal campaign contributions.[11] Because the decision to contribute to specific politicians ultimately lies with the executive team, connections to scandal politicians may also reveal information about firms' own management practices and (financial) integrity outside of direct scandal involvement. Earlier studies support the assumption that exogenous events can affect investor perception of firms' corporate culture and thus firm value. Billings et al. (2019) show that firms with low female representation experienced negative returns during the #metoo movement. Cline et al. (2018) document that executive indiscretions cause share price losses, even if the cases are

[10] The results of the poll are available at https://www.citizen.org/wp-content/uploads/toplines.pdf (retrieved on September 8, 2021).

[11] For a list of companies, see https://www.latimes.com/archives/la-xpm-2005-jan-12-na-delay12-story.html (retrieved on September 8, 2021). None of these companies was mentioned by newspaper articles at the onset of the scandal

unrelated to the firms' operations. We therefore expect that investor reactions to political scandals are driven in part by reputational concerns.

H2: Politically connected firms experience negative abnormal returns around political scandals due to reputation spillover from the politician to the firm

4 Data and methodology

4.1 Sample construction

4.1.1 Political scandals

Our sample consists of firms that contributed to disgraced U.S. members of Congress. We identify political scandals that occurred between 2000 and 2019 via multiple sources including Basinger et al.'s (2014) and Puglisi and Snyder Jr.'s (2011) lists of political scandals, CREW's annual report on the most corrupt members of congress, CREW's most corrupt alumni list, Wikipedia's lists on political scandals and special elections, and the govtrack.us database on political misconduct. We further use a combination of search terms to identify political scandals through NexisUni. A list of all public data sources used in this study is given in Table A.1 in Appendix A.

A scandal is eligible for inclusion if it is at least once mentioned in an influential and credible U.S. newspaper. We use NexisUni's classification of U.S. major publications.[12] Once a scandal politician is identified, we search for the date the scandal first appeared in any English-language U.S. newspapers.[13] To verify the "break date" (i.e., the date the scandal broke), we screen NexisUni's English-language U.S. newspaper articles per politician in the five days preceding the event. We exclude members of Congress who were not in office at the time of the scandal or who announced retirement or resignation prior to the event. These steps result in a list of 161 politicians who were involved in 218 scandals between 2000 and 2019. 125 politicians are involved in one scandal each, 36 politicians are involved in multiple scandals. A second scandal of the same politician may not be

[12] These include The Wall Street Journal, USA Today, The Washington Post, The Philadelphia Inquirer, The New York Times, The New Yorker, The Christian Science Monitor, Tampa Bay Times, Newsweek, Forbes and Daily News.

[13] If no prior information about the nature of the scandal is available, we narrow down the number of hits by using broad keyword combinations that include the politician's name and the words *scandal*, *investigation*, *controversy* or *allegation*. Next, we define specific keywords that relate to the misconduct.

exogenous and may therefore have a different impact, which is why we differentiate between first and subsequent scandals in later analyses. An example of the break date identification is presented in Table A.2 in Appendix A.

To account for the possibility that abnormal returns vary systematically between different types of scandals, we categorize scandal types into subgroups. Three groups emerge: (i) corruption, (ii) personal gain, and (iii) other scandals.[14] The first group includes cases of politicians' entering exchange relationships with firms or lobbyists or failing to disclose relevant connections to firms. The second involves politicians who misappropriated (government) resources for personal purposes without a benefiting counterparty other than the politician's immediate friends or family. Both scandal types have financial motives, but the key difference between these two types is that personal gain scandals can have legal consequences for politicians, while corruption scandals can have legal consequences for politicians *and* for firms. The third group includes non-financial scandals such as extramarital affairs, drug abuse, domestic violence, creating a hostile work environment, sexual harassment, homophobic and xenophobic remarks, etc. Typical examples are presented in Table 1. Figure 1 presents the distribution of scandals per type per year.

[Insert Table 1 and Figure 1 about here]

Disentangling the effect of political benefits and reputation spillover is complex. Consider politician A who remains in office despite facing accusations of corruption, and politician B who resigns after the revelation of an extramarital affair. One would quite logically assume that politician A may still control political benefits while politician B can no longer influence the allocation of government resources. In this scenario, returns to event A would suggest reputation spillover, whereas returns to event B would mirror the disruption of political benefits. However, despite that politician A is still in office, awareness about his or her actions may challenge his or her continued ability to favor interest groups. Moreover, empirical evidence suggests that firms benefit from hiring former politicians (Goldman et al. 2009),

[14] In a first categorization round, one author summarized each scandal and created headlines that lead to these three upper-level categories (see also, Elo and Kyngäs 2008). Then, both authors independently assigned each scandal to one category. Differences in categorization (affecting 15 cases, i.e., 7% of scandals) were discussed between authors and resolved.

and that members of the U.S. Congress frequently become lobbyists or political advisors following their political careers (Vidal et al. 2012). Inside knowledge on political processes and connections to other politicians are valuable attributes that remain despite scandal, resignation, or lost re-election, implying that benefits to firms are not necessarily lost upon resignation of the politician. To overcome this issue, we compare the abnormal returns around political scandals to the abnormal returns around the death of connected politicians. Death may reflect a loss in political benefits but is unrelated to a connected firms' reputation. The death sample includes 31 events between 2000 and 2019. We use the day of the passing as event date.[15]

4.1.2 PAC contributions

PAC contributions are obtained from the FEC. A firm classifies as *Connected* if it contributed to a scandal politician's candidate committee in the election cycle preceding the scandal, or in the election cycle in which the scandal takes place. An election cycle encompasses two years for House members and six years for Senators. It starts at the first day following the general election and ends on the day of the subsequent election. An inclusion criterion is that the contribution is filed with the FEC prior to the event, or else the connection will not be visible to the public. The FEC mandates quarterly reporting dates for candidate committees that end March 31, July 30, October 30, and December 31, respectively. The filing deadlines are two to four weeks later.[16] We exclude contributions that were not filed with the FEC at the event date. If a scandal takes place in between closing book date and filing date, we exclude contributions that were made after the closing book date of the previous quarter. Three politicians involved in a scandal did not receive contributions from listed corporations prior to their scandals, which reduces the connected firm event-sample to 158 politicians and 215 events. Connections to deceased politicians are identified accordingly.

In addition, we incorporate the variable *PAC contributor* that is equal to one if a firm contributed to *any* politician in the two-year Congress election cycle that ended prior to the scandal. In the

[15] Deaths between 2000 and 2019 are identified via Fedaseyeu and Lvovskiy (2018), Wikipedia's list of special elections and Wikipedia's list on Congress members who died in office.
[16] Contribution limits and filing deadlines are available on the website of the FEC (see Table A.1 for the link).

following, we refer to these firms as PAC firms. We use this method for two reasons: Despite that the FEC shares data on PAC contributions, it may be difficult to fully differentiate between firms that are directly connected to scandal politicians and firms that make political contributions in general. The FEC does not use Tickers or CIK codes and firm names occasionally contain spelling errors. Moreover, firms can establish PACs at subsidiaries and exchange contributions between PACs. This effectively enables firms to contribute above the legal limit of $5,000 per election and may create uncertainty about whether a PAC firm is connected to a scandal politician. Second, non-connected PAC firms may also be affected by scandals (expectedly more than firms that do not contribute to PACs but less than firms directly contributing to the PAC of the scandal politician), because these firms are politically active which implies that investors may update expectations about the risks of such connections. In fact, a negative effect at PAC firms that are not directly connected to the scandal politician may even lend additional support for the hypothesis that losses around scandals are driven by reputational effects (H2). A detailed description of the sample compilation is given in Online Appendix A.

4.2 Research design

We use a standard event study methodology to measure share price reactions to political scandals. Data on daily stock prices is obtained from the Center for Research in Security Prices (CRSP). We use the market model based on a 255-trading day window in combination with the CSRP equal-weighted market index to calculate abnormal returns (Brown and Warner 1985, Peterson 1989). Day zero is the event date. The first 239 trading days (-244 to -6) cover the estimation period. The days -1 to 10 constitute the event period. We exclude firms that have missing return data in the days -15 to 10, or less than 35 returns in the entire period (Brown and Warner 1985). The cumulative abnormal return (*CAR*) is the sum of the abnormal returns over the event window. We estimate the following two regression models for several event windows, where *t* denotes events and *i* denotes firms:

$$(1)\quad CAR_{it} = \alpha + \beta_1 Connected_{it} + Firm\ fixed\ effects + Event\ fixed\ effects$$

$$(2)\quad CAR_{it} = \alpha + \beta_1 Connected_{it} + \beta_2 PAC\ Contributor + Controls_{it} + Industry\ fixed\ effects + Event\ fixed\ effects$$

We run the above regressions both for CARs around scandals and for CARs around deaths of politicians. As explained, the difference between those two sheds light on whether reputation spillover is relevant in addition to losing political benefits. Regression (1) includes firm fixed effects. The advantage of this design is that it compares the effect of the same firm being connected to a scandal politician to the counterfactual situation of not being connected to a scandal politician at the moment of a political scandal (*Connected* becomes a change variable on the firm level). The average connected firm is 165 times in the scandal sample (i.e., listed at the moment of the scandal) and directly connected to 19 scandal politicians. Assuming that political strategies are fairly time-invariant, this method decreases the likelihood that the results are driven by omitted variables such as firms' general exposure to changes in the political landscape, or by the firm pursuing multiple political strategies.

Regression (2) compares differences between connected firms and unconnected firms cross-sectionally. It allows to compare returns of firms connected to the scandal politician (*Connected*), with returns of firms that contribute to other politicians (*PAC contributor*) and returns of firms that do not contribute to PACs at all (the reference group). In regressions without firm fixed effects, we add industry fixed effects and control variables for firm size, market valuation, leverage, and the magnitude of firms' political spending to control for relevant firm differences that are otherwise captured by firm fixed effects. The variables *Market to book*, *Total assets* and *Leverage* are based on the most recent fiscal year-end prior to an event. *Supported candidates* is the natural logarithm of the number of candidates a firm contributed to in the prior election cycle. The rationale behind these control variables is that (large) firms with more diversified political networks, including connections to potential successors, are better able to compensate for the loss of one political actor (Akey 2015, Cooper et al. 2010, Faccio and Parsley 2009, Roberts 1990). From a reputation perspective, it is possible that investors pay more attention to individual connections when networks are small and straightforward. We moreover include *Leverag*e because access to external financing is a well-documented channel through which political connections benefit firms (e.g., Claessens et al. 2008, Houston et al. 2014).

Finally, we use event fixed effects to control for differences in event specific characteristics such as the political influence of the politician, or the severity or visibility of an event. Data on company fundamentals are obtained from CRSP/Compustat merged (CCM). We drop firms with missing CCM

data. Table O.A.1 in Online Appendix A includes further information on the sample selection. To control for outliers, we truncate all continuous variables at the 1st and 99th percentile.[17]

4.3 Contextual factors affecting the abnormal returns

The difference between scandal and death CARs is a first indication of whether benefits or reputation cause a negative market reaction. In addition to comparing deaths and scandals, we explore contextual factors that may influence investor response to scandals at PAC firms and shed further light on whether losses are mainly due to losing possible benefits or due to reputation spillover. We separate this part into factors related to the scandal politician, and factors related to the firm. More specifically, we consider the political influence of the politician, the political network, prior financial integrity of the firm, and the firm's ex ante litigation risk.

4.3.1 Politician dependent factors

First, we analyze whether a relation exists between event CARs and characteristics of politicians that predict their ability to steer resources to firms. Several papers document that politicians who hold influential offices are more likely to direct favors to connected firms (Akey 2015, Cohen et al. 2011, Cooper et al. 2010, Correia 2014, Faccio and Parsley 2009, Kostovetsky 2015, Tahoun 2014, Vidal et al. 2012). If scandal CARs are driven by the loss in political benefits (H1), we hence expect them to be more negative when the scandal politician has greater influence over government resources.

We use three dummy variables to measure political influence. Following Akey (2015), *Influential committee* and *Influential chair* are equal to one when the scandal politician is a member of or chairs an influential committee.[18] *Senate* is equal to one if the politician is a Senator. To account for the possibility that a politician does not fall under these categories but is nevertheless influential, we also calculate the variable *Raised contributions*, which is the total amount of corporate donations raised per politician. Instead of using truncation, which would drop entire events, we control for outliers by

[17] We use truncation following Leone et al.'s (2019) suggestion that it performs better than winsorization. We do not use more advanced outlier treatments because of the large number of event clusters and fixed effects.
[18] We thank Charles Stewart III and Jonathan Woon for providing the data on congressional committee assignments, available at http://web.mit.edu/17.251/www/data_page.html#2 (retrieved on August 16, 2019)

dividing *Raised contributions* into quintiles. These variables do not allow for the inclusion of event fixed effects. Instead, we add year fixed effects and the control variables *Republican* and *Ruling party* that are equal to one if the politician is a Republican or belongs to the party that provides the president.

4.3.2 Firm dependent factors

Second, we incorporate variables that capture possibly relevant firm differences that may affect the extent to which scandals impact PAC firms. We first consider firms' political networks beyond PAC contributions. Prior literature suggests that firms employ a combination of different activities to maximize political benefits or to hedge themselves against changes in the political landscape (Antia et al. 2013, Kim and Zhang 2016). If scandal CARs are driven by the loss in political benefits (H1), we expect them to be less negative when connected firms have access to broader political networks.

To investigate the effect of the political network, we include the variable *Lobbying*, which is the natural logarithm of the dollar amount of lobbying expenditures spent in the calendar year preceding the scandal. In addition, we use an indirect measure of political networks. Earlier studies find that politically connected firms enjoy better access to government resources (Goldman et al. 2009, Tahoun 2014). Accordingly, some studies use economic outcomes as indirect measure of connectedness (Preuss and Königsgruber 2020). We hence include the variables *Loan* and *Subsidy*, that are equal to one if the firm received government loans or subsidies in the calendar year preceding a scandal.[19] We note that such outcome variables may also suggest risk of having benefitted of corruption, for instance. Data on subsidies and loans is obtained from Good Jobs First. Lobbying data is obtained from the OpenSecrets.

The effect of connections to scandal politicians may further be influenced by firms' own (financial) integrity. Borisov et al. (2016) find that firms with signs of unethical behavior, measured as past enforcement actions, experienced more negative returns around the indictment of lobbyist Jack Abramoff. They suggest that these firms have a greater corruption risk or have disproportionally benefited from lobbying. Consequently, if scandal CARs are driven by a loss in reputation (H2), we

[19] We select an indicator variable for subsidies and loans, because the percentage of sample PAC firms that receive these government benefits is low (38% and 7% in the scandal sample, respectively). This is in stark contrast to lobbying. Given that 74% of scandal sample PAC firms lobby, a size measure may be more meaningful than an indicator variable.

expect them to be more negative when firms have a worse reputation with respect to their financial integrity. To measure financial integrity, we compute the dummy variable *SEC penalty* that is equal to one if a firm received a penalty from the SEC in the 365 days preceding a political scandal.

Investor reaction around scandals may also vary with firms' ex-ante litigation risk. A greater probability of being successfully sued by shareholders decreases the likelihood that managers engage in unethical behavior (Hopkins 2018, Huang et al. 2021). Higher litigation risk thus implies a lower expected probability that firms are involved in corruption themselves. In addition, the higher likelihood of successful lawsuits may be perceived as insurance in the case that a connected firms turns out to be involved in illegal activities.[20] If scandal CARs are driven by a loss in reputation (H2), we expect them to be more negative for firms with *lower* litigation risk. Following Huang et al. (2019), we employ a geographical measure of firms' ex-ante litigation risk (*Liberal court*), that is based on the political ideology of the firms' home circuit court judge.

Despite our expectations that contextual dependencies lend more support for either the political benefits (H1) or the reputation (H2) explanation, one might argue that these additional analyses lend support for both explanations. For instance, poor pre-event financial integrity may not only capture investors' distrust in connected firms, but also firms' ability to establish ties to other politicians following the scandal. In fact, McDonnell and Werner (2016) show that politicians carefully select corporate contributors and return campaign donations of firms they do not wish to be associated with. Likewise, a negative effect of political influence may suggest that reputational spillover from influential politicians is more severe, and a positive effect of lobbying may imply that shareholders of these firms take into account that these firms have a higher expected risk of reputational risks, diminishing the effect of an event. To overcome this, we continue to compare the returns around political scandals to the returns around deaths. A significantly negative effect of *SEC penalty* in both samples implies that scandal (death) CARs are driven by the expected loss in political benefits. A significantly negative

[20] This is similar to insurance effects of audits (Menon and Williams 1994) or IPO underpricing (Lowry and Shu 2002).

effect in the scandal sample only supports the premise that scandals have reputational consequences. Table A.3 in Appendix B provides a summary of all variables.

4.4 Summary statistics

Table 2 panel A presents the summary statistics for first-time scandal and deceased politicians.[21] The distribution of characteristics is similar. 79% and 74% of politicians are members of an influential committee, only 3% chair one. About 50% of sample politicians belong to the ruling party. There are slightly more Senators in the death sample and fewer Republicans. In contrast to the scandal sample, all deaths are covered by major newspapers in the first two days following the event.

[Insert Table 2 about here]

Table 2 Panel B - D present firm summary statistics around first-time scandals and deaths. Panel B presents the summary statistics for all listed firms with available CRSP and CCM data. Panel C and D present the summary statistics for PAC firms (including connected firms) and for connected firms with available CRSP and CCM data, respectively. The minority of firms are politically active. PAC firms account for about 13% of observations, with (directly) connected firms accounting for only 2%. Not surprisingly, PAC firms are larger than non-PAC firms. The average firm has a size of $3,738 million (total assets), while the average PAC contributor has a size of $28,214 million (note that the values in Table 2 reflect log transformed statistics). Of all PAC firms, 12% are connected to a scandal politician and 10% are connected to a deceased politician in the observation period. PAC firms in the scandal sample are seemingly not different from PAC firms in the death sample. This is expected given that the events essentially cover the same set of firms around the same time. In both the scandal and death group, the average number of supported candidates by PAC firms is 53 with a maximum of 531. Remaining differences in characteristics may be explained by the death sample not covering the years 2003, 2004, 2006, 2011, 2014 and 2017. Connected firms may, however, differ from the complete set of PAC firms.

[21] Univariate analysis suggests that consecutive scandals of politicians may not influence CARs, which is why they are excluded from these subsequent analyses. The first-time scandal sample thus only includes the first scandal per politician that occurred between 2000 and 2019.

Larger firms have larger PACs, which increases their probability of being connected to an event politician. Accordingly, the average size of a scandal connected firm is $100,745 million.

5 Results

5.1 Univariate analysis

We start by exploring whether and for which type of scandals connected firms experience negative CARs around political scandals. For this analysis, we use the sample of 215 scandals. Panel A in Table 3 presents the average CARs in different time windows for the entire scandal sample, for death events, and for the three categories corruption, personal gain, and other scandals. Standard errors are clustered by event.

[Insert Table 3 about here]

CARs are significantly negative in the corruption sample but not consistently around any other event. In the corruption group, the significance starts in the (-1, 3) window and persists until the (-1, 10) window. The CARs for personal gain, other scandals or deaths are mostly insignificant.

Next, we explore for the significantly negative CARs around corruption scandals whether these CARs differ dependent on several cross-sectional event characteristics.[22] First, we split scandals into whether the scandal was the first or a consecutive scandal of a politician. Subsequent scandals of the same politician may have a smaller effect because these scandals are not fully exogenous, and quite some of our scandal politicians experience multiple consecutive scandals in a relatively short time frame.[23] Moreover, firms can withdraw their support or publicly announce a termination of the connection if they do not wish to be associated with the scandal politician, and those firms that maintain connections over multiple scandals may be immune to reputational penalties.[24] In addition, a part of the benefits or reputational losses may already have been incurred after the first scandal. Second, we split

[22] The results of the following analyses are indeed mostly insignificant for personal gain and other scandals and not reported.
[23] For instance, Charles Rangel experienced seven scandals between July 2008 and August 2009.
[24] Nestlé Purina Petcare responded to a scandal of Representative Steve King as follows: "Representative King's recent statements are in conflict with our values and we are no longer contributing to his campaign". The statement is available at https://twitter.com/Purina/status/1057363833130532864. Land O'Lakes Inc. issued a similar announcement available at http://www.landolakesinc.com/Press/News/PAC-donation-statement-steve-king (retrieved September 8, 2021)

scandals by visibility. Small local newspapers may either not be visible to investors, or investors may not find them credible. Hence, *Major news* indicates whether a scandal was published in a major news outlet at the break date, or on the first day following the break date. The results for corruption scandals are presented in Table 3 Panel B. The average CARs in the corruption sample are significantly different from zero when the scandal is a politician's first scandal, and insignificant when it is a consecutive scandal. The difference in experiencing a first or consecutive scandal is equal to -0.95%, significant at the 1 percent level in the 10-day window. To give an economic perspective, we multiply first-time corruption CARs (equal to 1%) with the market value of connected firms one day prior to the event. We use the opening price in day -1. The average market value of $37,766 million is based on 4,336 observations (untabulated, market values are truncated before calculating the average). This means, a loss of 0.95% is equal to a loss of approximately $357 million in market value per scandal on average.

With respect to *Major news*, we observe that major news scandals are more negative in the (-1, 5) window. It may be that scandals that were first announced outside of major news outlets are picked up by other (major news) outlets later which would explain a longer time lag in gaining visibility and credibility.[25]

5.2 Multivariate analysis

In the multivariate analysis, we test whether CARs of connected firms are significantly different from CARs of unconnected firms. Based on the findings from the univariate analysis, we limit the scandal sample to first-time scandals, use the (-1, 5) day window and incorporate event fixed effects. The results are presented in Table 4. Each model introduced in section 4.2 is run for the scandal sample, the subgroups, and the death sample. Uneven-numbered columns show the results of model 1 (firm fixed effects regression), even-numbered columns show the results of model 2 (cross-sectional regression).

[Insert Table 4 about here]

[25] We also tested whether results differ dependent on the visibility of the scandal (based on media coverage of the politician after relative to before the scandal) and on whether politicians decided to leave the office (resigned or decided not to run for re-election). No significant differences were found (untabulated).

The results are in line with the univariate analysis. Except for corruption scandals, none of the events cause significant differences for connected or PAC firms. This is surprising, given that the other scandals subgroup in particular contains the most reputation-damaging allegations that are frequently followed by retirement, resignation, or a lost re-election campaign. In contrast to the death of an influential lawmaker, retired politicians may find different channels to provide political benefits to closely connected firms. They are still able to provide inside knowledge about political processes and have access to extensive political networks (Goldman et al. 2009, Vidal et al. 2012). However, the coefficient on *Connected* is insignificant in the death sample as well, making it less likely that one particular politician determines a connected firms' economic well-being. The latter finding is somewhat conflicting with prior studies on the value of political connections. One explanation is that a number of politicians knowingly suffered health problems, possibly weakening the effect.[26] A second explanation is that investors do not believe that connections established through PAC contributions generate the same economic benefits as connections established through social networks or geographic ties. Acemoglu et al. (2016) show that investors valued social ties to Treasury Secretary Timothy Geithner during the financial crisis. It is possible that connections to certain politicians, or in specific time periods are more valuable than the average connection observed in this sample.

The corruption subgroup reveals significantly negative CARs in both the firm fixed effects (column 3) and industry fixed effects regression (column 4). The negative coefficient on *Connected* in column 3 presents the difference of the CAR of a firm in the event that it is directly connected to a scandal politician versus the event that it is not directly connected to a scandal politician at the moment of a scandal. The coefficient on *Connected* in column 4 compares the CARs around scandal revelations for all firms that are connected to event politicians to all firms that are not connected. Both models reveal a highly significant loss of being connected of around 0.5% in the event window for corruption scandals.

[26] Only four deaths are *fully* unanticipated. The remaining politicians had prior diseases, including Representative Elijah Cummings who had lived with cancer for 25 years. Streams of political benefits can, however, continued to be given in case of illness, so that losses of such benefits are at best partly discounted before the event. Moreover, our later analyses on political spending-related shareholder proposals following deaths yield similar inferences. Shareholder proposals are aggregated by calendar year and therefore not impacted by deaths being anticipated in the days leading to the event.

Model 2 further includes an indicator variable on PAC firms to compare the consequences of being connected to the implications of being politically active. The coefficient on *PAC contributor* is significantly negative at the 5% level. All connected firms are PAC firms which means that the entire effect of being connected to a scandal politician is equal to the sum of *Connected* and *PAC contributor.*

The observation that *PAC contributor* is significantly negative moreover suggests that there is some uncertainty about the consequences for firms that have political connections in general. The fact that C*onnected* is significant in columns 3 and 4 documents that investors penalize firms with visible connections to scandal politicians the heaviest. However, the effect of *PAC contributor* documents that they also penalize firms that are more likely to have (invisible) connections or update beliefs about the risks inherent in political spending. PAC firms are often involved in various political activities and contribute to multiple politicians, which could lead to future scandal association at their end as well.

With respect to the control variables, we note that firms that support more candidates experience a relatively smaller loss in firm value around corruption scandals. This is in line with the idea that a connection to one politician is weaker or less instrumental. Importantly, *Supported candidates* also captures the positive effect of PAC size for non-connected PAC firms. It is possible that investors of highly politically active firms are generally more tolerant to PAC-related reputation risk, or that they have already discounted this risk prior to the actual appearance of a scandal.

Overall, the results from the multivariate analysis confirm a negative market response for the corruption scandal sample. The finding that *Connected* is insignificant in the death sample indicates that the effect is mainly driven by reputational implications (H2). The comparison between scandal subgroups moreover shows that investors are most concerned about events that challenge firms' financial integrity. These results relate to Cline et al. (2018), who document that executive indiscretions involving dishonesty are more detrimental for firm value than sexual misadventures or cases of substance abuse. The observation that corruption scandals also impact market values of PAC firms without directly visible connections to scandal politicians but that such an effect is absent for deceased politicians lends additional support for H2.

5.3 Analyses of politician and firm dependent factors

In this section, we extend the analysis of whether scandal CARs are driven by a loss in benefits or reputation by examining firm and politician specific characteristics that may intensify or reduce the negative effect of political connections. In contrast to earlier results, which include the entire market, these analyses are limited to active PAC firms. We further exclude other and personal gain scandals as they do not influence the returns of connected firms or PAC firms in the short term. Note that, because our analysis now focusses on PAC firms only, the interpretation differs importantly from the interpretation in the previous section. In fact, main effects are now interpreted as interactions with *PAC contributor*. If we add a variable (*Variable)*, and the interaction of *Variable* and *Connected* in a sample of PAC firms, the results are interpreted as follows: The main effect for *Variable* shows whether the CARs of PAC firms (as given by the constant corrected for control variable values) depend on *Variable*. *Connected* still reveals whether connected firms experience on average more negative CARs than other PAC firms. The interaction of *Connected* and *Variable* captures whether the effect of *Variable* differs for connected firms compared to non-connected PAC firms. Because connected firms are also PAC firms, a significant main effect for *Variable* and an insignificant interaction with *Connected* implies that losses of connected firms also depend on *Variable*, but not differently than for other PAC firms.

5.3.1 Politician factors: Political influence

Table 5 shows the outcomes of regressing event CARs on political influence. Panel A and B contain the results for the corruption and death sample firm fixed effects model, respectively. Column 1 to 8 show the results from four different measures of political influence*: Senate*, *Influential committee*, *Influential chair* and *Raised contributions*. Every uneven-numbered column includes only the main effects of *Connected* and the respective measure of influence. Every even-numbered column also includes the interaction effect. The main effects capture the difference in experiencing a corruption scandal (death) involving an influential politician versus a non-influential politician. The interaction measures the additional effect of being directly connected to the influential politician.

[Insert Table 5 about here]

Connected remains significantly negative indicating that directly connected firms experience more negative returns than non-connected PAC firms. However, measures of influence do not correlate with event CARs. Except for *Influential chair,* which is marginally significant (at the 10% level) in the corruption sample, measures of political influence are insignificant in both the corruption and death sample.[27] This means that on average non-connected PAC firms do not experience more negative returns when the event relates to an influential politician. The interaction of influence variables and *Connection* is insignificant as well, which means that connected firms do not suffer more negative CARs when the scandal or deceased politician is influential, either. Following section 5.2, we repeat the analyses including industry fixed effects instead of firm fixed effects and control variables for firm size, PAC size, and leverage. The result, which can be found in Table O.A.2 in Online Appendix B, are consistent with those in Table 5. Overall, these findings lend support for H2.

5.3.2 Firm factors: political networks and financial integrity

Table 6 shows the results of exploring event CARs dependent on lobbying expenditures, access to government subsidies and loans, prior penalties imposed by the SEC, and firms' ex-ante litigation risk. The method used is the same as in 5.3.1, the difference being that we do not examine event-specific characteristics and therefore can include event fixed effects. Moreover, we focus on industry instead of firm fixed effects, as some of the firm dependent variables have little variation within firms. For instance, 59% of PAC firms never receive subsidies, and only 10% experience an SEC penalty. The results for the firm fixed effects model are presented in Table O.A.3 in Online Appendix B.

[Insert Table 6 about here]

The results in Columns 1 and 2 suggest that diverse political networks can weaken the negative effect of corruption scandals for PAC firms: the variable *Lobbying* is significant at the 1 percent level in the corruption sample. In the death sample we find a positively significant interaction of *Connected* and *Lobbying* and a negative main effect of *Connected*. This suggests that connected firms with greater

[27] There were only 5 politicians with an influential chair. Together with the fact that the result is no longer significant when including the interaction with *Connected*, we refrain from drawing conclusions based on this.

political activity suffer fewer losses from the connection compared to connected firms that are less active, which in turn supports the idea of a smaller loss in expected political benefits. This finding also documents that some firms, i.e., connected firms without diversified political networks, do experience losses around deaths.

The results for the outcome network measures *Subsidy* (column 3 and 4) and *Loan* (column 5 and 6) are mixed. Against earlier assumptions, *Subsidy* is significantly negative at the 1% level in the corruption sample. Moreover, the interaction of *Connected* and *Loan* is significantly negative at the 5% level. It is possible that increased access to government resources does not only signal access to political networks (we should observe a positive coefficient in this case) but may as well be interpreted as greater risk of these firms engaging in unethical behavior such as maintaining quid pro quo relationships with politicians. In the death sample, the interaction of *Subsidy* and *Connected* is significantly positive, which is consistent with the results for *Lobbying* and a benefits explanation (H1) for these death events. The fact that firms with subsidies or loans suffer higher losses around corruption scandals but lower losses around death events suggests that investors update their believes about risks involved in political relations and may be interpreted in support for a reputation explanation (H2) in the corruption sample.

Column 7 and 8 explore whether the effects of political scandals are greater when investors may have doubts about the firms' financial integrity. This can be the case when firms have a history of unethical behavior (measured by whether they received an SEC penalty). The results show a significantly negative coefficient on *SEC penalty* in the corruption group, but not in the death group. The interaction with *Connected* is insignificant, indicating that the additional firm value losses of connected firms (compared to PAC firms) do not differ dependent on prior financial integrity. The more severe losses for firms with lower prior financial integrity, in combination with the absence of significant results in the death sample lends further support for H2.

The last two columns (columns 9 and 10) present the results for *Liberal Court*. A higher likelihood of having a liberal circuit court judge implies greater ex-ante litigation risk for firms and may thus reduce the likelihood that managers are involved in unethical behavior or reduce losses to shareholders when the firm is involved. Consistent with our expectation, greater ex-ante litigation risk weakens the negative effect of corruption scandals at PAC firms. *Liberal Court* is insignificant in the

death sample which lends, once again, support for H2. The results in the firm fixed regressions (Table O.A.3) are highly similar for all analyses, except for *Liberal court*, which becomes insignificant. This is not surprising given that there is little variation in *Liberal court* within some states. Overall, these results suggest that corruption scandal CARs are more negative when there is doubt about a firm's financial integrity and that this effect may be driven by reputational implications.

6 Connections to scandal politicians and subsequent shareholder activism

In addition to investigating the short-term stock price reactions around the revelation of scandals, we consider whether shareholders subsequently also become active by submitting a proposal on firms' political spending. The majority of these proposals target firms' political spending transparency (Baloria et al. 2019, Goh et al. 2020). Occasionally, they also include calls for firms to end their political activities, as evident in the 2013 proxy statement of Exxon Mobil mentioned in section 2.2. To capture longer term consequences, we hence examine whether connections to scandal politicians increase the likelihood that a firm receives a political spending-related shareholder proposal.

We obtain data on shareholder proposals from the Internal Shareholder Services database (ISS) that covers the S&P 1500 firms starting in 2007. Shareholder proposals in general have to be filed at least 120 days before a firm releases its proxy statement ahead of the annual meeting.[28] Because 86% of annual meetings in the ISS database fall between April and June, we can aggregate scandal-connections by calendar years. The indicator variable *Proposal* is equal to one if the firm received a political spending-related shareholder proposal in a given year.[29] *Connected* is equal to one if the company is connected to a scandal (deceased) politician in the year prior to this proposal. We then

[28] See https://www.sec.gov/divisions/corpfin/rule-14a-8.pdf (retrieved on October 25, 2021)

[29] ISS does not separately identify political spending-related proposals. To identify those, we retain all proposals with ISS resolution that includes the term politic* in combination with activit*, contribut*, donat*, expend*, giv*, or spend*. The top three resolutions that make up 80% of all identified proposals are "report on political contributions", "political contributions disclosures", and "report on political contributions disclosure".

estimate a logit model in which we explain the likelihood of receiving a political spending-related proposal dependent on being connected to scandal politicians in the prior period (*Connected*).

We again estimate the regression both with firm and year fixed effects, and with industry and year fixed effects. Larger and more politically active firms are more likely to receive political spending-related shareholder proposals (Baloria et al. 2019). Hence, we include control variables for firm size and valuation (*Total assets* and *Market to Book*) and for the extend of the firms' political activities (*Supported Candidates* and *Lobbying*).[30] As there is little reason for shareholders to file political spending-related proposals at firms that do not have active PACs, this additional analysis is limited to firms that made PAC contributions in the year of the political scandal (death).

Table 7 presents the summary statistics for this analysis on shareholder activism. Note that the dataset on shareholder proposals is based on firm-years so that a firm can be connected to multiple scandal and deceased politicians, whereas the earlier used data (see Table 2) was based on events. On average, 11% of firm-years receive a political spending-related shareholder proposal, and 59% (15%) of firm-years are connected to scandal (deceased) politicians. Because a firm can be connected to multiple scandal (deceased) politicians in the same year, we have several *Connected* variables: *Connected (Scandals)*, *Connected (Corruption)*, *Connected (Other)*, and *Connected (Death).*

Although personal gain and other scandals may not affect connected firms' CARs at the beginning of the scandal, they may still affect firms in the longer term, especially when the effect is conditional on *consumers* being aware of political ties. Consequently, and following our main analysis in section 5.2, we examine the effect of connections to any scandal politician, and of connections to politicians involved in corruption, personal gain, or other scandals, separately. We also continue to investigate the effect of deceased politicians, as an increase in shareholder activism following connections to deceased politicians would again hint at shareholders requesting more transparency to evaluate benefits as opposed to reputational concerns. The results are presented in Table 8.

[30] In earlier tests, we measure *Supported Candidates* as the number of candidates a firm contributed to in the election cycle preceding each respective scandal. Because we now aggregate scandals by calendar year, we also measure the number of supported candidates by calendar year.

[Insert Table 7 and Table 8 about here]

We find that being connected to politicians involved in corruption or personal gain scandals increases the likelihood that a firm receives a political spending-related shareholder proposal in the year following the scandal. In columns 11 and 12, we include all individual *Connection* dummy variables in one model. The indicator variable on *Connected (Corruption)* remains significantly positive in the firm fixed and industry fixed effects model, while *Connected (Personal gain)* becomes insignificant in the regression results with firm fixed effects. *Connected (Other)* and *Connected (Death)* are insignificant in all columns. These results again show that scandals that involve corruption in relation to businesses (corruption) and to a lesser extent scandals related to financial integrity (personal gain) make investors more concerned about firms' political contributions resulting in a higher likelihood of proposing political issues to be discussed at shareholder meetings. Given that again there is no significant effect for being connected to deceased politicians, this supports the hypothesis that an association with scandalous politicians exposes firms to reputational risks.

7 Robustness tests

7.1 CAR model specification

To strengthen the reliability of our results, we run several untabulated robustness tests. First, we re-estimate Table 4 with the (-1, 3) and (-1, 7) event CAR and replace the CRSP equal-weighted with the value-weighted index. The results are qualitatively similar. Second, we change the outlier treatment from truncation to winsorization and estimate abnormal returns with the Fama-French three-factor model. All coefficients on *Connected* and *PAC contributor* remain significantly negative in the corruption group. Third, to rule out that our findings are driven by greater investor scrutiny during the years of the financial crisis, we drop scandals that took place in 2007 and 2008. This reduces our sample by 30 events, out of which 9 events are categorized at corruption scandals. *Connected* and *PAC contributor* remain significantly negative for corruption scandals, and insignificant at all other events.

7.2 Subsample analysis

Next, we repeat the analysis for S&P 500 firms, a group that is frequently used to study effects of political connections (e.g., Child et al. 2021, Goldman et al. 2009, Houston et al. 2014). The results are reported in Table O.A.4 in Online Appendix C. The main analysis presented in Table 4 comprises the entire market of U.S. listed firms, which are about 4,000 firms per event. Because small firms are less likely to establish PACs, the share of connected and PAC firms is low; 2% (1%) of firms are directly connected to scandal (deceased) politicians, and only 13% (11%) have active PACs in the scandal (death) group. In this subsample, 12% (9%) of firms are connected to a scandal (deceased) politician and 60% (58%) have active PACs. Accordingly, the adjusted R-squared increases. *Connected* remains significantly negative at the 1 percent level in the corruption group. *PAC contributor* is not significantly different from zero, which is likely explained by the fact that over 60% of S&P 500 firms are connected.

7.3 Change in scandal categorization

Analyzing political scandal types is an essential element of this study. However, a risk with qualitatively derived groups is that they are subject to an author's individual interpretation. For instance, Jesse Louis Jackson Jr. was accused of offering money in exchange for Barack Obama's former Senate seat. Bribery logically classifies as corruption, yet we categorize this case as personal gain as it does not involve exchange relations with firms or lobbyists. Because other type scandals do not involve any financial delicts, this distinction is clearer. To test whether our results are sensitive to our classification, we combine personal gain and corruption scandals and repeat the analysis in Table 4 (untabulated). The coefficients on *Connected* and *PAC contributor* remain significant, but as expected, the significance and magnitude of *Connected* decreases. This suggests that our results are robust to slight changes in categorization.

Another issue related to scandal categorization is that some scandals included in the *Other* scandals category follow possibly already known opinions (or political leanings) of a politician and may thus be already anticipated. To check whether this drives the absence of a negative effect of other scandals, we again repeat the analysis of Table 4 but exclude all scandals related to expressed opinions

related to homosexuality or racism from the other scandals category. *Connected* and *PAC contributor* remain insignificant (untabulated).

7.4 Placebo events

To rule out that the effect is driven by any event other than the corruption scandals, we run a placebo analysis using the same date (day and month) of each event one year earlier. We calculate CARs using the market model and CRSP equal-weighted market return with the event date being the first trading day following the placebo event date. The results are reported in Table O.A.5 in Online Appendix D. The coefficient on *Connected* is insignificant in each model.

7.5 Propensity score match

Firm fixed effects enable a within firm comparison between direct connections to event politicians and active PACs (or no political activity). While earlier results should be fairly robust to alternative explanations, it is possible that investors find it difficult to distinguish between connected and unconnected firms that are more alike. To assess whether the difference in CARs persists among highly similar firms, we create a propensity score matched sample of connected and unconnected firms. We match *Connected* within events, with the requirement that the matched firm made PAC contributions in the prior election cycle. PSM suffers several weaknesses. It only accounts for observable variables, is sensitive to design choices, and alters the sample composition so that the estimated effect does not represent the consequences of political scandals for all connected firms (Shipman et al. 2017, Christensen et al. 2017). To at least address the second issue, we apply two commonly used calipers (0.1 and 0.01) with and without replacement, and match on and control for the same variables used in Table 4. These include *Supported candidates*, *Market to book*, *Leverage*, and *Total assets*. The results can be found in Table O.A.6 in Online Appendix E. *Connected* remains significantly negative in the corruption group in all four specifications, and insignificant in all other specifications.

8 Conclusion

In this paper, we attempt to shed light on the question whether political connections expose firms to reputational risk. While it is known that political connections yield benefits to firms, which can be lost

when these connections are disrupted, little is known about whether connections to controversial politicians may also impose reputational risk on connected firms. To study costs from connections to controversial politicians, we measure the share price responses to 218 political scandals and 31 deaths of politicians. Our results show that connected firms' returns decrease around corruption scandals. Against prior assumptions, investors do not seem to discount firm value around personal gain and other scandals, or around deaths of connected politicians. The latter findings suggests that firm value losses are not merely driven by losses in expected political benefits. Moreover, we find that other firms that are politically active through PACs but not directly connected to the scandal politician, on average also lose value around corruption scandals, albeit less than the directly connected PAC firms.

In additional analyses on contextual factors that may influence investor reactions around scandals, we find that losses of PAC firms are less severe for firms with lobbying expenditures, but do not increase with measures that capture a politician's influence over government resources. Also, event CARs are more negative at PAC firms that seem to be at a higher risk to engage in unethical behavior. Overall, our results suggest that negative returns may reflect reputation spillover and investors updating their beliefs about the risks inherent in political contributions.

Finally, we find that shareholders of connected firms are more likely to submit political spending-related shareholder proposals in the year following a corruption scandal indicating an increased demand for transparency. Our results thus not only reveal reputational risk around the announcement of corruption scandals of politicians, but also shareholder activism following such scandals. Future research could investigate in detail to what extent firm transparency related to political connections may be a means to manage these reputational risks of political connections.

References

Acemoglu, D., Johnson, S., Kermani, A., Kwak, J., & Mitton, T. (2016). The Value of Connections in Turbulent Times: Evidence from the United States. *Journal of Financial Economics*, *121*(2), 368–391.

Akey, P. (2015). Valuing Changes in Political Networks: Evidence from Campaign Contributions to Close Congressional Elections. *Review of Financial Studies*, *28*(11), 3188–3223.

Ansolabehere, S., de Figueiredo, J. M., & Snyder Jr., J. M. (2003). Why is there so Little Money in U.S. politics? *Journal of Economic Perspectives*, *17*(1), 105–130.

Antia, M., Kim, I., & Pantzalis, C. (2013). Political Geography and Corporate Political Strategy. *Journal of Corporate Finance*, *22*, 361–374.

Baloria, V. P., & Heese, J. (2018). The Effects of Media Slant on Firm Behavior. *Journal of Financial Economics*, *129*(1), 184–202.

Baloria, V. P., Klassen, K. J., & Wiedman, C. I. (2019). Shareholder Activism and Voluntary Disclosure Initiation: The Case of Political Spending. *Contemporary Accounting Research*, *36*(2), 904–933.

Basinger, S. J. (2012). Scandals and Congressional Elections in the Post-Watergate Era. *Political Research Quarterly*, *66*(2), 385–398.

Basinger, S., Brown, L., Harris, D. B., & Gulati, G. J. (2014). Counting and Classifying Congressional Scandals. In A. Dagnes & M. Sachleben (Ed.), *Scandal! An interdisciplinary approach to the consequences, outcomes, and significance of political scandals* (pp. 3–28).

Bebchuk, L. A., & Jackson Jr., R. J. (2013). Shining Light on Corporate Political Spending. *Georgetown Law Journal*, *101*(4), 923–967.

Bertrand, M., Bombardini, M., Fisman, R., & Trebbi, F. (2018a). Tax-Exempt Lobbying: Corporate Philanthropy as a Tool for Political Influence. *SSRN Electronic Journal*. https://dx.doi.org/10.2139/ssrn.3095686

Bertrand, M., Kramarz, F., Schoar, A., & Thesmar, D. (2018b). The Cost of Political Connections. *Review of Finance*, *22*(3), 849–876.

Billings, M. B., Klein, A., & Shi, Y. (2019). Investors' Response to the #MeToo Movement: Does Corporate Culture Matter? *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.3466326

Borghesi, R., Houston, J. F., & Naranjo, A. (2014). Corporate Socially Responsible Investments: CEO Altruism, Reputation, and Shareholder Interests. *Journal of Corporate Finance*, *26*, 164–181.

Borisov, A., Goldman, E., & Gupta, N. (2016). The Corporate Value of (Corrupt) Lobbying. *Review of Financial Studies*, *29*(4), 1039–1071.

Boubakri, N., Cosset, J.-C., & Saffar, W. (2013). The Role of State and Foreign Owners in Corporate Risk-Taking: Evidence from Privatization. *Journal of Financial Economics*, *108*(3), 641–658.

Brown, S. J., & Warner, J. B. (1985). Using Daily Stock Returns. *Journal of Financial Economics*, *14*(1), 3–31.

Carrillat, F. A., D'Astous, A., & Christianis, H. (2014). Guilty by Association: The Perils of Celebrity Endorsement for Endorsed Brands and their Direct Competitors. *Psychology & Marketing*, *31*(11), 1024–1039.

Carvalho, D. (2014). The Real Effects of Government-Owned Banks: Evidence from an Emerging Market. *Journal of Finance*, *69*(2), 577–609.

Child, T. B., Massoud, N., Schabus, M., & Zhou, Y. (2021). Surprise Election for Trump Connections. *Journal of Financial Economics*, *140*(2), 676–697.

Christensen, H. B., Floyd, E., Liu, L. Y., & Maffett, M. (2017). The Real Effects of Mandated Information on Social Responsibility in Financial Reports: Evidence from Mine-Safety Records. *Journal of Accounting and Economics*, *64*(2–3), 284–304.

Chung, K. Y. C., Derdenger, T. P., & Srinivasan, K. (2013). Economic value of celebrity endorsements: Tiger woods' impact on sales of Nike golf balls. *Marketing Science*, *32*(2), 271–293.

Claessens, S., Feijen, E., & Laeven, L. (2008). Political connections and preferential access to finance: The role of campaign contributions. *Journal of Financial Economics*, *88*(3), 554–580.

Cline, B. N., Walkling, R. A., & Yore, A. S. (2018). The Consequences of Managerial Indiscretions: Sex, Lies, and Firm Value. *Journal of Financial Economics*, *127*(2), 389–415.

Cohen, L., Coval, J., & Malloy, C. (2011). Do powerful politicians cause corporate downsizing? *Journal of Political Economy*, *119*(6), 1015–1060.

Cooper, M. J., Gulen, H., & Ovtchinnikov, A. V. (2010). Corporate Political Contributions and Stock Returns. *Journal of Finance*, *65*(2), 687–724.

Correia, M. M. (2014). Political Connections and SEC Enforcement. *Journal of Accounting and Economics*, *57*(2–3), 241–262.

Elo, S., & Kyngäs, H. (2008). The Qualitative Content Analysis Process. *Journal of Advanced Nursing*, *62*(1), 107–115.

Faccio, M. (2006). Politically connected firms. *American Economic Review*, *96*(1), 369–386.

Faccio, M., Masulis, R. W., & McConnell, J. J. (2006). Political Contributions and Corporate Bailouts. *Journal of Finance*, *61*(6), 2597–2635.

Faccio, M., & Parsley, D. C. (2009). Sudden deaths: Taking stock of geographic ties. *Journal of Financial and Quantitative Analysis*, *44*(3), 683–718.

Fedaseyeu, V., & Lvovskiy, L. (2018). The value of corporate political connections: Evidence from sudden deaths. *SSRN Electronic Journal*. https://dx.doi.org/10.2139/ssrn.3040039

Ferguson, T., & Voth, H.-J. (2008). Betting on Hitler - The value of political connections in Nazi Germany. *Quarterly Journal of Economics*, *123*(1), 101–137.

Fisman, R. (2001). Estimating the value of political connections. *American Economic Review*, *91*(4), 1095–1102.

Fisman, R., & Wang, Y. (2015). The mortality cost of political connections. *Review of Economic Studies*, *82*(4), 1346–1382.

Freeman, R. E. (2010). *Strategic management: A stakeholder approach*. Cambridge university press.

Friedman, H. L., & Heinle, M. S. (2016). Taste, Information, and Asset Prices: Implications for the Valuation of CSR. *Review of Accounting Studies*, *21*(3), 740–767.

Fung, S. Y. K., Gul, F. A., & Radhakrishnan, S. (2015). Corporate political connections and the 2008 Malaysian election. *Accounting, Organizations and Society*, *43*, 67–86.

Goh, L., Liu, X., & Tsang, A. (2020). Voluntary Disclosure of Corporate Political Spending. *Journal of Corporate Finance*, *61*, 101403.

Goldman, E., Rocholl, J., & So, J. (2013). Politically Connected Boards of Directors and the Allocation of Procurement Contracts. *Review of Finance*, *17*(5), 1617–1648.

Goldman, E., Rocholl, J., & So, J. (2009). Do Politically Connected Boards affect Firm Value? *Review of Financial Studies*, *22*(6), 2331–2360.

Hassan, T. A., Hollander, S., Van Lent, L., & Tahoun, A. (2019). Firm-level political risk: Measurement and effects. *Quarterly Journal of Economics*, *134*(4), 2135–2202.

Hillman, A. J., & Hitt, M. A. (1999). Corporate Political Strategy Formulation: A Model of Approach, Participation and Strategic Decisions. *Academy of Management Review*, *24*(4), 825–842.

Hillman, A. J., Zardkoohi, A., & Bierman, L. (1999). Corporate Political Strategies and Firm Performance: Indications of Firm-Specific Benefits from Personal Service in the U.S. Government. *Strategic Management Journal*, *20*(1), 67–81.

Hopkins, J. (2018). Do Securities Class Actions Deter Misreporting? *Contemporary Accounting Research*, *35*(4), 2030–2057.

Houston, J. F., Jiang, L., Lin, C., & Ma, Y. (2014). Political Connections and the Cost of Bank Loans. *Journal of Accounting Research*, *52*(1), 193–243.

Huang, A., Hui, K. W., & Li, R. Z. (2019). Federal Judge Ideology: A New Measure of Ex Ante Litigation Risk. *Journal of Accounting Research*, *57*(2), 431–489.

Huang, A., Hui, K. W., & Zheng, Y. (2021). Judge Ideology and Opportunistic Insider Trading. In *SSRN Electronic Journal*. http://dx.doi.org/10.2139/ssrn.3947898

Hung, M., Wong, T. J., & Zhang, F. (2015). The Value of Political Ties versus Market Credibility: Evidence from Corporate Scandals in China. *Contemporary Accounting Research*, *32*(4), 1641–1675.

Kammer, A., & Kennedy, L. (2013). *Who Decides When a Corporation Spends Money in Politics?* https://www.demos.org/research/who-decides-when-corporation-spends-money-politics

Kim, C. F., & Zhang, L. (2016). Corporate Political Connections and Tax Aggressiveness. *Contemporary Accounting Research*, *33*(1), 78–114.

Knight, B. (2006). Are Policy Platforms Capitalized into Equity Prices? Evidence from the Bush/Gore 2000 Presidential Election. *Journal of Public Economics*, *90*, 751–773.

Knittel, C. R., & Stango, V. (2014). Celebrity Endorsements, Firm value, and Reputation Risk: Evidence from the Tiger Woods Scandal. *Management Science*, *60*(1), 21–37.

Kostovetsky, L. (2015). Political Capital and Moral Hazard. *Journal of Financial Economics*, *116*(1), 144–159.

Leone, A. J., Minutti-Meza, M., & Wasley, C. E. (2019). Influential Observations and Inference in Accounting Research. *Accounting Review*, *94*(6), 337–364.

Lowry, M., & Shu, S. (2002). Litigation Risk and IPO Underpricing. *Journal of Financial Economics*, *65*(3), 309–335.

McDonnell, M.-H., & Werner, T. (2016). Blacklisted Businesses: Social Activists ' Challenges and the Disruption of Corporate Political Activity. *Administrative Science Quarterly*, *61*(4), 584–620.

Menon, K., & Williams, D. D. (1994). The Insurance Hypothesis and Market Prices. *Accounting Review*, *69*(2), 327–342.

Milyo, J. (2014). Corporate Influence and Political Corruption. *Independent Review*, *19*(1), 19–36.

Milyo, J., Primo, D., & Groseclose, T. (2000). Corporate PAC campaign contributions in perspective. *Business and Politics*, *2*(1), 75–88.

Pan, X., & Tian, G. G. (2017). Political Connections and Corporate Investments: Evidence from the Recent Anti-Corruption Campaign in China. *Journal of Banking and Finance*, 105108.

Peterson, P. P. (1989). Event Studies: A Review of Issues and Methodology. *Quarterly Journal of Business and Economics*, *28*(3), 36–66.

Preuss, S., & Königsgruber, R. (2021). How Do Corporate Political Connections Influence Financial Reporting? A Synthesis of the Literature. *Journal of Accounting and Public Policy*, *40*(1), 106802.

Puglisi, R., & Snyder, J. M. (2011). Newspaper Coverage of Political Scandals. *Journal of Politics*, *73*(3), 931–950.

Roberts, B. E. (1990). A Dead Senator Tells no Lies: Seniority and the Distribution of Federal Benefits. *American Journal of Political Science*, *34*(1), 31–58.

Shipman, J. E., Swanquist, Q. T., & Whited, R. L. (2017). Propensity Score Matching in Accounting Research. *Accounting Review*, *92*(1), 213–244.

Skaife, H. A., & Werner, T. (2020). Changes in Firms' Political Investment Opportunities, Managerial Accountability, and Reputational Risk. *Journal of Business Ethics*, *163*(2), 239–263.

Snyder Jr., J. M. (1992). Long-term Investing in Politicians; or, Give Early, Give Often. *The Journal of Law and Economics*, *35*(1), 15–43.

Stewart III, C., & Woon, J. (1992). *Congressional Committee Assignments, 103rd to 115th Congresses, 1993-2017*. http://web.mit.edu/17.251/www/data_page.html#2

Tahoun, A. (2014). The Role of Stock Ownership by US Members of Congress on the Market for Political Favors. *Journal of Financial Economics*, *111*(1), 86–110.

Thwaites, D., Lowe, B., Monkhouse, L. L., & Barnes, B. R. (2012). The Impact of Negative Publicity on Celebrity ad Endorsements. *Psychology & Marketing*, *29*(9), 663–673.

Torres-Spelliscy, C. (2016). Shooting your Brand in the Foot: What Citizens United Invites. *Rutgers University Law Review*, *68*(3), 1297–1891.

Torres-Spelliscy, C. (2017). Dark Money as a Political Sovereignty Problem. *King's Law Journal*, *28*(2), 239–261.

Vidal, J. B. I., Draca, M., & Fons-Rosen, C. (2012). Revolving Door Lobbyists. *American Economic Review*, *102*(7), 3731–3748.

Appendix

Appendix A - Identifying political scandals

[Insert Table A.1 and Table A.2 about here]

Appendix B – Description of variables

[Insert Table A.3 about here]

Online Appendix

Online Appendix A - Merging FEC bulk data and CCM

To identify corporate PACs per politician, we connect the FEC candidate master (cn), the committee master (cm) and the file contributions from committees to candidates and independent expenditures (itpas2). Itpas2 contains both committee and candidate identifier (CMTE_ID and CAND_ID). The merged FEC file identifies the organizations that have PACs and make contributions to candidate committees through them. The variable ORG_TP identifies six entity types: corporations C; labor organizations L; membership organizations M, trade organizations T, cooperatives V, and corporations without capital stock W. We exclude observations with ORG_TP L, M, T, V or W. Election cycles for House members and Senators last two and six years, respectively. Based on the current and prior election cycle, a Senate connection may go back a maximum of 12 years. Accordingly, we retain all contributions made following the 1988 congressional election. Next, we identify listed corporate contributors with firm information available on CCM and CRSP. We use CCM, CCM historical and the SEC EDGAR 10-K filings to gather current and historical company names, gvkeys and permcos.[31] The FEC does not require firms to report traditional firm identifiers, which is why we merge the name variable CONNECTED_ORG_NM against the CCM and EDGAR company names. CONNECTED_ORG_NM is prone to error, i.e., spelling errors, missing legal status or name annexes such as *political action committee*; *good government*; *political fund*; *better government fund*; *and subsidiaries*; etc. We clean frequently appearing name annexes, special characters and adjust upper and lower cases. Common legal status identifiers are abbreviated, i.e. incorporated is changed into inc, corporation into corp, company into co. After an initial 'clean' merge, a large number of possibly listed contributors remains. To identify these, we link the first three letters of CONNECTED_ORG_NM to all CCM and EDGAR names with the same first three letters and use Stata's matchit package to calculate name similarities. We manually verify all matches that have a similarity score greater than 70% for either the CONNECTED_ORG_NM conm, conml or EDGAR match. In addition, we check

[31] CCM historical is available from 2007 only. For earlier observations, we use the first available information, i.e. the 2007 hconm and hconml. If a firm does not have any CCM historical information, we use current CCM names.

whether CONNECTED_ORG_NM appears in the matched firms' 10-K exhibit 21 filing (list of subsidiaries) and verify such matches irrespective of the matchit percentage.[32]

Finally, we link PAC contributions and contributing firms to the sample of scandal and deceased ("event") politicians. *Connected* is equal to one if a firm contributed to the event politician in the event election cycle, or in the election cycle preceding the event election cycle. Contributions made just prior to the event are included conditional on them being file with the FEC at the moment of the event (see also section 4.1.2). In addition, we integrate a dummy variable, *PAC contributor*, that is equal to one if a firm contributed to any politician (event or non-event politician) in the election period prior to the event period. Occasionally, a firm's PAC becomes inactive and a firm is classified as *Connected* although it did not make PAC contributions in the two-year election cycle prior to the event. In these cases, that are limited to the 12-year cycle Senate sample, *Connected* is set to zero. Table O.A.1 Panel A shows how many contributors to scandal, deceased, or any politician are identified with this procedure. Panel B further shows how many connected firms (firm-event observations) are dropped because the sum of contributions to event politicians is smaller or equal to zero, because they do not have the required CRSP and CCM data, or are headquartered outside of the U.S. We use CCMs' historical location (hloc) if available, and loc if otherwise. Firm (firm-event) observations are displayed by permco.

[Insert Table O.A.1 about here]

Online Appendix B – Cross-sectional regressions

[Insert Table O.A.2 and Table O.A.3 about here]

Online Appendix C – Subsample analysis

[Insert Table O.A.4 about here]

[32] The FEC uses the committee identifier CMTE_ID. Once a CMTE_ID permco match is identified, it can be carried forward to all observations with the same CMTE_ID. However, because firms may be subject to mergers or spin-offs, we follow a conservative approach and apply this technique by year-quarter.

Online Appendix D – Placebo test

[Insert Table O.A.5 about here]

Online Appendix E – Propensity score matching

[Insert Table O.A.6 about here]

Tables and Figures

Figure 1: Political scandals per year

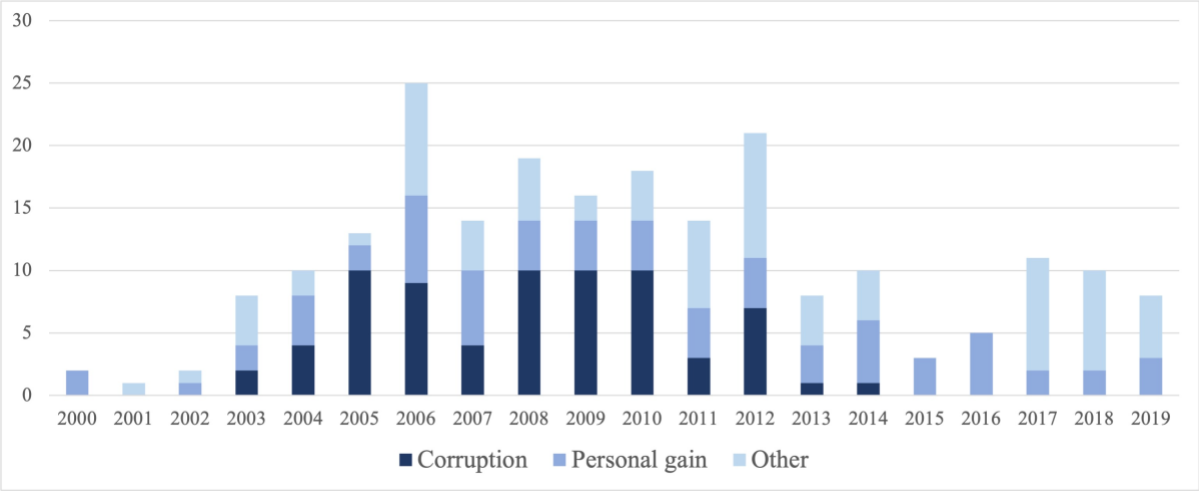

Table 1: Scandal examples

Politician	Summary	Media citation (Break date)
Corruption scandals		
Randall H. Cunningham	Sold his home to military contractor MZM Inc. above market price, who received federal procurement contracts in return	"Lawmaker's home sale questioned; Cunningham defends deal with defense firm's owner" *The San Diego Union Tribune (*June 12, 2005)
Donald E. Young	Used earmarks to build a bridge ("bridge to nowhere") that benefitted campaign donor and real estate developer Daniel J. Aronoff	"Super Double Corrupt" *Atlantic Online* (June 6, 2007)
Charles Rangel	Rented apartments from the Olnick Organization below market price without registering the advantage as special treatment	"Report: NY congressman has 4 rent-stabilized units" *The Associated Press* (July 11, 2008)
Harry M. Reid	Accused of received more than $100,000 in illegal campaign donations from lobbyist Harvey Whittemore	"NV: Reid, Heller, Others Donate Funds From Developer Under FBI Investigation" *The Frontrunner* (February 15, 2012)
Personal gain scandals		
Jesse Jackson Jr.	Allegedly offered money to former Governor Rod Blagojevich in exchange for Barack Obama's former Senate seat	"Jackson Revealed as "Number Five"; Governor's Wife Caught on Tape; Jet Crash Kills Entire Family; No Nukes vs. New Nukes" *CNN* (December 10, 2008)
Duncan D. Hunter	Used campaign funds for private expenses including video games, family vacations, and his son's private school	"Republican congressman spends $1,302 of campaign funds on Steam" *Geek.com* (April 6, 2016)
Corrine Brown	Misappropriated $800,000 in charity funds donated to nonprofit organization One Door for Education Foundation. Funds were meant to provide scholarships to underprivileged students	"Charity with ties to congresswoman target of fraud case" *The Northern Star: Northern Illinois University* (March 4, 2016)
Christopher C. Collins	Received inside information about a failed experimental treatment and sold his company shares to prevent financial losses	"Indicted Rep. Collins was early loyalist to Trump" *The Associated Press International* (August 8, 2018)
Other scandals		
George Allen	Used the expression 'macaca' (ethnic slur meaning monkey) to belittle a campaign volunteer of his political opponent	"BREAKING NEWS: Hakuna Macaca, Or, George Allen Puts Foot In Mouth And Sucks, Hard" *Wonkette* (August 14, 2006)
David Wu	Accused of sexually harassing the teenage daughter of a long-term friend	"Wu at center of sex allegation" *Politico.com* (July 22, 2011)
Scott DesJarlais	(Physician) Had extramarital affairs with his patients. Allegedly pressured one woman into having an abortion	"Transcript: Rep. Scott DesJarlais urged abortion" *Politico.com* (October 10, 2012)
Michael Crapo	Was arrested and pleaded guilty for driving under the influence	"Crapo apologizes after DUI" *Politico.com* (December 23, 2012)

Table 2: Summary statistics

	Scandals						Deaths					
Variable	Obs.	Mean	Median	Std. dev.	Min	Max	Obs.	Mean	Median	Std. dev.	Min	Max
Panel A: Politicians												
Influential committee	157	0.79	1.00	0.41	0.00	1.00	31	0.74	1.00	0.44	0.00	1.00
Influential chair	157	0.03	0.00	0.18	0.00	1.00	31	0.03	0.00	0.18	0.00	1.00
Major news	161	0.62	1.00	0.49	0.00	1.00	31	1.00	1.00	0.00	1.00	1.00
Raised contributions	161	2.92	3.00	1.43	1.00	5.00	31	2.74	3.00	1.44	1.00	5.00
Ruling party	161	0.53	1.00	0.50	0.00	1.00	31	0.52	1.00	0.51	0.00	1.00
Republican	161	0.60	1.00	0.49	0.00	1.00	31	0.35	0.00	0.49	0.00	1.00
Senate	161	0.16	0.00	0.36	0.00	1.00	31	0.26	0.00	0.44	0.00	1.00
Panel B: Listed firms												
CAR (-1, 5)	773,845	-0.13	-0.21	6.41	-48.78	73.69	161,591	-0.07	-0.19	7.25	-39.48	56.21
Connected	789,479	0.02	0.00	0.12	0.00	1.00	164,859	0.01	0.00	0.10	0.00	1.00
Leverage	684,649	0.55	0.55	0.27	0.03	1.68	145,117	0.55	0.54	0.27	0.03	1.68
Market to book	684,304	1.83	1.33	1.38	0.43	29.03	144,962	1.99	1.33	1.95	0.42	29.03
Total assets	686,403	6.40	6.42	2.00	1.62	12.19	145,466	6.17	6.15	2.02	1.66	12.19
PAC	789,479	0.13	0.00	0.33	0.00	1.00	164,859	0.11	0.00	0.32	0.00	1.00
Supported candidates	781,714	0.36	0.00	1.07	0.00	5.26	163,233	0.32	0.00	1.01	0.00	5.26
Panel C: PAC firms												
CAR (-1, 5)	96,901	-0.15	-0.22	4.95	-40.65	71.86	18,212	-0.29	-0.27	4.94	-38.31	37.03
Connected	98,725	0.12	0.00	0.33	0.00	1.00	18,556	0.10	0.00	0.30	0.00	1.00
Leverage	96,608	0.66	0.66	0.20	0.12	1.53	18,142	0.67	0.67	0.20	0.12	1.48
Liberal court	98,693	0.35	0.30	0.19	0.00	0.72	18,550	0.37	0.36	0.19	0.00	0.71
Loan	98,725	0.07	0.00	0.26	0.00	1.00	18,556	0.05	0.00	0.21	0.00	1.00
Lobbying	97,822	0.61	0.31	0.73	0.00	3.32	18,384	0.56	0.25	0.70	0.00	3.32
Market to book	96,605	1.60	1.32	0.81	0.69	10.75	18,133	1.67	1.33	0.96	0.69	11.52
Total assets	96,896	8.89	8.89	1.65	4.04	13.84	18,208	8.83	8.83	1.66	4.04	13.84
SEC	97,692	0.02	0.00	0.13	0.00	1.00	16,393	0.02	0.00	0.13	0.00	1.00
Subsidy	98,725	0.38	0.00	0.49	0.00	1.00	18,556	0.31	0.00	0.46	0.00	1.00
Supported candidates	97,858	3.25	3.33	1.26	0.69	6.08	18,398	3.24	3.30	1.27	0.69	6.08

Panel D: Connected firms											
CAR (-1, 5)	11,862	-0.17	-0.25	4.76	-79.23	71.86	1,817	-0.32	-0.26	4.65	-27.88	38.29
Connected	11,950	1.00	1.00	0.00	1.00	1.00	1,829	1.00	1.00	0.00	1.00	1.00
Leverage	11,843	0.68	0.67	0.19	0.06	1.94	1,807	0.68	0.67	0.19	0.12	1.78
Liberal court	11,949	0.37	0.33	0.19	0.00	0.72	1,829	0.39	0.38	0.19	0.00	0.71
Loan	11,950	0.11	0.00	0.31	0.00	1.00	1,829	0.09	0.00	0.28	0.00	1.00
Lobbying	11,912	1.32	1.19	1.00	0.00	6.90	1,824	1.24	1.11	1.01	0.00	4.03
Market to book	11,840	1.65	1.38	0.85	0.53	15.25	1,804	1.75	1.43	1.01	0.75	9.19
Total assets	11,862	10.11	10.21	1.70	3.44	14.78	1,817	9.95	10.11	1.72	3.44	14.67
SEC penalty	11,824	0.04	0.00	0.21	0.00	1.00	1,525	0.03	0.00	0.18	0.00	1.00
Subsidy	11,950	0.55	1.00	0.50	0.00	1.00	1,829	0.48	0.00	0.50	0.00	1.00
Supported candidates	11,873	4.51	4.64	0.97	0.69	6.28	1,818	4.53	4.66	1.00	0.69	6.28

All continuous variables are truncated at the 1st and 99th percentile. CARs are presented in percent.

Table 3: Univariate analysis

This table presents CARs around political events. Panel A presents the mean CARs for connected firms in the respective event samples. Panel B compares the difference in means of first-time corruption scandals versus consecutive corruption scandals, and corruption scandals reported in a major newspaper versus corruption scandals reported in any English language newspaper. CARs are calculated using the market model and the CRSP equal-weighted market index. Standard errors are clustered by event. CARs are truncated at the 1st and 99th percentile. *t*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Panel A: Event CARs

	Cluster	Obs.	CAR(-1, 1)	CAR(-1, 3)	CAR(-1, 5)	CAR(-1, 7)	CAR(-1, 10)
Scandal	215	16,932	-0.011	-0.131*	-0.116	-0.160	-0.253*
			(-0.17)	(-1.79)	(-1.31)	(-1.42)	(-1.84)
Corruption	71	6,647	-0.136	-0.296**	-0.343**	-0.476**	-0.557***
			(-1.27)	(-2.50)	(-2.27)	(-2.54)	(-2.71)
Other	78	4,849	0.018	-0.014	-0.101	-0.171	-0.361
			(0.21)	(-0.12)	(-0.67)	(-0.87)	(-1.25)
Personal gain	66	5,436	0.116	-0.033	0.147	0.238	0.216
			(0.93)	(-0.24)	(1.01)	(1.33)	(1.03)
Death	31	1,817	-0.220	-0.354*	-0.325	-0.074	0.156
			(-1.57)	(-1.73)	(-1.53)	(-0.39)	(0.48)

Panel B: Difference in means for corruption subgroup

			CAR(-1, 1)		CAR(-1, 5)		CAR(-1, 10)	
	Cluster	Obs.	Mean	*t*-statistic	Mean	*t*-statistic	Mean	*t*-statistic
Corruption								
First scandal = 0	18	2,276	0.168	(0.74)	0.023	(0.08)	0.191	(0.62)
First scandal = 1	53	4,371	-0.294***	(-2.93)	-0.533***	(-3.23)	-0.946***	(-4.01)
Difference	71	6,647	-0.462*	(-1.89)	-0.556*	(-1.72)	-1.137***	(-2.96)
Major news = 0	21	1,724	-0.058	(-0.39)	0.131	(0.37)	-0.525	(-1.29)
Major news = 1	50	4,923	-0.163	(-1.20)	-0.509***	(-3.36)	-0.568**	(-2.37)
Difference	71	6,647	-0.105	(-0.53)	-0.640*	(-1.70)	-0.043	(-0.09)

Table 4: Multivariate analysis

This table presents the results from multivariate regressions per event group in a sample of listed U.S. firms available on CRSP. Every uneven-numbered column presents the results from a regression of *Connected* on firms' CAR using firm and event fixed effects. Every even-numbered column presents the results from a regression of *Connected* on CAR using firm specific control variables, industry and event fixed effects. CARs (-1, 5) are estimated using the market model and the CRSP equal-weighted market index. Standard errors are clustered by event. All continuous variables are truncated at the 1st and 99th percentile. *t*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	Scandals		Corruption		Personal gain		Other		Death	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Connected	-0.094	-0.168	-0.519***	-0.562***	0.044	-0.014	0.144	0.113	-0.113	-0.061
	(-0.85)	(-1.40)	(-3.17)	(-2.77)	(0.22)	(-0.07)	(0.71)	(0.56)	(-0.44)	(-0.22)
PAC contributor		-0.203**		-0.344**		-0.206		-0.052		-0.051
		(-2.54)		(-2.46)		(-1.55)		(-0.37)		(-0.27)
Supported		0.056*		0.151**		0.005		0.008		-0.049
candidates		(1.70)		(2.66)		(0.10)		(0.13)		(-0.72)
Market to book		-0.104***		-0.139***		-0.112**		-0.065*		-0.016
		(-4.22)		(-4.22)		(-2.36)		(-1.72)		(-0.18)
Leverage		-0.221**		-0.099		-0.317*		-0.244*		-0.513*
		(-2.24)		(-0.47)		(-1.96)		(-1.75)		(-1.82)
Total assets		0.017		-0.074		0.106*		0.026		0.009
		(0.52)		(-1.20)		(1.75)		(0.52)		(0.16)
Observations	773,025	642,519	260,961	216,378	225,227	188,221	284,872	237,920	161,109	135,957
R-squared	0.031	0.004	0.061	0.005	0.078	0.006	0.055	0.005	0.091	0.005
Fixed effects	Event	Event	Event	Event	Event	Event	Event	Event	Event	Event
	Firm	Industry	Firm	Industry	Firm	Industry	Firm	Industry	Firm	Industry
Event clusters	161	161	53	53	47	47	61	61	31	31
Adj. R-squared	0.016	0.004	0.032	0.005	0.030	0.005	0.021	0.004	0.023	0.004

Table 5: The politicians' influence

This table shows the results of regressions of CAR on *Connected* and politician dependent factors in a sample of PAC firms. Every uneven-numbered column presents the main effect. Every even-numbered column presents the interaction of *Connected* and *Variable*. *Variable* takes the value of four variables: *Senate*, *Influential committee*, *Influential chair*, and *Raised contributions.* CARs (-1, 5) are estimated using the market model and the CRSP equal-weighted market index. Standard errors are clustered by event. *T*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Variable	Senate		Influential committee		Influential chair		Raised contributions	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: Corruption								
Variable	-0.086	-0.085	0.114	0.047	-0.791*	-0.729	0.048	0.073
	(-0.27)	(-0.27)	(0.39)	(0.16)	(-1.76)	(-1.36)	(0.39)	(0.53)
Connected	-0.436**	-0.435*	-0.446**	-0.845**	-0.423**	-0.398**	-0.482***	0.488
	(-2.45)	(-1.94)	(-2.44)	(-2.43)	(-2.33)	(-2.09)	(-3.15)	(0.63)
Interaction		-0.006		0.487		-0.329		-0.245
		(-0.02)		(1.46)		(-0.66)		(-1.23)
Republican	0.122	0.122	0.135	0.132	0.166	0.165	0.151	0.133
	(0.53)	(0.53)	(0.59)	(0.58)	(0.75)	(0.75)	(0.61)	(0.55)
Ruling party	-0.162	-0.162	-0.162	-0.164	-0.142	-0.141	-0.127	-0.132
	(-0.71)	(-0.71)	(-0.72)	(-0.73)	(-0.66)	(-0.65)	(-0.60)	(-0.63)
Observations	32,639	32,639	32,639	32,639	32,639	32,639	32,639	32,639
R-squared	0.065	0.065	0.065	0.065	0.066	0.066	0.065	0.065
Fixed effects	Firm Year	Firm Year	Firm Year	Firm Year	Firm Year	Firm Year	Firm Year	Firm Year
Event clusters	53	53	53	53	53	53	53	53
Adj. R-squared	0.037	0.037	0.037	0.037	0.038	0.038	0.037	0.038
Panel B: Death								
Influence	-0.348	-0.385	-0.485	-0.503	-0.149	-0.122	0.038	0.030
	(-0.93)	(-0.96)	(-1.16)	(-1.20)	(-0.80)	(-0.65)	(0.99)	(0.81)
Connected	-0.177	-0.289	-0.215	-0.428	-0.248	-0.240	-0.278	-0.508
	(-0.85)	(-1.13)	(-1.07)	(-1.41)	(-1.26)	(-1.16)	(-1.39)	(-0.85)
Interaction		0.264		0.256		-0.112		0.066
		(0.67)		(0.72)		(-0.55)		(0.45)
Republican	0.203	0.198	0.202	0.197	0.182	0.182	0.130	0.129
	(1.19)	(1.18)	(1.53)	(1.49)	(1.41)	(1.40)	(1.11)	(1.11)
Ruling party	-0.264	-0.257	-0.288**	-0.289**	-0.311**	-0.311**	-0.320***	-0.318***
	(-1.52)	(-1.49)	(-2.29)	(-2.31)	(-2.44)	(-2.44)	(-2.85)	(-2.86)
Observations	18,176	18,176	18,176	18,176	18,176	18,176	18,176	18,176
R-squared	0.101	0.101	0.101	0.101	0.100	0.100	0.100	0.100
Fixed effects	Firm Year	Firm Year	Firm Year	Firm Year	Firm Year	Firm Year	Firm Year	Firm Year
Event clusters	31	31	31	31	31	31	31	31
Adj. R-squared	0.041	0.041	0.0412	0.0411	0.040	0.040	0.040	0.040

Table 6: Firms' political networks and financial integrity

This table shows the results of regressions of CAR on *Connected* and firm dependent factors in a sample of PAC firms. Every uneven-numbered column presents the main effect. Every even-numbered column presents the interaction of *Connected* and *Variable*. *Variable* takes the value of five variables: *Lobbying*, *Subsidy*, *Loan*, *SEC penalty*, and *Liberal court*. CARs (-1, 5) are estimated using the market model and the CRSP equal-weighted market index. We include the control variables *Supported candidates*, *Market to book*, *Leverage*, and *Total assets*. Standard errors are clustered by event. All continuous variables, except for *Liberal court* which is bound between 0 and 1, are truncated at the 1st and 99th percentile. *T*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Variable	Lobbying		Subsidy		Loan		SEC penalty		Liberal court	
	(1)	(2)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Panel A: Corruption										
Variable	0.247***	0.260***	-0.233***	-0.236**	0.147	0.281	-0.596**	-0.730*	0.396***	0.397***
	(3.31)	(3.44)	(-2.73)	(-2.59)	(0.93)	(1.49)	(-2.05)	(-1.96)	(2.85)	(2.71)
Connected	-0.451**	-0.398	-0.405**	-0.417**	-0.414**	-0.334**	-0.406**	-0.417**	-0.415**	-0.411
	(-2.61)	(-1.56)	(-2.46)	(-2.03)	(-2.49)	(-2.07)	(-2.46)	(-2.50)	(-2.50)	(-1.51)
Interaction		-0.049		0.024		-0.832**		0.443		-0.013
		(-0.41)		(0.15)		(-2.41)		(0.98)		(-0.02)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	30,538	30,538	30,693	30,693	30,693	30,693	30,693	30,693	30,692	30,692
R-squared	0.043	0.043	0.043	0.043	0.042	0.043	0.043	0.043	0.043	0.043
Fixed effects	Event	Event	Event	Event	Event	Event	Event	Event	Event	Event
	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry
Event clusters	53	53	53	53	53	53	53	53	53	53
Adj. R-squared	0.039	0.039	0.039	0.039	0.039	0.039	0.039	0.039	0.0387	0.0387
Panel B: Death										
Network	0.204*	0.130	0.012	-0.034	0.326	0.248	0.437	0.449	0.126	0.212
	(1.90)	(1.14)	(0.16)	(-0.40)	(1.49)	(1.08)	(1.47)	(1.37)	(0.53)	(0.82)
Connected	-0.110	-0.464*	-0.088	-0.278	-0.087	-0.123	0.110	0.112	-0.091	0.246
	(-0.60)	(-1.93)	(-0.48)	(-1.19)	(-0.47)	(-0.68)	(0.61)	(0.63)	(-0.49)	(0.73)
Interaction		0.347**		0.421*		0.559		-0.113		-0.881
		(2.66)		(1.70)		(0.95)		(-0.13)		(-1.38)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	16,996	16,996	17,099	17,099	17,099	17,099	15,092	15,092	17,093	17,093
R-squared	0.047	0.048	0.047	0.047	0.047	0.047	0.058	0.058	0.047	0.047
Fixed effects	Event	Event	Event	Event	Event	Event	Event	Event	Event	Event
	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry
Event clusters	31	31	31	31	31	31	27	27	31	31
Adj. R-squared	0.042	0.042	0.042	0.042	0.042	0.042	0.052	0.051	0.0416	0.0416

Table 7: Summary statistics – Shareholder activism

Variable	Obs.	Mean	Median	Std. dev.	Min	Max
Proposal	5,539	0.11	0.00	0.31	0.00	1.00
Connected (Scandal)	5,539	0.59	1.00	0.49	0.00	1.00
Connected (Corruption)	5,539	0.31	0.00	0.46	0.00	1.00
Connected (Personal gain)	5,539	0.39	0.00	0.49	0.00	1.00
Connected (Other)	5,539	0.32	0.00	0.47	0.00	1.00
Connected (Death)	5,539	0.15	0.00	0.36	0.00	1.00
Market to book	5,530	1.72	1.40	0.95	0.83	6.22
Total assets	5,429	9.63	9.57	1.47	6.42	14.03
Lobbying	5,484	11.75	13.72	5.24	0.00	17.06
Supported candidates	5,485	3.28	3.40	1.24	0.69	5.85

All continuous variables are truncated at the 1st and 99th percentile. Data on shareholder proposals is limited to firms covered by ISS.

Table 8: Shareholder activism

This table presents the results from logit regressions on the likelihood that firms receive a political spending-related shareholder proposal in a sample of listed U.S. PAC firms covered by ISS. Every uneven-numbered column presents the results including firm and year fixed effects. Every even-numbered column presents the results including industry and year fixed effects. Standard errors are clustered by firms. All continuous variables are truncated at the 1st and 99th percentile. *T*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	Scandals		Corruption		Personal gain		Other		Death		All events	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Connected	-0.130	-0.027										
	(-0.77)	(-0.19)										
Connected (Corruption)			0.638***	0.554***							0.632***	0.544***
			(3.14)	(3.35)							(3.08)	(3.31)
Connected (Personal gain)					0.255*	0.305***					0.198	0.264**
					(1.88)	(2.63)					(1.44)	(2.28)
Connected (Other)							-0.130	-0.098			-0.174	-0.170
							(-0.88)	(-0.74)			(-1.16)	(-1.27)
Connected (Death)									-0.120	-0.110	-0.169	-0.161
									(-0.69)	(-0.70)	(-0.96)	(-1.02)
Supported candidates	0.061	0.208**	0.011	0.145	0.014	0.141	0.057	0.216**	0.052	0.214**	0.007	0.132
	(0.42)	(2.02)	(0.08)	(1.44)	(0.10)	(1.43)	(0.40)	(2.13)	(0.36)	(2.13)	(0.05)	(1.28)
Lobbying	0.086**	0.047*	0.078**	0.044	0.085**	0.046*	0.087**	0.047*	0.087**	0.047*	0.079**	0.044*
	(2.12)	(1.74)	(1.96)	(1.64)	(2.08)	(1.72)	(2.12)	(1.74)	(2.13)	(1.74)	(1.99)	(1.65)
Market to Book	0.046	0.200***	0.078	0.203***	0.060	0.199***	0.044	0.199***	0.051	0.200***	0.080	0.200***
	(0.25)	(2.68)	(0.42)	(2.70)	(0.32)	(2.66)	(0.24)	(2.67)	(0.28)	(2.69)	(0.44)	(2.67)
Total assets	0.683***	0.525***	0.661**	0.514***	0.675**	0.516***	0.686***	0.528***	0.687***	0.527***	0.673***	0.516***
	(2.61)	(6.31)	(2.53)	(6.16)	(2.56)	(6.22)	(2.63)	(6.30)	(2.62)	(6.33)	(2.58)	(6.13)
Observations	2,801	5,076	2,801	5,076	2,801	5,076	2,801	5,076	2,801	5,076	2,801	5,076
R-squared	Firm	Industry	Firm	Industry	Firm	Industry	Firm	Industry	Firm	Industry	Firm	Industry
	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year
Fixed effects	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm	Firm
Pseudo R-squared	0.152	0.130	0.156	0.134	0.153	0.132	0.152	0.131	0.151	0.131	0.158	0.137

Table A.1: Publicly accessible data sources and information used

Source	Description	Link
Bioguide	Biographies	http://bioguide.congress.gov/biosearch/biosearch.asp
Charles Stewart's Congressional Data page	Congressional committees	http://web.mit.edu/17.251/www/data_page.html
CREW	Most corrupt members of Congress	https://www.citizensforethics.org/ https://www.citizensforethics.org/reports-and-investigations/
FEC	PAC contributions	https://www.fec.gov/data/browse-data/?tab=bulk-data
	PAC contribution limits	https://www.fec.gov/help-candidates-and-committees/making-disbursements-pac/contributions-made-party-committees-and-pacs-nonconnected/
	Filing deadlines	https://www.fec.gov/help-candidates-and-committees/filing-reports/quarterly-reports/
Govtrack	Legislator Misconduct Database	https://www.govtrack.us/misconduct
Good Jobs First	SEC penalties	https://www.goodjobsfirst.org/violation-tracker
	Subsidy and loan data	https://www.goodjobsfirst.org/subsidy-tracker
The Center of Responsive Politics	Lobbying expenditures	https://www.opensecrets.org/open-data/bulk-data
Wikipedia	List of special elections	https://en.wikipedia.org/wiki/List_of_special_elections_to_the_United_States_House_of_Representatives
	List of political sex scandals	https://en.wikipedia.org/wiki/List_of_federal_political_sex_scandals_in_the_United_States
	List of political scandals	https://en.wikipedia.org/wiki/Category:Political_scandals_in_the_United_States
	List of Congress members who died in office	https://en.wikipedia.org/wiki/List_of_United_States_Congress_members_who_died_in_office

Table A.2: Example break date identification

Politician	Related search term	Break date	Break date major newspaper	First name w/s Last name w/p scandal	First name w/s Last name w/p investigation
Anthony Weiner	Anthony w/s Weiner AND photo	May 5, 2011	May 5, 2011	No result	May 31, 2011
Bob Ney	(Robert OR Bob) w/s Ney AND Abramoff	November 17, 2004	November 18, 2004	November 22, 2005	November 7, 2005
Howard McKeon	(Howard OR Buck) w/s McKeon AND Countrywide	January 1, 2012	December 15, 2012	No result	July 6, 2012
Mark Foley	Mark w/s Foley w/p page	September 28, 2006	September 28, 2006	September 30, 2006	September 29, 2006

Table A.3: Variable description

This table presents all variables used. All continuous variables are truncated at the 1st and 99th percentile. Truncation is done within events to prevent that one event with more negative (positive) values is subject to greater outlier treatment.

Variable	Description	Source
Firm specific		
CAR(-1, T)	Cumulative abnormal returns from the day prior to the event date until day T after the event date measured as market model abnormal returns. Market model parameters are estimated over a 244-trading day window using the CRSP equal-weighted market return	CCM
Connected	Dummy variable that is equal to one if the firm contributed to an event politician in the event transaction cycle, or in the transaction cycle preceding the event	FEC
Connected (Category)	Dummy variable that is equal to one if the firm had at least one connection to a politician involved in an event in the category within brackets in a given calendar year, for categories Scandals, Corruption, Personal Gain, Other, Deceased	FEC
Supported candidates	Natural logarithm of the number of supported candidates in the election cycle preceding the political event	FEC
Leverage	Total liabilities divided by total assets. Data is obtained for the most recent fiscal year-end prior to the event	CCM
Liberal court	Measure of ex ante litigation risk. Likelihood that two out of three randomly selected district court judges were appointed by a Democratic president in the month in which the scandal (death) takes place. We link firms based on their historical headquarter location in the fiscal year preceding the scandal.	Huang et al. (2019) in combination with CCM historical
Loan	Indicator variable that is equal to one if the firm received government loans in the calendar year preceding the event calendar year	Subsidy Tracker
Lobbying	Natural logarithm of the dollar amount spent on lobbying in the calendar year preceding the event calendar year	CRP
Market to book	(Market value + total liabilities) divided by total assets	CCM
Total assets	Total assets calculated as natural logarithm of total assets	CCM
PAC contributor	Dummy variable that is equal to one if the firm made a PAC contribution to any politician in the transaction cycle preceding the event	FEC
Proposal	Dummy variable that is equal to one if the firm received a political spending-related shareholder proposal	ISS
SEC penalty	Dummy variable that is equal to one if the firm received an SEC penalty in the 365 days prior to the political event	Violation Tracker
Subsidy	Indicator variable that is equal to one if the firm received government subsidies in the calendar year preceding the event calendar year	Subsidy Tracker
Politician specific		
Raised contributions	Natural logarithm of the corporate contributions an event politician raised in the election cycle preceding the event Source: Federal Election Commission (FEC)	FEC
Influential chair	Dummy variable that is equal to one if the politician chairs an influential congressional committee	Charles Stewart's Congressional Data Page

Influential committee	Dummy variable that is equal to one if the politician is a committee member at an influential congressional committee	Charles Stewart's Congressional Data Page
Republican	Dummy variable that is equal to one if the politician belongs to the Republican party	
Ruling party	Dummy variable that is equal to one if the politician belongs to the party that provides the president at the moment of the event	
Senate	Dummy variable that is equal to one if the politician is a Senator	
Event specific		
First scandal	Sample of scandals that are the first scandal per politician in the event time frame (2000 – 2019)	
Major news	Sample of scandals published in a major news outlet in the first two days of the event (event day 0 and 1)	NexisUni

Table O.A.1: Sample identification

	Observations	Distinct firms
Panel A: FEC contributions		
Contributions made via PACs to candidate committees 1988-2019	4,503,767	
Corporate contributions (ORG_TP equal to C or missing)	2,666,444	
Corporate contributions matched against CCM	1,052,789	1,611
Contributions to scandal politicians	227,529	1,449
Contributions to deceased politicians	20,358	1,003
Panel B: CRSP Daily Stock File and CCM Fundamentals annual		
Firms connected to scandal politicians		
Firm-event observations excluding firms with total contributions <= 0	20,526	1,128
Minus firms with missing information to calculate CARs	18,543	986
Minus firms with missing CCM data	17,945	937
Minus firms with inactive PACs in the preceding election cycle	17,669	914
Minus firms with foreign headquarter	**17,047**	**877**
Firms connected to deceased politicians		
Firm-event observations excluding firms with total contributions <= 0	2,176	716
Minus firms with missing information to calculate CARs	1,990	618
Minus firms with missing CCM data	1,920	589
Minus firms with inactive PACs in the preceding election cycle	1,896	580
Minus firms with foreign headquarter	**1,828**	**553**

Table O.A.2: The politicians' influence

This table shows the results of regressions of CAR on *Connected* and politician dependent factors in a sample of PAC firms. Every uneven-numbered column presents the main effect. Every even-numbered column presents the interaction of *Connected* and *Variable*. *Variable* takes the value of four variables: *Senate*, *Influential committee*, *Influential chair*, and *Raised contributions*. CARs (-1, 5) are estimated using the market model and the CRSP equal-weighted market index. We include the control variables *Republican*, *Ruling party*, *Supported candidates*, *Market to book*, *Leverage*, and *Total assets*. Standard errors are clustered by event. All continuous variables are truncated at the 1st and 99th percentile. *t*-statistics are in parentheses.

Variable	Senate		Influential committee		Influential chair		Raised contributions	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: Corruption								
Variable	0.011	0.003	0.118	0.043	-0.840**	-0.740	0.074	0.093
	(0.04)	(0.01)	(0.41)	(0.15)	(-2.07)	(-1.51)	(0.57)	(0.67)
Connected	-0.418**	-0.429*	-0.416**	-0.881**	-0.391**	-0.349*	-0.465***	0.368
	(-2.23)	(-1.84)	(-2.19)	(-2.13)	(-2.09)	(-1.80)	(-2.99)	(0.52)
Interaction		0.041		0.569		-0.538		-0.210
		(0.15)		(1.42)		(-1.16)		(-1.16)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	30,693	30,693	30,693	30,693	30,693	30,693	30,693	30,693
R-squared	0.021	0.021	0.021	0.021	0.022	0.022	0.021	0.021
Fixed effects	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry
	Year	Year	Year	Year	Year	Year	Year	Year
Event clusters	53	53	53	53	53	53	53	53
Adj. R-squared	0.018	0.018	0.018	0.018	0.019	0.019	0.018	0.018
Panel B: Death								
Influence	-0.326	-0.329	-0.433	-0.438	-0.152	-0.142	0.031	0.029
	(-0.94)	(-0.88)	(-1.11)	(-1.10)	(-0.81)	(-0.76)	(0.74)	(0.71)
Connected	-0.056	-0.066	-0.090	-0.154	-0.118	-0.115	-0.141	-0.203
	(-0.29)	(-0.29)	(-0.49)	(-0.69)	(-0.65)	(-0.59)	(-0.78)	(-0.40)
Interaction		0.025		0.076		-0.040		0.018
		(0.06)		(0.25)		(-0.20)		(0.13)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	17,099	17,099	17,099	17,099	17,099	17,099	17,099	17,099
R-squared	0.036	0.036	0.037	0.037	0.036	0.036	0.036	0.036
Fixed effects	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry
	Year	Year	Year	Year	Year	Year	Year	Year
Event clusters	31	31	31	31	31	31	31	31
Adj. R-squared	0.031	0.031	0.032	0.032	0.031	0.031	0.031	0.031

Table O.A.3: Firms' political networks, financial integrity, and litigation risk

This table shows the results of regressions of CAR on *Connected* and firm dependent factors in a sample of PAC firms. Every uneven-numbered column presents the main effect. Every even-numbered column presents the interaction of *Connected* and *Variable. Variable* takes the value of five variables: *Lobbying*, *Subsidy*, *Loan*, *SEC penalty*, *and Liberal court.* CARs (-1, 5) are estimated using the market model and the CRSP equal-weighted market index. Standard errors are clustered by event. All continuous variables, except for *Liberal court* which is bound between 0 and 1, are truncated at the 1st and 99th percentile. *t*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Variable	Lobbying		Subsidy		Loan		SEC penalty		Liberal court	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Panel A: Corruption										
Variable	0.377***	0.361***	-0.314***	-0.306***	0.143	0.281	-0.817**	-0.656*	0.148	0.109
	(2.72)	(2.75)	(-3.06)	(-3.04)	(0.70)	(1.12)	(-2.26)	(-1.79)	(0.30)	(0.21)
Connected	-0.443***	-0.518*	-0.432***	-0.397*	-0.433***	-0.351**	-0.424**	-0.407**	-0.432***	-0.526*
	(-2.68)	(-1.98)	(-2.70)	(-1.88)	(-2.69)	(-2.24)	(-2.65)	(-2.53)	(-2.69)	(-1.70)
Interaction		0.072		-0.071		-0.771*		-0.476		0.279
		(0.55)		(-0.34)		(-1.72)		(-0.78)		(0.45)
Observations	32,329	32,329	32,639	32,639	32,639	32,639	32,639	32,639	32,638	32,638
R-squared	0.086	0.086	0.085	0.085	0.085	0.085	0.085	0.085	0.085	0.085
Fixed effects	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm
Event clusters	53	53	53	53	53	53	53	53	53	53
Adj. R-squared	0.057	0.057	0.057	0.057	0.057	0.057	0.057	0.057	0.0566	0.0566
Panel B: Death										
Network	-0.068	-0.149	-0.026	-0.073	0.413	0.290	0.532	0.533	0.068	0.119
	(-0.40)	(-0.87)	(-0.23)	(-0.64)	(1.57)	(1.07)	(1.59)	(1.51)	(0.10)	(0.17)
Connected	-0.229	-0.653**	-0.230	-0.447*	-0.227	-0.286	-0.005	-0.005	-0.230	-0.079
	(-1.13)	(-2.23)	(-1.15)	(-1.80)	(-1.14)	(-1.47)	(-0.03)	(-0.02)	(-1.15)	(-0.21)
Interaction		0.417**		0.479**		0.800*		-0.009		-0.389
		(2.69)		(2.16)		(1.85)		(-0.01)		(-0.57)
Observations	18,004	18,004	18,176	18,176	18,176	18,176	16,054	16,054	18,170	18,170
R-squared	0.112	0.113	0.112	0.112	0.112	0.112	0.129	0.129	0.112	0.112
Fixed effects	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm	Event Firm
Event clusters	31	31	31	31	31	31	27	27	31	31
Adj. R-squared	0.052	0.052	0.052	0.052	0.0523	0.0523	0.064	0.064	0.0520	0.0520

Table O.A.4: Subsample analysis

This table presents the results from multivariate regressions per event group in a sample of listed U.S. S&P 500 firms available on CRSP. Every uneven-numbered column presents the results from a regression of *Connected* on firms' CARs using firm and event fixed effects. Every even-numbered column presents the results from a regression of *Connected* on CAR using firm specific control variables, industry and event fixed effects. CARs (-1, 5) are estimated using the market model and the CRSP equal-weighted market index. Standard errors are clustered by event. All continuous variables are truncated at the 1st and 99th percentile. *t*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	Scandals		Corruption		Personal gain		Other		Death	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Connected	-0.083	-0.098	-0.530***	-0.477***	0.020	0.026	0.237*	0.196	-0.203	-0.192
	(-1.08)	(-1.29)	(-3.71)	(-3.49)	(0.19)	(0.23)	(1.67)	(1.49)	(-1.24)	(-1.29)
PAC contributor		-0.217***		-0.124		-0.504***		-0.067		-0.563**
		(-2.69)		(-0.98)		(-3.18)		(-0.52)		(-2.63)
Supported candidates		0.072***		0.104**		0.129***		-0.002		0.154***
		(3.22)		(2.50)		(3.03)		(-0.04)		(2.75)
Market to book		-0.084**		-0.177**		-0.037		-0.075		-0.031
		(-2.09)		(-2.19)		(-0.43)		(-1.67)		(-0.41)
Leverage		0.010		-0.360		0.322		0.021		-0.251
		(0.07)		(-1.55)		(1.36)		(0.09)		(-0.52)
Total assets		-0.028		0.087**		-0.137**		-0.039		-0.086
		(-1.04)		(2.26)		(-2.25)		(-0.95)		(-1.27)
Observations	78,182	73,583	25,931	24,336	22,659	21,361	29,524	27,886	14,996	14,158
R-squared	0.093	0.077	0.112	0.075	0.121	0.074	0.124	0.097	0.109	0.056
Fixed effects	Event Firm	Event Industry	Event Firm	Event Industry	Event Firm	Event Industry	Event Firm	Event Industry	Event Firm	Event Industry
Event clusters	161	161	53	53	47	47	61	61	31	31
Adjusted R-squared	0.081	0.074	0.085	0.070	0.083	0.070	0.097	0.093	0.051	0.049

Table O.A.5: Placebo events

This table presents the results from multivariate regressions per event group in a sample of listed U.S. firms available on CRSP. Every uneven-numbered column presents the results from a regression of *Connected* on firms' CARs using firm and event fixed effects. Every even-numbered column presents the results from a regression of *Connected* on CAR using firm specific control variables, industry and event fixed effects. CARs (-1, 5) are estimated using the market model and the CRSP equal-weighted market index. The event date is the first trading day following the same day and month one year prior to the original event date. Standard errors are clustered by event. All continuous variables are truncated at the 1st and 99th percentile. *t*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	Scandals		Corruption		Personal gain		Other		Death	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Connected	0.128	0.015	0.291	0.137	0.156	0.079	-0.125	-0.206	-0.361	-0.378
	(1.13)	(0.14)	(1.30)	(0.77)	(0.74)	(0.40)	(-0.84)	(-1.18)	(-1.06)	(-1.16)
PAC contributor		0.016		0.120		0.176		-0.214*		-0.031
		(0.19)		(0.63)		(1.20)		(-1.98)		(-0.16)
Supported		-0.031		-0.066		-0.092		0.051		0.027
candidates		(-0.92)		(-0.88)		(-1.36)		(1.45)		(0.34)
Market to book		-0.007		-0.040		0.010		0.008		0.093
		(-0.24)		(-0.61)		(0.19)		(0.22)		(1.42)
Leverage		-0.266**		-0.403		-0.360***		-0.115		0.105
		(-2.18)		(-1.25)		(-2.74)		(-0.87)		(0.57)
Total assets		0.070*		0.065		0.158***		0.006		0.091
		(1.92)		(0.72)		(3.66)		(0.12)		(0.73)
Observations	749,885	622,332	253,754	209,958	217,486	181,458	276,635	230,915	155,036	130,652
R-squared	0.033	0.006	0.073	0.010	0.078	0.008	0.055	0.006	0.089	0.007
Fixed effects	Event	Event	Event	Event	Event	Event	Event	Event	Event	Event
	Firm	Industry	Firm	Industry	Firm	Industry	Firm	Industry	Firm	Industry
Event clusters	161	161	53	53	47	47	61	61	31	31
Adjusted R-squared	0.018	0.006	0.045	0.009	0.030	0.007	0.021	0.005	0.021	0.006

Table O.A.6: Propensity score match

This table presents the results from regressions of CARs (-1, 5) on *Connected* in a propensity score matched sample. The match is done per event. All matched firms are PAC firms. The variables used for matching are the same as in the main analysis in Table 4 (*Supported Candidates*, *Market to book*, *Leverage*, *Total assets*). These variables also serve as control variables. Scandals are first-time scandals. CARs are estimated using the market model and the CRSP equal-weighted market index. Standard errors are clustered by event. All continuous variables are truncated at the 1st and 99th percentile. *t*-statistics are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	Scandal		Corruption		Personal gain		Other		Death	
Replace	With	Without	With	Without	With	Without	With	Without	With	Without
Panel A: Caliper equal to 0.1										
Connected	-0.070	-0.061	-0.396**	-0.359**	0.063	0.023	0.165	0.182	-0.270	-0.260
	(-0.84)	(-0.77)	(-2.54)	(-2.55)	(0.46)	(0.17)	(1.20)	(1.35)	(-1.17)	(-1.23)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	16,368	16,123	6,073	6,077	5,059	4,872	5,232	5,171	2,559	2,618
R-squared	0.062	0.059	0.071	0.068	0.081	0.076	0.069	0.070	0.069	0.070
Fixed effects	Event	Event	Event	Event	Event	Event	Event	Event	Event	Event
	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry
Event clusters	156	156	53	53	46	46	57	57	31	31
Adjusted R-square	0.0491	0.0462	0.0521	0.0493	0.0605	0.0546	0.0468	0.0476	0.0335	0.0351
Panel B: Caliper equal to 0.01										
Connected	-0.074	-0.060	-0.347**	-0.304**	0.027	0.030	0.128	0.110	-0.289	-0.297
	(-0.89)	(-0.74)	(-2.27)	(-2.01)	(0.18)	(0.21)	(0.98)	(0.80)	(-1.27)	(-1.38)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	15,271	14,807	5,702	5,575	4,678	4,476	4,887	4,753	2,412	2,415
R-squared	0.061	0.061	0.071	0.070	0.077	0.076	0.072	0.072	0.068	0.071
Fixed effects	Event	Event	Event	Event	Event	Event	Event	Event	Event	Event
	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry	Industry
Event clusters	156	156	53	53	46	46	57	57	31	31
Adjusted R-square	0.0474	0.0463	0.0513	0.0498	0.0547	0.0527	0.0487	0.0472	0.0300	0.0338