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Essays on Political Factors in Corporate Finance

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Submitted in fulfilment of the requirements of the
Degree of Doctor of Philosophy

Adam Smith Business School
College of Social Sciences
University of Glasgow

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Abstract

This thesis examines how political factors shape corporate financial decision-making across three empirical studies. Political forces enter the firm through distinct channels, whether actively pursued through lobbying, passively experienced as external risk, or embedded in firm leadership through executive-level political connections. Each channel affects a different set of corporate decisions, and the mechanisms involved differ across political forms and institutional settings. The three studies span US private capital markets, US publicly listed firms, and Chinese A-share listed firms, and consider how political factors alter the information available to decision-makers, the incentives under which they act, and the institutional resources to which firms gain access.

The first study examines the association between PE and VC firms' lobbying and their investment behaviour over the period 2004 to 2023. Lobbying is positively and significantly associated with deal frequency, while PAC contributions show no comparable association. The heterogeneity analysis distinguishes among information acquisition, policy concession, and partisan network explanations. The evidence is most consistent with information acquisition. The association strengthens under higher economic policy uncertainty and partisan conflict but weakens during election periods and is concentrated among independent PE firms rather than VC or corporate venture capital firms.

Shifting from political engagement to political risk, the second study investigates whether firm-level political risk affects the likelihood of forced CEO turnover among US listed firms over the period 2002 to 2021. Higher political risk is associated with a lower probability of dismissal. The moderation analysis provides evidence consistent with two channels. Attribution difficulty is supported by evidence that the association strengthens when board monitoring capacity is more constrained and weakens when the firm has greater access to political information. Replacement cost is supported by the finding that the association largely disappears when a viable internal successor is available. The association is concentrated when political risk is increasing rather than stable.

In the Chinese institutional setting, the third study examines the association between executive-level political connections and investment-financing maturity mismatch among A-share listed firms from 2008 to 2023 and finds that politically connected firms exhibit wider maturity mismatch. The decomposition locates this association primarily in smaller increases in long-term debt and equity relative to investment, rather than in higher long-term investment expenditure. The association weakens as institutional ownership increases, whereas greater asset tangibility strengthens it. Viewed alongside prior evidence linking political connections to longer debt maturity, these findings indicate that more favourable financing terms do not necessarily produce closer alignment between investment and financing horizons. Political connections may therefore ease one financing friction while increasing exposure to another.

Across the three studies, the baseline associations are robust to alternative variable measurement, model specification changes, and sensitivity analysis. The heterogeneity analyses in each chapter help distinguish among competing explanations and identify the conditions under which political factors are relevant to the corporate decisions under examination. The findings suggest that political factors shape corporate decisions differently across political channels, decision domains, and institutional settings, and that the information, incentives, and access conditions that firms face play a central role in these associations.

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Author's declaration

I declare that, except where explicit reference is made to the contribution of others, that this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

Printed Name: _____YUXUAN WU_____

Signature: _____YUXUAN WU_____

Introduction

The relationship between political factors and corporate decision-making is not a single proposition. Political forces enter the firm through distinct channels, each shaping a different set of financial decisions. Firms may actively engage with the political system to obtain information about regulatory and legislative developments that bear on their investment decisions (Wellman, 2017). Political risk may operate as an external condition, exposing firms to regulatory and policy developments that affect their operating environment (Hassan et al., 2019). Where executives hold political positions or maintain ties to government, political forces become embedded in firm leadership, reshaping both the financing terms firms obtain and the investment commitments they undertake (Li et al., 2008; Fan et al., 2007). These forms differ in whether the firm actively seeks political engagement, passively faces political conditions, or carries political relationships in its leadership. Each form requires examination in the specific channel and institutional context in which it operates.

Corporate finance research examines how firms invest, how boards oversee management, and how firms structure their financing. These decisions are often analysed through the lens of market conditions, information problems, and agency conflicts. Over the last two decades, however, a growing body of evidence has shown that political factors also alter these conditions at the firm level, reshaping the information environment in which decisions are made, the incentives that decision-makers face, and the resources available to the firm (Tian et al., 2025; Hassan et al., 2019; Li et al., 2008).

Empirical research has generated substantial evidence on how political factors shape firm behaviour, but that evidence has accumulated largely in separate literatures organised around distinct political channels. Work on corporate political activity has established that firms' lobbying is associated with reduced investment sensitivity to policy uncertainty (Wellman, 2017), higher innovation output through information transmission (Jiao and Lu, 2024), and improved financial performance (Chen et al., 2015). Research on political risk has documented that both aggregate and firm-specific political exposure affect corporate investment, financing, and cash holding decisions (Baker et al., 2016; Hassan et al., 2019;

Hasan et al., 2022), with the variance decomposition in Hassan et al. (2019) showing that more than 90 per cent of the variation in firm-level political risk is attributable to firm-level rather than aggregate differences. A third strand has examined how ties between corporate leaders and government shape firm outcomes. Faccio (2006) documents that such connections are prevalent across a wide range of economies. In settings where the state retains substantial influence over resource allocation, political ties have been shown to shape credit access and corporate behaviour (Fan et al., 2007; Li et al., 2008). These three literatures draw on different theoretical foundations and operate in different empirical settings. Empirical work in this area typically examines one political channel in relation to one corporate outcome in a specific institutional context, a design that reflects the data and identification requirements of each study. As a result, each study advances understanding of a particular channel and outcome, but it remains difficult to observe whether the same political condition can have opposing consequences across different decision domains, or whether the mechanisms that connect political factors to corporate decisions share common features or are fundamentally distinct.

This thesis examines how political forces shape investment, governance, and financing decisions. Across three empirical studies, it considers how political factors shape decision-making through changes in information conditions, incentives, and access to institutional resources. Chapter 1 examines whether PE and VC firms' lobbying is associated with their investment activity, and whether the observed pattern is consistent with an information channel. Chapter 2 investigates whether firm-level political risk affects the likelihood of forced CEO turnover, examining how political exposure alters the information environment and replacement incentives that boards face. Chapter 3 provides evidence on whether executive-level political connections are associated with investment-financing maturity mismatch among Chinese listed firms, considering how political ties interact with access to credit and investment incentives. The three studies span US private capital markets, US publicly listed firms, and Chinese A-share listed firms, and are arranged to move from political activity undertaken by firms to political conditions faced by firms, to political relationships embedded in firm leadership.

The corporate political activity literature has developed almost entirely in the context of publicly traded companies (Wellman, 2017; Jiao and Lu, 2024). PE and VC firms have received little attention, despite features of their investment process that make them potentially more sensitive to policy conditions. Independent PE and VC funds have finite lives and defined investment periods (Metrick and Yasuda, 2010), and each transaction involves a discrete, illiquid commitment that cannot be readily reversed (Tian et al., 2025). Compared with listed operating companies, investment activity within these funds is less continuously visible through public disclosure, analyst coverage, and market prices. This setting permits the analysis to link lobbying to transaction selection and the pace of private-market capital deployment, a decision margin that cannot be inferred directly from public-firm outcomes. Chapter 1 draws on data covering PE and VC firms' political activities and investment behaviour over the period 2004 to 2023. The chapter also uses an instrumental variable approach based on individual political donations by employees (Jiao and Lu, 2024) to examine the potential joint determination of lobbying and deal activity. Lobbying is positively and significantly associated with deal frequency, while PAC contributions show no comparable association. The heterogeneity analysis compares the empirical implications of information acquisition, policy concession, and partisan network explanations, with the evidence most consistent with information acquisition. The association strengthens under higher economic policy uncertainty and partisan conflict but weakens during election periods, when uncertainty concerns policymaker identity rather than policy content. It is concentrated among independent PE firms and is not detected for VC or corporate venture capital firms. In the context of the thesis, Chapter 1 shows how political engagement can serve as an information resource for investment decisions.

Chapter 1 examines a setting in which firms actively engage with the political system to obtain information relevant to their investment decisions. Political factors need not be actively sought to affect corporate outcomes, however. When political risk operates as an external condition that the firm faces rather than a resource it pursues, it enters corporate decision-making through a different channel, altering the information environment in which

boards evaluate CEO performance and the incentives they face when considering leadership change.

The CEO forced turnover literature identifies firm performance as the most consistent predictor of the dismissal decision, with turnover-performance sensitivity varying across governance structures and CEO characteristics (Jenter and Kanaan, 2015; Kaplan and Minton, 2012). The external conditions under which boards interpret that performance have received less attention. Bushman et al. (2010) show that the informativeness of observed performance for assessing CEO ability depends on the sources of variation that drive it, declining when a larger share of performance variation originates from factors beyond managerial control. Firm-level political risk represents one such source of external variation. Frye and Pham (2020) document a negative association between aggregate economic policy uncertainty and forced turnover, but their aggregate measure assigns identical exposure to every firm in a given period. The firm-level political risk measure constructed by Hassan et al. (2019) provides cross-firm variation in the same aggregate environment, making it possible to examine this question after absorbing common shocks. The analysis covers US listed firms in the ExecuComp database over the period 2002 to 2021. An instrumental variable approach and propensity score matching both support the baseline result. Firm-level political risk is negatively associated with the probability of forced CEO turnover. A falsification test replacing the dependent variable with CFO turnover returns an insignificant coefficient, weakening the alternative explanation that the finding reflects a general tendency to retain senior executives under elevated political risk. The moderation analysis provides evidence consistent with two channels. Attribution difficulty is supported by evidence that the association strengthens when the board's monitoring capacity is more constrained and weakens when the firm has greater access to political information through lobbying or geographic proximity to Washington. Replacement cost is supported by the finding that the association largely disappears when a viable internal successor is available. The association is concentrated when political risk is increasing rather than stable and strengthens during election periods and periods of high partisan conflict, where uncertainty over future policy direction adds further noise to the board's assessment. The chapter provides evidence that

political forces can weaken the board's disciplinary function by altering both the information available to directors and the costs they face when considering leadership change.

Chapters 1 and 2 examine political factors that are external to the firm, whether actively pursued through lobbying or passively experienced as political risk. In some institutional settings, however, political forces are not external to the firm but embedded in its leadership. When executives hold current or former government positions, political relationships become part of the governance structure itself. China provides a setting where executive-level political connections are prevalent and where bank-dominated financing and state influence over credit allocation give political ties direct relevance to corporate financing decisions. International comparisons confirm that Chinese listed firms have among the shortest corporate debt maturities and among the highest levels of fixed asset investment across major economies (Fan et al., 2012; Wang et al., 2021), which makes the alignment between investment and financing maturities a particularly relevant outcome in this setting.

Research on political connections in China has documented that political ties facilitate access to bank credit on more favourable terms (Li et al., 2008; Cull et al., 2015; Firth et al., 2009) and are associated with longer debt maturity (Caglayan et al., 2024). Each of these findings captures a single dimension of the financing relationship between politically connected firms and their lenders. Maturity mismatch is a distinct outcome because it captures the joint alignment between the maturity of corporate investment and the maturity of corporate debt, rather than any single dimension of the financing relationship. Caglayan et al. (2024) find that political affiliation is associated with longer debt maturity. If connected firms simultaneously expand long-term investment commitments that outpace this improvement in financing maturity, however, the net effect on the investment-financing gap may widen rather than narrow. Evidence that political connections are associated with investment that deviates from commercial objectives (Chen et al., 2011) and that investment declines when political ties are severed (Pan and Tian, 2020) suggests that the investment side of this equation is also affected by political relationships. Chapter 3 is based on Chinese A-share listed firms over the period 2008 to 2023. Entropy balancing shows that the association persists after connected and non-connected observations are balanced on observed financial

and governance characteristics. Politically connected firms exhibit higher investment-financing maturity mismatch. Decomposing SDLI indicates that the wider gap is associated primarily with smaller increases in long-term debt and equity relative to investment, while the investment component is not statistically significant. The association weakens as institutional ownership increases, while greater asset tangibility strengthens it, consistent with higher long-term investment demand. Political connections also appear more relevant for non-SOEs and less financially constrained firms, where political ties may provide incremental financing access and firms have more scope to act on that access. The association is similarly more apparent in later tenure for provincial officials and when municipal officials are below age 58, although the cross-group differences across these firm and political settings are not statistically significant. Chapter 3 extends the analysis from individual financing dimensions to the joint alignment of investment and financing maturities and provides the clearest illustration in this thesis of how a political factor can simultaneously address one friction and create another.

The three studies indicate that political factors are systematically associated with firm-level financial decisions, and these associations remain robust across alternative measurements, model specifications, and sensitivity analyses. The strength of the associations nevertheless depends on the decision context and the institutional conditions under which each political factor operates. Election-period uncertainty illustrates this distinction across the two US chapters: it weakens the lobbying–deal activity relationship in Chapter 1, consistent with the reduced value of political information when the identity of future policymakers is uncertain, whereas it strengthens the negative association between political risk and forced CEO turnover in Chapter 2 by adding noise to the performance signal available to boards. In Chapter 3, the association between political connections and maturity mismatch weakens as institutional ownership increases, whereas greater asset tangibility strengthens it. Across the three chapters, political factors operate through different mechanisms, and their relevance depends on the corporate decision and institutional setting under examination.

The channels through which political factors operate differ across the three studies, and no single mechanism accounts for all three sets of results. Instead, the relevant channels can be

understood in terms of changes in the information available to decision-makers, the incentives under which they act, and the institutional resources to which firms gain access, though the relative importance of each differs by setting. The heterogeneity evidence in Chapter 1 is most consistent with lobbying providing access to information about regulatory and legislative developments, as the association strengthens when policy content is harder to assess from public sources and does not vary with partisan orientation. Chapter 2 identifies two channels operating jointly. Political risk reduces the informativeness of observed performance for assessing CEO quality, and it raises the perceived cost of replacing the incumbent, particularly when the firm lacks a viable internal successor. The evidence in Chapter 3 points to a different combination. Political connections may improve access to particular forms of credit without expanding the long-term and internal funding available to support investment. This financing pattern explains why improvements in debt maturity do not necessarily translate into closer maturity matching. The three studies also suggest that political factors do not map cleanly onto beneficial or harmful corporate outcomes. Their consequences depend on which channel is activated and which decision margin is under consideration.

This thesis contributes to the understanding of how political factors interact with corporate financial decision-making. It connects political activity, political risk, and political connections, respectively, to investment, governance, and financing, and shows that these distinct forms of political exposure operate through different mechanisms across institutional settings. The three institutional environments examined, US private capital markets, US publicly listed firms, and Chinese listed firms, differ in ownership structure, market organisation, and the role of political relationships, and together they broaden the empirical basis for understanding how political factors enter different corporate decisions. The organising lens of information, incentives, and access offers a conceptual contribution by providing a structured way to consider which channel is likely to dominate in each setting.

The remainder of this thesis is organised as follows. Chapter 1 examines political engagement and investment activity in US private capital markets. Chapter 2 investigates firm-level political risk and forced CEO turnover among US listed firms. Chapter 3 provides

evidence on political connections and investment-financing maturity mismatch among Chinese listed firms. A general conclusion draws together the cross-chapter findings and discusses the contribution, limitations, and directions for future research.

Chapter 1: Private Equity Investments and Political Activities

1.1. Introduction

Private equity and venture capital firms are among the largest allocators of private capital. Global private markets assets under management reached \$13.1 trillion as of mid-2023 (McKinsey, 2024). PE firms invest primarily in established companies through leveraged acquisitions, while VC firms finance early-stage ventures and high-growth companies. Together, they influence which private companies receive financing, when that financing becomes available, and on what terms. Private capital is deployed through separately evaluated transactions. PE managers are directly involved in deal sourcing, valuation, selection, capital structure, and governance (Gompers et al., 2016), while independent PE and VC funds have finite lives and defined investment periods (Metrick and Yasuda, 2010). These decisions depend on regulatory conditions, tax treatment, and policy uncertainty, particularly for leveraged PE transactions exposed to credit conditions, antitrust review, and sector-specific licensing. Once capital is committed, the resulting position cannot readily be reversed (Tian et al., 2025), so policy information may influence whether and when a proposed transaction proceeds.

Firms engage with the political system primarily through lobbying and Political Action Committee (PAC) contributions, with lobbying typically representing the larger expenditure (Chen et al., 2015). Research on publicly traded firms shows that political engagement can help firms obtain information about upcoming regulatory and policy decisions, reducing investment-related uncertainty (Wellman, 2017; Christensen et al., 2024). Shang et al. (2021) find that entry barriers to lobbying rise with policy uncertainty, limiting the ability of non-lobbying firms to initiate political engagement during the periods when demand for policy information is greatest. These entry barriers imply that firms with established lobbying operations may be better placed to obtain policy information when uncertainty is high. Compared with listed operating companies, PE and VC investment decisions receive less continuous scrutiny through public disclosure, analyst coverage, and market prices. In independent PE and VC funds, governance instead rests on contractual relationships between GPs and LPs, while GP compensation combines fixed management fees with variable

components, mainly carried interest (Metrick and Yasuda, 2010). These features may affect both the value of policy information and the incentives governing its use in investment decisions.

However, existing public-firm evidence does not establish whether professional investment intermediaries use political information when selecting and timing individual private-market transactions. Outcomes such as stock returns, analyst forecasts, and management guidance may reflect several consequences of political engagement, making it difficult to distinguish among information acquisition, policy concession, and partisan networks. Some research has examined how the external political environment shapes PE and VC investment. Tian et al. (2025) document a negative effect of policy uncertainty on venture capital investment, and Kellard et al. (2023) find that firms receiving support through the Paycheck Protection Program were more likely to become PE or VC investment targets during the COVID-19 crisis. However, this line of work treats political conditions as an external constraint rather than examining whether firms actively respond through their own political strategies. To what extent and through which channels PE and VC firms' own political activities are associated with the pace at which they deploy capital remains an open question. The private capital setting helps address this gap because deal activity records completed investment decisions directly, while differences in regulatory exposure and alternative information sources across PE, VC, and CVC firms generate different predictions for the three mechanisms.

A related question is whether the two main channels of political engagement differ in their relevance to PE and VC deal activity. Lobbying is directed at specific legislative and regulatory issues, while PAC contributions primarily maintain relationships with elected officials without targeting particular policy questions. Theoretical work on political influence distinguishes between contributions and the provision of policy-relevant information as separate instruments available to interest groups (Bennedsen and Feldmann, 2006). PE and VC firms need information about specific regulatory developments that affect individual transactions or sectors. This type of information is more likely to be obtained through targeted engagement with policymakers on specific issues than through broad

political relationships. Whether this theoretical distinction translates into an empirical difference in the association between lobbying, PAC contributions, and deal activity has not been tested in the PE and VC context.

This chapter examines these questions using a sample that covers both political engagement and investment activity for a broad cross-section of PE and VC firms. I combine investment data from Refinitiv Eikon Private Equity Screener with political activity data from OpenSecrets.org. The two datasets are matched at the firm level using fuzzy string matching, retaining only pairs with a similarity score above 85%, followed by manual verification. The resulting sample covers the period 2004 to 2023 and contains 76697 firm-year observations across 5928 firms. The primary outcome variable is the annual number of deals completed by each firm. Deal counts measure investment activity directly and do not rely on market-based valuation. The number of transactions completed in a given year reflects how actively a firm identifies and pursues investment opportunities. Private policy information could, in principle, affect both the number of transactions and the capital committed to them, but deal frequency more directly captures whether such information changes the set of opportunities on which a firm acts. Because the outcome is a non-negative integer with many zero-valued observations, I estimate the model using Poisson pseudo-maximum likelihood with firm and year fixed effects (Santos Silva and Tenreyro, 2006). Political engagement is measured through lobbying and PAC contributions. For each channel, a binary indicator captures whether a firm engages at all, and a continuous measure captures variation in spending intensity among active firms. All political activity measures enter with a one-year lag, so that political engagement in year $t-1$ precedes investment activity in year t .

The baseline estimates show that lobbying is positively and significantly associated with deal frequency. Lobbying firms complete around 20% more deals than non-lobbying firms each year, and among lobbying firms, greater expenditure is associated with higher deal counts. PAC contributions show no comparable association. The contrast between the two channels is consistent with issue-directed lobbying being more closely related to deal activity than broader political contributions. These results hold across alternative lobbying measures, including lobbyist count and in-house lobbying intensity, as well as across negative binomial

regression, year-by-state fixed effects, and sample restrictions excluding outliers. The robustness of the lobbying result and the absence of a PAC effect together motivate the mechanism analysis that follows.

A potential concern is that lobbying and deal activity may be jointly determined. Firms with larger deal pipelines may lobby more to facilitate pending transactions, or time-varying factors such as fundraising success may drive both activities simultaneously. I examine this concern using an instrumental variable approach based on individual political donations by employees, following Jiao and Lu (2024). The control function and 2SLS estimates are consistent with the baseline association.

I then examine how the association varies across political conditions and investor characteristics to assess the mechanisms that may underlie the relationship. The corporate political activity literature proposes three competing explanations for why political engagement may affect firm outcomes. The first is information acquisition, under which political engagement provides access to private information about policy direction (Wellman, 2017). The second is policy concession, where lobbying is associated with more favourable regulatory treatment (Fidrmuc et al., 2018). The third is partisan network effects, where political connections operate through alignment with a specific party (Unsal et al., 2016). Each mechanism generates different predictions in the PE and VC context. If lobbying operates through information acquisition, the association with deal activity should strengthen when policy content is harder to assess from public sources, and should be concentrated among firms with greater regulatory exposure and fewer alternative information channels. If policy concession is the principal channel, the association should be more closely related to the scope for favourable regulatory treatment than to the informational content of political uncertainty. If partisan networks drive the relationship, the firm's partisan orientation should moderate it.

Lobbying may provide policy information to both listed firms and private capital investors, but its value and observable implications may differ across the two settings. The PE and VC context facilitates comparison of the empirical implications of these mechanisms in two

respects. First, deal counts record firms' investment decisions directly, whereas the stock returns and analyst forecast measures used in publicly traded firm studies reflect the market's joint expectations over multiple channels simultaneously. This provides a tighter link between political engagement and investment behaviour. Second, PE, VC, and CVC firms differ systematically in their regulatory exposure and access to alternative information sources, and these differences generate distinct cross-sectional predictions. PE firms make leveraged acquisitions that depend on interest rate conditions, tax treatment, and antitrust review. VC firms invest primarily in early-stage companies where technology risk rather than the regulatory environment is the principal source of uncertainty. CVC firms are embedded in corporate parents and may draw on their parents' industry knowledge (Chemmanur et al., 2014), reducing their reliance on lobbying as a source of external information. If lobbying operates through information acquisition, its association with deal activity should be strongest for independent PE firms, which face high regulatory exposure and have fewer alternative information channels. Such concentration would be consistent with information acquisition, although firm-type heterogeneity alone would not distinguish this mechanism from policy concession.

The heterogeneity results are most consistent with information acquisition and provide less support for policy-concession and partisan-network explanations. A firm's partisan orientation does not moderate the relationship, providing evidence against a partisan network explanation. The association strengthens under higher economic policy uncertainty (Baker et al., 2016) and partisan conflict (Azzimonti, 2018) but weakens during election periods when the identity of future policymakers is uncertain (Julio and Yook, 2012). The contrasting results are consistent with a distinction between uncertainty about policy content, which raises the value of private information, and uncertainty about policymaker identity, which reduces the reliability of the relationships through which that information is obtained. Although uncertainty could also increase the value of seeking favourable regulatory treatment, the opposing responses to the two forms of uncertainty align more closely with the information-acquisition explanation. The association is concentrated among independent PE firms and is not detected for VC or CVC firms, matching the cross-sectional predictions

described in the preceding paragraph. It weakens during the Global Financial Crisis, when credit constraints dominated investment decisions, and strengthens during the pandemic, when uncertainty centred on government programme design and eligibility rules. Lobbying is positively associated with deal frequency, whereas no statistically significant association is detected for deal amounts. This contrast suggests that the association is concentrated in transaction selection rather than capital allocation, a pattern consistent with the information-acquisition interpretation.

This chapter makes two contributions. First, it contributes to the PE and VC literature by providing evidence on whether firms' own political activities are associated with their investment decisions. Existing work has focused on how external political conditions affect PE and VC investment levels (Tian et al., 2025; Kellard et al., 2023) and on the role of social connectedness in VC investment patterns (Nguyen et al., 2023), treating the political environment as an exogenous factor. This analysis extends that literature by linking PE and VC firms' own political engagement to transaction selection and the pace of private-market capital deployment by professional investment intermediaries.

Second, the heterogeneity analysis provides evidence on the mechanisms through which lobbying is related to PE/VC deal activity, contributing to the corporate political activity literature. Existing studies examine different information- and influence-related channels. Wellman (2017) provides evidence consistent with information acquisition, Jiao and Lu (2024) find evidence supporting information transmission from firms to policymakers, and Fidrmuc et al. (2018) document regulatory benefits consistent with policy concession. Because these studies analyse different outcomes in separate public-firm settings, direct tests of competing mechanisms within a single empirical setting remain rare. The PE and VC context provides conditions under which information acquisition, policy concession, and partisan networks generate distinct predictions, allowing a more targeted assessment of the channel linking political engagement to investment behaviour. The heterogeneity results favour an information-acquisition interpretation and provide less support for policy-concession and partisan-network explanations.

The remainder of this chapter is organised as follows. Section 1.2 reviews the relevant literature and develops the hypotheses. Section 1.3 describes the research design, including data sources, sample construction, variable measurement, and the empirical model. Section 1.4 presents the baseline results, robustness tests, endogeneity analysis, mechanism and heterogeneity analyses, and supplementary analysis. Section 1.5 concludes.

1.2. Literature Review and Hypothesis Development

1.2.1. Corporate Political Activity and Firm Outcomes

Resource dependence theory (Pfeffer and Salancik, 1978) and political economy theory (North, 1990) provide a foundational rationale for why firms engage with the political system. Firms relying on government for regulatory approvals, licensing, or favourable tax treatment face incentives to manage these dependencies. In the United States, corporate political activity takes two main forms. Lobbying involves hiring advocates to communicate with legislators and regulators about specific legislative or regulatory matters, and lobbying expenditures are direct corporate expenses typically one or two orders of magnitude larger than PAC spending (Chen et al., 2015). Political Action Committee contributions gather voluntary employee donations and direct them to political candidates, serving primarily to build and maintain relationships with elected officials rather than to address specific policy questions.

Because lobbying is directed at specific regulatory and legislative issues, the interaction between firms and policymakers can also transmit private information about policy direction back to the firm. Wellman (2017) examines how political connections affect corporate investment around periods of heightened policy uncertainty and finds that connected firms' capital expenditure is substantially less sensitive to aggregate uncertainty than that of unconnected firms, with the effect strongest among firms whose connections are to home-state politicians and to ideologically aligned candidates. Christensen et al. (2023) show that firms with political connections are more likely to issue management guidance that discusses government policies, and Ovtchinnikov et al. (2020) find that firms contributing to politicians on congressional committees with jurisdiction over the firm's industry exhibit

stronger innovation outcomes. Jiao and Lu (2024) extend this line of evidence, finding that lobbying is positively associated with patent output, with the relationship operating through the transmission of policy-relevant information to legislators.

Firms' decisions to initiate lobbying are themselves shaped by the policy environment. Shang et al. (2021) find that non-lobbying firms are less likely to begin lobbying during periods of heightened policy uncertainty, despite the increased demand for policy-relevant information that such periods generate. Entry barriers to lobbying, including initial setup costs and the returns to accumulated lobbying experience, rise with uncertainty, which creates persistence among existing lobbyists and limits new entrants from acquiring comparable advantages. Adelino and Dinc (2014) find that financially constrained firms increased their lobbying expenditure around the 2009 stimulus legislation, suggesting that lobbying initiation responds not only to aggregate policy uncertainty but also to firm-level financial conditions that raise the stakes of government decisions. Kerr et al. (2014) find that firms adjust their lobbying in response to specific legislative changes, such as the expiration of H-1B visa provisions, and that the costs of establishing lobbying operations create strong persistence among incumbent lobbyists. Evidence on the revolving door illustrates how the resulting informational advantages are acquired and maintained at the individual level. Blanes i Vidal et al. (2012) find that lobbyists who previously served as congressional staffers experience a substantial and immediate revenue decline when their former employer leaves office, indicating that the value of lobbying is tied to access to specific officeholders. Bertrand et al. (2014) show that lobbyists switch issue areas when their connected politicians change committee assignments, consistent with personal networks rather than accumulated policy expertise driving lobbyists' market value.

Lobbying in the M&A context appears to affect regulatory outcomes more directly. Fidrmuc et al. (2018) study the U.S. antitrust review process and find that acquirers who lobby before a deal announcement receive more favourable regulatory outcomes and complete transactions more quickly. The effect is concentrated in horizontal mergers where expected changes in market concentration are large and antitrust scrutiny is most severe, suggesting that lobbying reduces regulatory friction in these transactions rather than simply helping

firms forecast the outcome. The positive valuation effect of pre-announcement lobbying appears only in firms with strong corporate governance, which implies that under adequate monitoring lobbying serves shareholder interests, but may facilitate empire building in its absence. Correia (2014) documents a related pattern, finding that lobbying firms face fewer SEC enforcement actions. Ridge et al. (2017) further show that the effectiveness of lobbying depends on how broadly firms target government entities and on the depth of their political connections, with the benefits of broader targeting diminishing at high levels.

Campaign contributions operate through different channels than lobbying. Cooper et al. (2010) document a positive association between firms' political donations and future stock returns, with the effect concentrated among firms supporting candidates in their own state, and Claessens et al. (2008) find a similar firm-specific pattern in Brazil, where contributions to elected federal deputies are associated with increased access to bank finance. Political connections have also been linked to higher takeover premiums (Crocì et al., 2017) and to negative market reactions when the value of those connections is unexpectedly diminished (Borisov et al., 2016). Richter and Werner (2017) show that corporate executives increase their personal campaign contributions when their firms' PACs face restrictions on contributing to specific candidates, which implies that firms treat political access as sufficiently valuable to maintain through alternative channels.

The evidence on political engagement and firm outcomes is not uniformly positive. Aggarwal et al. (2012) find that firms making larger political donations exhibit weaker subsequent performance, a pattern that contrasts with the positive return evidence in Cooper et al. (2010) and highlights heterogeneity in how political spending relates to value. Borghesi and Chang (2015) partially reconcile this tension by showing that the returns to lobbying are neutral or negative unless the firm is R&D-intensive and has low agency costs, which suggests that the net effect depends on whether political engagement serves strategic objectives or managerial private interests. Unsal et al. (2016) and Cao et al. (2018) provide further evidence that CEO ideology and operational complexity are associated with lobbying that reduces rather than enhances firm value. Duchin and Sosyura (2012) show that politically connected investments underperformed in the Troubled Asset Relief Program,

and Fulmer et al. (2023) find that political contributions are associated with lighter penalties for financial misconduct. This countervailing evidence comes entirely from publicly traded corporations with dispersed ownership, where the separation of ownership and control creates scope for managers to use political spending in ways that do not maximise shareholder value.

1.2.2. PE and VC Investment Behaviour

Private capital firms deploy capital through discrete, illiquid transactions whose financing depends heavily on conditions in credit markets at the time of the deal. Axelson et al. (2013) examine a large international sample of buyouts completed between 1980 and 2008 and find that the cross-sectional factors that typically explain capital structure in public firms, including industry, asset tangibility, and cash flow volatility, have little explanatory power for buyout leverage. Instead, the prevailing credit risk premium on leveraged loans is the strongest predictor of how much leverage is used. Higher deal leverage is associated with higher transaction prices and lower fund returns, consistent with private equity firms overpaying when debt financing is readily available. These credit market dynamics also affect the pace at which funds deploy capital. Ljungqvist et al. (2020) find that buyout funds accelerate their investment flows when credit conditions loosen, with investment pacing shaped by changes in LP demand for private equity exposure and by competition among funds for deal flow. Ivashina and Kovner (2011) show that private equity firms partially manage this dependence through repeated relationships with banks. Firms with stronger bank relationships obtain narrower loan spreads and more favourable covenant structures, and the reduction in financing costs translates into measurably higher equity returns for the sponsoring fund.

The dependence on credit conditions at the deal level is reflected in fund-level performance patterns as well. Kaplan and Schoar (2005) find that fund performance is persistent across successive funds raised by the same partnership, but that performance is negatively correlated with aggregate capital inflows. Funds raised during periods of high inflows, which tend to coincide with market peaks, perform substantially worse than their peers. Gompers

and Lerner (2000) identify a related mechanism, showing that increases in fund inflows are associated with higher valuations paid for portfolio companies, which suggests that competition for deals during periods of abundant capital erodes investment quality even among experienced managers. Market entry and fund performance are both procyclical, though established funds are less sensitive to cycles than new entrants (Kaplan and Schoar, 2005). The compensation structure of the general partner reinforces these procyclical patterns. Metrick and Yasuda (2010) decompose the fee structure of private equity and venture capital funds and show that management fees, which accrue regardless of performance, constitute a substantial portion of total GP compensation, while carried interest ties the remainder to investment outcomes. Carried interest is also the component of GP pay most exposed to fiscal policy, as its tax treatment has been a recurring subject of legislative debate.

Regulatory change and policy uncertainty affect private capital investment through both structural and behavioural channels. Ewens and Farre-Mensa (2020) document how securities law deregulation, particularly the National Securities Markets Improvement Act of 1996, expanded the supply of late-stage private capital, enabling firms to stay private longer and reshaping the going-public decision. Policy uncertainty has more immediate effects on investment activity. Tian et al. (2025) exploit plausibly exogenous variation in policy uncertainty caused by closely contested U.S. gubernatorial elections and find that policy uncertainty negatively affects venture capital investment. The effect is more pronounced for investments with higher illiquidity, consistent with the argument that the inability to reverse positions once capital is deployed amplifies the cost of policy-related uncertainty for private capital investors. Tian et al. (2025) also find that venture capital firms with more intensive post-investment monitoring are less affected, suggesting that some investors can partially offset the negative effect through hands-on governance of their portfolio companies. Kellard et al. (2022) document a similar pattern in the UK, where Brexit-related policy uncertainty significantly reduced private equity deal volume, with the effect transmitted primarily through the real options channel and through increased interim transaction risk. Kellard et al. (2023) extend this analysis to the COVID-19 period, showing

that private equity and venture capital firms adjusted both the pace and composition of their deal activity in response to government intervention programs.

These findings indicate that private capital investment contracts in response to external shocks, but the severity of the contraction varies with investor characteristics. PE-backed firms appear more resilient to external shocks, with evidence of smaller investment declines during the 2008 financial crisis (Bernstein et al., 2019) and stronger export performance among UK firms following the Brexit referendum (Lavery et al., 2024). At the industry level, Bernstein et al. (2017) find that industries where private equity funds have invested grow more quickly in terms of productivity and employment and appear to be less exposed to aggregate economic shocks. The variation in how private capital firms respond to external conditions raises a question about what accounts for these differences, and the information channels available to different investor types offer one potential explanation.

The channels through which private capital firms acquire information about investment opportunities and market conditions vary across investor types. Hochberg et al. (2007) show that venture capital firms' syndication networks are central to both deal flow and fund performance, with network centrality having an effect on returns comparable in magnitude to that of investment experience. Nanda et al. (2020) find that initial success in venture capital perpetuates performance differences primarily through improved access to deal flow rather than through persistent ability to select the right markets, reinforcing the importance of network position. Stanfield (2020) finds that in the buyout context, underperforming firms use syndication to pool skill and information, suggesting that syndication serves a similar compensating function across different transaction types. Nguyen et al. (2023) find that social connectedness between regions influences venture capital allocation, with the effect concentrated among smaller, less reputable, and early-stage-focused firms that have fewer alternative sources of deal flow. Corporate venture capital firms draw on a different set of channels. Chemmanur et al. (2014) show that CVC firms benefit from their parent companies' industry knowledge and operational expertise, which reduces information asymmetry in their investment decisions. These studies document how external political and market conditions shape private capital investment

but treat the policy environment as a constraint that firms respond to. Whether and how firms use their own political engagement to navigate the conditions that affect their deal activity is a question that the private capital literature has not addressed.

1.2.3. Political Activity in the PE/VC Context and Hypothesis Development

When a PE firm assesses a potential acquisition, its ability to evaluate the regulatory conditions surrounding the transaction depends on what information is available and through which channels that information is obtained. Lobbying, which involves sustained interaction with policymakers over specific legislative and regulatory matters, can provide firms with private information about the direction of policy developments (Wellman, 2017; Christensen et al., 2024). A PE firm that obtains earlier or more accurate signals about upcoming regulatory changes can incorporate that information into its assessment of which transactions to pursue and when to pursue them. Policy uncertainty depresses private capital investment in part because committing capital to illiquid positions without knowing whether the regulatory environment will remain favourable exposes firms to downside risk (Tian et al., 2025; Kellard et al., 2022). Firms with access to private information about the direction of policy can resolve some of this uncertainty at the transaction selection stage, enabling them to act on opportunities that firms without comparable information may defer. Lobbying may also reduce the regulatory friction associated with individual deals. Fidrmuc et al. (2018) find that acquirers who lobby before a deal announcement receive more favourable antitrust outcomes and complete transactions more quickly, and this benefit is concentrated in transactions where regulatory scrutiny is most severe. Political engagement has also been shown to yield returns during periods of financial distress, with Blau et al. (2013) finding that lobbying expenditure was a strong predictor of which banks received government support under the 2008 Troubled Asset Relief Program.

The agency cost evidence from publicly traded firms, however, raises the concern that political spending can serve managerial private interests rather than value maximisation (Aggarwal et al., 2012; Unsal et al., 2016; Cao et al., 2018), and a GP facing pressure to deploy committed capital before the end of the investment period could use political

engagement to justify transactions that would not be pursued on their merits. Whether these concerns apply with equal force in the private capital setting is less clear. The ownership and incentive structures of private capital firms differ substantially from those of publicly traded corporations with dispersed shareholders (Metrick and Yasuda, 2010), and the limited direct evidence available suggests a different pattern. Faccio and Hsu (2017) find that establishments operated by targets of politically connected PE firms exhibit higher job creation than those operated by targets of non-connected PE firms, suggesting that political connections in the PE context are associated with real economic outcomes rather than purely with the extraction of private benefits. The sensitivity of private capital investment to policy conditions, combined with incentive structures that tie GP compensation to investment performance, suggests that political engagement is more likely to be positively than negatively associated with deal activity in this setting.

H1: PE/VC firms' political activities are positively associated with their investment activities.

The two main channels of political engagement differ in the type of information they provide, and this distinction has implications for which channel is more relevant to private capital investment. Bennedsen and Feldmann (2006) model the interaction between information provision and campaign contributions as instruments of political influence and show that the two serve distinct functions. Information provision allows interest groups to reduce policymakers' uncertainty about the consequences of proposed legislation, while contributions serve as an incentive device to induce favourable policy choices. When both instruments are available, the presence of contributions can reduce interest groups' incentives to search for and provide information, because the informational externality created by information acquisition increases the cost of influencing the decision-maker through contributions alone. Their framework implies that the two channels are not interchangeable and that their relative value depends on the nature of the firm's engagement with the policy process.

Lobbying in the U.S. context is directed at specific legislative and regulatory issues and involves sustained communication with policymakers over the content of proposed

legislation (Chen et al., 2015). PAC contributions are made by individuals through corporate-affiliated committees and directed to political candidates, maintaining broader relationships without targeting particular policy questions. Private capital firms' investment decisions depend on specific regulatory developments, from antitrust review thresholds for individual transactions to the tax treatment of carried interest. Information about these specific conditions is more likely to be obtained through targeted engagement with policymakers on the relevant issues than through general political relationships. Independent PE firms may be particularly reliant on this type of external engagement, because the syndication-based information networks that characterise VC deal sourcing (Hochberg et al., 2007; Nanda et al., 2020) and the parent company channels available to CVC firms (Chemmanur et al., 2014) are less central to their investment process. For these investors, lobbying addresses an information need that PAC contributions, which maintain broad political access without targeting specific policy questions, do not. The association between political engagement and deal activity should therefore be stronger for lobbying than for PAC contributions.

H2: The association between lobbying and investment activity is stronger than the association between PAC contributions and investment activity.

1.3. Research Design

1.3.1. Data and Sample Construction

Private equity and venture capital investment data are collected from Refinitiv Eikon Private Equity Screener for the period 2004 to 2023. Refinitiv Eikon is a widely used source in PE and VC research (Giot et al., 2014; Nguyen et al., 2023; Faverzani, 2024). The database records transaction-level details on each investment, including investment type, round number, investment date, and the total rank value received by portfolio companies in each funding round. It also provides information on investor firms, including firm age, headquarters location, investor type. The sample focuses on U.S.-based PE and VC investors. To ensure the sample comprises actively operating investment firms rather than entities with sporadic deal activity, I exclude firms with fewer than five investment deals over the sample

period (Tian et al., 2025). This filter removes firms whose deal frequency is too low to exhibit meaningful within-firm variation over time.

Political activity data are obtained from OpenSecrets.org, a nonpartisan research organisation that aggregates federal disclosure records on lobbying, campaign finance, and other forms of political spending in the United States. Lobbying data originate from the Secretary of the Senate's Office of Public Records (SOPR). Lobbying expenditures are disclosed under the Lobbying Disclosure Act (LDA) of 1995, which requires organisations engaged in federal lobbying to file quarterly reports. These filings report the total expenditure incurred in each quarter and identify the specific issues and government agencies targeted by lobbying activity. OpenSecrets aggregates quarterly lobbying expenditures into annual values and consolidates expenditures across parent and subsidiary firms.

PAC contribution data are also obtained from OpenSecrets.org, which sources this information from the Federal Election Commission (FEC). Because federal campaign finance law prohibits direct corporate contributions to candidates, firms channel political donations through PACs, which aggregate voluntary employee contributions and direct them to candidates and parties. These contributions are reported to the FEC on a two-year election cycle basis. Lobbying data are available from 1998 to 2022 and PAC contribution data from 1990 to 2022. The final sample contains 76697 firm-year observations and 5928 PE/VC firms over the period 2004 to 2023.

1.3.2. Measurement of Political Activity

Following prior literature on corporate political activity (e.g., Chen et al., 2015; Unsal et al., 2016; Jiao and Lu, 2024), I measure firms' political engagement along two dimensions, lobbying and PAC contributions, each captured by both a continuous and a binary measure. For lobbying, I use a binary indicator equal to one if the firm reports non-zero lobbying expenditure in a given year and a continuous measure defined as the natural logarithm of one plus total annual lobbying expenditure. The two measures serve different purposes. The indicator captures whether a firm engages in lobbying at all, while the continuous measure

captures variation in spending intensity among lobbying firms. Annual lobbying expenditure is the sum of the four quarterly filings reported to the SOPR, aggregated at the PE/VC parent-firm level to account for subsidiary-level lobbying conducted on behalf of the parent.

I construct the same pair of measures for PAC contributions. The binary measure equals one if the firm reports non-zero PAC spending in a given year and zero otherwise. The continuous measure is defined as the natural logarithm of one plus total annual PAC contributions made by the firm's corporate PAC. The lobbying and PAC specifications are estimated separately rather than in a single regression, which allows *H1* to be examined through the sign and significance of the lobbying coefficients and *H2* to be examined by comparing results across the lobbying and PAC specifications.

Since Refinitiv and OpenSecrets do not share common firm identifiers (such as GVKEY, CUSIP, or ticker symbols), I match entities across the two databases using fuzzy string matching. I implement the matching in Python using RapidFuzz. Before computing similarity scores, I remove punctuation and entity designations such as Inc., Corp., LP, and LLC from firm names in both databases to reduce mechanical mismatches (Gao and Huang, 2016). Similarity scores are then calculated based on the Levenshtein (1966) distance. The Levenshtein distance measures the minimum number of single-character insertions, deletions, and substitutions required to transform one string into another. I retain only matching pairs with a similarity score above 85%, a threshold chosen to balance the trade-off between capturing valid matches and limiting false positives, and subsequently verify all retained matches manually. This combination of algorithmic matching and manual review reduces errors relative to purely manual matching and preserves more valid matches than exact name-matching techniques. The final sample contains 2827 firms whose employees or corporate entities report positive lobbying expenditure, PAC contributions, or individual political donations in at least one year, representing approximately half of the 5928 firms in the panel. Political activity is therefore observed for a substantial share of firms, though it remains infrequent at the firm-year level, as reported in Table 1-1. Detailed variable definitions are provided in Appendix A.

1.3.3. Measurement of PE/VC Investment Patterns

The primary dependent variable is the number of deals made by each PE/VC firm in a given year. I construct this measure from the deal-level records in Refinitiv by counting each unique investment round once per investor and aggregating to the firm-year level. Where the same portfolio company receives financing in more than one round, each round is counted separately as a distinct investment event. The resulting firm-year measure therefore captures the number of investment events in which an investor participates, rather than the number of distinct portfolio companies financed. After applying the sample filters described in Section 1.3.1, the remaining firms are active investors with at least five deals over the sample period. For firm-years in which these firms make no investments, I set the deal count to zero, which produces a firm-year panel with a large share of zero-valued observations. I restrict the sample to institutional private equity and venture capital investors and exclude pension funds, SBICs, university programs, service providers, non-private-equity firms, and insurance firm affiliates as classified by Refinitiv. These entities are not institutional PE/VC investment decision-makers. Their investment objectives and governance structures differ substantially from those of PE and VC firms and including them would introduce heterogeneity unrelated to the research question.

1.3.4. Empirical Model

The deal count variable defined in Section 1.3.3 is a non-negative integer with a distribution that is heavily right-skewed and contains a substantial proportion of zeros. Zero values correspond to years in which a sampled investment firm completes no deals and are treated as valid outcomes. These distributional features make linear and log-linear specifications less suitable. OLS does not constrain predicted values to be non-negative and is inefficient for this type of outcome. A conventional logarithmic specification would exclude zero-deal firm-years, while the $\ln(1+y)$ transformation introduces an arbitrary adjustment and yields coefficients without a clear economic interpretation (Cohn, Liu, and Wardlaw, 2022). Log-linear estimates may also be inconsistent in the presence of heteroskedasticity, which is common in count data (Santos Silva and Tenreiro, 2006). The analysis accordingly uses the

Poisson pseudo-maximum likelihood (PPML) estimator, which models the conditional mean of deal counts in levels and incorporates zero-valued observations directly. Under correct specification of the conditional mean, PPML does not require the conditional variance to equal the conditional mean or the dependent variable to follow an exact Poisson distribution (Santos Silva and Tenreyro, 2006; Nguyen et al., 2023). The baseline specification takes the following form:

$$Investment_{i,t} = \exp[\beta_1 Political\ Activity_{i,t-1} + \beta_2 X_{i,t-1} + \gamma_i + \delta_t] \cdot \varepsilon_{\{i,t\}} \quad (1.1)$$

where i indexes firms and t indexes years. Investment is the number of deals completed by firm i in year t . Political Connectedness captures firm-level political engagement through two channels, lobbying and PAC contributions, each measured in both continuous and binary form. Detailed definitions and construction of these measures are provided in Section 1.3.2 and Appendix A. The lobbying and PAC specifications are estimated separately rather than in a single regression, which allows the two channels to be compared directly.

The vector X includes firm age and firm size. Refinitiv provides founding date and investment history for PE and VC firms but records limited time-varying firm-level characteristics. Attributes such as assets under management and headcount are available only for a subset of firms and are not updated consistently over time. Firm age is measured as the natural logarithm of one plus the number of years since the firm's founding and reflects the investment firm's life-cycle stage. Firm size is proxied by the cumulative investment amount over the preceding five-year window. This activity-based measure captures the recent scale of the firm's recorded investments rather than assets under management or committed capital, and may also reflect investment experience, reputation, and investment style. The use of prior investment values means that the proxy is not mechanically linked to the number of deals completed in the subsequent year. It may nevertheless be associated with subsequent deal counts because investment activity can persist over time. Total investment amount and scaled investment amount are used as alternative dependent variables in supplementary analysis (see Section 1.4.5).

All political activity measures and control variables enter the model with a one-year lag. PE/VC firms' lobbying and PAC activities in year $t-1$ precede their investment decisions in year t , and the lag allows time for political engagement to be reflected in subsequent deal activity. This timing structure also reduces the simultaneity concern that would arise if current-year deal activity and current-year political spending were determined jointly. The model includes firm fixed effects (γ_i) and year fixed effects (δ_t). Firm fixed effects absorb unobserved time-invariant firm characteristics, while year fixed effects capture common time-varying conditions across all firms. The identification relies on changes in political activity over time for the same firm and their association with within-firm changes in deal activity. Standard errors are clustered at the firm level to account for serial correlation within firms across years.

1.3.5. Descriptive Statistics

Panel A of Table 1-1 reports descriptive statistics for the main variables. The number of deals per firm-year averages 4, with a standard deviation of 10.7 and a maximum of 442, indicating substantial variation across firms. Investment amount and scaled investment amount have means of \$201 million and \$90 million, with standard deviations of \$1,958 million and \$1,035 million respectively. Political activity among PE/VC firms is relatively uncommon. Only 2.3% of observations report positive lobbying expenditure, and the figure for PAC contributions is lower at 1.2%. The mean lobbying expenditure is \$50833, with a maximum of roughly \$27.4 million. PAC contributions are considerably smaller, with a mean of \$3,087 and a maximum of approximately \$1.9 million. This difference in scale is consistent with prior evidence that lobbying constitutes the dominant form of corporate political spending (Chen et al., 2015). The mean number of lobbyists employed per firm-year is 0.17, and former members of Congress among a firm's lobbyists are rare, with a mean of 0.003 and a maximum of 6.

The mean firm age is 15 years, and the mean firm size proxied by the cumulative investment over the preceding five years is about \$785 million. PE firms account for 36.8% of the sample and CVC firms for 7.5%. The average distance from firm headquarters to

Washington, D.C. is roughly 1,063 miles, with substantial variation. Mean employee political donations are \$20729. Dem-Leaning has a mean of -0.001 , suggesting that PE/VC firms' PAC contributions lean slightly toward the Republican Party on average, though the magnitude is very small.

The number of observations increases steadily from 2257 in 2004 to 5708 in 2022, with a slight decrease to 5,700 in 2023 (Panel B). The investment universe more than doubles over the period, consistent with the well-documented expansion of the PE/VC industry in the United States over the past two decades. No single year dominates the sample, with annual shares ranging from approximately 3% in the earliest years to around 7.4% in the most recent years.

Panel C reports the total and mean lobbying expenditure and PAC contributions by year over the period 2004–2022. Across all years, both total and mean lobbying expenditures substantially exceed their PAC counterparts, reinforcing the pattern documented in Panel A. Total lobbying expenditure increased from approximately \$118 million in 2004 to \$231 million in 2022. These figures are reported in nominal dollars and are not separately adjusted for inflation. The increase in aggregate lobbying expenditures should therefore not be interpreted solely as an increase in firms' political engagement, as it may also reflect inflation, changes in disclosure coverage, growth in the PE/VC industry, and the broader expansion of the US private capital market. In contrast, mean lobbying expenditure per firm declined from \$52 thousand to \$40 thousand. This pattern suggests that the increase in aggregate lobbying expenditure is associated more with broader participation in lobbying than with higher spending per firm. PAC contributions exhibit a similar pattern, with total amounts rising while mean contributions per firm remain relatively stable.

Table 1-1: Descriptive Statistics

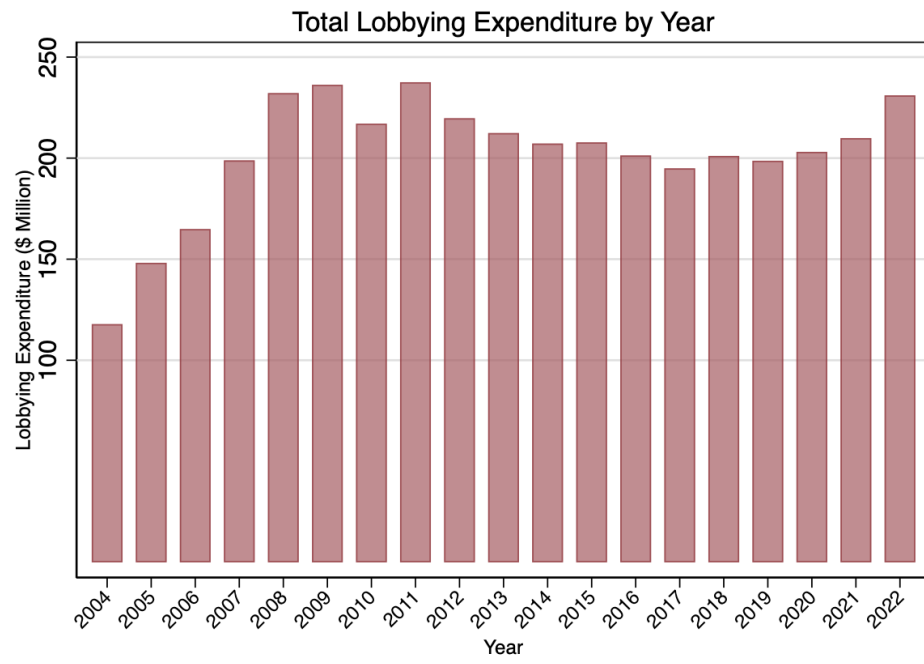
Panel A: Descriptive Statistics					
Variable	Observations	Mean	Std. Dev.	Min	Max
Number of Deals	76,697	3.971	10.716	0	442
Investment amount	76,697	201.454	1958.058	0	157064.14
Investment amount _{scaled}	76,697	89.566	1034.871	0	105676.59
Lobbying Amount	76,697	50832.718	655036.82	0	27445497
Lobby	76,697	0.023	0.151	0	1
PAC Amount	76,697	3086.596	45789.19	0	1877700
PAC	76,697	0.012	0.109	0	1
Firm Age	76,697	14.984	15.878	0	173
Firm Size	76,697	784.733	6484.141	0	306397.38
Employee Donation	76,697	20728.797	502526.51	0	95168238
Lobbyist	76,697	0.172	1.721	0	70
In-house Lobbying	76,697	46649.522	642563.1	0	27145497
In-house Ratio	76,697	0.01	0.1	0	1
Former Congressman	76,697	0.003	0.079	0	6
CVC	76,697	0.075	0.264	0	1
PE	76,697	0.368	0.482	0	1
Dem-Leaning	76,614	-0.001	0.045	-1	1
Distance to D.C. (in miles)	76,622	1062.827	941.759	0	4828.975
Panel B: Sample Distribution by Year ¹					
Investment year	Observations	Percentage	Cum_percentage		
2004	2,257	2.943	2.943		
2005	2,376	3.098	6.041		
2006	2,547	3.321	9.362		
2007	2,685	3.501	12.862		
2008	2,819	3.676	16.538		
2009	2,936	3.828	20.366		
2010	3,042	3.966	24.332		
2011	3,159	4.119	28.451		
2012	3,315	4.322	32.773		
2013	3,495	4.557	37.330		
2014	3,686	4.806	42.136		
2015	3,923	5.115	47.251		
2016	4,164	5.429	52.680		
2017	4,434	5.781	58.461		
2018	4,689	6.114	64.575		
2019	4,980	6.493	71.068		
2020	5,248	6.843	77.910		
2021	5,534	7.215	85.126		
2022	5,708	7.442	92.568		

¹ lobbying disclosure data in [opensecrets.org](https://www.opensecrets.org) is available through 2022.

2023	5700	7.432	100	
Panel C: Lobbying and PAC Contributions by Year (\$ Thousand)				
Investment year	Total lobbying	Mean Lobbying	Total PAC	Mean PAC
2004	117,859	52.22	7,453	3.30
2005	148,212	62.38	8,374	3.52
2006	164,922	64.75	10,353	4.06
2007	198,887	74.07	9,632	3.59
2008	232,197	82.37	11,819	4.19
2009	236,303	80.48	11,214	3.82
2010	217,063	71.36	13,923	4.58
2011	237,562	75.20	12,339	3.91
2012	219,755	66.29	14,542	4.39
2013	212,405	60.77	12,723	3.64
2014	207,233	56.22	15,245	4.14
2015	207,812	52.97	14,040	3.58
2016	201,341	48.35	16,838	4.04
2017	194,957	43.97	13,921	3.14
2018	201,097	42.89	15,225	3.25
2019	198,718	39.90	13,592	2.73
2020	203,114	38.70	13,049	2.49
2021	209,917	37.93	8,987	1.62
2022	231,053	40.48	13,462	2.36

Note: This table reports descriptive statistics for the main variables. Continuous variables including Lobbying Amount, PAC Amount, Lobbyist, In-House Lobbying, Employee Donation, Firm Age, Firm Size, and Distance to D.C. are reported in untransformed form. These variables enter the regressions as natural logarithms ($\ln(1+x)$). Panel A covers the full sample. Panel B reports the distribution of observations by year. Panel C reports total and mean lobbying and PAC expenditures by year.

Figure 1-1: Lobbying Expenditures Distribution by Years (\$ Million)



1.4. Empirical Results and Discussion

1.4.1. Baseline Regression Result

This section presents the baseline regression results of political activities and PE/VC investment behaviours. Table 1-2 reports the baseline PPML estimates of the association between political activities and PE/VC deal activity. Panel A presents results using lobbying measures. The coefficient on lobbying expenditure in Column (1) is 0.019 and statistically significant at the 1% level. The lobbying indicator in Column (2) enters with a coefficient of 0.200, also significant at the 1% level. PE/VC firms that lobby exhibit higher deal activity, and among lobbying firms, those with greater lobbying expenditure complete more deals. The coefficient on the lobbying indicator implies that lobbying firms exhibit roughly one-fifth more deals than non-lobbying firms, holding other characteristics constant. Given the low average deal counts in the sample, this proportional difference is economically meaningful. Firm size is positively associated with deal activity and firm age negatively, and these patterns are stable across all specifications in both panels.

Panel B reports the corresponding estimates using PAC contribution measures. Neither PAC expenditure in Column (1) nor the PAC indicator in Column (2) shows a statistically significant correlation with deal activity. The coefficients are small in magnitude and imprecisely estimated. The PAC expenditure coefficient is 0.008 with a standard error of 0.013, and the PAC indicator coefficient is 0.051 with a standard error of 0.155, neither approaching conventional significance levels.

PAC activity is less prevalent and substantially smaller in scale than lobbying: positive PAC contributions occur in 1.2% of firm-year observations, compared with 2.3% for lobbying, and mean expenditure is \$3,087 rather than \$50,833. This limited variation reduces the precision of the PAC estimates. Since PAC contributions are directed towards candidates, their electoral timing may also be less closely aligned with individual investment decisions. The null result therefore does not rule out a role for PAC contributions in maintaining political relationships or indicating partisan orientation; the latter is examined more directly

in Section 1.4.4 using the partisan composition of contributions. The positive lobbying results and the contrast with the PAC estimates are consistent with $H1$ and $H2$, respectively.

Table 1-2: Baseline Regression

Panel A: Baseline Regression Lobbying		
Dependent variable: Number of Deals	(1)	(2)
Lobbying Amount	0.019*** (0.006)	
Lobby		0.200*** (0.071)
Firm Age	-0.096** (0.038)	-0.097*** (0.038)
Firm Size	0.253*** (0.010)	0.254*** (0.010)
_cons	1.041*** (0.086)	1.046*** (0.086)
Observations	76697	76697
Pseudo R ²	0.653	0.653
Firm FE	YES	YES
Year FE	YES	YES
Panel B: Baseline Regression - PAC		
Dependent variable: Number of Deals	(1)	(2)
PAC Amount	0.008 (0.013)	
PAC		0.051 (0.155)
Firm Age	-0.100*** (0.038)	-0.100*** (0.038)
Firm Size	0.254*** (0.010)	0.254*** (0.010)
_cons	1.061*** (0.089)	1.062*** (0.089)
Observations	76,697	76,697
Pseudo R ²	0.653	0.653
Firm FE	YES	YES
Year FE	YES	YES

Note: This table reports the baseline PPML regression results. The dependent variable is the number of deals. Panel A examines the effect of lobbying activities using the continuous measure in Column (1) and the binary indicator in Column (2). Panel B examines the effect of PAC contributions. All other variables are defined in Appendix A. All regressions include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.2. Robustness Test

1.4.2.1. Alternative Measurement of Lobbying

The baseline analysis measures lobbying using total expenditure and a participation indicator. Both capture whether and how much a firm spends on lobbying but do not distinguish between different forms of lobbying engagement. To examine whether the results hold across different dimensions of lobbying activity, I use three alternative measures.

Column (1) of Table 1-3 uses the number of lobbyists employed by a firm. Lobbying expenditure reflects the total amount spent, but the number of lobbyists captures the breadth of a firm's lobbying effort. Ridge et al. (2017) show that lobbying effectiveness depends on how widely firms target government agencies and how many relationships they maintain with government officials. Gibson Brandon and Odabasioglu (2021) also treat the number of lobbyists as a distinct dimension of lobbying intensity alongside expenditure (Unsal et al., 2016). A firm that employs more lobbyists can cover more agencies and legislative offices, which may increase its access to information across a wider range of policy areas. The coefficient on lobbyist count is 0.107 and significant at the 1% level, indicating that firms with more lobbyists complete more deals.

Columns (2) and (3) focus on in-house lobbying. Firms can lobby through external lobbying firms or through their own employees. Nalick et al. (2023) distinguish between internal and external lobbying activities and show that the balance between the two reflects firms' strategic choices. In-house lobbyists are employees of the PE/VC firm and are therefore more likely to understand the firm's specific investment interests and information needs. Column (2) uses the amount spent on in-house lobbying, and Column (3) uses the share of total lobbying expenditure allocated to in-house lobbyists. Both measures are positively associated with deal activity. The coefficient on in-house amount is 0.027 and significant at the 5% level, and the coefficient on in-house ratio is 0.354 and significant at the 10% level. The weaker significance of the in-house ratio likely reflects that this variable is bounded between zero and one and has limited variation in the sample, with a mean of 0.01 and a standard deviation of 0.10 as reported in Table 1-1.

Across all three specifications, the control variables behave consistently with the baseline results. Firm size is positively associated with deal activity, and firm age is negatively associated. The positive results across different lobbying measures suggest that the baseline finding is not driven by a particular definition of lobbying.

Table 1-3: Alternative Measurements of Lobbying

Dependent variable: Number of Deals	(1)	(2)	(3)
Lobbyist	0.107*** (0.042)		
In-house Amount		0.027** (0.012)	
In-house Ratio			0.354* (0.189)
Firm Age	-0.096** (0.038)	-0.097** (0.038)	-0.099*** (0.038)
Firm Size	0.253*** (0.010)	0.254*** (0.010)	0.254*** (0.010)
Constant	1.043*** (0.088)	1.044*** (0.089)	1.052*** (0.087)
Observations	76,697	76,697	76,697
Pseudo R ²	0.653	0.653	0.653
Firm FE	YES	YES	YES
Year FE	YES	YES	YES

Note: This table reports PPML estimates using alternative measurements of lobbying. The dependent variable is the number of deals. Column (1) uses the natural logarithm of one plus the number of lobbyists employed. Columns (2) and (3) use the natural logarithm of one plus in-house lobbying amount and in-house ratio scaled by total lobbying expenditures, respectively. All regressions include firm and year fixed effects. All other variables are defined in Appendix A. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.2.2. Alternative Empirical Model, Sample and Fixed Effects

To ensure that the main results are not sensitive to model specification or sample composition, I perform a series of robustness checks, as reported in Table 1-4. In Columns (1) and (2), I re-estimate the baseline regression using negative binomial regression, which accommodates overdispersion in count data by allowing the variance to exceed the mean. Both the lobbying amount and the lobbying indicator remain positive and statistically significant at the 1% level, with coefficients of 0.008 and 0.089, respectively. A potential concern is that state-level factors that change over time, such as local regulatory environments or economic conditions, may simultaneously affect both PE/VC firms' lobbying activities and their investment behaviour. To address this, Columns (3) and (4) replace year fixed effects with year-by-state fixed effects. The coefficients on lobbying amount and the lobbying indicator remain positive under this more demanding specification, at 0.013 and 0.131, with the continuous measure significant at the 5% level and the binary indicator at the 10% level. Another concern is that the results may be driven by a small number of PE/VC firms with exceptionally high deal counts. Columns (5) and (6) exclude observations above the 99th percentile of the deal count distribution. The positive effects of lobbying persist, with coefficients of 0.019 for lobbying amount and 0.201 for the lobbying indicator.²

² As an additional sensitivity test, I re-estimate the two baseline PPML specifications by replacing year fixed effects with a common linear time trend, defined as the sample year minus 2004, while retaining firm fixed effects, the original controls, the same estimation sample, and firm-level clustered standard errors. The coefficient on logged lobbying expenditure is 0.018 (standard error = 0.006; $p = 0.004$), compared with the baseline estimate of 0.019. The coefficient on the lobbying indicator is 0.197 (standard error = 0.075; $p = 0.009$), compared with the baseline estimate of 0.200. Both coefficients remain statistically significant at the 1% level.

Table 1-4: Alternative Empirical Model Specifications and Sample

Dependent variable:	Negative Binomial		Fixed Effects		No Outliers	
	(1)	(2)	(3)	(4)	(5)	(6)
Number of Deals						
Lobbying Amount	0.008*** (0.003)		0.013** (0.006)		0.019*** (0.006)	
Lobby		0.089*** (0.030)		0.131* (0.073)		0.201*** (0.074)
Firm Age	-0.296*** (0.008)	-0.296*** (0.008)	-0.090** (0.036)	-0.090** (0.036)	-0.040 (0.029)	-0.041 (0.029)
Firm Size	0.260*** (0.002)	0.260*** (0.002)	0.255*** (0.009)	0.255*** (0.009)	0.232*** (0.008)	0.232*** (0.008)
Constant	-0.021 (0.026)	-0.021 (0.026)	1.032*** (0.080)	1.036*** (0.080)	0.706*** (0.062)	0.708*** (0.062)
Observations	76,697	76,697	76,532	76,532	75,936	75,936
Pseudo R ²			0.662	0.662	0.542	0.542
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	NO	NO	YES	YES
Year & State FE	NO	NO	YES	YES	NO	NO

Note: This table reports estimates from alternative model specifications and samples. The dependent variable is the number of deals. Columns (1)-(2) employ negative binomial regression. Columns (3)-(4) use PPML with year-by-state fixed effects instead of year fixed effects. Columns (5)-(6) exclude observations with deal counts above the 99th percentile. All other variables are defined in Appendix A. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.3. Endogeneity – Instrumental Variable

The baseline regressions include firm and year fixed effects to control for time-invariant heterogeneity and common time trends. Firm fixed effects absorb persistent differences in business models and investment specialisation, while year fixed effects capture common changes in credit and fundraising conditions. Firm-specific changes in fund capacity, personnel composition, or investment focus may affect both deal activity and incentives to lobby, while exposure to common credit conditions may also differ across firms. Reverse causality is also plausible, as PE/VC firms with larger deal pipelines may have stronger incentives to lobby in relation to pending transactions. The analysis therefore uses individual political donations by employees as an instrument for corporate lobbying, following Jiao and Lu (2024).

The instrument is constructed from individual donation records obtained from Opensecrets.org. Individual donations are aggregated at the firm-year level, and the instrument is defined as the natural logarithm of one plus total employee donations, lagged by one year to limit simultaneity. The first stage includes firm fixed effects, year fixed effects, firm size, and firm age.

A valid instrument requires both relevance and a plausible exclusion restriction. Relevance is expected as employees' political activities can predict firms' political engagement (Jiao and Lu, 2024). Babenko et al. (2020) document a strong association between the political activities of firm leadership and those of their employees, and Stuckatz (2022) provides direct empirical support for a correlation between employee and employer political activities in U.S. public companies. Table 1-5 confirms this relationship in the sample. In both specifications, Employee Donation is a strong predictor of lobbying. The first-stage coefficients are positive and significant at the 1% level, and the F-statistics exceed 40.

The exclusion restriction requires individual employee donations to affect deal activity only through their association with corporate lobbying. This identification strategy follows Jiao and Lu (2024). Individual contributions are generally motivated by ideological proximity to candidates (Ansolabehere et al., 2003; Barber, 2016) and, unlike corporate lobbying, do not

themselves provide firms with regulatory information or capital for investment. This provides the economic basis for the exclusion restriction. A potential violation would arise if employee donations also captured changes in partner ideology, fundraising networks, sector preferences, or local political sentiment that independently affect investment activity. Firm fixed effects absorb persistent differences in firms' political orientation, while year fixed effects absorb common political cycles, and lagging the instrument limits contemporaneous simultaneity. These features do not absorb firm-specific changes in the potential confounding factors. The IV results therefore complement the baseline estimates, while their causal interpretation remains conditional on the exclusion restriction.

The primary estimation method is the control function approach proposed by Wooldridge (2015). The first stage regresses the lobbying measure on the instrument and controls using OLS with firm and year fixed effects. The first-stage residual is saved and included as an additional regressor in the second-stage PPML estimation. The significance of this residual provides evidence of endogeneity.

Table 1-5 Panel A reports the control function results. The first-stage F-statistics equal 40.55 and 41.78 for the continuous and binary lobbying measures respectively, confirming instrument strength. In the second stage, both lobbying measures have positive and statistically significant coefficients. The lobbying amount coefficient is 0.580 and the binary lobbying coefficient is 7.389, both significant at the 1% level. The first-stage residuals are significant at the 1% level in both specifications, consistent with endogeneity in the baseline lobbying measures. Panel B reports linear two-stage least squares estimates as a robustness check. Both lobbying measures remain positive and statistically significant, consistent with the control function results in direction and significance.³

³ The control function approach is the primary specification because it preserves the PPML structure of the baseline model.

Table 1-5: Endogeneity - Instrumental Variable Approaches

Panel A: Control Function Approach				
	(1)	(2)	(3)	(4)
	1st Stage	2nd Stage	1st Stage	2nd Stage
Dependent Variable	Lobbying Amount	Number of Deals	Lobby	Number of Deals
Employee Political Donation	0.033*** (0.005)		0.003*** (0.000)	
Lobbying Amount		0.580*** (0.095)		
Lobby				7.389*** (1.210)
Firm Age	-0.072*** (0.024)	-0.057 (0.037)	-0.005*** (0.002)	-0.061* (0.037)
Firm Size	0.019*** (0.005)	0.238*** (0.010)	0.001*** (0.000)	0.239*** (0.010)
Residual from 1st stage		-0.563*** (0.095)		-7.214*** (1.204)
_cons	0.343*** (0.048)	0.555*** (0.116)	0.025*** (0.004)	0.580*** (0.113)
Observations	76,697	76,697	76,697	76,697
Adjusted R2/Pseudo R ²	0.7231	0.654	0.6500	0.654
<i>First-stage F-statistic</i>	40.55		41.78	
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Panel B: Robustness 2SLS IV Estimates				
	(1)	(2)	(3)	(4)
	1st Stage	2nd Stage	1st Stage	2nd Stage
Dependent Variable	Lobbying Amount	Number of Deals	Lobby	Number of Deals
Employee Political Donation	0.033*** (0.005)		0.003*** (0.000)	
Lobbying Amount		3.550*** (0.746)		
Lobby				45.057*** (9.471)
Firm Age	-0.072*** (0.024)	0.458** (0.188)	-0.005*** (0.002)	0.435** (0.189)
Firm Size	0.019*** (0.005)	0.573*** (0.043)	0.001*** (0.000)	0.575*** (0.044)
Observations	76,697	76,697	76,697	76,697
Adjusted R2/Pseudo R ²	0.7231	-0.240	0.6500	-0.292
<i>K-P rk Wald F-statistic</i>		40.551		41.782

Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: This table reports the instrumental variable estimation results using employee individual political donations as the instrument for corporate lobbying. Panel A employs the control function approach where the first stage is estimated by OLS and the second stage by PPML. Panel B reports 2SLS estimates as a robustness check. Columns (1)-(2) use the continuous lobbying measure (log lobbying expenditure), and Columns (3)-(4) use the binary lobbying indicator. All other variables are defined in Appendix A. All regressions include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.4. Mechanism and Heterogeneity Analysis

The previous section documented a positive relation between PE/VC firms' lobbying and their investment decisions. This association alone does not identify why lobbying is related to deal activity. The following tests examine how the relationship varies across political conditions and firm characteristics, beginning with whether a firm's partisan orientation moderates the relationship, and then turning to settings in which the value of policy information obtained through lobbying should plausibly differ.

1.4.4.1. Political Leaning of PE/VC Firms

Prior research suggests that partisan orientation may affect the returns to corporate political activity. Unsal et al. (2016) show that CEO political ideology influences both lobbying behaviour and its effect on firm performance. A natural question is whether this extends to the PE/VC context, where a firm's partisan leaning can be measured through the partisan composition of its PAC contributions. If lobbying creates value through partisan networks or alignment with a specific party, firms whose contributions favour one party should see a stronger effect of lobbying on deal activity. If instead lobbying operates through information acquisition, the firm's partisan identity should not alter this association.

Table 1-6 tests this prediction by interacting the lobbying measures with Dem-Leaning, a continuous variable that measures the difference between a firm's PAC contributions to Democratic and Republican candidates, scaled by total PAC contributions. The variable ranges from minus one to plus one, where positive values indicate a greater share of contributions directed to Democrats. Across all specifications, the effect of lobbying on deal activity for firms that contribute more to Democrats is not statistically different from that for firms that contribute more to Republicans. The interaction coefficients are small in magnitude. Partisan networks would imply that alignment with a particular party generates a stronger association between lobbying and deal activity, but the data show no such pattern. The result is consistent with lobbying functioning as an information channel whose effect does not vary with the firm's political leaning. This suggests that heterogeneity in lobbying's

relevance to deal activity is more likely driven by the policy environment firms face than by their partisan orientation, which motivates the tests that follow.

Table 1-6: Political Leaning

Dependent variable: Number of Deals	(1)	(2)
Lobbying Amount	0.019*** (0.006)	
Dem-Leaning	0.316 (0.371)	0.222 (0.373)
Lobby		0.194*** (0.071)
Lobbying Amount $\times$ Dem-Leaning	-0.032 (0.030)	
Lobby $\times$ Dem-Leaning		-0.341 (0.403)
Firm Age	-0.096** (0.038)	-0.097*** (0.038)
Firm Size	0.254*** (0.010)	0.254*** (0.010)
_cons	1.040*** (0.085)	1.044*** (0.085)
Observations	76,614	76,614
Pseudo R ²	0.653	0.653
Firm FE	YES	YES
Year FE	YES	YES

Note: The table reports PPML regression results examining the moderating effect of firm political orientation on relationship between PE/VC's political connectedness and number of deals. The dependent variable is the number of deals made by PE/VC firms. Dem-Leaning measures a firm's political orientation. All regressions include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.4.2. Political Uncertainty

Political uncertainty takes different forms that have different implications for the value of information obtained through lobbying. Economic policy uncertainty (Baker et al., 2016) and partisan conflict (Azzimonti, 2018) both reflect ambiguity about the direction of future policy within the current political structure. Firms face unclear signals about tax, trade, or regulatory policy, and publicly available information is insufficient to resolve this ambiguity. Election-related uncertainty is different in kind. It concerns not the direction of policy but the identity of policymakers. Julio and Yook (2012) show that firms reduce investment around elections because the source of uncertainty is the potential replacement of the entire policy framework rather than the evolution of specific policies. If lobbying affects deal activity through access to private information about policy direction, these two forms of uncertainty should affect its value in opposite directions. Policy content uncertainty increases the value of information obtained through lobbying, while election uncertainty reduces the reliability of the relationships through which that information is obtained.

Table 1-7 Columns (1) through (4) report interactions between lobbying measures and two proxies for policy content uncertainty. In Columns (1) and (2), the interaction between lobbying and EPU is positive and significant at the 1% level, with coefficients of 0.031 for lobbying expenditure and 0.422 for the lobbying indicator. In Columns (3) and (4), the interaction between lobbying and PCI is also positive and significant, with coefficients of 0.043 for lobbying expenditure and 0.586 for the lobbying indicator. These estimates indicate that the association between lobbying and deal activity strengthens when policy content is harder to assess from public sources.

Both EPU and PCI capture settings in which the direction of fiscal, regulatory, or legislative policy is difficult to infer from publicly available information. Gulen and Ion (2016) find that such uncertainty depresses corporate investment, and Bonaime et al. (2018) document a similar effect on M&A activity. These findings establish that policy content uncertainty imposes real costs on investment decisions. Wellman (2017) provides evidence that political connections reduce firms' investment sensitivity to policy uncertainty, suggesting that

private information obtained through political channels helps firms act when public signals are insufficient. For PE/VC firms, whose deal outcomes depend on regulatory expectations and policy conditions, the positive interactions on both EPU and PCI suggest that lobbying may serve a similar function. When Congress is polarised, the prospects of specific legislation become harder to predict from public debate alone (Azzimonti, 2018), reinforcing the interpretation that lobbying becomes more relevant to deal activity as the gap between publicly available and privately obtained policy information widens.

Columns (5) and (6) report interactions between lobbying and an indicator for election periods, defined as the year of and the year prior to a presidential election. The interaction coefficients are negative and significant at the 1% level, at -0.007 for lobbying expenditure and -0.099 for the lobbying indicator. The positive association between lobbying and deal activity weakens during election periods. This result is consistent with the distinction Julio and Yook (2012) draw between election uncertainty and routine policy uncertainty. During election periods, uncertainty primarily concerns the identity of future policymakers rather than the direction of policy. The relationships that PE/VC firms maintain through lobbying depend on access to specific officials and regulators. When those individuals may leave office, the information obtained through these channels becomes less reliable as a basis for investment decisions.

The positive interactions on EPU and PCI and the negative interaction on Election Period point in the same direction. Lobbying is more strongly linked to deal activity when firms face greater difficulty interpreting the policy environment. It weakens during election periods, when uncertainty shifts to the identity of future policymakers. The asymmetry is more consistent with information acquisition: policy information becomes more valuable when policy content is difficult to assess but less reliable when the identity of future policymakers is uncertain. Political uncertainty may also increase the value of favourable regulatory treatment, so the heterogeneity pattern does not identify an exclusive channel. A sharper distinction requires issue-level evidence on information obtained through lobbying and subsequent regulatory outcomes.

Table 1-7: Political Uncertainty

Dependent variable:	(1)	(2)	(3)	(4)	(5)	(6)
Number of Deals						
Lobbying Amount	-0.136*** (0.042)		-0.186*** (0.053)		0.022*** (0.006)	
Lobby		-1.901*** (0.528)		-2.593*** (0.692)		0.242*** (0.076)
Lobbying Amount × EPU	0.031*** (0.009)					
Lobby × EPU		0.422*** (0.107)				
Lobbying Amount × PCI			0.043*** (0.011)			
Lobby × PCI				0.586*** (0.144)		
Lobbying Amount × Election Period					-0.007*** (0.003)	
Lobby × Election Period						-0.099*** (0.036)
Firm Age	-0.079** (0.037)	-0.079** (0.037)	-0.089** (0.037)	-0.089** (0.037)	-0.094** (0.038)	-0.095** (0.037)
Firm Size	0.253*** (0.010)	0.253*** (0.010)	0.253*** (0.010)	0.253*** (0.010)	0.253*** (0.010)	0.254*** (0.010)
_cons	1.003*** (0.083)	1.007*** (0.083)	1.023*** (0.084)	1.027*** (0.084)	1.036*** (0.085)	1.040*** (0.085)
Observations	76,697	76,697	76,697	76,697	76,697	76,697
Pseudo R ²	0.654	0.654	0.654	0.654	0.653	0.653
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Note: This table reports PPML estimates examining how political uncertainty moderates the association between lobbying and PE/VC deal activity. The dependent variable is the number of deals. Columns (1) and (2) interact lobbying measures with EPU, Columns (3) and (4) interact lobbying measures with PCI, and Columns (5) and (6) interact lobbying measures with Election Period. All variables are defined in Appendix A. All regressions include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.4.3. Political Conditions and Channels

Beyond the baseline result, the effectiveness of lobbying may depend on the political environment firms operate in, their ability to access policymakers, and the quality of the political channels they employ. If lobbying operates through information acquisition, its effect should vary with the conditions that shape how much information firms can obtain and at what cost. To examine these conditioning factors, this section considers three moderating variables. An indicator equal to one when a Democratic president is in office captures differences in regulatory orientation and policy priorities across administrations. The natural logarithm of the distance in miles from a firm's headquarters zip code to Washington, D.C. proxies for the cost of maintaining political relationships. The count of former members of Congress among a firm's registered lobbyists, constructed from [opensecrets.org](https://www.opensecrets.org) and aggregated at the firm-year level, captures the quality of political connections.

These three variables provide an opportunity to distinguish between two interpretations of the baseline result. If lobbying creates value through information acquisition, its association with deal activity should vary with the political environment, the cost of accessing policymakers, and the quality of political intermediaries. Each variable captures a different dimension of the conditions under which lobbying may translate into usable policy information.

The existing literature suggests that each of these conditions matters for political engagement and its returns. Belo et al. (2013) show that firm profitability and investment vary with the party in power, reflecting differences in regulatory and fiscal priorities that may also shape the informational value of lobbying. Republican administrations tend to favour deregulation, which may create more opportunities for lobbying to yield useful information about regulatory changes, while Democratic administrations tend to emphasise formal regulatory procedures, narrowing the scope for informational advantages. Gao and Huang (2016) find that firms headquartered closer to Washington, D.C. are more politically active and more sensitive to political events, suggesting that proximity reduces the cost of maintaining

relationships with policymakers. The revolving door literature points to a related but distinct channel. Blanes i Vidal et al. (2012) and Bertrand et al. (2014) both find that the market value of lobbyists depends on their personal political networks rather than on general policy expertise. Lobbyists' revenue declines sharply when their former congressional employers leave office. Former legislators among a firm's lobbyists may therefore strengthen the returns to lobbying because they have direct relationships with sitting policymakers.

Columns (1) and (2) of Table 1-8 present results for the presidential administration. The interaction between lobbying and the Democratic presidency indicator is negative, significant at the 5% level for lobbying expenditure and at the 10% level for the lobbying indicator. The result implies that lobbying is less strongly related to deal activity under Democratic administrations, which is consistent with the argument that deregulatory environments generate more scope for lobbying to surface useful information, such as early signals about regulatory shifts or changing enforcement priorities. Under administrations that emphasise financial regulation and investor protection, policymaking tends to proceed through formal channels and standardised procedures. In that setting, much of the policy-relevant information is already in the public domain, and the marginal informational value of lobbying declines. As Table 1-6 shows that firm-level partisan orientation does not moderate the lobbying effect, this pattern is more likely to reflect differences in the policy environment than in political access

Columns (3) and (4) examine geographic proximity to the political centre. The interaction between lobbying and firms' distance to Washington, D.C. is negative and marginally significant, suggesting that the positive association between lobbying expenditure and deal activity becomes weaker for firms headquartered farther from the capital. Although the coefficient is only marginally significant, its direction is consistent with Gao and Huang (2016), which find that firms located closer to Washington, D.C. display greater political sensitivity and devote more resources to lobbying, as proximity lowers the cost of building and maintaining relationships with policymakers. Because distance is a largely time-invariant firm characteristic, it offers a conservative test of the access channel. A policy concession, once granted, does not require geographic proximity to take effect. The

sensitivity of the relationship between lobbying and deal activity to distance is more consistent with a mechanism that depends on regular exchange of information through interaction with policymakers.

Column (5) turns to the revolving door channel.⁴ Firms whose registered lobbyists include former members of Congress show a significantly stronger association between lobbying expenditure and deal activity. The positive and significant interaction suggests that the quality of political access matters more than the volume of resources committed to lobbying, as former legislators maintain direct relationships with sitting policymakers, an advantage that general policy expertise alone does not provide. This finding complements Blanes i Vidal et al. (2012), who show that revolving door lobbyists' revenue declines sharply when their former congressional employers leave office. Their result establishes that the market value of these lobbyists is tied to relationships with specific sitting legislators; the result here extends that logic by showing that PE and VC firms employing such lobbyists also exhibit greater investment activity. Only a subset of firms in the sample employs former legislators, so the effect is identified from limited variation, which works against finding a significant result.

The three sets of results point in the same direction. The returns to lobbying for PE and VC firms are not uniform but vary with the conditions that facilitate access to policy-relevant information, a pattern more consistent with information acquisition than with direct policy concessions.

⁴ The binary lobbying indicator is not used in this specification because the former congressman variable is mechanically zero for all non-lobbying firms, resulting in perfect collinearity with the interaction term.

Table 1-8: Political Conditions and Channels

Dependent variable: Number of Deals	(1)	(2)	(3)	(4)	(5)
Lobbying Amount	0.024*** (0.006)		0.018*** (0.006)		0.021*** (0.006)
Lobbying Amount × Democrat	-0.008** (0.004)				
Lobby		0.255*** (0.077)		0.187*** (0.070)	
Lobby × Democrat		-0.091* (0.049)			
Lobbying Amount × Distance to D.C.			-0.005* (0.003)		
Lobby × Distance to D.C.				-0.060* (0.035)	
Former Congressman					-1.827*** (0.380)
Lobbying Amount × Former Congressman					0.121*** (0.028)
Firm Age	-0.098*** (0.038)	-0.099*** (0.038)	-0.096** (0.038)	-0.097*** (0.038)	-0.093** (0.037)
Firm Size	0.254*** (0.010)	0.254*** (0.010)	0.253*** (0.010)	0.254*** (0.010)	0.254*** (0.010)
_cons	1.046*** (0.087)	1.050*** (0.087)	1.039*** (0.086)	1.045*** (0.086)	1.032*** (0.085)
Observations	76,697	76,697	76,622	76,622	76,697
Pseudo R ²	0.653	0.653	0.653	0.653	0.653
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Note: This table reports PPML estimates examining how political conditions and channels moderate the association between lobbying and PE/VC deal activity. The dependent variable is the number of deals. Democrat is an indicator variable equal to one when a Democratic president is in office. Distance is the natural logarithm of the distance in miles between the firm's headquarters zip code and Washington, D.C. Former Congressman is the count of former members of Congress among the firm's registered lobbyists each year. All other variables are defined in Appendix A. All regressions include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.4.4. Lobbying During Crises

Financial crises and public health emergencies alter both the financing conditions that PE/VC firms face and the policy environment they operate in. When external financing tightens or government intervention expands, the type of information that firms need changes. The extent to which lobbying can help firms act on that information may shift accordingly. Specifically, if lobbying facilitates deal activity through information acquisition, the relation should weaken when firms are constrained by access to capital and strengthen when firms are constrained by uncertainty over government policy. I define Global Financial Crisis (GFC) as an indicator equal to one in 2008 and 2009, and Pandemic as an indicator equal to one in 2020 and 2021 and interact each indicator with the lobbying measures.

Table 1-9 reports contrasting results across the two crises. During the Global Financial Crisis, the interaction terms are negative and statistically significant for both lobbying measures, with estimates of -0.039 for lobbying expenditures and -0.492 for lobbying participation. During the pandemic, the interaction terms are positive and statistically significant, with estimates of 0.033 for lobbying expenditure and 0.442 for lobbying participation.

The opposite signs can be understood by considering how each crisis changes the environment in which lobbying operates. The Global Financial Crisis was primarily a liquidity and credit shock that tightened external financing and disrupted transaction markets (Brunnermeier, 2009). When funding becomes scarce, even well-informed PE/VC firms face binding constraints on deal execution that lobbying alone is unlikely to overcome. Bernstein et al. (2019) document that private equity firms redirected their focus toward supporting existing portfolio companies rather than pursuing new transactions during this period, and Adelino and Dinc (2014) show that financially distressed firms increased lobbying around the 2009 stimulus legislation, directing political engagement toward the government's crisis response rather than new deal activity. Evidence from the broader financial sector is consistent with this pattern (Duchin and Sosyura, 2012; Igan et al., 2012). The negative interaction during the GFC is therefore consistent with both binding financial constraints on

deal-making and a shift in the focus of political engagement away from new investment activity.

Unlike the GFC, the main source of uncertainty during the pandemic was not financing conditions but government program design. Emergency support such as the Paycheck Protection Program created new rules that directly affected PE/VC firms. In particular, the SBA affiliation rules meant that sponsor-backed portfolio companies risked being excluded from relief funding because of their ties to larger parent firms, and PE/VC stakeholders actively sought to understand and influence how those rules would be applied (PitchBook, 2020; Bloomberg, 2020; Fortune, 2020). In this environment, lobbying was more closely tied to the information that firms needed for investment decisions, such as understanding program eligibility and anticipating regulatory changes. Gompers et al. (2022) confirm that private equity managers continued seeking new investments throughout the pandemic. The positive interaction is therefore consistent with lobbying helping PE/VC firms navigate a policy-driven disruption while continuing to pursue deals.

These results suggest that lobbying's relevance to deal activity depends on the type of crisis. This variation tracks the type of constraint firms face rather than the scale of government involvement and is more consistent with an information acquisition mechanism than with direct policy influence.

Table 1-9: Lobbying Effects During Crises

Dependent variable: Number of Deals	Financial Crisis		Pandemic	
	(1)	(2)	(3)	(4)
Lobbying Amount	0.023*** (0.006)		0.013** (0.006)	
Lobby		0.252*** (0.072)		0.123* (0.068)
Lobbying Amount $\times$ GFC	-0.039*** (0.009)			
Lobby $\times$ GFC		-0.492*** (0.111)		
Lobbying Amount $\times$ Pandemic			0.033*** (0.006)	
Lobby $\times$ Pandemic				0.442*** (0.087)
Firm Age	-0.091** (0.037)	-0.092** (0.037)	-0.085** (0.037)	-0.086** (0.037)
Firm Size	0.254*** (0.010)	0.254*** (0.010)	0.253*** (0.010)	0.253*** (0.010)
Constant	1.026*** (0.085)	1.032*** (0.085)	1.017*** (0.084)	1.022*** (0.084)
Observations	76,697	76,697	76,697	76,697
Pseudo R ²	0.654	0.654	0.654	0.654
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: This table reports PPML estimates of lobbying effects on deal activity during crisis periods. The dependent variable is the number of deals. Columns (1)-(2) include the interaction between lobbying measures and the Global Financial Crisis indicator (2008-2009). Columns (3)-(4) include the interaction with the Pandemic indicator (2020-2021). All other variables are defined in Appendix A. All regressions include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.4.5. Heterogeneity by Firm Type

The baseline results establish a positive relationship between lobbying and deal activity. Whether this pattern holds uniformly across firm types depends on whether lobbying's value derives from information acquisition. If it does, the effect should be weaker for firms that already have access to alternative information sources and for firms whose investment decisions are less sensitive to policy and regulatory conditions.

CVC firms are embedded within larger corporate structures whose parent companies provide industry knowledge and regulatory intelligence directly. Chemmanur et al. (2014) show that this internal channel helps CVC firms reduce information asymmetry in investment decisions. Because CVC firms can draw on the parent's existing networks and policy exposure, the additional value of policy information obtained through their own lobbying is likely lower than for independent firms. These alternative channels are less central to independent PE/VC firms' investment process, which may raise the value of policy information obtained through lobbying.

Among independent firms, PE and VC differ in how directly the regulatory environment shapes their deal decisions. PE transactions are structured around leveraged financing whose terms depend on prevailing interest rate conditions, tax treatment of fund structures, and antitrust review outcomes (Kaplan and Strömberg, 2009; Axelson et al., 2009). A PE firm evaluating a potential acquisition needs to assess whether these conditions will remain favourable over the holding period, and lobbying can provide information relevant to that assessment. VC firms face a different risk profile. Their investment decisions turn primarily on technology risk and market adoption, with staged financing as the primary mechanism through which VC firms manage this uncertainty (Gompers, 1995). The policy environment is less central to these decisions, which limits the scope for lobbying to affect VC deal activity. Lobbying is therefore expected to matter most for independent PE firms' deal activity.

Table 1-10 reports PPML estimates for subsamples defined by firm type. Panel A compares CVC firms with independent PE/VC firms. The coefficients on lobbying amount and the

lobbying indicator are both positive and significant at the 1% level for independent PE/VC firms. For CVC firms, both coefficients are positive but statistically insignificant, consistent with the argument that the parent corporation provides a substitute source of policy information. Panel B separates the sample into CVC, PE, and VC firms. For PE firms, lobbying amount is significant at the 5% level and the lobbying indicator at the 10% level. The stronger result for the continuous measure may suggest that variation in lobbying intensity captures information about the relationship between lobbying and deal activity beyond what the participation indicator alone can detect, though this difference could also reflect greater measurement precision in the continuous variable. For VC firms, neither lobbying measure is statistically significant. VC investment decisions depend more on startup quality and technology risk than on policy conditions, which limits the scope for lobbying to affect deal activity. CVC coefficients remain imprecise across both panels.

The results indicate that the positive relationship between lobbying and deal activity is concentrated among independent PE firms, which have fewer alternative information channels and face greater regulatory exposure in their investment decisions. This concentration reinforces the interpretation that lobbying is associated with deal activity primarily through its informational value rather than through broad political access.

Table 1-10: Heterogeneity by Firm Type

Panel A: CVC						
	(1)		(2)	(3)		(4)
Dependent variable: CVC		Independent		CVC		Independent
Number of Deals		PE/VC				PE/VC
Lobbying Amount	0.026		0.019***			
	(0.025)		(0.006)			
Lobby				0.193		0.199***
				(0.310)		(0.072)
Firm Age	-0.178*		-0.090**	-0.179*		-0.091**
	(0.095)		(0.040)	(0.095)		(0.040)
Firm Size	0.267***		0.253***	0.267***		0.254***
	(0.023)		(0.010)	(0.023)		(0.010)
Constant	0.876***		1.044***	0.908***		1.048***
	(0.214)		(0.091)	(0.211)		(0.090)
Observations	5,763		70,934	5,763		70,934
Pseudo R ²	0.643		0.654	0.643		0.654
Firm FE	YES		YES	YES		YES
Year FE	YES		YES	YES		YES
Panel B: Firm types						
	(1)	(2)	(3)	(4)	(5)	(6)
	CVC	PE	VC	CVC	PE	VC
Lobbying Amount	0.026	0.012**	0.005			
	(0.025)	(0.006)	(0.011)			
Lobby				0.193	0.120*	0.077
				(0.310)	(0.072)	(0.125)
Firm Age	-0.178*	0.080	-0.257***	-0.179*	0.079	-0.257***
	(0.095)	(0.056)	(0.049)	(0.095)	(0.056)	(0.049)
Firm Size	0.267***	0.150***	0.398***	0.267***	0.150***	0.398***
	(0.023)	(0.011)	(0.013)	(0.023)	(0.011)	(0.013)
Constant	0.876***	1.018***	0.722***	0.908***	1.027***	0.721***
	(0.214)	(0.158)	(0.088)	(0.211)	(0.158)	(0.088)
Observations	5,763	28,229	42,705	5,763	28,229	42,705
Pseudo R ²	0.643	0.640	0.687	0.643	0.640	0.687
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Note: This table reports PPML estimates examining heterogeneity in lobbying effects across firm types. The dependent variable is the number of deals. Panel A compares corporate venture capital (CVC) firms with independent PE/VC firms. Panel B presents separate estimates for CVC, PE, and VC firms. All regressions include firm and year fixed effects. All other variables are defined in Appendix A. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.4.5. Supplementary Analysis – Deal Amount

The main analysis uses deal count as the dependent variable. Deal count measures how many transactions a firm completes but does not capture the amount of capital committed. Private policy information could affect both margins: it may alter the set of opportunities a firm is willing to pursue and the amount invested in those transactions. The deal-amount analysis therefore examines whether the positive association between lobbying and deal count extends from transaction frequency to capital allocation.

Refinitiv reports the total rank value received by portfolio companies in each funding round, not the amount contributed by each individual investor. Following Tian et al. (2025), this analysis uses two definitions. Panel A of Table 1-11 uses the total round amount aggregated at the firm-year level. Panel B uses the round amount divided by the number of PE/VC firms participating in each round, which better approximates each firm's individual contribution. Many deals in Refinitiv do not report transaction amounts. Unreported amounts are more common among smaller and earlier-stage deals, so the deal amount sample overrepresents larger transactions.

None of the political activity measures shows a significant coefficient in the deal amount regressions. In Panel A, the coefficients on lobbying amount, the lobbying indicator, PAC amount, and the PAC indicator are all statistically insignificant. Panel B reports similar results for scaled deal amounts.

Deal counts and deal amounts capture distinct margins of investment activity. Policy information obtained through lobbying may help a firm assess regulatory exposure and identify which opportunities are sufficiently viable to pursue, thereby affecting transaction selection and the number of completed deals. The amount committed once a transaction is undertaken may depend more directly on fund capacity, co-investment arrangements, round-level valuation, and the availability of leverage in buyout transactions. These differences suggest that an association between lobbying and investment activity may be more readily observed in deal frequency than in deal amount.

Selective non-reporting of deal values in Refinitiv may further attenuate the estimated relationship. As noted above, unreported amounts are concentrated among smaller and earlier-stage transactions, and if lobbying is more strongly associated with these deal types, the missing values would bias the coefficient toward zero. The absence of a statistically significant association with deal amounts is also informative about the underlying mechanism. A policy-concession mechanism may also affect capital allocation if favourable regulatory treatment relaxes constraints on transaction size. By contrast, information acquisition is more directly related to assessing and selecting viable opportunities. The contrast between the positive association with deal counts and the lack of a detectable association with deal amounts therefore provides further support for the information-acquisition interpretation.

Table 1-11: Supplementary Analysis - Deal Amount

Panel A: Total Deal Amount				
Dependent variable: Total Deal Amount	(1)	(2)	(3)	(4)
Lobbying Amount	-0.006 (0.013)			
Firm Age	0.128 (0.115)	0.132 (0.115)	0.136 (0.117)	0.135 (0.117)
Firm Size	0.200*** (0.018)	0.199*** (0.018)	0.200*** (0.018)	0.200*** (0.018)
Lobby		-0.033 (0.166)		
PAC Amount			-0.013 (0.018)	
PAC				-0.112 (0.172)
_cons	5.843*** (0.334)	5.820*** (0.330)	5.821*** (0.318)	5.818*** (0.319)
Observations	73,458	73,458	73,458	73,458
Pseudo R ²	0.814	0.814	0.814	0.814
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Panel B: Scaled Deal Amount				
Dependent variable: Scaled Deal Amount	(1)	(2)	(3)	(4)
Lobbying Amount	0.003 (0.014)			
Firm Age	0.125 (0.121)	0.126 (0.120)	0.123 (0.120)	0.122 (0.119)
Firm Size	0.182*** (0.019)	0.182*** (0.019)	0.183*** (0.018)	0.183*** (0.018)
Lobby		0.073 (0.172)		
PAC Amount			-0.011 (0.020)	
PAC				-0.111 (0.198)
_cons	5.395*** (0.346)	5.383*** (0.336)	5.434*** (0.304)	5.432*** (0.305)
Observations	73,458	73,458	73,458	73,458
Pseudo R ²	0.828	0.828	0.828	0.828
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: This table reports PPML regression results for deal amount. The dependent variable in Panel A is total deal amount (log). The dependent variable in Panel B is scaled deal amount, defined as total deal amount divided by the number of

PE/VC firms participating in each round. All other variables are defined in Appendix A. All regressions include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

1.5. Conclusion

This chapter examines the association between political activities and PE/VC firms' investment behaviour. Resource dependence and political economy theory predict that firms engage with political systems to reduce uncertainty and secure informational advantages, and the PE/VC sector offers a setting in which to test this prediction directly. The baseline estimates show that lobbying is positively and significantly associated with deal frequency, with lobbying firms completing roughly one-fifth more deals than non-lobbying firms. PAC contributions show no comparable association. The contrast between the two channels is consistent with issue-directed lobbying being more closely related to deal activity than broader political contributions, since lobbying targets particular legislative and regulatory matters while PAC contributions primarily serve to maintain relationships with elected officials. The finding holds across alternative lobbying measures, model specifications, and sample restrictions, and the instrumental variable results are consistent with the baseline findings. The positive finding holds for deal frequency but not for deal amounts, indicating that the association is concentrated in transaction selection rather than capital allocation.

The heterogeneity analysis helps distinguish among competing explanations for the baseline result. The relationship between lobbying and deal activity strengthens when policy content is difficult to assess from public sources and weakens when the identity of future policymakers is uncertain. It is weaker under Democratic administrations, where policymaking tends to proceed through formal channels that limit the marginal informational value of lobbying, and stronger where access to policymakers is less costly and where former legislators serve as lobbyists. A firm's partisan orientation does not moderate the relationship. The effect is concentrated among independent PE firms and is absent for VC and CVC firms, consistent with differences in regulatory exposure and access to alternative information sources. During the Global Financial Crisis, when financial constraints dominated investment decisions, the positive effect weakens. During the pandemic, when government program design was the primary source of uncertainty, it strengthens. Across these tests, the pattern is more consistent with information acquisition than with policy concession or partisan network explanations. The interpretation most supported by the full set of results is

one in which lobbying helps PE/VC firms assess regulatory and policy conditions at the stage of transaction selection. This interpretation is consistent with the positive result appearing in deal counts rather than deal amounts, and with the stronger effects observed when policy signals are harder to read from public sources. It also accounts for the concentration of the effect among firms whose investment decisions depend more directly on regulatory conditions and that have fewer alternative channels through which to obtain comparable information.

The findings establish that PE/VC firms' own political engagement is associated with their investment behaviour, and that this association operates differently across channels and firm types. Lobbying is positively associated with deal frequency while PAC contributions are not, providing empirical evidence for the theoretical distinction between issue-directed engagement and broad relationship maintenance (Bennedsen and Feldmann, 2006) in the private capital setting. The concentration of the lobbying association among independent PE firms, and its absence for VC and CVC firms, indicates that the relevance of political engagement to investment decisions depends on the degree of regulatory exposure and the availability of alternative information channels.

The heterogeneity results also contribute to the broader debate on how political engagement affects firm outcomes. The opposing responses to policy content uncertainty and policymaker identity uncertainty favour an information-acquisition interpretation over policy concession. These tests compare the relative consistency of the two explanations rather than identifying an exclusive mechanism. Observing deal activity directly also links political engagement to the transaction choices of professional investment intermediaries, a decision margin not captured by the stock-return or analyst-based outcomes used in much of the public-firm literature. The evidence favouring an information-acquisition interpretation has practical relevance for how firms evaluate different forms of political engagement and for how regulators assess lobbying activity in the private capital sector.

1.6. Appendix A: Definition of Variables

Table A: Definition of Variables

Variable	Definition	Source
Number of Deals	The annual number of deals made by each PE/VC firm	Refinitiv
Investment Amount	The aggregated investment amount for each PE/VC firm in each year	Refinitiv
Investment Amount _{Scaled}	The aggregated value of investment amount scaled by the number of investors for each PE/VC firm in each year.	Refinitiv
Lobbying Amount	The natural logarithm of one plus lobbying expense	OpenSecrets.org (OpenSecrets (https://www.opensecrets.org)
Lobby	An indicator that equals 1 if a firm lobbies each year and 0 otherwise	OpenSecrets.org
Lobbyists	The natural logarithm of one plus total number of lobbyists employed by firms	OpenSecrets.org
In-House Lobbying	The natural logarithm of one plus the amount of lobbying expenditures made through in-house lobbyists	OpenSecrets.org
In-House Ratio	The amount of lobbying expenditures made through in-house (employee) lobbyists, divided by that firm's total lobbying expenditures	OpenSecrets.org
PAC Amount	The natural logarithm of one plus political donation	OpenSecrets.org
PAC	An indicator that equals 1 if a firm makes a political donation and 0 otherwise	OpenSecrets.org
Employee Political Donation	The total individual political donations of a firm's employees	OpenSecrets.org
Firm Age	The natural logarithm of one plus the number of years between the PE/VC firm's founding date and the observation year	Refinitiv
Firm Size	The cumulative investment amount over the five-year window preceding the investment date	Refinitiv
CVC	An indicator equal to one if a PE/VC firm is a corporate venture capitalist, and zero otherwise.	Refinitiv
PE	An indicator equal to one if a PE/VC firm is a private equity firm, and zero otherwise.	Refinitiv
VC	An indicator equal to one if a PE/VC firm is a venture capital firm, and zero otherwise.	Refinitiv
GFC	An indicator equal to one for the years 2008 and 2009, and zero otherwise.	Calculation

Pandemic	An indicator equal to one for the years 2020 and 2021, and zero otherwise	Calculation
Distance to D.C.	The natural logarithm of one plus the distance between a firm's headquarters and Washington DC (zip code 20001)	Author's calculation based on zipcode data by Refinitiv
Former Congressman	The number of former members of Congress employed as lobbyists by the PE/VC firm in a given year	OpenSecrets.org
Dem-Leaning	The difference between a firm's contributions to Democratic and Republican parties, scaled by total corporate political contributions	OpenSecrets.org
Democrat	An indicator equal to one when a Democratic president is in office	David Leip's Atlas of U.S. Presidential Elections
Election Period	An indicator equal to one if the observation year is in the year of or the year prior to a U.S. presidential election, and zero otherwise	David Leip's Atlas of U.S. Presidential Elections
PCI	Natural logarithm of the level of political polarization or disagreement among politicians in the U. S	Federal Reserve Bank of Philadelphia
EPU	Natural logarithm of the news-based economic policy uncertainty index constructed by Baker et al. (2016)	Baker et al. (2016)

Chapter 2: Firm-Level Political Risk and CEO Forced Turnover

2.1. Introduction

CEO dismissal is an irreversible decision that the board makes under uncertainty about the incumbent's quality and the availability of a suitable replacement. It carries consequences for leadership continuity, the credibility of internal governance, and the strategic direction of the firm (Huson et al., 2001; Kaplan and Minton, 2012). CEO tenure has shortened as turnover has become more frequent. Kaplan and Minton (2012) report an annual total CEO turnover rate of 15.8 percent among large U.S. firms from 1992 to 2007, higher than estimates for earlier periods and implying an average tenure of less than seven years. Unlike voluntary departures driven by the CEO's own circumstances, forced turnover represents the board's direct exercise of disciplinary authority when the incumbent's performance or conduct is judged inadequate (Parrino, 1997; Jenter and Kanaan, 2015). Firm performance is the most consistently documented predictor of the dismissal decision, and the sensitivity of forced turnover to performance has strengthened over recent decades (Kaplan and Minton, 2012). Board independence and institutional investor monitoring further shape how responsive boards are to poor performance (Weisbach, 1988; Chen et al., 2007), while CEO tenure and CEO-chairman duality are associated with greater entrenchment and weaker turnover-performance sensitivity (Goyal and Park, 2002; Allgood and Farrell, 2000). What shapes the board's willingness to exercise this authority has attracted sustained research attention, though much of this work has focused on firm-internal determinants.

The board does not observe CEO ability directly. It infers managerial quality from realised outcomes that combine the CEO's decisions with factors beyond the CEO's control, and this inference becomes less precise when a larger share of performance variation originates from external conditions (Bushman et al., 2010). Empirical evidence confirms that boards struggle to filter exogenous shocks from their assessments, allowing industry-wide and market-wide performance movements to influence CEO retention decisions even when these movements carry no information about CEO quality (Jenter and Kanaan, 2015; Jenter and Lewellen, 2021). The board's willingness to dismiss the CEO therefore depends on realised performance and on how confidently that performance can be attributed to managerial failure.

Prior research on forced turnover has focused primarily on governance structure and CEO characteristics, but the external environment in which boards interpret firm performance has received less attention. If the board's willingness to act depends on the informativeness of observed performance, then conditions that add noise to the performance signal may systematically affect the dismissal decision. Dasgupta et al. (2018) show that competition shocks from tariff reductions affect forced turnover, providing evidence that conditions outside the firm reach the boardroom. Unlike competition shocks, which are typically observable at the industry level, political risk exposure varies across firms within the same industry and year, making it harder for boards to benchmark the firm's experience against its peers. Political risk is therefore a distinct external condition that plausibly complicates the board's assessment. Firm-level political risk has been shown to affect corporate investment, financing, and cash holding decisions (Choi et al., 2022; Gyimah et al., 2022; Hasan et al., 2022; Gad et al., 2024), and is associated with higher default risk, greater earnings opacity, and elevated risk premia in credit and equity markets (Islam et al., 2022; Hoang et al., 2023; Gad et al., 2024; Ceballos et al., 2024). These consequences affect both the corporate policies that the CEO oversees and the informativeness of the performance measures on which boards rely when evaluating managerial quality. Boards already respond to political exposure through governance-level adjustments including board composition, executive compensation, and lobbying activity (Levy et al., 2025; Jeon et al., 2025; Rahman et al., 2024). Whether political risk also affects the board's willingness to dismiss the CEO remains largely unexamined.

Frye and Pham (2020) provide the most directly relevant evidence, documenting a negative association between aggregate economic policy uncertainty and forced CEO turnover. They interpret this finding as reflecting both the difficulty of evaluating CEO performance when the external environment is uncertain and the board's concern about finding a suitable replacement under such conditions. They also show that firms with an identifiable internal successor are not affected by high EPU, pointing to succession readiness as a factor that shapes the board's response. The EPU measure, however, captures uncertainty common to all firms in a given period and cannot account for variation in political exposure across firms

operating in the same aggregate environment. A firm in the defence sector may face acute political risk from a shift in procurement policy while a firm in consumer goods within the same year faces none, yet an aggregate index treats both identically. Hassan et al. (2019) construct a firm-level political risk measure from the textual analysis of quarterly earnings conference call transcripts that provides variation across firms in the same industry and year in political risk exposure. Because the measure is derived from management's discussion of politically relevant risks, it is well suited to capturing the political risk salient to the individual firm's operating environment (Gyimah et al., 2022) and provides within-industry, within-year variation that aggregate indices cannot. For a governance decision where the board evaluates a specific CEO against a specific firm's circumstances, this firm-level variation is what the analysis requires. A firm-level measure also allows the inclusion of year fixed effects, which absorb aggregate policy shocks and ensure that the estimated association is not confounded by common macroeconomic or political trends.

This chapter asks whether firm-level political risk is associated with the likelihood of forced CEO turnover. Two considerations suggest a negative association. First, elevated political risk may reduce the informativeness of observed firm performance for assessing CEO ability, making it harder for the board to determine whether poor outcomes reflect managerial decisions or adverse political conditions (Bushman et al., 2010; Jenter and Kanaan, 2015). Second, the cost of replacing the incumbent may be higher under political risk, because replacement costs vary with the firm's internal succession readiness and the incumbent's accumulated firm-specific knowledge may not carry over to a successor (Naveen, 2006; Mobbs, 2013).

The analysis uses a sample of 25351 firm-year observations across 2392 U.S. firms covered by ExecuComp over the period 2002 to 2021. Because ExecuComp primarily covers S&P 1500 firms, the sample represents large U.S. listed companies. The sample period encompasses several episodes of heightened political risk, including the global financial crisis, the escalation of U.S.-China trade tensions, and the onset of the COVID-19 pandemic. Firm-level political risk is measured as the natural logarithm of one plus the annual average of the firm-level political risk scores constructed by Hassan et al. (2019). CEO forced

turnover classifications are drawn from the dataset compiled by Gentry et al. (2021), which distinguishes involuntary dismissals from voluntary departures through systematic examination of media coverage, press releases, and SEC filings. The baseline specification is a linear probability model with Fama-French 48 industry and year fixed effects. Controls follow the standard specification in the forced turnover literature (Jenter and Kanaan, 2015; Frye and Pham, 2020). All explanatory variables are measured in fiscal year t , with the turnover outcome measured in fiscal year $t+1$ to establish temporal ordering.

The baseline estimates indicate a negative and statistically significant association between firm-level political risk and subsequent forced CEO turnover. A one-standard-deviation increase in FLPR is associated with an approximately 0.11 percentage point lower probability of forced turnover, a modest estimate consistent with the low base rate of forced dismissal in the sample. The coefficient remains negative and significant after accounting for realised firm performance and equity return volatility, suggesting that the association is unlikely to be explained solely by political risk worsening firm outcomes. The negative association is preserved under logit estimation and when FLPR is entered as a standardised unlogged measure, represented by the High FLPR indicator, or disaggregated into its eight topic-specific components. The estimate remains negative and statistically significant under alternative definitions of forced turnover (Wiersema and Zhang, 2011; Pavićević and Keil, 2025) and after controlling for Political Sentiment. An instrumental variable approach and propensity score matching both yield consistent results. A falsification test replacing the dependent variable with CFO turnover returns an insignificant coefficient, which weakens the alternative explanation that the finding reflects a general tendency to retain senior executives when political risk is elevated.

FLPR is associated with a weaker sensitivity of forced turnover to firm performance, consistent with political risk reducing the informativeness of observed performance for assessing CEO quality. The moderation and heterogeneity analyses provide further evidence on conditions consistent with both layers of the proposed mechanism. The baseline association is stronger when the board's capacity to evaluate CEO performance is more constrained and weaker when the board has greater access to political information, consistent

with attribution difficulty playing a role. The association is concentrated in firm-years where political risk is increasing rather than stable, and the estimated coefficient in this subsample is several times the baseline magnitude. Election periods, high partisan conflict, and below-trend macroeconomic conditions similarly strengthen the association, each representing an environment where the performance signal available to the board becomes noisier. On the replacement cost side, the association weakens when succession is easier and strengthens when the cost of leadership transition appears higher. The baseline association largely disappears when a viable internal successor is available, consistent with succession readiness reducing the board's reluctance to act under political risk.

The principal contribution of this chapter is to move the analysis of political uncertainty and forced CEO turnover from aggregate conditions to firm-level political risk. It extends the CEO forced turnover literature (Jenter and Kanaan, 2015; Bushman et al., 2010; Frye and Pham, 2020) by showing that the board's disciplinary decision depends on the conditions under which performance is interpreted, rather than solely on realised performance and governance structure. Prior work has examined how board composition, CEO entrenchment, and aggregate economic conditions affect forced turnover. The analysis uses this firm-level variation to examine attribution difficulty and replacement cost, including evidence that political risk weakens the sensitivity of forced turnover to firm performance. The strength of these channels varies with the board's monitoring capacity, the firm's access to political information, the trajectory of political risk, and the aggregate political and macroeconomic environment, suggesting that the board's disciplinary function is sensitive to a broader set of conditions than the existing literature has considered. The chapter also extends the firm-level political risk literature (Hassan et al., 2019; Hasan et al., 2022; Gyimah et al., 2022; Gad et al., 2024), which has focused primarily on corporate financial policies and market outcomes, to a board-level governance decision. Prior studies using the Hassan et al. measure have documented effects on investment, financing, and risk outcomes, but have not examined whether political risk shapes how boards evaluate and discipline the CEO. Relative to Frye and Pham (2020), the use of a firm-level measure makes it possible to identify the association across firms in the same industry and year after absorbing aggregate shocks, to examine

firm-level moderators that capture variation in monitoring capacity and political information access, and to distinguish between increasing and stable political risk. The firm-level measure also yields a different relationship between political risk and turnover-performance sensitivity, consistent with aggregate and firm-specific political risk operating through distinct channels.

The remainder of this chapter is organised as follows. Section 2.2 reviews the related literature and develops the hypothesis. Section 2.3 describes the research design. Section 2.4 presents the empirical results. Section 2.5 concludes.

2.2. Related Literature and Hypothesis Development

2.2.1. Firm-Level Political Risk

The relationship between political uncertainty and corporate decisions has a well-documented theoretical basis. Real options models predict that uncertainty raises the value of delaying irreversible investment, leading firms to adopt a cautious approach when the policy environment becomes less predictable (Bernanke, 1983; Dixit and Pindyck, 1994). Baker et al. (2016) develop a news-based economic policy uncertainty (EPU) index for the United States and document that higher EPU is associated with greater stock price volatility and reduced investment and employment, particularly in policy-sensitive sectors such as defence, healthcare, and finance. Julio and Yook (2012), exploiting the timing of national elections across a panel of countries, find that firms reduce capital expenditure during election years and increase it once electoral uncertainty resolves. Political uncertainty also affects asset prices and the cost of capital (Pástor and Veronesi, 2013), and its negative relationship with corporate investment has been confirmed using the EPU index in the United States (Gulen and Ion, 2016). The evidence indicates that political uncertainty depresses firm investment, raises the cost of capital, and increases market volatility.

While these findings are well established, several studies have noted that the aggregate measures employed in this literature treat all firms within an economy as equally exposed to political risk in a given period (Gyimah et al., 2022; Hasan et al., 2022; Gad et al., 2024).

An industry-wide regulatory change may substantially affect firms in the regulated sector while leaving firms in other sectors largely unaffected, and election-cycle indicators assign identical exposure to every firm in every election year regardless of whether the firm's operations are sensitive to the policy issues under debate. For research on firm-level governance outcomes, this limitation is particularly consequential. A board's decision to retain or dismiss a CEO is made with respect to a specific firm's performance and operating conditions, and if the political risk relevant to that decision varies across firms operating in the same economy at the same time, aggregate proxies cannot capture this variation. Hassan et al. (2019) provide direct evidence on the extent of this firm-level heterogeneity. Their variance decomposition shows that the vast majority of the variation in firm-level political risk is attributable to firm-level differences rather than to aggregate time-series or sector-level variation, suggesting that a firm-specific measure is needed to capture the heterogeneity that aggregate indices overlook.

Hassan et al. (2019) construct a firm-specific political risk measure derived from the textual analysis of quarterly earnings conference call transcripts. The measure captures the extent to which management discussion during these calls centres on risks associated with the political environment, and because it is drawn from the firm's own discourse rather than from external news sources or aggregate policy indicators, it reflects the political risk that is salient to each individual firm's operating environment (Gyimah et al., 2022). The resulting measure provides firm-year level variation, allowing researchers to compare political risk exposure across firms within the same industry and the same year. Hassan et al. validate the measure by demonstrating that it tracks known political events and that firms exposed to higher political risk on a given topic subsequently increase lobbying on that topic. Subsequent studies using this measure document that firm-level political risk affects corporate decisions across investment, financing, and risk management (Hasan et al., 2022; Gyimah et al., 2022; Gad et al., 2024).

Firms facing higher political risk reduce capital investment (Choi et al., 2022; Banerjee and Dutta, 2022) and scale back M&A activity (Chen et al., 2024), though the relationship with R&D is mixed. Atanassov et al. (2024) and Boah and Ujah (2024) present evidence that

political uncertainty may encourage rather than discourage research expenditure, consistent with the growth option view that initial research investment acquires options whose value rises with uncertainty. Firm-level political risk also shapes financing decisions. Politically exposed firms reduce leverage, shift toward shorter-maturity debt, and favour private debt sources that offer closer monitoring and more flexible renegotiation (Gyimah et al., 2022; Huang et al., 2023). Gad et al. (2024) extend this evidence to credit markets, showing that lenders respond to borrowers' firm-level political risk by charging higher spreads and imposing tighter covenants, consistent with political exposure increasing the uncertainty that creditors face in evaluating borrower quality. Saffar et al. (2024) report similar findings for bank loan contracting. Rahman et al. (2024) document a similar pattern on the equity side, showing that firm-level political risk also affects equity issuance decisions. On the asset side, firms increase precautionary cash holdings in response to higher political risk (Hasan et al., 2022; Jeon et al., 2022), consistent with both the real options motive to delay investment and the precautionary savings motive arising from increased financing frictions.

The financing frictions and performance volatility associated with political exposure also affect how external evaluators assess firm outcomes. Politically exposed firms face higher default risk (Islam et al., 2022) and greater stock price crash risk (Makrychoriti and Pyrgiotakis, 2024), and political risk is priced in both equity option markets and corporate bond markets (Ho et al., 2024; Ceballos et al., 2024). These findings are in line with the view that political exposure increases the volatility of the performance measures on which external evaluators rely. Consistent with this, Hoang et al. (2023) document that firms facing higher political risk exhibit greater earnings opacity, suggesting that political exposure reduces the informativeness of reported financial outcomes. Das and Yaghoubi (2023) further show that political risk reduces stock liquidity, compounding the difficulty of using market-based signals to assess firm performance. In payout policy, politically exposed firms increase dividend distributions, consistent with a signalling motive under uncertainty (Ahmad et al., 2023). A further strand of work has begun to examine governance responses directly. Levy et al. (2025) show that firms facing elevated political risk adjust board composition by appointing directors with political expertise, suggesting that boards actively

reconfigure themselves to manage the firm's political environment. Firms also increase lobbying expenditure in response to political risk (Rahman et al., 2024), and Jeon et al. (2025) find that firm-level political risk is negatively associated with CEO compensation, particularly the equity-based component, consistent with boards restructuring executive pay to account for political exposure. Boards are already adjusting their own composition and the structure of executive pay in response to political exposure, but whether political risk also shapes how boards evaluate CEO performance, and the disciplinary decisions that follow from that evaluation, has not been examined.

2.2.2. CEO Forced Turnover

CEO turnover encompasses both voluntary departures, where the CEO retires or pursues outside opportunities, and forced departures, where the board removes a CEO whose performance or conduct is judged inadequate. The determinants of these two types differ substantially. Voluntary turnover is driven primarily by the CEO's own circumstances and preferences, while forced turnover reflects the board's exercise of its disciplinary authority (Parrino, 1997; Jenter and Kanaan, 2015). Classifying turnover events into these categories is not straightforward, because firms rarely describe a departure as a dismissal in public announcements, and departures that are in practice forced by the board are often presented as voluntary to preserve the departing CEO's reputation and severance arrangements (Wiersema and Zhang, 2011; Gentry et al., 2021). The empirical literature identifies firm performance as the most consistent predictor of forced turnover. Poor stock returns and weak accounting performance raise the probability that the board will dismiss the CEO (Warner et al., 1988; Huson et al., 2001), and this turnover-performance sensitivity has strengthened over recent decades (Kaplan and Minton, 2012). The sensitivity varies across firms, however. Boards with a higher proportion of outside directors are more responsive to poor performance in making dismissal decisions (Weisbach, 1988; Guo and Masulis, 2015), and institutional investor monitoring reinforces this responsiveness (Chen et al., 2007; Liu et al., 2020), while longer CEO tenure and the combination of the CEO and board chair positions are associated with greater entrenchment and weaker turnover-performance sensitivity (Goyal and Park, 2002; Allgood and Farrell, 2000). Forced turnover is therefore a

performance-sensitive governance mechanism whose effectiveness varies with the governance structure of the firm and the power of the incumbent CEO, though the conditions under which the board observes and interprets that performance have received less attention.

The board's assessment of CEO quality is complicated by the fact that observed firm performance reflects both managerial decisions and factors outside the CEO's control. Bushman et al. (2010) model this learning process and show that the informativeness of observed performance for assessing CEO talent depends on the sources of variation that drive it. When performance volatility is driven primarily by variation in CEO ability, observed outcomes are diagnostic, and boards can more confidently distinguish low-ability incumbents from potential replacements. When volatility originates from factors unrelated to CEO talent, the board's inference becomes less precise, and its willingness to exercise the disciplinary option weakens. Their empirical results are consistent with this framework. CEO turnover is increasing in idiosyncratic risk, which they interpret as reflecting variation in CEO talent, and decreasing in systematic risk, which they interpret as noise from the board's learning perspective. Jenter and Kanaan (2015) provide empirical evidence on the attribution problem. They show that poor industry performance substantially increases the probability of forced CEO turnover, even though such industry-wide movements are beyond any individual CEO's control. There is some evidence that boards partially filter industry and market performance from their assessments, but the filtering is incomplete. Exogenous shocks to firm performance affect the turnover decision even when they carry no information about CEO quality. Jenter and Lewellen (2021) reinforce this conclusion by estimating that between 38 and 55 percent of all CEO turnovers are performance-induced, roughly twice the fraction identified as forced in prior studies, suggesting that many departures classified as voluntary are in fact driven by poor performance. The attribution challenge is therefore a pervasive feature of the forced turnover decision, and the difficulty of separating CEO quality from external conditions becomes more pronounced as those conditions become harder to observe and interpret.

Even when the board concludes that observed performance warrants action, its willingness to dismiss the CEO depends on the feasibility of replacing the incumbent. CEO transitions

involve successor selection under uncertainty about the replacement's quality, strategic disruption during the leadership transition, and the time required for a new CEO to develop firm-specific knowledge (Naveen, 2006). These costs are lower when the firm has invested in succession planning, because an identified internal candidate is already familiar with the firm's operations, culture, and competitive environment. Naveen (2006) documents that larger and more diversified firms are more likely to groom an internal successor, and that the presence of an identifiable successor is associated with a higher probability of inside succession and a lower probability of forced turnover. Mobbs (2013) provides more direct evidence that the availability of a credible internal replacement strengthens board discipline, showing that the presence of a talented inside director increases forced CEO turnover sensitivity to accounting performance. When the board has immediate access to a viable successor, the costs of replacing a poorly performing CEO are reduced, and the board is more willing to act. Peters and Wagner (2014) document the other side of this trade-off, finding that CEOs in industries with higher turnover risk command a compensation premium, which suggests that boards internalise the cost of dismissal when setting the terms of the employment relationship. The turnover decision is therefore shaped not only by the board's assessment of the incumbent but also by the conditions under which a replacement would need to operate.

Frye and Pham (2020) offer the most direct evidence on how the external environment conditions these decisions. They document that aggregate economic policy uncertainty is negatively associated with forced CEO turnover, and they interpret this finding as reflecting both the difficulty of evaluating CEO performance when the external environment is uncertain and the board's concern about finding a suitable replacement under such conditions. Their finding that firms with an identifiable internal successor are not affected by high EPU reinforces the link between succession readiness and the board's response to external uncertainty. Dasgupta et al. (2018) demonstrate from a different angle that external shocks reach the boardroom, showing that competition shocks induced by tariff reductions increase the likelihood of forced turnover. These studies establish that conditions outside the firm affect the board's disciplinary decisions. Frye and Pham's measure, however, captures

uncertainty common to all firms in a given period and cannot distinguish between firms that face high political exposure and those that do not within the same aggregate environment. The variance decomposition in Hassan et al. (2019) shows that political risk exposure differs substantially across firms within the same economy and time. A firm-specific measure of these conditions may therefore be better suited to capturing how the external environment shapes the board's willingness to act.

2.2.3. Firm-Level Political Risk and CEO Forced Turnover

The evidence that firm-level political risk increases outcome volatility and reduces the informativeness of observed performance, combined with the evidence that boards struggle to separate CEO quality from external conditions when making dismissal decisions, suggests that firm-level political risk may also affect the probability of forced CEO turnover. Elevated political exposure could plausibly increase forced turnover if it worsens firm performance and leads boards to demand stronger accountability. Political risk depresses investment and raises financing costs (Gyimah et al., 2022; Gad et al., 2024), and the resulting deterioration in firm outcomes could trigger the same performance-driven dismissals documented in the turnover literature (Huson et al., 2001; Kaplan and Minton, 2012). Yet the same political exposure that worsens outcomes also makes those outcomes harder to interpret. Firm-level political risk reflects the political exposure salient to the individual firm's operating environment (Hassan et al., 2019). Boards may incorporate the CEO's capacity to anticipate policy developments, adapt corporate strategy, and manage relationships with policymakers into their assessment of managerial performance. The management of political exposure may therefore form part of the CEO's responsibilities rather than being treated as entirely outside managerial control. Nevertheless, realised performance reflects both the quality of the managerial response and political developments beyond the CEO's control, and their relative contributions may be difficult to identify.

Bushman et al. (2010) show that the informativeness of observed performance for learning about CEO ability declines when a larger share of performance variation originates from factors beyond managerial control. Political risk is a source of such external variation, and

when it is elevated, the board faces greater difficulty in determining whether observed outcomes reflect CEO quality or the firm's political environment. Jenter and Kanaan (2015) demonstrate that boards already struggle to filter exogenous shocks from their assessments even when those shocks are relatively transparent, as in the case of observable industry-wide downturns. When the source of exogenous variation is instead a firm-specific political exposure, the filtering problem is likely to be more acute, because the firm's individual political exposure is less transparent and harder to benchmark against peers (Hassan et al., 2019). Frye and Pham (2020) provide direct empirical evidence consistent with this reasoning at the aggregate level, documenting that higher economic policy uncertainty is associated with a lower likelihood of forced CEO turnover. They interpret this finding as reflecting the board's difficulty in evaluating CEO performance when the external environment is uncertain. Their results suggest that boards do not reduce their reliance on performance when making dismissal decisions, but rather become more hesitant to act on observed performance when uncertainty is rising. At the firm level, the attribution problem is likely to be even more pronounced, because the political risk captured by the Hassan et al. (2019) measure is specific to the individual firm's policy environment and therefore harder to observe, assess, and filter than aggregate policy uncertainty common to all firms.

As the board's assessment of CEO quality becomes less precise, the threshold for action rises. Forced dismissal is an irreversible decision, and directors bear reputational costs from a dismissal that is subsequently seen as unwarranted (Hermalin and Weisbach, 1998). When performance signals are noisy, boards face a greater risk of mistakenly removing a competent CEO whose poor outcomes reflect political headwinds rather than managerial failure. The tendency to prefer inaction over potentially erroneous action under uncertainty is well documented in the decision-making literature (Kahneman and Tversky, 1982), and Frye and Pham (2020) invoke this logic to explain why boards become more hesitant to dismiss the CEO when policy uncertainty is rising. Applied to firm-level political risk, this reasoning suggests that boards facing elevated political exposure will require stronger evidence of CEO underperformance before acting, effectively raising the evidential threshold for forced dismissal. This argument parallels the logic of irreversible investment

under uncertainty: when information relevant to an irreversible decision is expected to improve, delaying action can be valuable (Bernanke, 1983; Dixit and Pindyck, 1994). Political risk may similarly lead boards to postpone CEO replacement until the political environment and the information contained in firm performance become clearer. During this period, boards may continue to update their assessment of CEO quality while applying a higher threshold to the dismissal decision.

This reluctance to act is compounded by the costs of replacing the incumbent. CEO transitions involve successor selection under uncertainty, strategic disruption, and the time required for a new CEO to acquire firm-specific knowledge (Naveen, 2006; Huson et al., 2004). These costs are present in any leadership change, but they are amplified when the firm's operating environment is politically uncertain. An incumbent CEO who has navigated the firm's political landscape has accumulated understanding of its regulatory exposures and the policy issues most relevant to its operations. This firm-specific political knowledge constitutes a form of human capital that does not transfer automatically to a successor (Wang et al., 2017). The succession planning literature documents that the costs of CEO replacement vary with the firm's internal readiness (Naveen, 2006; Mobbs, 2013), and Frye and Pham (2020) find that succession readiness mitigates the effect of aggregate uncertainty on forced turnover. Peters and Wagner (2014) show that CEOs in more volatile environments command higher compensation, indicating that boards recognise and internalise the difficulty of attracting replacements when operating conditions are uncertain. Political risk also raises the cost of replacing the incumbent, because the political knowledge embedded in the current CEO-firm relationship is specific to the firm's policy environment in a way that general managerial skill is not.

Political risk can affect forced CEO turnover through competing channels. Where poor performance can be attributed to an inadequate managerial response to political exposure, greater political risk may strengthen the case for dismissal. Dasgupta et al. (2018) show that competition shocks increase both forced CEO turnover and its sensitivity to performance, illustrating how a change in the external environment can intensify board discipline. This accountability channel is more likely to dominate when performance remains informative

about managerial ability and a credible successor is available, limiting the costs of replacement (Bushman et al., 2010; Mobbs, 2013). When political developments reduce the informativeness of performance and increase the value of the incumbent's firm-specific political knowledge, however, attribution difficulty and replacement costs favour retention. On balance, these retention forces are expected to dominate, yielding a negative association between firm-level political risk and forced CEO turnover. A higher dismissal threshold has ambiguous governance implications. It may reduce the risk of removing a competent CEO on the basis of a noisy performance signal, but it may also extend the tenure of an underperforming incumbent. Whether retention benefits shareholders depends on the balance between these two considerations, which cannot be inferred from the turnover outcome alone.

H1: Firms with higher firm-level political risk are associated with lower likelihood of forced CEO turnover.

2.3. Research Design

2.3.1. Sample Selection and Data Source

The sample is drawn from U.S. firms covered by the ExecuComp database over the period 2002 to 2021. Since ExecuComp primarily covers S&P 1500 firms, the sample mainly represents large U.S. listed companies. The choice of 2002 to 2021 as the sample period is driven by the availability of firm-level political risk data, which begins in 2002. This period also encompasses several episodes of heightened political risk in the United States, including the global financial crisis, the escalation of U.S.-China trade tensions, and the onset of the COVID-19 pandemic. These episodes generate meaningful time-series variation in firm-level political exposure across sample firms.

Firm-level political risk measures are obtained from Hassan et al. (2019). CEO turnover classifications are drawn from the dataset compiled by Gentry et al. (2021), supplemented with CEO characteristics from ExecuComp. Board characteristics, including board size and the proportion of independent directors, are obtained from BoardEx. Firm-level financial

data are collected from Compustat, and stock return data are obtained from the Center for Research in Security Prices (CRSP).

Since the dependent variable is measured one fiscal year ahead of the explanatory variables, the independent variables span 2002 to 2021 and the turnover outcomes span 2003 to 2022. I require non-negative book value of total assets and non-missing values for all variables included in the baseline regression. All continuous variables are winsorized at the 1st and 99th percentiles to mitigate the influence of outliers. The final sample comprises 25351 firm-year observations covering 2392 unique firms.

2.3.2. Measurement of Firm-Level Political Risk

Prior research on political risk and corporate decision-making has relied primarily on aggregate measures, such as the Economic Policy Uncertainty index developed by Baker, Bloom, and Davis (2016), or on major political events such as national elections and trade conflicts as indicators of political risk. While these approaches capture broad shifts in the policy environment, they impose a common exposure on all firms in a given period and cannot account for differences in political risk across firms operating in the same economy at the same time (Gyimah et al., 2022; Gad et al., 2024). As noted by Hassan et al. (2019), such measures may reflect broader political uncertainty while overlooking the specific risks each firm faces. Their variance decomposition shows that more than 90 percent of the variation in firm-level political risk is attributable to firm-level differences rather than aggregate time shocks, suggesting that a firm-specific measure is needed to capture this variation.

I adopt the firm-level political risk measure constructed by Hassan et al. (2019), which is derived from textual analysis of quarterly earnings conference call transcripts. Earnings calls are structured discussions between firm management and analysts or investors, typically held after the release of quarterly financial results. To construct the measure, Hassan et al. first develop two training libraries to distinguish political from non-political language. The political training library draws on undergraduate political science textbooks and political coverage from major U.S. newspapers, while the non-political library draws on financial

accounting textbooks and news coverage of corporate events. Political bigrams, defined as two-word combinations that appear disproportionately in the political training library, are then identified from these corpora. The political risk score for a given firm-quarter is calculated by counting the frequency of these bigrams within a ten-word window of synonyms for "risk" or "uncertainty" in the earnings call transcript, scaled by the total number of bigrams in the transcript (Hassan et al., 2019). Because the measure is constructed from the firm's own management discourse rather than from external news sources or aggregate policy indicators (Gyimah et al., 2022), it reflects the political risk that is salient to the individual firm's operating environment.

Hassan et al. validate the measure by having human coders verify that the algorithm correctly identifies discussions of political risk, and by showing that the measure tracks known political events such as elections and major policy debates over time. In addition to the overall political risk score, Hassan et al. also construct a separate political sentiment measure that captures the tone rather than the level of political discussion. The present study focuses on the political risk measure because the research question concerns the uncertainty created by political exposure.⁵

The original data are available at the firm-quarter level. Following prior studies that use this measure in annual panel settings (Hasan et al., 2022; Gyimah et al., 2022), I compute the annual average of the quarterly scores to obtain a firm-year measure. The key independent variable, FLPR, is defined as the natural logarithm of one plus this annual average. A higher value of FLPR indicates that the firm faces greater political risk exposure. The logarithmic transformation reduces the right skewness present in the raw measure, and the descriptive statistics in Table 2-1 confirm that the transformed variable has a near-symmetric distribution with the mean and median close in value. Hassan et al. also provide eight topic-specific sub-indices that decompose the overall score into economic, environmental, trade, institutional, health, security, tax, and technological risk. I use these sub-indices in a

⁵ Political Sentiment is included as an additional control to distinguish the level of political risk from the direction of political news.

supplementary analysis reported in Section 2.4 to examine whether the baseline result is driven by any particular type of political exposure.

2.3.3. Measurement of CEO Turnover

The CEO turnover literature distinguishes between forced and voluntary departures, with most studies focusing on forced turnover as a measure of board disciplinary action (Bushman et al., 2010; Jenter and Kanaan, 2015). Classifying the nature of CEO departures is not straightforward, as firms rarely describe a departure as a dismissal in public announcements (Gentry et al., 2021). I obtain CEO turnover data from the open-source dataset compiled by Gentry et al. (2021), which addresses this challenge through systematic examination of media coverage, press releases, and SEC filings for each departure event in S&P 1500 firms. The coding scheme has been validated against independently constructed turnover datasets. Gentry et al. classify each departure into one of several categories that distinguish between involuntary turnover, voluntary retirement, departure to pursue new opportunities, and departures related to CEO death or illness.

I define forced CEO turnover as a binary indicator equal to one if the CEO is involuntarily dismissed, and zero otherwise (Gentry et al., 2021). Recent studies adopt the same turnover classification (Thams and Rickley, 2024; Pavićević and Keil, 2025). Involuntary dismissals fall into two groups (departure codes 3 and 4). The first covers departures related to poor performance, where media coverage cites poor financial results or leadership deficiencies as the reason for the CEO's removal. The second covers departures triggered by legal or ethical violations, such as breaches of company policy or personal misconduct. Departures associated with mergers, acquisitions, or corporate restructuring are excluded, as these events reflect changes in corporate ownership rather than board disciplinary decisions. I follow Gentry et al. (2021) in also excluding cases with insufficient information or ExecuComp coding errors. The dependent variable is measured in fiscal year $t+1$, with all explanatory variables measured in fiscal year t .

Forced turnover reflects the board's decision to exercise its disciplinary authority and remove a CEO whose performance or conduct is deemed inadequate. The determinants of voluntary

departures, such as retirement or the pursuit of new opportunities, differ substantially from those of forced turnover (Parrino, 1997; Jenter and Kanaan, 2015), and voluntary turnover is therefore less suited to testing how external political risk affects board governance decisions.

2.3.4. Empirical Strategy

To examine the relationship between firm-level political risk and CEO forced turnover, I estimate the following linear probability model:

$$\begin{aligned} CEO\ Forced\ Turnover_{i,t+1} = & \beta_0 + \beta_1 FLPR_{i,t} + \beta_j Controls_{i,t} \\ & + IndustryFE + YearFE + \varepsilon_{i,t} \end{aligned} \quad (2.1)$$

where $CEO\ Forced\ Turnover_{i,t+1}$ is a binary indicator equal to one if the CEO of firm i experiences forced turnover in fiscal year $t + 1$, and zero otherwise. $FLPR_{i,t}$ is the natural logarithm of one plus the firm-level political risk measure of Hassan et al. (2019) for firm i in fiscal year t . The coefficient of interest is β_1 , which captures the association between firm-level political risk and the probability of forced CEO turnover in the subsequent year. The dependent variable is measured one year ahead of the independent variables to establish temporal ordering between political risk exposure and the turnover outcome. The text-based construction of the FLPR measure introduces a specific simultaneity concern. The political risk score is derived from quarterly earnings conference call transcripts. If forced turnover were measured in the same fiscal year as the explanatory variables, a CEO departure during that year would alter the composition and content of the firm's remaining earnings calls, creating a mechanical link between the turnover event and the risk measure. Under the lagged structure, the earnings calls entering the FLPR calculation for year t are predominantly conducted while the incumbent CEO remains in office, and the turnover outcome is not realised until year $t+1$.

I adopt the linear probability model as the primary estimation approach. The LPM provides coefficients that are directly interpretable as marginal changes in the probability of forced turnover and is commonly adopted in the corporate finance literature when fixed effects and

a rich set of controls are included. As a robustness check, I re-estimate the baseline specification using a logit model and report the results in Section 2.4.2.1.

The vector of control variables follows the standard specification in the CEO forced turnover literature (Jenter and Kanaan, 2015; Frye and Pham, 2020; Gentry et al., 2021). I include three groups of controls that capture the main determinants of forced CEO dismissal identified in prior research. The first group captures firm-level financial characteristics. Industry-adjusted return on assets controls for relative firm performance, the most consistently documented predictor of forced CEO turnover (Jenter and Kanaan, 2015; Kaplan and Minton, 2012). It is calculated as the firm's return on assets minus the median return on assets of all firms in the same Fama-French 48 industry in the same fiscal year, so that industry-wide performance shocks are not attributed to the individual CEO. Firm size is included to account for differences in organisational complexity and the scale of CEO replacement decisions. Leverage, market-to-book ratio, stock return volatility, and cash holdings are included to control for differences in capital structure, growth opportunities, equity return variability, and liquidity position. Stock return volatility is measured as the standard deviation of monthly stock returns over the twelve months ending at the fiscal year-end.

The second group captures board monitoring capacity through board size and the proportion of independent directors, as independent boards are more likely to dismiss underperforming CEOs (Weisbach, 1988). The third group controls for CEO entrenchment. CEO tenure captures accumulated board familiarity and influence that may reduce the likelihood of forced turnover. CEO-chairman duality is included because CEOs who also serve as chairman of the board face weaker monitoring and are less likely to be forcibly removed (Goyal and Park, 2002).

All regressions include Fama-French 48 industry fixed effects and year fixed effects. Year fixed effects absorb aggregate macroeconomic and political shocks common to all firms in a given year, so that the coefficient on FLPR does not reflect broad changes in the national political environment. Industry fixed effects absorb time-invariant industry characteristics

that may correlate with both political risk exposure and CEO turnover patterns. With both sets of fixed effects included the coefficient on FLPR is estimated from cross-sectional variation in political risk across firms within the same industry and year. Standard errors are clustered at the firm level to account for serial correlation within firms over time. All variables are defined in Appendix B.

2.3.5. Descriptive Statistics

Table 2-1 presents descriptive statistics for the main variables. Over the sample period from 2002 to 2021, 731 observations are classified as forced CEO departures based on the coding scheme of Gentry et al. (2021), corresponding to a forced turnover rate of approximately 2.9%, consistent with prior studies using similar classification methods (Jenter and Kanaan, 2015).⁶

The key independent variable, FLPR, has a mean of 4.340 and a standard deviation of 1.036. The mean and median (4.415) are close in value, indicating that the transformed variable is approximately symmetrically distributed. The standard deviation also suggests considerable variation in political risk across firms. Among the firm-level controls, mean log total assets is 7.905, consistent with the large-firm coverage of ExecuComp. Mean industry-adjusted ROA is 0.064, mean leverage is 0.241, and mean stock return volatility is 0.104. The mean market-to-book ratio is 3.089 with a standard deviation of 4.648, reflecting wide dispersion in growth opportunities across sample firms. Boards have a mean size of 12 directors, with a mean independence ratio of 0.704. Mean CEO tenure is 8.2 years, with a median of 6 years. CEO duality is present in 62.3% of observations.

Figure 2-1 plots the annual mean of FLPR from 2002 to 2021. The measure exhibits time-series variation, with higher values observed around the global financial crisis and subsequent policy interventions in 2008-2009, the 2012 presidential election and fiscal cliff negotiations, and most prominently, the onset of the COVID-19 pandemic and the 2020 U.S. presidential election. A visible uptick also appears in 2019, a period marked by escalating

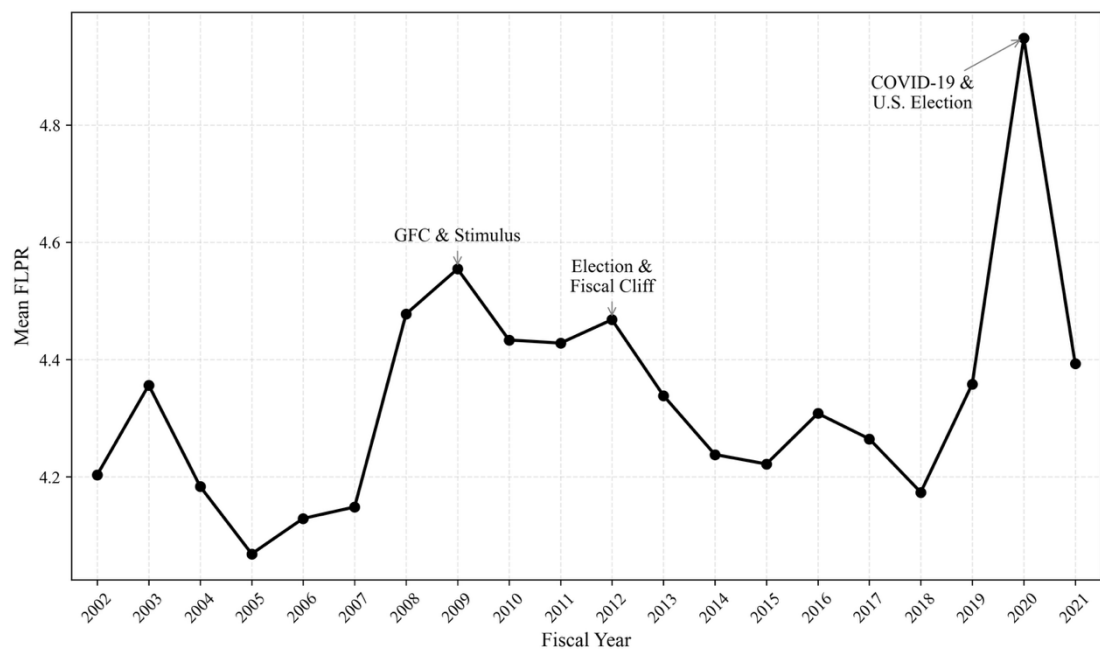
⁶ Before excluding observations with missing values in control variables, the broader sample contains 1,417 forced CEO turnovers out of 4,051 total CEO turnover events.

U.S.–China trade tensions and heightened policy debates. These peaks align with episodes that prior literature independently associates with heightened political risk, lending credibility to the measure. While Figure 2-1 captures the time-series pattern in average FLPR, the standard deviation reported in Table 2-1 suggests that differences across firms remain substantial within each year.

Table 2-1: Descriptive Statistics

Variable	Observations	Mean	Median	SD	Min	Max
CEO Forced Turnover	25,351	0.029	0	0.167	0	1
FLPR	25,351	4.340	4.415	1.036	0	6.503
Ind_ROA	25,351	0.0640	0.0330	0.132	-0.367	0.626
Ln (Size)	25,351	7.905	7.788	1.749	3.166	12.53
Leverage	25,351	0.241	0.220	0.202	0	1.003
Market-to-Book	25,351	3.089	2.058	4.648	-13.18	30.70
Stock Volatility	25,351	0.104	0.0890	0.0590	0.0290	0.376
Cash	25,351	0.153	0.0900	0.169	0.00100	0.810
Board Size	25,351	12.17	12	4.340	5	28
Independence	25,351	0.704	0.667	0.159	0.357	0.941
CEO Tenure	25,351	8.200	6	7.205	0.500	35
CEO Duality	25,351	0.623	1	0.485	0	1

Figure 2-1: Average Firm-Level Political Risk Over Time



Note: Figure 2-1 plots the annual cross-sectional mean of $\ln(1 + \text{FLPR})$ for all sample firms from 2002 to 2021. FLPR is the firm-level political risk measure constructed by Hassan et al. (2019). Key political and economic events are annotated.

2.4. Empirical Results and Discussion

2.4.1. Baseline Regression

Table 2-2 reports the baseline estimates of the association between firm-level political risk and CEO forced turnover. The coefficient on FLPR is negative across all four specifications. Column (1) includes only FLPR with year and Fama-French 48 industry fixed effects, where the estimate is -0.0008 and significant at the 10% level. Columns (2) through (4) progressively incorporate firm-level controls, board characteristics, and CEO characteristics. Across these specifications, the coefficient increases modestly in magnitude to -0.0011 and is statistically significant at the 1% level in the full specification. Between Columns (3) and (4), the addition of CEO tenure and CEO-chairman duality leaves the point estimate virtually unchanged, suggesting that the negative relationship is not explained away by observed CEO characteristics. This finding aligns with Frye and Pham (2020), who document a negative relationship between aggregate economic policy uncertainty and CEO turnover, though their measure captures common time-series shocks rather than variation in political exposure across firms.

Industry-adjusted ROA enters with a negative and significant coefficient, indicating that weaker firm performance relative to industry peers increases the likelihood of forced dismissal (Jenter and Kanaan, 2015). Stock return volatility is positive and significant. Firms with more volatile equity returns are more likely to experience forced CEO turnover. CEO-chairman duality is associated with a lower probability of forced turnover and board independence with a higher probability, in line with prior evidence on CEO entrenchment (Goyal and Park, 2002) and board monitoring (Weisbach, 1988). FLPR remains negative and significant after the inclusion of both performance and volatility measures, suggesting that the result is not solely driven by poor operating outcomes or stock return volatility.

In terms of economic magnitude, the coefficient of -0.0011 in the full specification implies that a one-standard-deviation increase in FLPR (1.036) is associated with an approximately 0.11 percentage point lower probability of forced CEO turnover. Relative to the sample mean forced turnover rate of 2.9 percent, this corresponds to a decrease of approximately 4 percent.

The corresponding one-standard-deviation changes for stock return volatility and industry-adjusted ROA are 0.39 and 0.16 percentage points, respectively. A related benchmark is provided by Peters and Wagner (2014), who report an approximately 0.20 percentage point increase in forced turnover probability associated with a one-standard-deviation increase in industry volatility. Although the underlying risk measure and empirical specification differ, their estimate provides a useful reference point for interpreting the magnitude of the present result. The adjusted R^2 of 0.011 summarises overall model fit, whereas the economic magnitude of FLPR is captured by the implied change in turnover probability. Although modest in absolute terms, the estimate is economically relevant in the context of an infrequent board decision with implications for leadership continuity and corporate strategy (Huson et al., 2001; Kaplan and Minton, 2012).

The negative association between FLPR and forced CEO turnover is consistent with *H1*. Prior research has documented that firms facing elevated political risk adjust corporate policies such as cash holdings (Hasan et al., 2022) and leverage (Gyimah et al., 2022). Board disciplinary decisions appear to follow a similar pattern. The baseline specification controls for industry-adjusted ROA and stock return volatility, yet the coefficient on FLPR remains negative and significant. If political risk affected forced turnover only by worsening firm performance, controlling for realised performance should absorb the estimated association. That it does not is consistent with the possibility that political risk affects the board's evaluation of observed performance rather than performance outcomes alone. When a firm faces elevated political exposure, the same level of underperformance becomes harder for the board to attribute to the CEO's decisions, because a portion of the adverse outcome may reflect political conditions beyond managerial control.

Table 2-2: Baseline Regression

	(1)	(2)	(3)	(4)
FLPR	-0.0008*	-0.0010**	-0.0011***	-0.0011***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)
Ind_ROA		-0.0150**	-0.0134**	-0.0123*
		(0.0068)	(0.0068)	(0.0068)
Size		0.0016***	0.0013**	0.0017***
		(0.0005)	(0.0006)	(0.0007)
Leverage		0.0063	0.0064	0.0051
		(0.0044)	(0.0043)	(0.0043)
Market-to-Book		-0.0003***	-0.0003***	-0.0003***
		(0.0001)	(0.0001)	(0.0001)
Stock Volatility		0.0705***	0.0717***	0.0667***
		(0.0166)	(0.0167)	(0.0165)
Cash		0.0036	0.0048	0.0039
		(0.0052)	(0.0052)	(0.0052)
Board Size			0.0004*	0.0004
			(0.0002)	(0.0002)
Independence			0.0154***	0.0114*
			(0.0058)	(0.0059)
CEO Tenure				-0.0002*
				(0.0001)
CEO Duality				-0.0101***
				(0.0016)
_cons	0.0137***	-0.0049	-0.0194***	-0.0103
	(0.0020)	(0.0050)	(0.0075)	(0.0079)
Observations	25,351	25,351	25,351	25,351
Adjusted R ²	0.0062	0.0083	0.0086	0.0110
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

Note: This table reports LPM estimates of the effect of FLPR on CEO forced turnover. The dependent variable is CEO forced turnover. Column (1) includes only FLPR. Column (2) adds firm-level controls. Column (3) adds board characteristics. Column (4) further adds CEO characteristics. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.2. Robustness Tests

The baseline result may be sensitive to the choice of functional form, to the transformation and composition of the political risk measure, to the measurement of CEO forced turnover, to the tone of political news, or to the possibility that FLPR captures a broader tendency for firms to retain senior executives during periods of elevated political risk. The following five subsections address these concerns.

2.4.2.1. Alternative Empirical Model

To examine whether the baseline result is sensitive to the choice of functional form, I re-estimate the model using logit regression to account for the binary nature of the dependent variable. Table 2-3 follows the same column structure as Table 2-2, progressively adding firm-level controls, board characteristics, and CEO characteristics.

The coefficient on FLPR is negative and statistically significant across all four specifications. Significance increases as controls are added, from the 10% level in Column (1) to the 1% level in Column (4), consistent with the pattern observed in the baseline LPM estimates. The sample size is 24779, slightly smaller than the baseline sample of 25351, because observations that are perfectly predicted by the fixed effects are automatically excluded from the logit estimation. The logit estimates suggest that the negative relation between FLPR and CEO forced turnover is robust to an alternative functional form assumption. The consistency between the LPM and logit estimates supports the use of the linear specification as the primary model, which facilitates straightforward interpretation of interaction terms in the moderation analysis that follows.

Table 2-3: Logit Model

	(1)	(2)	(3)	(4)
FLPR	-0.0680*	-0.0933**	-0.1009***	-0.1057***
	(0.0376)	(0.0386)	(0.0388)	(0.0403)
Ind_ROA		-1.6631**	-1.5234**	-1.3683*
		(0.7063)	(0.7077)	(0.7207)
Size		0.1636***	0.1391**	0.1814***
		(0.0475)	(0.0605)	(0.0618)
Leverage		0.4244	0.4097	0.3737
		(0.3803)	(0.3790)	(0.3762)
Market-to-Book		-0.0394***	-0.0397***	-0.0399***
		(0.0145)	(0.0145)	(0.0151)
Stock Volatility		5.6345***	5.7683***	5.2555***
		(1.1242)	(1.1291)	(1.1206)
Cash		0.3728	0.4881	0.4659
		(0.4675)	(0.4695)	(0.4715)
Board Size			0.0437**	0.0418*
			(0.0213)	(0.0214)
Independence			1.5157***	1.2953**
			(0.5787)	(0.5762)
CEO Tenure				-0.0218*
				(0.0123)
CEO Duality				-0.9991***
				(0.1441)
_cons	-2.8555***	-4.7983***	-6.1022***	-5.3485***
	(0.5523)	(0.6923)	(0.8145)	(0.8311)
Observations	24,779	24,779	24,779	24,779
Pseudo R ²	0.0668	0.0870	0.0898	0.1134
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

Note: This table reports logit estimates as a robustness check on the baseline specification. The dependent variable is CEO forced turnover. The column structure follows Table 2-2. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.2.2. Alternative Measures of Firm-Level Political Risk

Table 2-4 assesses whether the negative association between FLPR and subsequent forced CEO turnover persists when political risk is measured using alternative transformations and topic-specific components. Panel A focuses on two alternative aggregate FLPR measures. The standardised specification rescales the unlogged FLPR measure to have a mean of zero and a standard deviation of one, following Gad et al. (2024). Expressing FLPR in standard deviation units permits the coefficient to be interpreted as the effect of a one-standard-deviation change and allows the association to be estimated without relying on the logarithmic transformation used in the baseline specification. The High FLPR specification instead uses an indicator equal to one when logged FLPR exceeds the median in the baseline estimation sample and zero otherwise. Indicator-based transformations have also been used to identify firm-years subject to elevated political risk (Wang, 2025). This specification compares subsequent forced CEO turnover between relatively high- and low-FLPR firm-years without imposing a linear relationship across the continuous FLPR distribution. Both specifications retain the estimation sample, controls, and fixed-effects structure used in Column (4) of Table 2-2. The coefficient on standardised FLPR in Column (1) is -0.0032 and statistically significant at the 1% level. A one-standard-deviation increase in unlogged FLPR is associated with a 0.32 percentage point reduction in the probability of subsequent forced CEO turnover. The coefficient on High FLPR in Column (2) is -0.0064 and also significant at the 1% level, indicating that the probability of subsequent forced CEO turnover is 0.64 percentage points lower for firm-years with above-median FLPR. Both measures therefore yield the same directional inference as the baseline specification.

To examine whether the baseline result is sensitive to the composition of political risk, I disaggregate the overall FLPR measure into eight topic-specific components provided by Hassan et al. (2019), covering economic, environmental, trade, institutional, health, security, tax, and technological risk. Panel B of Table 2-4 reports the results of re-estimating the baseline model with each component entered separately as the key independent variable. The coefficients on all eight topic-specific measures are negative and statistically significant, suggesting that the negative association between FLPR and subsequent forced CEO turnover

is not confined to a particular category of political risk. Among the eight components, the coefficients on institutional and economic risk are the largest in absolute magnitude, while the estimate for trade risk is closest to zero. Institutional and economic policy risks originate from regulatory and macroeconomic conditions that firms have limited ability to influence, and adverse outcomes associated with these risks may be harder for boards to separate from CEO decision-making. Trade risk tends to have more direct consequences for firm cost structures, which may give boards a clearer basis for evaluating managerial responses. The consistency of the estimates across the alternative transformations in Panel A and the topic-specific measures in Panel B indicates that the negative association does not depend on the logarithmic form or aggregate composition of the baseline FLPR measure. The evidence is consistent with a general difficulty in attributing firm outcomes to CEO decisions under political risk, rather than a response confined to a particular policy domain.

Table 2-4: Alternative Measures of Firm-Level Political Risk

Panel A: Alternative Transformations of Aggregate FLPR		
	(1)	(2)
Standardised FLPR (raw)	-0.0032*** (0.0004)	
High FLPR		-0.0064*** (0.0014)
_cons	-0.0159** (0.0079)	-0.0130* (0.0079)
Observations	25,351	25,351
Adjusted R-squared	0.0118	0.0118
Controls	YES	YES
Year FE	YES	YES
Industry FE	YES	YES

Panel B: Topic-specific FLPR Components								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
FLPR _{Economic}	-0.0016*** (0.0006)							
FLPR _{Environment}		-0.0014*** (0.0005)						
FLPR _{Trade}			-0.0008** (0.0004)					
FLPR _{Institutions}				-0.0017*** (0.0005)				
FLPR _{Health}					-0.0012** (0.0005)			
FLPR _{Security}						-0.0013*** (0.0005)		
FLPR _{Tax}							-0.0011** (0.0005)	
FLPR _{Technology}								-0.0012** (0.0005)
_cons	-0.0030 (0.0085)	-0.0047 (0.0084)	-0.0093 (0.0081)	-0.0036 (0.0084)	-0.0063 (0.0083)	-0.0053 (0.0083)	-0.0069 (0.0081)	-0.0066 (0.0083)
Observations	25,351	25,351	25,351	25,351	25,351	25,351	25,351	25,351
Adjusted R ²	0.0112	0.0111	0.0110	0.0112	0.0111	0.0111	0.0111	0.0111
Controls	YES	YES	YES	YES	YES	YES	YES	YES

Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES

Note: This table reports LPM estimates using alternative measures of FLPR. The dependent variable is CEO forced turnover. Panel A examines alternative transformations of aggregate FLPR. Column (1) uses the standardised value of the raw annual political risk measure. Column (2) uses High FLPR, an indicator equal to one if logged FLPR exceeds the median in the baseline estimation sample, and zero otherwise. Panel B examines the eight topic-specific components of FLPR provided by Hassan et al. (2019). Each column replaces aggregate FLPR with one topic-specific component. All regressions include the full set of controls from Column (4) of Table 2-2, as well as Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.2.3. Alternative Measures of CEO Forced Turnover

The baseline definition of forced CEO turnover follows Gentry et al. (2021) and combines performance-related dismissals and departures triggered by legal or ethical violations (departure codes 3 and 4). To examine whether the result is sensitive to the composition and scope of this definition, I construct two alternative measures following Pavićević and Keil (2025). Forced Turnover_2 adopts a narrower definition by restricting forced turnover to performance-related departures only (departure code 3), isolating the component most directly linked to the board's assessment of CEO ability. Forced Turnover_3 adopts a broader definition by further including departures framed as the CEO pursuing new opportunities (departure codes 3, 4, and 6), a category that Wiersema and Zhang (2011) identify as particularly susceptible to strategic reframing by firms seeking to disguise involuntary dismissals. Table 2-5 re-estimates the baseline specification from Column (4) of Table 2-2 using each alternative measure as the dependent variable.

The coefficient on FLPR is negative and statistically significant at the 5% level under both alternative definitions, with a coefficient of -0.0009 in Column (1) and -0.0014 in Column (2). The result holds under both a narrower and a broader definition of forced turnover, suggesting that the negative association between FLPR and CEO dismissal is not sensitive to how the dependent variable is constructed.

Table 2-5: Alternative Measures of CEO Forced Turnover

	(1) Forced Turnover_2	(2) Forced Turnover_3
FLPR	-0.0009** (0.0004)	-0.0014** (0.0006)
Ind_ROA	-0.0129* (0.0067)	-0.0201** (0.0088)
Size	0.0011* (0.0006)	0.0012* (0.0007)
Leverage	0.0067 (0.0042)	0.0101** (0.0049)
Market-to-Book	-0.0003*** (0.0001)	-0.0003** (0.0002)
Stock Volatility	0.0549*** (0.0152)	0.0597*** (0.0181)
Cash	0.0036 (0.0049)	0.0062 (0.0061)
Board Size	0.0003 (0.0002)	0.0005* (0.0003)
Independence	0.0113** (0.0056)	0.0125* (0.0069)
CEO Tenure	-0.0002** (0.0001)	-0.0003*** (0.0001)
CEO Duality	-0.0075*** (0.0015)	-0.0132*** (0.0019)
_cons	-0.0079 (0.0074)	-0.0014 (0.0093)
Observations	25,351	25,351
Adjusted R ²	0.0098	0.0108
Year FE	YES	YES
Industry FE	YES	YES

Note: This table reports LPM estimates using alternative definitions of CEO forced turnover. The dependent variable in Column (1) is Forced Turnover_2, which restricts forced turnover to performance-related departures only (departure code 3). The dependent variable in Column (2) is Forced Turnover_3, which further includes departures framed as the CEO pursuing new opportunities (departure codes 3, 4, and 6). The specification follows Column (4) of Table 2-2. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.2.4. Alternative Explanation – Political Sentiment

The robustness of the result to alternative turnover definitions raises a further question: whether the baseline association reflects the tone of political news rather than political risk. Political Sentiment captures whether political news discussed during earnings calls is favourable or adverse (Hassan et al., 2019). Lower Political Sentiment has been associated with higher syndicated loan costs (Karavitis and Kazakis, 2022), indicating that political tone may be relevant to corporate outcomes. If political tone is correlated with both FLPR and CEO turnover, omitting it could confound the interpretation of the FLPR coefficient. I therefore average the signed measure at the firm-year level, standardise it to have a mean of zero and a standard deviation of one, and add it to the baseline specifications. Higher values indicate more favourable political news.

Table 2-6 follows the incremental structure of Table 2-2 and retains the same 25,351 firm-year observations throughout, allowing direct comparison with the baseline estimates. FLPR remains negative and statistically significant across all four specifications. In Column (4), its coefficient is -0.0011 and remains significant at the 1% level, closely matching the corresponding baseline estimate. Political Sentiment is not statistically significant in any specification and has a coefficient of 0.0005 in Column (4). The negative association between FLPR and forced CEO turnover therefore persists after controlling for whether the political news discussed by firms is favourable or adverse.

Table 2-6: Political Sentiment Control

	(1)	(2)	(3)	(4)
FLPR	-0.0008*	-0.0010**	-0.0011**	-0.0011***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)
PSentiment_std	0.0006	0.0008	0.0007	0.0005
	(0.0006)	(0.0006)	(0.0006)	(0.0006)
Ind_ROA		-0.0151**	-0.0135**	-0.0124*
		(0.0068)	(0.0068)	(0.0068)
Size		0.0015***	0.0013**	0.0017***
		(0.0005)	(0.0006)	(0.0006)
Leverage		0.0065	0.0065	0.0051
		(0.0044)	(0.0043)	(0.0043)
Market-to-Book		-0.0003***	-0.0003**	-0.0003***
		(0.0001)	(0.0001)	(0.0001)
Stock Volatility		0.0709***	0.0720***	0.0669***
		(0.0167)	(0.0167)	(0.0165)
Cash		0.0033	0.0045	0.0037
		(0.0052)	(0.0052)	(0.0052)
Board Size			0.0004*	0.0004
			(0.0002)	(0.0002)
Independence			0.0151**	0.0112*
			(0.0059)	(0.0059)
CEO Tenure				-0.0002*
				(0.0001)
CEO Duality				-0.0101***
				(0.0016)
_cons	0.0136***	-0.0048	-0.0190**	-0.0101
	(0.0020)	(0.0050)	(0.0075)	(0.0079)
Observations	25,351	25,351	25,351	25,351
Adjusted R2	0.0062	0.0084	0.0086	0.0110
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

Note: This table reports LPM estimates examining whether the association between FLPR and CEO forced turnover is robust to controlling for Political Sentiment. The dependent variable is CEO forced turnover. Column (1) includes FLPR and standardised Political Sentiment. Column (2) adds firm-level controls. Column (3) adds board characteristics. Column (4) further adds CEO characteristics. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.2.5. Falsification Test - CFO Turnover

One concern is that firm-level political risk may reduce senior executive turnover more broadly, rather than affecting CEO forced turnover specifically. If this were the case, the negative coefficient on FLPR would not reflect a pattern unique to CEO forced turnover but instead a broader tendency for firms to retain top managers during periods of elevated political risk. To assess this possibility, the dependent variable is replaced with an indicator equal to one if the firm experiences a change in its chief financial officer in the following fiscal year, and zero otherwise. CFO turnover is informative in this setting because prior research shows that it tends to follow poor firm performance and is largely disciplinary in nature (Mian, 2001), while CFOs exert substantial and relatively direct influence over financial reporting (Jiang et al., 2010). If political risk leads firms to retain senior executives more generally, lower CFO turnover should also be observed. The CFO measure, however, captures all observed CFO changes and does not distinguish between forced and voluntary departures. It therefore measures overall CFO turnover rather than forced exit, and any association confined to involuntary CFO departures may be attenuated in the aggregate measure.

Table 2-7 reports the results. The coefficient on FLPR is 0.0009 and is not statistically significant ($p = 0.662$), suggesting that firm-level political risk is not systematically associated with CFO turnover. Firm profitability and stock return volatility, by contrast, remain significant predictors of CFO changes, consistent with the disciplinary interpretation documented in prior work. No corresponding negative association is observed for overall CFO turnover. This pattern is inconsistent with a uniform reduction in observed senior-executive turnover when political risk is high.

Table 2-7: Falsification Test - CFO Turnover

	CFO Turnover
FLPR	0.0009 (0.0022)
Ind_ROA	-0.0835*** (0.0226)
Size	0.0049*** (0.0018)
Leverage	0.0236** (0.0120)
Market-to-Book	-0.0001 (0.0005)
Stock Volatility	0.1662*** (0.0463)
Cash	0.0217 (0.0162)
Board Size	0.0006 (0.0007)
Independence	0.0145 (0.0179)
CEO Tenure	-0.0008*** (0.0003)
CEO Duality	-0.0123*** (0.0047)
_cons	0.0569** (0.0248)
Observations	25,351
Adjusted R ²	0.0342
Year FE	YES
Industry FE	YES

Note: This table reports LPM estimates where the dependent variable is replaced with an indicator equal to one if the firm experiences a change in its CFO in the following fiscal year, and zero otherwise. Unlike the CEO forced turnover measure, the CFO turnover indicator captures all observed CFO changes and does not distinguish between forced and voluntary departures. The specification follows Column (4) of Table 2-2. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.3. Addressing Endogeneity

The baseline results suggest a negative association between firm-level political risk and CEO forced turnover, but endogeneity concerns may affect the interpretation of this finding. The estimated relationship could be confounded by reverse causality, omitted variables, or systematic differences in observable firm characteristics between high- and low-FLPR firms. I employ two identification strategies to address these concerns. First, I use an instrumental variable approach based on the leave-one-out average of FLPR for all other firms in the same Fama-French 48 industry and fiscal year. Second, I use propensity score matching to construct a sample of high- and low-FLPR firms that are comparable on observable characteristics and re-estimate the baseline regression on this matched sample.

2.4.3.1. Instrumental Variable

The falsification test in Section 2.4.2.5 reduces one alternative explanation for the baseline result but does not address broader endogeneity concerns. Therefore, I use a two-stage least squares approach to examine whether the negative coefficient on FLPR holds under a stronger identification strategy. Following recent studies that instrument firm-level political risk with industry-level averages (Gyimah et al., 2022; Ahmed et al., 2023; Orlova and Sun, 2024), I use the average FLPR of all other firms in the same industry and fiscal year, excluding the focal firm. Firms within the same industry and year are exposed to a common regulatory and policy environment, so the industry average should be correlated with the focal firm's own FLPR. After excluding the focal firm's value, the remaining industry average captures variation in the shared political environment rather than firm-specific factors and is therefore less likely to be directly related to the board's decision to dismiss the CEO of any individual firm. A potential threat to the exclusion restriction is that industry-wide political events could simultaneously raise peers' political risk and independently affect CEO turnover at the focal firm. The inclusion of Fama-French 48 industry fixed effects absorbs persistent cross-industry differences in turnover propensity. For the exclusion restriction to fail, an industry-level political shock would need to vary over time within an industry, raise peer firms' political risk, and independently affect the focal firm's turnover probability through a channel other than the focal firm's own FLPR. Both stages of the estimation include the full set of baseline controls along with year and Fama-French 48

industry fixed effects, absorbing aggregate annual shocks and time-invariant industry characteristics. With both sets of fixed effects included, the instrument is identified from within-industry variation in peer firms' political risk across years.

The first-stage results, reported in Column (1) of Table 2-8, confirm that the instrument strongly predicts FLPR. The coefficient on the industry average is 0.7438 and statistically significant at the 1% level, and the *Kleibergen-Paap F-statistic* of 431.07 is well above the conventional critical values, indicating that weak identification is not a concern. The second-stage estimates in Column (2) show that the instrumented coefficient on FLPR is -0.0108, statistically significant at the 1% level. The coefficient is consistent in sign with the baseline estimate of -0.0011 but larger in magnitude, consistent with attenuation of the OLS estimate by measurement error in the text-based political risk measure. The larger magnitude may also partly reflect the local nature of the IV estimate, as the instrument isolates variation among firms whose political risk is most responsive to industry-level conditions. The negative impact of FLPR on CEO forced turnover continues to hold under the instrumental variable approach, suggesting that the baseline result is unlikely to be driven by reverse causality or omitted variable bias.

Table 2-8: Instrumental Variable Regression

	(1) First Stage: IV _ FLPR	(2) Second Stage: CEO Forced Turnover
IV _ FLPR	0.7438*** (0.0358)	
FLPR		-0.0108*** (0.0041)
Ind _ ROA	-0.2348** (0.1018)	-0.0144** (0.0068)
Size	0.0638*** (0.0104)	0.0024*** (0.0007)
Leverage	-0.0744 (0.0615)	0.0043 (0.0044)
Market-to-Book	0.0002 (0.0018)	-0.0003*** (0.0001)
Stock Volatility	0.2976* (0.1624)	0.0696*** (0.0166)
Cash	0.3218*** (0.0827)	0.0072 (0.0054)
Board Size	0.0097** (0.0040)	0.0005** (0.0002)
Independence	0.1988** (0.0887)	0.0137** (0.0061)
CEO Tenure	0.0029* (0.0016)	-0.0001 (0.0001)
CEO Duality	-0.0316 (0.0233)	-0.0104*** (0.0016)
_cons	0.1975 (0.1975)	
<i>K-P rk Wald F-statistic</i>		431.0679
Observations	25,320	25,320
Adjusted R ²	0.1681	-0.0063
Year FE	YES	YES
Industry FE	YES	YES

Note: This table reports two-stage least squares (2SLS) estimates. Column (1) reports the first-stage regression of FLPR on the instrumental variable. The instrument is the leave-one-out average of FLPR for all other firms in the same Fama-French 48 industry and fiscal year. Column (2) reports the second-stage estimates, where the dependent variable is CEO forced turnover. The Kleibergen-Paap F-statistic is reported for the test of weak instruments. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.3.2. Propensity Score Matching

I employ propensity score matching (Rosenbaum and Rubin, 1983) to address potential biases arising from systematic differences in observable firm characteristics between high- and low-FLPR firms. I assign firm-year observations with FLPR above the sample median to the treatment group and those at or below the median to the control group. I then estimate a logit model to predict the high-FLPR indicator using the control variables included in the baseline specification. Using the estimated propensity scores, I apply one-to-one nearest-neighbour matching to pair each treatment firm-year observation with a control observation based on the closest propensity score. Following Hasan et al. (2022) and Islam et al. (2022), I set the maximum difference between the propensity score of each observation and that of its matched peer not to exceed 0.1% in absolute value. The matching is conducted without replacement and restricted to the region of common support. The matched sample comprises 21322 firm-year observations. The reduction from the full sample reflects the tight calliper requirement, which excludes treatment observations without a sufficiently close control match.

Panel A of Table 2-9 reports the mean values of all covariates for the treated and control groups before and after matching. Before matching, several covariates differ significantly between the two groups. For example, treated firms are larger (8.116 versus 7.694, $t = 19.35$), hold more cash (0.160 versus 0.147, $t = 6.12$), and have more independent boards (0.710 versus 0.698, $t = 6.42$). After matching, none of the covariate differences remain statistically significant at conventional levels and all t -statistics fall well below conventional thresholds. The mean bias across covariates declines from 6.8% to 0.7%, and the post-match Pseudo R^2 falls to 0.000, indicating that the logit model retains virtually no explanatory power over the treatment assignment after matching.

Panel B reports the baseline regression re-estimated on the matched sample. The coefficient on FLPR is -0.0010 and statistically significant at the 5% level, consistent in both sign and magnitude with the baseline estimate. This result suggests that the negative association between FLPR and CEO forced turnover is not driven by systematic differences in observable firm characteristics between high- and low-FLPR firms.

Table 2-9: Propensity Score Matching

Panel A: Covariate balance before and after matching								
	Before matching				After matching			
	Treated	Control	diff	t-stat	Treated	Control	diff	t-stat
Ind_ROA	0.066	0.062	0.004	2.22	0.064	0.063	0.001	0.68
Size	8.116	7.694	0.422	19.35	7.830	7.843	-0.014	-0.61
Leverage	0.237	0.246	-0.009	-3.48	0.245	0.244	0.001	0.45
Market-to-Book	2.983	3.195	-0.212	-3.63	3.092	3.097	-0.005	-0.08
Stock Volatility	0.105	0.102	0.003	4.23	0.103	0.103	0.000	-0.47
Cash	0.160	0.147	0.013	6.12	0.153	0.152	0.000	0.20
Board Size	12.357	11.976	0.381	7.01	12.003	12.050	-0.047	-0.81
Independence	0.710	0.698	0.013	6.42	0.708	0.706	0.002	0.83
CEO Tenure	8.256	8.145	0.111	1.23	8.181	8.151	0.031	0.31
CEO Duality	0.621	0.626	-0.005	-0.85	0.616	0.622	-0.006	-0.86
Panel B: Matched sample regression								
	Matched Sample							
FLPR	-0.0010** (0.0004)							
Ind_ROA	-0.0122* (0.0066)							
Size	0.0017** (0.0007)							
Leverage	0.0074 (0.0048)							
Market-to-Book	-0.0003** (0.0001)							
Stock Volatility	0.0731*** (0.0193)							
Cash	0.0068 (0.0056)							
Board Size	0.0003 (0.0002)							
Independence	0.0123** (0.0062)							
CEO Tenure	-0.0002* (0.0001)							
CEO Duality	-0.0101*** (0.0017)							

Observations	21,322
Adjusted R ²	0.011
Year FE	Yes
Industry FE	Yes

Note: This table reports results from propensity score matching (PSM). Panel A reports the mean values of covariates for the treated and control subsamples before and after matching. Firms with above-median firm-level political risk (FLPR) are classified as the treated group, while firms with below-median FLPR are classified as the control group. The propensity score is estimated using a logit model. Matching is performed using nearest-neighbour matching with a calliper of 0.001, without replacement. Panel B reports the LPM estimates of the baseline specification on the matched sample. The dependent variable is CEO forced turnover. All regressions include Fama–French 48 industry and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. All variables are defined in Appendix B. *, **, *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

2.4.4. Performance Evaluation and Board Responses

Having established the robustness of the baseline result, the analysis turns to the channels through which FLPR may affect the board's dismissal decision. The following subsections test whether FLPR weakens the sensitivity of forced turnover to firm performance, examine governance and CEO characteristics that shape the evaluation process, the firm's own engagement with the political environment, and whether the CEO's partisan alignment with the incumbent administration conditions the association through the perceived cost of replacing the incumbent.

2.4.4.1. FLPR and Turnover-Performance Sensitivity

The baseline results establish a negative association between FLPR and forced CEO turnover. If this association reflects the board's difficulty in evaluating CEO performance under political risk, it should be visible as a level shift in turnover probability and as a weakening of the relationship between firm performance and forced turnover. When a larger share of performance variation originates from the firm's political environment rather than from managerial decisions, observed performance becomes a less reliable signal of CEO ability, and boards should respond less to it when making dismissal decisions (Bushman et al., 2010; Jenter and Kanaan, 2015). Table 2-10 tests this prediction by interacting FLPR with three measures of firm performance.

The interaction coefficient using industry-adjusted ROA is positive and significant at the 5% level (0.0061, $p < 0.05$), indicating that higher FLPR is associated with a weaker negative relationship between accounting performance and forced CEO turnover. The stock-return-based measures yield stronger results, with interaction coefficients of 0.0035 ($p < 0.001$) and 0.0053 ($p < 0.001$) for the equal-weighted and value-weighted benchmarks, respectively, consistent with stock prices responding more immediately to political developments than accounting earnings. The positive coefficients across all three performance measures suggest that FLPR weakens turnover-performance sensitivity rather than lowering forced turnover uniformly regardless of performance. This pattern is more consistent with boards facing greater difficulty in interpreting performance signals than with boards retaining the incumbent solely to preserve continuity. The direction of this interaction also differs from

Frye and Pham (2020), who report a negative interaction between aggregate EPU and firm performance, suggesting that boards rely more heavily on performance when aggregate uncertainty is high. The opposite direction observed here is consistent with the distinction between aggregate and firm-specific political risk. Under aggregate uncertainty, cross-sectional performance variation retains its informativeness because all firms face the same external conditions. Under firm-specific political risk, the source of adverse outcomes is particular to the individual firm, harder to benchmark against peers within the same industry and year (Hassan et al., 2019), and therefore more difficult for the board to separate from CEO quality. Across all three performance measures and in contrast to the aggregate EPU result, the evidence points to the baseline negative association between FLPR and forced turnover operating at least in part through the board's evaluation of CEO performance.

Table 2-10: Sensitivity of Forced Turnover to Past Firm Performance

	(1)	(2)	(3)
FLPR	-0.0015*** (0.0005)	-0.0014*** (0.0004)	-0.0016*** (0.0005)
Ind_ROA	-0.0393** (0.0168)		
FLPR ×Ind_ROA	0.0061** (0.0028)		
Market Return_EW		-0.0202*** (0.0050)	
FLPR ×Market Return_EW		0.0035*** (0.0010)	
Market Return_VW			-0.0327*** (0.0064)
FLPR ×Market Return_VW			0.0053*** (0.0012)
_cons	-0.0085 (0.0081)	-0.0125 (0.0078)	-0.0110 (0.0079)
Observations	25,351	25,351	25,351
Adjusted R ²	0.0111	0.0119	0.0127
Controls	YES	YES	YES
Year FE	YES	YES	YES
Industry FE	YES	YES	YES

Note: This table reports LPM estimates that interact FLPR with firm performance measures. The dependent variable is CEO forced turnover. Column (1) interacts FLPR with industry-adjusted ROA. Column (2) interacts FLPR with market-adjusted stock returns based on the equal-weighted market index. Column (3) interacts FLPR with market-adjusted stock returns based on the value-weighted market index. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.4.2. Governance and CEO Characteristics

Table 2-11 reports estimates from specifications that interact FLPR with five governance and CEO characteristics. The first two columns examine attributes of the board that affect its capacity to assess CEO performance when political risk complicates the interpretation of firm outcomes. Directors who serve on multiple boards simultaneously face competing demands on their time and attention. Fich and Shivdasani (2006) document that firms with busy boards exhibit weaker governance and lower CEO turnover-performance sensitivity, in line with the view that overcommitted directors are less effective monitors. Kim (2022) extends this evidence by showing that the negative effect of board busyness on monitoring quality is more pronounced when firms have greater monitoring needs. When political risk is elevated, firm performance becomes harder to interpret because outcomes may reflect external political conditions rather than CEO decisions, and effective evaluation requires greater monitoring effort from the board.

The coefficient on the interaction between FLPR and board busyness is negative and significant at the 5% level, indicating that the baseline association is stronger when directors have less attention to devote to distinguishing managerial performance from external political conditions. Frye et al. (2022) document that boards respond to rising policy uncertainty by reducing director busyness and strengthening characteristics that support monitoring, a pattern that points to higher demand for monitoring capacity under uncertainty and that busy boards are less able to meet. The interaction with average board tenure is positive and significant at the 1% level, pointing in the other direction. Vafeas (2003) discusses an expertise-based view in which longer board service improves directors' knowledge of the firm, which can reduce their reliance on recent performance signals when external political conditions are uncertain, partially alleviating the assessment difficulty that drives the baseline result. Both results imply that the board's ability to process information about CEO quality shapes the strength of the relationship between FLPR and forced turnover.

The baseline association may also reflect the board's concern about finding a suitable successor when the firm's political environment is uncertain. Naveen (2006) documents that internal succession options reduce the costs and uncertainty associated with CEO

replacement decisions. Mobbs (2013) provides more direct evidence that this matters for board discipline, showing that the presence of a credible internal successor strengthens forced CEO turnover sensitivity to accounting performance. If the baseline relation partly reflects boards' concern about succession under political uncertainty, it should be weaker when a viable internal successor is already available.

The interaction between FLPR and the heir apparent indicator is positive and significant at the 1% level, and for firms with an identifiable heir apparent the estimated net association is close to zero and statistically insignificant. The negative relationship between FLPR and forced turnover largely disappears when a viable successor is already in place. Frye and Pham (2020) report a similar pattern in the context of aggregate economic policy uncertainty, finding that firms with an identifiable heir apparent are not affected by high EPU. Their measure captures uncertainty common to all firms in a given period, whereas FLPR reflects political risk specific to the individual firm. That the pattern holds across both levels of measurement supports the interpretation that succession readiness reduces the board's reluctance to act under political uncertainty, whether that uncertainty originates from aggregate policy conditions or from the firm's own political exposure.

The result for CEO pay slice points in the opposite direction. CEO pay slice captures the fraction of total compensation among the top five executives that accrues to the CEO, and higher values may reflect greater CEO influence within the governance structure. Bebchuk et al. (2011) show that higher CEO pay slice is associated with lower firm value and lower CEO turnover, consistent with the view that concentrated CEO power constrains the board's willingness to act. This interaction is negative and significant at the 5% level, and the baseline association appears amplified when the CEO holds a stronger position relative to the rest of the management team. Where the heir apparent result indicates that lower replacement barriers weaken the baseline result, the CEO power result indicates that higher barriers to board action strengthen it. When the board already faces uncertainty about whether replacement is warranted, greater CEO influence within the firm raises the threshold for disciplinary action, reinforcing the reluctance associated with elevated political risk.

The final moderator operates through the CEO rather than through the board or governance structure. Malmendier and Tate (2005, 2008) document that overconfident CEOs tend to overestimate investment returns and are more likely to pursue aggressive corporate strategies. When firm performance is noisy, boards struggle to infer CEO quality from observed outcomes. Overconfidence, however, is a persistent managerial trait that is itself informative about the CEO's decision-making tendencies, reducing the board's reliance on noisy performance signals to assess managerial quality. For overconfident CEOs, the interaction with FLPR is positive and significant at the 1% level, and the net association between FLPR and forced turnover is not statistically distinguishable from zero. When the CEO's type is already partially revealed through a persistent behavioural trait, the additional noise that political risk introduces into performance outcomes has less influence on the board's assessment.

Table 2-11: Moderation - Governance and CEO Characteristics

	(1) Busyness	(2) Board Tenure	(3) Heir Apparent	(4) CEO Power	(5) Overconfidence
FLPR	0.0015 (0.0013)	-0.0037*** (0.0010)	-0.0017*** (0.0005)	0.0017 (0.0014)	-0.0022*** (0.0007)
Busyness	0.0085** (0.0041)				
FLPR × Busyness	-0.0015** (0.0008)				
Board Tenure		-0.0019*** (0.0005)			
FLPR × Board Tenure		0.0003*** (0.0001)			
Heir Apparent			-0.0095*** (0.0036)		
Heir Apparent × FLPR			0.0020*** (0.0007)		
CEO Power				0.0294* (0.0153)	
FLPR × CEO Power				-0.0062** (0.0031)	
Overconfidence					-0.0162*** (0.0045)
Overconfidence × FLPR					0.0024*** (0.0008)
_cons	-0.0220** (0.0099)	0.0086 (0.0097)	-0.0078 (0.0079)	-0.0231** (0.0103)	-0.0037 (0.0091)
Observations	25,351	25,351	25,351	24,481	22,511
Adjusted R ²	0.0111	0.0116	0.0111	0.0111	0.0120
Controls	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES

Note: This table reports LPM estimates that interact FLPR with governance and CEO characteristics. The dependent variable is CEO forced turnover. Each column introduces a different moderating variable and its interaction with FLPR. The reduced sample sizes in Columns (4) and (5) reflect data availability for CEO pay slice and the Holder67 measure, respectively. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.4.3. Political Engagement and Proximity

Bushman et al. (2010) show that the information content of observed performance for learning about CEO ability depends on the source of risk, declining when performance variation is driven by factors beyond managerial control. The moderation tests in Table 2-11 examine conditions on the board and CEO side that affect this learning process. This section shifts the focus to the firm's own engagement with the political environment and asks whether the baseline association is weaker when the firm has greater capacity to acquire and interpret political information. The theoretical literature on lobbying distinguishes between monetary contributions and the provision of policy-relevant information as instruments through which interest groups seek political influence (Bennedsen and Feldmann, 2006). The information channel is particularly relevant here. Wellman (2017) documents that firms with political connections gain differential access to information about legislative developments, and that this access partially offsets the negative relation between political uncertainty and corporate investment. Liu et al. (2021) report a similar information transfer effect in a Chinese setting. Onal (2023) provides more direct evidence that politically connected directors play an information role under policy uncertainty, supporting the view that political engagement reduces the informational gap that uncertainty creates. If such information channels help the firm and its board better understand the political conditions affecting the firm, the assessment difficulty that underlies the baseline finding should be less pronounced.

Two variables capture different dimensions of this capacity. Corporate lobbying expenditure measures the firm's active investment in engaging with policymakers. Firms that invest in lobbying may develop a clearer understanding of the policy landscape, which can reduce the ambiguity that the board faces when assessing whether observed performance reflects external political conditions or managerial decisions. The second variable, the geographic distance between the firm's headquarters and Washington, D.C., captures a more passive dimension of political proximity. Kim et al. (2012) establish that proximity to political power is associated with differential exposure to policy risk, using political alignment at the state level as their proxy. The distance variable used here captures the geographic rather than the political alignment dimension of this proximity. Firms headquartered farther from the federal

policymaking centre may face greater frictions in accessing political information and in benefiting from the proximity to federal policymakers that closer firms enjoy. If political information access alleviates the board's assessment difficulty under elevated FLPR, lobbying should weaken the baseline association while geographic distance should strengthen it. Table 2-12 reports the estimates from the two moderation specifications.

The coefficient on the interaction between FLPR and lobbying expenditure is positive and significant at the 5% level, indicating that the baseline association is weaker for firms that spend more on lobbying. Active engagement with the political process appears to reduce the ambiguity that boards face when evaluating CEO performance under political risk. When the firm invests in understanding the political environment, the board is better positioned to judge how much of the firm's performance reflects external political conditions and how much reflects managerial decisions. This is in line with Wellman's (2017) finding that political connections mitigate the adverse consequences of policy uncertainty by providing informational advantages that firms without such connections lack, and with evidence that firms actively initiate lobbying in response to rising policy uncertainty as a means of acquiring such information (Shang et al., 2021). Voshaar et al. (2025) provide recent supporting evidence that lobbying firms gain preferential access to political and legislative information, which enables swifter managerial responses to policy developments. The positive interaction is also difficult to reconcile with the view that boards retain the CEO to preserve political relationships, as firms with deeper lobbying engagement would face higher relationship disruption costs under that interpretation, predicting a stronger baseline association.

For distance to Washington, the interaction with FLPR is negative and significant at the 5% level, and the direction reinforces the lobbying result. Firms headquartered farther from the centre of federal policymaking face a stronger baseline association between FLPR and forced turnover. Geographic remoteness limits the firm's access to political information and to the policy networks that proximity to Washington facilitates. For boards of these firms, the task of separating CEO performance from external political conditions is correspondingly harder. The two results point to the same pattern from opposite directions. Firms with greater capacity to engage with and understand the political environment exhibit

a weaker negative association between FLPR and forced turnover, while those with more limited access exhibit a stronger one. Where the firm's political information environment is richer, the board's difficulty in evaluating CEO performance under political risk appears to be reduced.

Table 2-12: Moderation - Political Risk Management Capacity

	(1) Lobbying	(2) Distance to D.C.
FLPR	-0.0015*** (0.0005)	0.0035* (0.0019)
Lobbying	-0.0009*** (0.0003)	
FLPR × Lobbying	0.0001** (0.0001)	
Distance to D.C.		0.0043*** (0.0016)
FLPR × Distance to D.C.		-0.0007** (0.0003)
_cons	-0.0114 (0.0080)	-0.0385*** (0.0125)
Observations	25,351	25,323
Adjusted R ²	0.0113	0.0112
Controls	YES	YES
Year FE	YES	YES
Industry FE	YES	YES

Note: This table reports LPM estimates that interact FLPR with proxies for political risk management capacity. The dependent variable is CEO forced turnover. Column (1) interacts FLPR with the corporate lobbying expenditure. Column (2) interacts FLPR with the distance between the firm's headquarters and Washington, D.C. All regressions include the full set of controls from Column (4) of Table 2-2, as well as Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.4.4. CEO Partisan Alignment

A distinct channel through which political conditions may affect the turnover decision operates through the CEO's partisan alignment with the incumbent administration. A CEO whose partisan orientation matches the party of the incumbent president may be viewed by the board as politically better positioned under the current administration, and this attribute is embodied in the individual rather than in the firm's institutional arrangements. Brown and Huang (2020) provide evidence that political access to the incumbent administration is valuable to corporations, and that this value is specific to the current administration. Alhashel (2020) documents a related pattern at the CEO level, finding that the negative effect of policy uncertainty on corporate investment is significantly reduced when the CEO's partisan orientation matches the party of the sitting president. These findings suggest that alignment between a CEO and the incumbent administration is associated with measurable differences in how firms respond to the political environment. Unlike lobbying expenditure or geographic proximity, which persist regardless of who holds the CEO position, partisan alignment with the president is attached to the incumbent CEO and would not necessarily transfer to a successor. If boards perceive this alignment as relevant to how the firm navigates its current policy environment, the opportunity cost of replacing an aligned CEO should be higher when political risk is elevated, strengthening the negative association between FLPR and forced turnover.

CEO partisan orientation is identified from personal campaign contribution records, using data from Christensen et al. (2015)⁷ supplemented with records from OpenSecrets.org⁸. The political orientation score is calculated as the dollar value of contributions to Republican candidates or committees minus contributions to Democratic candidates or committees, divided by total contributions to both parties, averaged across all election cycles in which the CEO made contributions. The resulting measure ranges from -1 to +1, with positive values indicating Republican orientation and negative values indicating Democratic orientation. CEO Alignment equals one when the CEO's inferred partisan orientation matches the party of the incumbent U.S. president in a given year, and zero otherwise.

⁷ Data available at <https://sites.google.com/view/danechristensen/data/political-ideology-data>

⁸ <https://www.opensecrets.org>

Observations with a score of exactly zero are excluded. Because this identification strategy requires observable personal donation records that permit non-zero partisan classification, the analysis is restricted to a subsample of 16334 firm-year observations in which the CEO's partisan orientation can be inferred. Panel A of Table 2-13 reports descriptive statistics for this subsample. Approximately 51.5% of observations involve a CEO whose partisan orientation matches the party of the incumbent president, and the mean ideology score is positive (0.279), indicating that the sample of CEOs with identifiable donation records leans Republican on average. The subsample means of FLPR and forced turnover are close to those of the full sample, suggesting that restricting the analysis to CEOs with observable donation records does not introduce substantial compositional differences.

Column (1) of Panel B, Table 2-13 re-estimates the baseline specification on this restricted subsample. The coefficient on FLPR is -0.0010 and statistically significant at the five percent level. The direction, magnitude, and significance of this estimate are consistent with the full-sample results reported in Table 2-2, indicating that the baseline result is preserved in the restricted sample. This restricted-sample estimate provides the benchmark against which the moderation result in Column (2) should be evaluated.

Column (2) introduces the CEO Alignment indicator and its interaction with FLPR. The coefficient on the interaction term is -0.0015 and significant at the five percent level. The negative association between FLPR and forced turnover observed in Column (1) appears to be concentrated among aligned CEOs. The estimated net association for this group is larger in magnitude than the unconditional baseline estimate. This pattern points to boards assigning greater retention value to a CEO whose partisan alignment with the current administration would not transfer to a successor. Under elevated political risk, this perceived value raises the threshold for forced turnover. This pattern aligns with Alhashel's (2020) finding that partisan alignment between the CEO and the incumbent administration is associated with reduced sensitivity to policy uncertainty. Because this alignment would not transfer to a successor, replacing an aligned CEO under elevated political risk carries an additional opportunity cost that the board may be reluctant to bear. CEO partisan alignment captures one form of CEO-specific political capital, whereas the lobbying measure captures firm-level political engagement. Whether personal ties to policymakers, prior government

service, or direct involvement in lobbying also shape forced turnover under political risk remains an open question.

Table 2-13: CEO Partisan Alignment

Panel A: Descriptive Statistics (Alignment Subsample)			
Variable	Observations	Mean	Std. Dev.
CEO Forced Turnover	16,334	0.023	0.150
FLPR	16,334	4.394	1.016
CEO Aligned	16,334	0.515	0.500
CEO Ideology Score	16,334	0.279	0.764
Panel B: Regression Result			
	(1) Baseline (sub-sample)	(2) CEO Alignment	
FLPR	-0.0010** (0.0005)	-0.0002 (0.0006)	
CEO Alignment		0.0048 (0.0041)	
CEO Alignment × FLPR		-0.0015** (0.0008)	
_cons	-0.0165* (0.0089)	-0.0191** (0.0088)	
Observations	16,334	16,334	
Adjusted R ²	0.0073	0.0073	
Controls	YES	YES	
Year FE	YES	YES	
Industry FE	YES	YES	

Note: This table reports LPM estimates examining the moderating role of CEO partisan alignment. The dependent variable is CEO forced turnover. The sample is restricted to firm-year observations where the CEO's partisan orientation can be identified from personal campaign contribution records. Column (1) reports the baseline specification on this subsample. Column (2) adds the CEO alignment indicator and its interaction with FLPR. CEO alignment equals one if the CEO's inferred partisan orientation matches the party of the incumbent U.S. president, and zero otherwise. All regressions include the full set of controls from Column (4) of Table 2-2, as well as Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.5. FLPR Properties and Aggregate Conditions

The attribution difficulty that underlies the negative association between FLPR and CEO forced turnover should also depend on how salient external political conditions are to the board's evaluation of firm performance. Two dimensions are relevant. The first concerns properties of FLPR itself, including whether political risk is visibly worsening and whether the firm operates in an industry where political conditions are structurally important to operating outcomes. The second concerns aggregate conditions, including election-related uncertainty, partisan conflict, and macroeconomic weakness, each of which adds noise to the performance signals on which boards rely.

2.4.5.1. FLPR Dynamics and Attribution

Table 2-14 reports subsample estimates along both dimensions. Columns (1) and (2) split the sample according to the direction of change in FLPR. Following Frye and Pham (2020), firm-year observations are classified as increasing if the current-period FLPR exceeds its lagged value, and as non-increasing otherwise. The coefficient on FLPR is -0.0046 and significant at the 1% level in the increasing subsample, while it is 0.0004 and statistically indistinguishable from zero in the non-increasing subsample. In the increasing subsample, a one-standard-deviation increase in FLPR is associated with an approximately 0.48 percentage point lower probability of forced turnover, a 16.4 percent decrease relative to the sample mean. This magnitude is comparable to that of stock return volatility in the baseline specification and suggests that the full-sample estimate understates the strength of the association in the periods where the attribution problem is most relevant to the board's decision. When political risk is rising, boards observe not merely a high level of exposure but a visible deterioration in the firm's political environment. This observable change provides a more salient signal that conditions outside the CEO's control are worsening, which is consistent with the attribution mechanism underlying the main hypothesis. A stable or declining FLPR provides no such observable signal, and the estimated association effectively disappears. In firm-years where FLPR is not increasing, the level of political risk alone does not appear to be associated with forced turnover. The contrast between the two subsamples suggests that the trajectory of political risk, rather than its level alone, is closely related to the baseline association. The stronger negative estimate when FLPR is rising is

consistent with boards delaying dismissal when changes in the political environment make firm performance more difficult to attribute to managerial ability. The annual specification cannot determine whether dismissal occurs once political conditions stabilise or whether the incumbent remains in office for a longer period.

Columns (3) and (4) split the sample by whether the firm operates in a politically sensitive industry. Following Herron et al. (1999), industries in which government policy, regulation, or public procurement plays a particularly consequential role in firm operations, such as defence, petroleum, pharmaceuticals, and telecommunications, are classified as politically sensitive. The coefficient on FLPR is negative and statistically significant in both subsamples, indicating that the baseline association is not limited to a particular set of industries. The estimate is -0.0022 and significant at the 5% level for firms in politically sensitive industries, compared with -0.0008 and significant at the 10% level for those in other industries. In politically sensitive industries, firm revenues, cost structures, and regulatory obligations are more directly shaped by political conditions. The weaker estimate outside politically sensitive industries suggests that the baseline association is not confined to sectors with the most direct policy exposure, but it is attenuated where political conditions are less central to operating outcomes. The baseline association between FLPR and CEO forced turnover is most evident when political risk is actively worsening and in industries where political conditions are more closely linked to firm performance. Both patterns align with the attribution difficulty channel. Rising political risk provides a visible signal that conditions outside the CEO's control are deteriorating, and direct policy exposure increases the weight of external factors in explaining firm outcomes. Under either condition, the board faces a weaker basis for attributing poor performance to the incumbent CEO.

Table 2-14: Heterogeneity - FLPR Dynamics and Attribution

	Changing FLPR		Politically Sensitive Industries	
	(1) Increasing	(2) Non-Increasing	(3) PSI=1	(4) PSI=0
FLPR	-0.0046*** (0.0009)	0.0004 (0.0006)	-0.0022** (0.0009)	-0.0008* (0.0005)
Ind_ROA	-0.0077 (0.0104)	-0.0179** (0.0087)	-0.0024 (0.0051)	-0.0215** (0.0100)
Size	0.0003 (0.0009)	0.0026*** (0.0009)	0.0016 (0.0012)	0.0015** (0.0008)
Leverage	0.0052 (0.0061)	0.0006 (0.0057)	-0.0082 (0.0068)	0.0096* (0.0052)
Market-to-Book	-0.0004*** (0.0002)	-0.0002 (0.0002)	-0.0002** (0.0001)	-0.0003** (0.0001)
Stock Volatility	0.0441** (0.0215)	0.0762*** (0.0259)	0.0549* (0.0303)	0.0693*** (0.0195)
Cash	0.0058 (0.0072)	0.0046 (0.0078)	-0.0110* (0.0056)	0.0092 (0.0062)
Board Size	0.0010*** (0.0004)	0.0000 (0.0003)	-0.0000 (0.0004)	0.0005* (0.0003)
Independence	0.0161** (0.0082)	0.0078 (0.0086)	0.0057 (0.0101)	0.0127* (0.0068)
CEO Tenure	-0.0000 (0.0001)	-0.0002** (0.0001)	0.0001 (0.0002)	-0.0002** (0.0001)
CEO Duality	-0.0113*** (0.0022)	-0.0089*** (0.0023)	-0.0054 (0.0034)	-0.0109*** (0.0018)
_cons	0.0087 (0.0116)	-0.0178 (0.0116)	0.0010 (0.0139)	-0.0123 (0.0091)
Observations	12,227	11,823	3,925	21,426
Adjusted R ²	0.0161	0.0101	0.0006	0.0124
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

Note: This table reports LPM estimates on subsamples defined by FLPR dynamics and industry political sensitivity. The dependent variable is CEO forced turnover. Columns (1) and (2) distinguish between firm-year observations in which FLPR increased relative to the prior year and those in which it did not. Columns (3) and (4) distinguish between firms operating in politically sensitive industries and those in other industries. All regressions include the full set of controls from Column (4) of Table 2-2, as well as Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.4.5.2. Macroeconomic and Political Conditions

The baseline results suggest that boards' difficulty in evaluating CEO performance contributes to the negative impact of FLPR on forced turnover. External conditions that increase the noise in firm outcomes should make this pattern more visible. The information content of observed performance for assessing CEO ability declines when a larger share of variation originates from factors beyond managerial control (Bushman et al., 2010). When the broader political or macroeconomic environment is subject to greater uncertainty, a larger share of firm performance reflects conditions beyond managerial control, and boards face a weaker signal on which to base a dismissal decision. Table 2-15 examines this prediction along three dimensions of the external environment, including presidential election periods, the degree of partisan conflict, and macroeconomic conditions.

Columns (1) through (4) capture two dimensions of the aggregate political environment. Election periods bring uncertainty over policy direction, regulatory priorities, and fiscal arrangements, as documented by Julio and Yook (2012) in the context of corporate investment. Partisan conflict, measured by the Partisan Conflict Index of Azzimonti (2018), reflects a different and more persistent form of political uncertainty rooted in legislative disagreement and policy gridlock rather than the electoral cycle. Under both conditions, the policy environment facing the firm becomes less predictable, and observed firm performance is more likely to reflect external political developments rather than managerial decisions. For boards evaluating whether to dismiss a CEO, this weakens the link between observed outcomes and CEO ability. Observations are split at the sample mean of PCI. The FLPR coefficient is negative and statistically significant during election periods and in the high-PCI subsample, but not in the corresponding non-election or low-PCI subsamples. This pattern is in line with Frye and Pham (2020), who find that higher aggregate policy uncertainty is associated with a lower likelihood of forced CEO turnover.

Columns (5) and (6) split the sample by macroeconomic conditions using the Chicago Fed National Activity Index (CFNAI), a measure of whether aggregate economic activity is above or below its historical trend. When CFNAI is below zero, the economy is operating below trend and firm performance is more likely to reflect adverse macroeconomic

conditions rather than managerial decisions alone. For boards evaluating whether to dismiss a CEO, this creates an additional source of noise in the performance signal. Poor outcomes may stem from macroeconomic weakness, from the firm's political risk exposure, or from CEO ability, and separating these becomes harder when multiple external pressures coincide. Bushman et al. (2010) show that the board's ability to learn about CEO talent from observed performance declines when a larger share of performance variation originates from factors beyond managerial control, and Jenter and Kanaan (2015) document that boards do not fully filter such factors from their turnover decisions. The CFNAI results are the most pronounced in Table 2-15. The coefficient on FLPR is -0.0014 and significant at the 1% level when CFNAI is below zero, compared with -0.0008 and statistically insignificant when CFNAI is at or above zero. Unlike the election and PCI splits, this difference is reflected in both magnitude and significance. Across the three splits, the results suggest that the negative relationship between FLPR and CEO forced turnover is most evident when election-related uncertainty, legislative conflict, or below-trend macroeconomic conditions make the link between firm performance and CEO ability harder for boards to assess.

Table 2-15: Heterogeneity - External Macro Environment

	Election Period		Partisan Conflict		Economic Condition	
	(1) Election	(2) Non-Election	(3) High PCI	(4) Low PCI	(5) CFNAI>=0	(6) CFNAI<0
FLPR	-0.0012*** (0.0004)	-0.0011 (0.0007)	-0.0010** (0.0005)	-0.0012 (0.0008)	-0.0008 (0.0008)	-0.0014*** (0.0004)
Ind_ROA	-0.0138* (0.0077)	-0.0112 (0.0115)	0.0009 (0.0085)	-0.0267** (0.0111)	-0.0273** (0.0117)	-0.0016 (0.0072)
Size	0.0024*** (0.0008)	0.0010 (0.0010)	0.0030*** (0.0009)	0.0008 (0.0010)	0.0007 (0.0011)	0.0027*** (0.0008)
Leverage	0.0033 (0.0053)	0.0067 (0.0064)	-0.0018 (0.0051)	0.0135* (0.0077)	0.0058 (0.0071)	0.0046 (0.0050)
Market-to-Book	-0.0002 (0.0002)	-0.0004*** (0.0001)	-0.0001 (0.0001)	-0.0006*** (0.0002)	-0.0004*** (0.0001)	-0.0002 (0.0002)
Stock Volatility	0.0675*** (0.0212)	0.0694*** (0.0254)	0.0854*** (0.0251)	0.0471** (0.0221)	0.1232*** (0.0353)	0.0436** (0.0170)
Cash	0.0097 (0.0068)	-0.0023 (0.0076)	0.0046 (0.0056)	0.0039 (0.0089)	-0.0072 (0.0082)	0.0117* (0.0064)
Board Size	0.0004 (0.0003)	0.0004 (0.0004)	0.0003 (0.0003)	0.0005 (0.0004)	0.0007* (0.0004)	0.0001 (0.0003)
Independence	0.0157** (0.0065)	0.0070 (0.0099)	0.0273*** (0.0077)	-0.0010 (0.0092)	0.0108 (0.0102)	0.0111 (0.0068)
CEO Tenure	-0.0002* (0.0001)	-0.0002 (0.0001)	-0.0002* (0.0001)	-0.0001 (0.0001)	-0.0001 (0.0001)	-0.0002** (0.0001)
CEO Duality	-0.0059*** (0.0018)	-0.0144*** (0.0026)	-0.0073*** (0.0018)	-0.0140*** (0.0029)	-0.0151*** (0.0028)	-0.0065*** (0.0017)
_cons	-0.0250*** (0.0091)	0.0048 (0.0126)	-0.0370*** (0.0113)	0.0096 (0.0115)	-0.0032 (0.0137)	-0.0181** (0.0091)
Observations	12,916	12,435	14,548	10,803	11,105	14,246
Adjusted R ²	0.0091	0.0109	0.0115	0.0120	0.0143	0.0078
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES

Note: This table reports LPM estimates on subsamples defined by the external macro environment. The dependent variable is CEO forced turnover. Columns (1) and (2) separate election periods from non-election periods. Columns (3) and (4) separate observations above and below the mean of the Partisan Conflict Index. Columns (5) and (6) separate periods of above-trend economic activity from periods of below-trend activity. All regressions include Fama-French 48 industry and year fixed effects. All variables are defined in Appendix B. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

2.5. Conclusion

This chapter examines whether firm-level political risk affects the likelihood of forced CEO turnover, using the text-based FLPR index of Hassan et al. (2019) from U.S. firms over the period 2002 to 2021. Prior research documents that firm-level political risk affects corporate financial policies such as cash holdings and leverage, but whether it also shapes the board's decision to dismiss the CEO has received less attention. The baseline estimates show a negative and statistically significant association between FLPR and subsequent forced CEO turnover. This finding is preserved when FLPR is entered as a standardised unlogged measure, represented by the High FLPR indicator, or disaggregated into its eight topic-specific components, and under alternative definitions of forced turnover. Consistent estimates are also obtained after controlling for Political Sentiment and addressing endogeneity through instrumental variable estimation and propensity score matching. A falsification test using overall CFO turnover returns an insignificant FLPR coefficient. Although the CFO measure does not distinguish between forced and voluntary departures, the absence of a corresponding negative association with observed CFO changes weakens the alternative explanation that political risk is associated with a general reduction in senior-executive turnover.

The moderation and heterogeneity analyses point to two layers of the underlying mechanism. The first points to the board's evaluation of CEO performance. FLPR weakens the sensitivity of forced turnover to firm performance, suggesting that boards find it harder to distinguish CEO quality from external political conditions when the firm's political risk exposure is higher. The baseline association is stronger when boards are busier and weaker when directors have longer tenure, in line with the view that monitoring capacity affects how well boards can separate external political conditions from managerial performance. The association is also concentrated in firm-years where FLPR is increasing rather than stable, in election periods, under high partisan conflict, and when macroeconomic conditions are below trend. Each of these conditions adds noise to the performance signals on which boards rely, making the attribution problem more salient. Firm lobbying expenditure weakens the association and geographic distance from Washington strengthens it, consistent with political information access reducing the board's evaluation difficulty under political risk.

The second points to the cost of replacing the incumbent. The baseline association largely disappears when a viable internal successor is already available, and it is amplified when the CEO holds greater relative power within the firm. CEO partisan alignment with the incumbent president strengthens it, consistent with boards assigning greater retention value to a CEO whose political proximity to the current administration would not transfer to a successor.

This chapter contributes to the CEO forced turnover literature (Jenter and Kanaan, 2015; Bushman et al., 2010; Frye and Pham, 2020) by showing that the board's disciplinary decision depends not only on realised performance and governance structure but also on the conditions under which that performance is evaluated. Prior work has focused on how governance characteristics and CEO entrenchment shape forced turnover. The present analysis identifies the firm's political risk exposure as a distinct source of variation in the board's assessment environment. The moderation results indicate that the association operates through attribution difficulty and the cost of replacing the incumbent, with the strength of each channel varying across board monitoring capacity, the trajectory of political risk, the aggregate political and macroeconomic environment, and the firm's own investment in political information.

The chapter also contributes to the firm-level political risk literature (Hassan et al., 2019; Hasan et al., 2022; Gyimah et al., 2022; Gad et al., 2024) by extending its scope from corporate financial policies and market outcomes to board governance decisions. The firm-level measure enabled identification of the association within industry-year cells, examination of moderators that capture variation in monitoring capacity and political information access, and analysis of the directional dynamics of political risk, none of which would be feasible with aggregate uncertainty proxies. Firm-specific political risk weakens turnover-performance sensitivity, whereas Frye and Pham (2020) report the opposite direction under aggregate EPU, suggesting that aggregate and firm-specific political risk affect board decision-making through different channels.

The lower probability of forced turnover associated with political risk presents a governance trade-off. Retaining the incumbent may be a rational response when observed performance

is difficult to interpret or when replacement would disrupt leadership continuity and entail the loss of firm-specific political knowledge. It may also postpone the removal of an underperforming CEO and weaken the disciplinary link between performance and turnover. For shareholders, the former reduces the risk and disruption of a mistaken leadership change, whereas the latter allows the costs of managerial underperformance to persist. The moderation results suggest that greater board attention and access to political information may help boards distinguish the effects of external political conditions from those of managerial decisions, while succession readiness may reduce the costs of leadership transition. Without evidence on subsequent firm value or long-run performance, the analysis cannot establish whether the resulting retention is optimal or reflects a governance failure.

2.6. Appendix B: Definition of Variables

Table B: Definition of Variables

Variable	Definition	Source
Forced Turnover	An indicator variable equal to one if the CEO experiences forced turnover, and zero otherwise. Forced turnover is defined as involuntary departure due to job performance or legal concerns (departure codes 3 and 4 in Gentry et al., 2021)	Gentry et al. (2021) and ExecuComp
Forced Turnover_2	An indicator variable equal to one if the CEO experiences forced departure due to job performance concerns (departure code 3 in Gentry et al., 2021), and zero otherwise	Gentry et al. (2021) and ExecuComp
Forced Turnover_3	An indicator variable equal to one if the CEO experiences forced departure due to job performance concerns, legal or ethical violations, or departure framed as pursuing new opportunities (departure codes 3, 4, and 6 in Gentry et al., 2021), and zero otherwise	Gentry et al. (2021) and ExecuComp
CFO turnover	An indicator variable equal to one if the firm experiences a change in its chief financial officer in the fiscal year, and zero otherwise.	ExecuComp
FLPR	The natural logarithm of one plus the firm-level political risk measure of Hassan et al. (2019), constructed from textual analysis of quarterly earnings conference call transcripts	Hassan et al., 2019
FLPR _{topic}	The natural logarithm of one plus the topic-specific firm-level political risk measure of Hassan et al. (2019). Eight topic categories are available, namely economic, environmental, trade, institutional, health, security, tax, and technological risk	Hassan et al., 2019
Standardised FLPR (raw)	The annual firm-level political risk measure of Hassan et al. (2019), standardised to have a mean of zero and a standard deviation of one in the baseline estimation sample.	Hassan et al., 2019 and Author's calculation
High FLPR	An indicator variable equal to one if the logged FLPR measure exceeds the median in the baseline estimation sample, and zero otherwise.	Hassan et al., 2019 and Author's calculation
Instrumental_FLPR	The natural logarithm of one plus the average firm-level political risk of all other firms in the same industry in the same fiscal year, excluding the focal firm.	Hassan et al., 2019 and Author's calculation

Political Sentiment (PSentiment_std)	The annual firm-level political sentiment measure of Hassan et al. (2019), constructed from the frequency of positive-tone political words minus negative-tone political words in quarterly earnings conference call transcripts. The measure is standardised to have a mean of zero and a standard deviation of one in the baseline estimation sample. Higher values indicate more favourable political news.	Hassan et al. (2019) and Author's calculation
Size	Natural logarithm of firm's total assets.	Compustat
Ind_ROA	Industry-adjusted return on assets, calculated as the firm's return on assets minus the median return on assets of all firms in the same Fama-French 48 industry in the same fiscal year.	Compustat
Market Return_VW	Firm RET – Value-weighted market return	CRSP
Market Return_EW	Firm RET – Equal-weighted market return	CRSP
Leverage	Total debt (long-term debt plus debt in current liabilities) divided by total assets.	Compustat
Market-to-Book	Market-to-book ratio, defined as the market value of equity (fiscal year-end closing price multiplied by common shares outstanding) divided by the sum of book value of common equity and deferred taxes.	Compustat
Cash	Total cash and short-term investments of a firm divided by its total assets	Compustat
Stock Volatility	Stock return volatility, measured as the standard deviation of monthly stock returns over the 12 months ending at the fiscal year-end	CRSP
Board Size	The total number of directors serving on the board at the fiscal year-end	BoardEx
Independence	The proportion of independent directors on the board at the fiscal year-end, calculated as the number of independent directors divided by total board size	BoardEx
CEO Tenure	The number of years the CEO has served in the position as of the fiscal year-end, calculated from the date on which the individual became CEO as reported in ExecuComp.	ExecuComp
CEO Duality	An indicator variable equal to one if the CEO also serves as chairman of the board in the fiscal year, and zero otherwise	ExecuComp
CEO Power	CEO pay slice, defined as the ratio of CEO total compensation to the sum of total compensation of the top five highest-paid executives of the firm	ExecuComp
Overconfidence	An indicator variable equal to one if the CEO is classified as overconfident based on the Holder67 measure of Malmendier and Tate (2005, 2008), and zero otherwise.	ExecuComp

Heir Apparent	An indicator variable equal to one if the firm has a president or chief operating officer (COO) who is younger than and distinct from the CEO in the fiscal year, and zero otherwise.	ExecuComp
Busyness	The average number of listed board seats held by all directors serving on the board at the fiscal year-end	BoardEx
Board Tenure	The average number of years that all directors serving on the board at the fiscal year-end have held their current board position	BoardEx
Lobbying	The natural logarithm of the total annual corporate lobbying expenditure	Lobby View
CEO Alignment	An indicator variable equal to one if the CEO's inferred partisan orientation matches the party of the incumbent U.S. president, and zero otherwise	OpenSecret.org and Christensen et al. (2015)
Distance to D.C.	The natural logarithm of the distance between a firm's headquarters and Washington DC (zip code 20001)	Calculation based on zip code from Compustat
PSI	Politically sensitive industry. A binary variable set to one if the firm belongs to a politically sensitive industry, and zero otherwise.	Compustat
Election Period	An indicator equal to one if the observation year is in the year of or the year prior to a U.S. presidential election, and zero otherwise	David Leip's Atlas of U.S. Presidential Elections
PCI	Natural logarithm of the level of political polarization or disagreement among politicians in the U. S	Federal Reserve Bank of Philadelphia
Economic Conditions	The Chicago Fed National Activity Index, a monthly index of national economic activity published by the Federal Reserve Bank of Chicago. The annual average value is used. Negative values indicate below-trend economic growth.	Federal Reserve Bank of Chicago

Chapter 3: Political Connections and Maturity Mismatch: Empirical Evidence from Chinese Listed Firms

3.1. Introduction

Corporate maturity mismatch arises when firms finance long-term investment with short-term debt, exposing them to refinancing risk and potential liquidity distress when credit conditions tighten. This phenomenon is particularly prevalent in China, where the corporate bond market remains relatively underdeveloped (Allen et al., 2005; Allen et al., 2017). International comparisons confirm that Chinese listed firms have among the shortest corporate debt maturities and among the highest levels of fixed asset investment across major economies (Fan et al., 2012; Wang et al., 2021). Many firms consequently depend on the continuous rollover of short-term obligations to sustain ongoing long-term investment projects. When rollover conditions deteriorate, this dependence can translate into reduced investment and, in severe cases, firm failure (He and Xiong, 2012; Almeida et al., 2012). What determines whether firms adopt maturity structures that expose them to these risks is therefore a question with both academic and policy relevance, particularly in a financial system where the allocation of credit is shaped by institutional relationships and government priorities as well as by commercial considerations.

Prior literature documents that politically connected firms in China enjoy preferential access to bank credit and obtain more favourable lending terms (Li et al., 2008; Cull et al., 2015; Firth et al., 2009). Political connections have also been shown to affect the maturity of corporate debt, with Caglayan et al. (2024) finding that political affiliation is associated with longer debt maturity among Chinese firms. Beyond financing, political connections shape corporate investment behaviour. Connected firms undertake investment that deviates from commercial objectives (Chen et al., 2011), and investment declines when political ties are severed by anti-corruption enforcement (Pan and Tian, 2020). A separate line of research has examined the determinants of corporate maturity mismatch, identifying macroeconomic conditions, banking sector characteristics, and firm-level governance as contributing factors (Ma et al., 2022; Converse, 2018; Chen et al., 2025; Tang et al., 2023). Wang et al. (2021) distinguish between passive mismatch, driven by the unavailability of long-term credit, and

active mismatch, in which firms deliberately choose cheaper short-term financing and rely on rollover capacity. Using executive political connectedness as one proxy for financing constraints, they report higher mismatch among firms with politically connected executives, consistent with the active channel.

Prior research links executive political connections to higher maturity mismatch, although the relative contributions of the investment and financing sides remain unclear. Greater access to bank credit or longer debt maturity may ease financing constraints, yet the investment-financing gap can remain wide if long-term and internal funding fails to keep pace with long-horizon investment. Evidence that political connections are associated with investment expansion or inefficiency is likewise silent on whether those commitments are supported by funding of a corresponding maturity. Maturity mismatch brings these financing and investment consequences into a single outcome. The present chapter builds on this evidence by treating executive-level political connections as the focal explanatory factor and decomposing their association with the investment-financing gap into its investment and financing components. Considering the investment and financing sides together permits a more balanced interpretation of the economic consequences of maturity mismatch. Such mismatch need not be inefficient when firms can reliably roll over short-term debt and benefit from lower borrowing costs or stronger creditor monitoring (Diamond, 1991; Wang et al., 2021). When credit conditions tighten, the same financing structure increases exposure to refinancing and liquidity shocks (He and Xiong, 2012; Almeida et al., 2012). Higher SDLI is therefore interpreted as greater rollover exposure rather than realised financial distress or an unconditional reduction in firm value.

Recent studies have begun to explore how state involvement affects maturity mismatch. Ma et al. (2025) examine the introduction of government ownership in city commercial banks and find that state-backed credit provision reduces mismatch by expanding the supply of long-term loans. Li et al. (2024) approach from the borrower side and find that state-affiliated corporate shareholders mitigate mismatch by alleviating financing constraints and strengthening board governance. These findings suggest that institutional-level state involvement can narrow the gap between investment and financing maturities. Executive-level political connections operate through a different channel, because they are embedded

in the career incentives and political networks of individual firm leaders rather than in institutional characteristics of the state sector. Political connections could reduce maturity mismatch if their primary effect is to improve the maturity terms of corporate borrowing. The net effect may instead widen the investment-financing gap, however, if connected firms simultaneously expand long-horizon investment commitments that outpace whatever improvement in financing maturity their political ties provide. This study examines whether executive-level political connections are associated with corporate maturity mismatch among Chinese A-share listed firms.

The research uses a sample of 33,659 firm-year observations from 3,864 A-share listed firms on the Shanghai and Shenzhen Stock Exchanges over the period 2008 to 2023. Political connections are measured through a binary indicator that equals one if the firm's chairman or CEO currently holds or has previously held a position as a government official or as a member of the National People's Congress or the Chinese People's Political Consultative Conference (Fan et al., 2007; Chen et al., 2011). Since both the identity of top executives and their political affiliations change over time, the political connection status of individual firms varies across the sample period. Maturity mismatch is measured using the SDLI variable, which captures the extent to which long-term investment expenditures are financed by short-term sources (Frank and Goyal, 2003; Zhong et al., 2016; Huang et al., 2024). The reliability of the baseline result is assessed through a battery of robustness tests, including alternative variable measurement, placebo tests, entropy balancing.

The baseline estimates indicate that politically connected firm-years exhibit higher maturity mismatch, with a coefficient of 0.006 that is statistically significant at the 1% level. The result is robust to an alternative mismatch measure (SDLA), to the replacement of year fixed effects with province-by-year fixed effects that absorb time-varying regional heterogeneity, to the use of a one-year lag in the political connection variable, and to placebo tests that confirm the baseline estimate is not driven by spurious within-firm correlation. Entropy balancing, which reweights control observations to match the first three distributional moments of politically connected firms, yields a coefficient that remains statistically significant at a comparable magnitude. Propensity score matching produces consistent results and is reported in the appendix.

The additional analyses clarify the economic source of the baseline association and the conditions under which it is most apparent. Higher SDLI among connected firm-years arises primarily from smaller increases in long-term debt and equity relative to investment, rather than from higher long-term investment expenditure. Political connections may therefore improve access to particular forms of credit without expanding the long-term funding available to support investment, leaving firms more reliant on short-term financing. The association weakens as institutional ownership increases and strengthens with greater asset tangibility, indicating that its magnitude varies with institutional ownership and firms' long-term investment demand. The association does not differ significantly across aggregate monetary conditions, local fiscal pressure, or firm-level policy uncertainty. Estimates are larger for non-SOEs, less financially constrained firms, later-tenure provincial officials, and municipal officials below age 58, although the relevant cross-group differences are not statistically significant. The evidence therefore points to financing composition as the main source of the mismatch and indicates that its magnitude varies with institutional ownership and investment structure.

Further analysis examines how the baseline result varies across three dimensions of the political connection itself. Both chairman and CEO connections are individually associated with higher maturity mismatch, with the CEO estimate significant at the 5% level and the chairman estimate at the 10% level, indicating that the result is not driven by one specific executive role. National-level political affiliations yield the only statistically significant level-specific coefficient, consistent with prior evidence that the economic consequences of political ties vary across administrative levels (Feng et al., 2015). Among the temporal properties of the connection, only firm-years in which political connections are maintained across consecutive years exhibit a statistically significant positive coefficient. Firm-years in which connections are newly acquired or recently lost do not. A more restrictive three-year persistence measure yields a comparable result, consistent with the result reflecting the cumulative influence of sustained political connectedness rather than short-term changes in connection status.

This chapter contributes to two strands of literature. First, it extends research on corporate political connections in China (Li et al., 2008; Firth et al., 2009; Fan et al., 2007; Caglayan

et al., 2024). Prior work has progressively documented that political ties affect credit access, borrowing costs, and debt maturity, each capturing a single dimension of the financing relationship between firms and lenders. Rather than considering credit access, debt maturity, and investment behaviour as separate outcomes, the chapter examines whether the financing advantages and investment commitments associated with political connections remain aligned in maturity. This joint perspective is important because more favourable borrowing terms do not necessarily narrow the investment-financing gap when long-term and internal funding remains insufficient relative to investment.

Second, the chapter contributes to the maturity mismatch literature (Zhong et al., 2016; Ma et al., 2022; Wang et al., 2021). Existing research has identified macroeconomic conditions, banking sector characteristics, and firm-level governance as determinants of maturity mismatch, each operating primarily on one side of the maturity equation. This chapter extends this literature by focusing on executive-level political connections as an institutional characteristic that may influence both the financing terms firms obtain and the investment commitments they undertake. The decomposition identifies financing composition, rather than higher long-term investment expenditure, as the main source of the association. The weaker association at higher levels of institutional ownership and the stronger association among firms with greater asset tangibility are consistent with external monitoring and investment structure shaping its magnitude. The subgroup estimates describe patterns across ownership type, financing capacity, and local political settings. These findings situate political connections within the broader set of institutional and firm-level conditions associated with maturity mismatch.

This chapter is structured as follows: Section 3.2 provides a comprehensive review of the relevant theoretical frameworks and prior empirical evidence and develops the hypothesis. Section 3.3 details the sample construction process, including the data sources and selection criteria employed, describes the measurement and calculation of key variables, and outlines the regression model and research design adopted. Section 3.4 presents and interprets the empirical findings obtained from investigations, discussing both the main results and additional robustness checks. Finally, Section 3.5 summarizes the key conclusions of the research and discusses their implications for policy.

3.2. Literature Review and Hypothesis Development

3.2.1. Institutional Background in China

Bank credit remains the dominant source of external finance for Chinese firms. Despite more than three decades of financial reform, the corporate bond market has stayed relatively underdeveloped, and equity issuance is subject to regulatory rationing under the approval-based system (Allen et al., 2005; Allen et al., 2017). Within the banking sector itself, lenders have tended to favour short-term loans, as information asymmetry between banks and borrowers and the continued mispricing of capital and risk discourage the extension of long-term credit (Firth et al., 2009; Wang et al., 2021). The scale of the resulting imbalance is visible in international comparisons. Fan et al. (2012), examining debt maturity across 39 markets, find that China has the lowest ratio of long-term debt to total debt. Despite this constraint, Chinese listed firms maintain among the highest levels of fixed asset investment across major economies (Wang et al., 2021). The degree to which individual firms are exposed to this financing constraint is not uniform.

Credit allocation in the banking system reflects ownership structure and government priorities alongside commercial risk assessment. China's banking sector has historically been dominated by state-owned commercial banks, whose lending decisions have favoured state-owned borrowers (Cull et al., 2015). Private firms, especially smaller ones, face tighter borrowing constraints and more limited access to long-term funding (Li et al., 2008). This differential was reinforced during the 2009 fiscal stimulus, when the expansion of bank lending disproportionately benefited state-owned and government-connected firms (Cong et al., 2019). The financing environment that a firm faces is therefore shaped in part by its institutional position, and the nature of its relationship with government entities can affect both the availability and the maturity of the credit it obtains.

When contract enforcement and property rights protection remain weak, and the state retains substantial control over credit, land, and project approvals, firms face strong incentives to cultivate ties with government (Allen et al., 2005; Li et al., 2008). In China, the most common form of corporate political connection arises when a firm's chairman or CEO holds membership in the National People's Congress or the Chinese People's Political Consultative Conference, or has previously served as a government official (Fan et al., 2007).

In the sample used in this study, approximately 29% of firm-year observations involve a chairman or CEO with such a political role. This prevalence is not unique to China. Faccio (2006) documents that politically connected firms exist in 35 of the 47 countries in her sample, though the specific forms of connection are shaped by each country's institutional arrangements. What distinguishes the Chinese setting is the institutional depth of these ties. Because government entities retain authority over key inputs to corporate activity, political connections are embedded in the structure of the corporate sector rather than being incidental features of individual careers. The economic consequences of such connections extend across multiple dimensions of corporate financial behaviour.

Local governments in China exercise considerable authority over economic activity within their jurisdictions, including fiscal expenditure, land use, and project approvals (An et al., 2016), and local firms frequently rely on government connections to alleviate financial constraints and secure bank credit (Cull et al., 2015). Central to this system is the cadre evaluation framework, under which the career advancement of local officials depends on the economic performance of their jurisdictions (Li and Zhou, 2005). Officials therefore have strong motivation to direct resources toward investment that generates measurable economic output. State-owned enterprises frequently serve as vehicles for implementing local policy objectives (Lin et al., 1998), and the firms that contribute most visibly to local growth tend to maintain the closest working relationships with government. Corporate financing and investment decisions in China are, as a result, embedded in a broader political economy of local governance rather than being determined solely by firm-level financial considerations.

These institutional features vary across regions. Chinese provinces differ considerably in the quality of legal enforcement, the degree of market development, and the extent of government involvement in economic activity (Wang et al., 2021). In regions with stronger market institutions, firms may rely less on political relationships for resource access; where government control over the economy is more pronounced, such relationships are likely to play a larger role in shaping financing outcomes. This regional variation, together with the structural characteristics of China's financial system and the close interdependence between government and corporate sectors, makes China a particularly informative setting for

studying how political connections affect the alignment between corporate investment horizons and financing maturities.

3.2.2. Corporate Political Connections

A substantial body of cross-country evidence documents that politically connected firms enjoy preferential access to external finance. Khwaja and Mian (2005), using loan-level data from Pakistan, find that firms with a politician on their board receive 45% larger loans from government banks and exhibit 50% higher default rates, with the preferential treatment driven entirely by state-owned lenders. This pattern of credit favouritism extends beyond direct lending. Politically connected firms are more likely to receive government bailouts during financial distress (Faccio et al., 2006), obtain bank loans at lower interest rates (Houston et al., 2014), and benefit from preferential lending at the local level (Infante and Piazza, 2014). Claessens et al. (2008) show that firms providing greater campaign contributions subsequently gain improved access to finance, while Leuz and Oberholzer-Gee (2006) find that politically connected firms in Indonesia are less likely to raise foreign capital, consistent with domestic political relationships substituting for the transparency required by international markets. The evidence from these studies, spanning Pakistan, Brazil, Indonesia, Italy, and the United States, points in a consistent direction. Political ties confer financing advantages, and these advantages operate primarily through government-influenced channels. How they manifest in practice, however, depends on the structure of the financial system in which firms operate.

Political connections are particularly consequential for credit access in China, where bank lending is the primary source of external finance and the state retains substantial influence over credit allocation. Li et al. (2008), studying a national survey of private enterprises, find that entrepreneurs with Communist Party membership obtain more bank loans and achieve stronger firm performance, suggesting that political ties help alleviate the financing constraints that private firms face in a system that favours state-owned borrowers. Cull et al. (2015), drawing on the World Bank Enterprise Survey covering 120 Chinese cities, distinguish between two forms of government connection, state ownership and government involvement in CEO appointment, and find that both are associated with reduced financial constraints. These firm-level findings are reinforced by evidence from the bank side. Firth

et al. (2009) analyse how Chinese banks allocate credit to private sector borrowers and show that political factors, alongside standard commercial criteria, shape lending decisions. Hung et al. (2017) provide complementary evidence that banks with politically connected executives allocate credit differently from those without such ties. The relationship between political connections and financing is also conditional on firm characteristics, including the institutional environment and corporate governance quality (Chan et al., 2012; Zhao and Lu, 2016), and on whether firms can access alternative channels such as social connections to banks when formal political ties are disrupted (Ding et al., 2023).

The relationship between political connections and firm value in China is not straightforward. Fan et al. (2007) find that firms with politically connected CEOs underperform in terms of post-IPO stock returns and earnings growth, and that connected CEOs tend to appoint directors with political backgrounds rather than professional expertise, weakening board quality. Cao et al. (2017) report a related pattern, finding that political connections weaken the sensitivity of CEO turnover to firm performance, consistent with entrenchment effects. Subsequent research, however, suggests that the direction of the value effect depends on how connections are measured and what outcomes are considered. Chen et al. (2017) propose that moderate levels of political connection offer net benefits through resource access, while excessive connections impose costs through rent extraction. Berkman et al. (2010) show that politically connected firms benefit less from new regulations designed to strengthen minority shareholder protection, suggesting that investors doubt whether regulators will enforce the new rules on connected firms. At the same time, Conyon et al. (2015), after controlling for CEO quality, find a positive association between political connections and firm performance, and several other studies report broadly favourable effects in different Chinese settings (Wu et al., 2018; Liu et al., 2013; Li and Jin, 2021; He et al., 2014; Sun and Zou, 2021). The variation in findings across this literature suggests that the effects of political connections depend on the specific corporate decisions through which they operate, including financing choices and investment allocation.

Political connections can alter the types of investments firms undertake. Chen et al. (2011) examine the relationship between government intervention and investment efficiency in Chinese listed firms and find that investment efficiency is lower in SOEs than in private

firms, and that political connections at the executive level further reduce investment efficiency within the state sector, consistent with connected executives serving as a conduit for policy-driven investment mandates. Wu et al. (2012) reinforce this finding by showing that politically connected managers in local SOEs face more severe over-investment problems, while the advantages of political connections in private firms appear to operate primarily through tax benefits rather than investment expansion. Pan and Tian (2020) exploit China's anti-corruption campaign as an exogenous shock and document a reduction in investment by previously connected firms following the loss of political ties, suggesting that some investment in connected firms reflects political rather than commercial motivation. These findings suggest that political connections may expand investment commitments beyond what commercial considerations alone would dictate.

Political and state-related factors shape the maturity of corporate debt as well as its availability. Caglayan et al. (2024), using a large dataset of Chinese firms, find that political affiliation is associated with longer debt maturity, and that this effect is partially disciplined by firm-level cash flow volatility, particularly for firms affiliated with local rather than central government. Recent work has also begun to examine how state-related factors affect the broader alignment between investment and financing maturities (Ma et al., 2025; Li et al., 2024). These studies suggest that state-related factors affect not only debt maturity but also the broader alignment between investment and financing maturities, a theme that the maturity mismatch literature addresses from a different starting point.

3.2.3. Corporate Maturity Mismatch

The maturity of corporate debt reflects a trade-off between the monitoring benefits of short-term financing and the refinancing risk it creates. Short-term debt gives creditors the opportunity to reassess the borrower's creditworthiness at each renewal, which disciplines managerial behaviour and reduces agency costs. At the same time, it exposes the firm to refinancing risk, because a borrower that cannot roll over maturing obligations faces the risk of inefficient liquidation. Diamond (1991) formalises this tradeoff and shows that the relationship between credit quality and maturity choice is nonlinear. Firms with the highest credit ratings use short-term debt as bridge financing because the risk of failed refinancing is small. Firms with intermediate ratings prefer long-term debt to avoid this risk, while firms

with very poor ratings are forced into short-term borrowing because adverse selection prevents them from issuing long-term instruments. Because the pricing of long-term debt is more sensitive to firm value than the pricing of short-term debt, high-quality firms also have an incentive to signal their type by issuing shorter maturities (Flannery, 1986). On the empirical side, Barclay and Smith (1995) find that firms with more growth options use less long-term debt, consistent with the contracting cost hypothesis. Policy uncertainty also affects maturity choice, as firms shorten debt maturity due to increased risk aversion when the regulatory environment is volatile (Datta et al., 2019). Changes in the maturity structure of government debt shape corporate maturity decisions through a gap-filling channel, as firms adjust their own debt maturity to absorb shifts in the supply of government bonds at different maturities (Greenwood et al., 2010), and the cost of bank loans varies systematically with borrowers' debt maturity profiles (Wang et al., 2020). Across these frameworks, a consistent implication emerges. Firms that rely heavily on short-term financing gain monitoring and cost advantages but bear the risk that refinancing conditions may deteriorate.

When this reliance becomes excessive relative to the maturity of the firm's assets, the refinancing risk can threaten the firm's solvency. He and Xiong (2012) show that rollover risk and credit risk interact in a self-reinforcing manner. As market liquidity deteriorates, the cost of rolling over maturing debt rises, which increases the probability of default, which in turn further reduces creditors' willingness to refinance. At the collective level, Brunnermeier and Oehmke (2013) show that a borrower who cannot commit to an aggregate maturity structure has an incentive to shorten the maturity of individual debt contracts, because doing so dilutes the claims of remaining long-term creditors. When each creditor anticipates this incentive, the equilibrium maturity structure unravels toward the short end, exposing the borrower to rollover risk that would not arise under a longer maturity profile. The real consequences of excessive reliance on short-term financing became apparent during the 2007-2008 financial crisis, when firms with large volumes of debt maturing during the credit crunch sharply reduced investment (Almeida et al., 2012).

The maturity composition of a firm's debt and the alignment between its debt maturity and investment horizon are, nonetheless, conceptually distinct. A firm may have a low ratio of

long-term to total debt and yet face no mismatch if its assets are correspondingly short-lived. Maturity mismatch, as an empirical concept, captures the extent to which long-term investment expenditures are financed by short-term sources. Building on the cross-country evidence that Chinese firms face the widest gap between long-term investment and long-term debt availability, Wang et al. (2021) investigate whether this mismatch reflects supply-side constraints or demand-side choices. They distinguish between passive mismatch, in which firms use short-term debt because long-term credit is unavailable, and active mismatch, in which firms deliberately choose cheaper short-term financing and rely on their ability to roll over maturing obligations. Their evidence supports the active mismatch view, as mismatch is more pronounced among firms facing fewer financial constraints and is associated with lower borrowing costs. Which of these channels predominates may depend on the institutional conditions and constraints that individual firms face. Maturity mismatch in China therefore reflects both institutional constraints on long-term credit supply and firms' strategic financing choices, which makes the identification of its determinants a question with clear empirical and policy relevance.

The factors that determine whether firms adopt maturity mismatch, and whether they do so actively or under constraint, have been the subject of a growing empirical literature. Macroeconomic conditions that tighten the supply of long-term credit or increase the cost of rolling over short-term debt tend to exacerbate maturity mismatch (Ma et al., 2022; Converse, 2018; Han et al., 2022). Government policy interventions can mitigate this effect. Chen et al. (2025) find that China's Industry-Finance Cooperation Pilot Program reduced maturity mismatch by improving the flow of information between banks and firms. Environmental and climate regulation widens the gap between investment horizons and financing maturities, as firms facing tighter standards increase long-term investment while their access to long-term credit diminishes (Huang et al., 2024; Tan et al., 2025). Geopolitical risk is associated with a similar pattern through increased uncertainty about future cash flows (Wang and Wang, 2025). Improvements in tax information sharing between tax authorities and financial institutions reduce mismatch by lowering the financing frictions that contribute to it (Wang and Zhang, 2025).

These macroeconomic forces affect corporate maturity mismatch in part through their impact on banks' lending behaviour. Bank liquidity hoarding constrains the supply of long-term loans to corporate borrowers (Ma et al., 2022), while greater bank competition may alleviate mismatch by expanding firms' access to longer-term funding (Jv et al., 2025). Luo et al. (2019) show that incentive structures in banks' wealth management products can themselves generate maturity mismatch at the financial institution level. Firm-level governance and managerial characteristics also shape the balance between short-term cost savings and rollover exposure. CEO local origin is associated with more conservative maturity matching (Tang et al., 2024a), while CEO disaster experience is associated with greater mismatch through increased risk appetite (Tang et al., 2024b). Directors' and officers' liability insurance can amplify mismatch by creating moral hazard that encourages excessive refinancing risk (Tang et al., 2023). Ownership structure and enterprise identity affect maturity mismatch by altering firms' access to state-backed financing channels and the quality of internal governance (Chen et al., 2023, 2024), and other firm-level determinants include performance feedback (Li et al., 2024) and macrofinancial conditions at the aggregate level (Wang, 2023). This literature has focused primarily on how macroeconomic conditions, financial sector characteristics, and firm-level governance shape the alignment between investment and financing maturities. How firms' political relationships shape the alignment between investment and financing maturities has received less direct attention.

3.2.4. Hypotheses Development

Politically connected firms in China obtain bank credit more readily and on more favourable terms than their non-connected counterparts (Li et al., 2008; Cull et al., 2015; Firth et al., 2009). Political ties are associated not only with financing advantages but also with changes in how firms allocate capital. Chen et al. (2011) find that government intervention through political appointments leads to investment that is disconnected from commercial opportunities, and investment declines when political ties are severed by anti-corruption enforcement (Pan and Tian, 2020). Because political connections can shape both how firms obtain financing and how they deploy capital, they may also affect whether the maturity of corporate debt is aligned with the horizon of corporate investment.

The relationship between state-related factors and maturity mismatch depends on the channel through which state influence reaches the firm. Ma et al. (2025) document that state-backed credit provision through government ownership of banks reduces maturity mismatch. They attribute this to the enhanced liquidity creation capacity of government-owned banks, which enables them to extend longer-maturity credit to local borrowers. Li et al. (2024) approach from the borrower side and find that state-affiliated corporate shareholders mitigate mismatch by alleviating financing constraints and strengthening board governance through the appointment of directors. These findings suggest that institutional-level state involvement can narrow the gap between investment and financing maturities when it operates through the credit supply channel or through governance improvements at the shareholder level. Both studies focus on institutional-level characteristics of the state sector rather than on the political backgrounds of individual firm executives, whose connections may affect the firm's financing conditions and investment decisions simultaneously.

Executive-level political connections differ from bank ownership and shareholder composition in that they may shape both the form of credit that firms obtain and the investment commitments those firms undertake. Politically connected firms can more readily access bank credit, but the form of this credit is shaped by the structural characteristics of the banking system in which it is extended. Chinese banks have a well-documented preference for short-term lending driven by information asymmetry and risk management considerations (Firth et al., 2009; Wang et al., 2021). This structural bias is sufficiently entrenched that overcoming it typically requires formal government intervention to reduce information frictions between banks and firms (Chen et al., 2025). The financing advantages conferred by political connections may therefore manifest in part as improved access to short-term credit and greater ease of obtaining new loans as existing ones mature. Caglayan et al. (2024) establish that political affiliation is associated with longer debt maturity in China, confirming that political ties shape the terms of corporate borrowing. Whether this shift in debt maturity is accompanied by a corresponding alignment with investment horizons is a further question, since firms' investment commitments may expand alongside their access to longer-term financing. If the primary effect of political connections on corporate financing were to extend debt maturity and ease borrowing constraints, the

expected direction would be toward lower maturity mismatch. The evidence reviewed above suggests, however, that political ties also shape firms' investment behaviour. Political connections are associated with investment that deviates from commercial objectives (Chen et al., 2011) and that appears to be at least partly politically motivated (Pan and Tian, 2020). In China's investment-driven economy, such policy-oriented commitments may involve fixed asset and infrastructure expenditures with extended time horizons. Political connections may therefore lengthen debt maturity without reducing maturity mismatch, if connected firms simultaneously expand investment commitments that require even greater long-term funding. When political ties encourage investment commitments that are not fully matched by a corresponding extension of financing maturity, the result may be a wider gap between investment and financing horizons.

Politically connected firms in China thus face conditions on both the financing and the investment side that may produce greater maturity mismatch. They operate in a banking system where even preferential credit access remains shaped by a persistent short-term lending bias, and their political ties may simultaneously encourage investment commitments that are longer in horizon or larger in scale than those of non-connected firms. The net effect of these forces points toward a widening of the gap between the maturity of corporate investment and the maturity of corporate debt.

H1: Political connections are positively associated with corporate maturity mismatch.

3.3. Data and Methodology

3.3.1. Data and Sample Construction

To investigate the impact of corporate political connections on maturity mismatch, I employ a sample of A-share listed companies on the Shanghai and Shenzhen Stock Exchanges spanning 2008-2023. The sample period begins in 2008 for two important considerations. First, 2008 marks the completion of the split share reform and the adoption of revised Accounting Standards for Business Enterprises (ASBE), which enhanced the comparability of financial reporting across firms. In addition, the post-2008 sample covers multiple regulatory cycles and the post-global financial crisis environment, which have shaped firms' financing behaviour and leverage profiles in the Chinese capital market (Cong et al., 2019).

This sample period allows the analysis to cover multiple regulatory and macroeconomic cycles in the Chinese capital market.

The financial data of listed companies used in the empirical analysis are sourced from the CSMAR (China Stock Market & Accounting Research) database, utilizing consolidated financial statements. Data on political connections are constructed by identifying the political backgrounds of chairmen and CEOs from the CSMAR database, firms' annual reports, and <http://www.cninfo.com.cn/> (see Appendix C.1).

To ensure data consistency and comparability across firms, and following standard practices in the related literature (Xu et al., 2024; Wang and Wang, 2025), several screening procedures are applied: (1) remove firms designated as ST, *ST (Special Treatment, imposed by exchanges on firms reporting consecutive losses or other financial irregularities), or PT (Particular Transfer), as these designations indicate severe financial distress that would confound the measurement of normal financing behaviour; (2) remove observations of firms in the financial and insurance sectors due to their distinct regulatory environment and balance sheet structures; (3) remove observations where the firm is technically insolvent, defined as having a leverage ratio exceeding one; (4) drop observations of companies with a listing age of less than one year; (5) remove observations with missing values. To mitigate the influence of outliers, all continuous variables are winsorized at the 1st and 99th percentiles. After applying the above screening procedures, the final sample consists of 33,659 firm-year observations from 3,864 A-share listed firms.

3.3.2. Measurement of Corporate Maturity Mismatch

Maturity mismatch arises when firms finance long-term investment with short-term borrowings, thereby exposing themselves to heightened refinancing and liquidity risks (Brunnermeier and Oehmke, 2013). This issue is especially relevant in emerging market economies, where firms often face limited access to long-term debt financing.

Following the methodology of Frank and Goyal (2003), Zhong et al. (2016) and Huang et al. (2024), this study measures corporate maturity mismatch using an investment-financing mismatch variable, denoted as *SDLI*, which captures the extent to which long-term

investment expenditures are financed by short-term sources. Specifically, *SDLI* is constructed as:

$$SDLI = [Cash\ expenditure\ for\ investment\ activities\ such\ as\ purchasing\ and\ building\ fixed\ assets - (Long-term\ borrowing\ increase\ in\ the\ current\ period + Equity\ increase\ in\ the\ current\ period + Net\ cash\ flow\ from\ operating + Cash\ inflow\ from\ selling\ fixed\ assets)] / Total\ assets\ in\ the\ last\ period$$

where the increase in long-term borrowings is defined as current-period long-term borrowings plus the current portion of non-current liabilities minus prior-period long-term borrowings. In the baseline analysis, I retain both positive and negative values of *SDLI*, allowing the measure to capture the full distribution of investment–financing alignment rather than imposing ex ante restrictions.

SDLI is not intended to measure how much a firm invests or borrows. Rather, it captures how long-term investment is financed over time. Firms with comparable leverage or investment levels may therefore exhibit very different *SDLI* values, depending on whether long-term investments are supported by long-term funding or rolled over through short-term borrowing. A higher *SDLI* indicates a greater reliance on short-term financing to support long-term investment, reflecting a more pronounced maturity mismatch and increased exposure to rollover and liquidity risks, whereas lower or negative values suggest a closer alignment between investment and financing maturities.

3.3.3. Corporate Political Connections

Corporate political connections are typically identified through the political backgrounds of firms' top executives (Faccio, 2006; Fan et al., 2007). In China, common forms of formal political affiliation include serving as government officials and holding membership in the NPC or CPPCC (Li et al., 2008). Following Fan et al. (2007) and Luo and Liu (2019), this study defines a firm as politically connected if its chairman or CEO currently holds or has previously held a position as a government official or as a member of the NPC or CPPCC. Accordingly, *PC* is a dummy variable equal to one if either the chairman or CEO satisfies this criterion in a given year, and zero otherwise. The focus on these two executive roles

reflects their central position in corporate decision-making. Under the Company Law of the People's Republic of China, the chairman serves as the firm's legal representative and oversees overall strategic direction, while the CEO is responsible for the firm's operational management (Firth et al., 2006; Wu et al., 2012). Their political backgrounds are therefore likely to shape a firm's financing structure and the alignment between investment horizon and funding maturity.

Data on the political backgrounds of chairmen and CEOs are drawn from the CSMAR database, firms' annual reports, and CNINFO (<http://www.cninfo.com.cn/>) (Hu et al., 2020; Xu et al., 2024; Hu et al., 2023), the official information disclosure platform for Chinese listed companies designated by the China Securities Regulatory Commission. These sources provide detailed annual records of each executive's political affiliations, including the type of political institution and the administrative level of the position held. For each firm-year observation, the political background of the chairman and CEO is separately identified and coded. Because these records are updated annually and the identity of the chairman and CEO may change over time, the political connection status of individual firms varies across the sample period.

In addition to the binary PC indicator, this study constructs PC Level, an ordinal variable ranging from 0 to 4, reflecting the highest administrative level of the political position held by the chairman or CEO, where 4 represents national-level, 3 provincial-level, 2 municipal-level, and 1 county or township-level connections, with 0 indicating no political connection (Fan et al., 2007; Luo and Liu, 2019). Separate dummy variables, PC_CEO and PC_Chairman, are also constructed to distinguish political connections by executive role. The baseline analysis uses the binary indicator, while later analyses distinguish the level and executive source of the connection.

3.3.4. Empirical Model Specification and Control Variables

To investigate the impact of corporate political connections on investment-financing maturity mismatch, I employ a multivariate ordinary least squares (OLS) regression model with firm and year fixed effects:

$$SDLI_{i,t} = \beta_0 + \beta_1 PC_{i,t} + \beta_j Controls_{i,t} + FirmFE + YearFE + \varepsilon_{i,t} \quad (3.1)$$

The dependent variable SDLI measures the degree of investment-financing maturity mismatch of firm i in year t , as defined in Section 3.3.2. The independent variable PC is the binary political connection indicator defined in Section 3.3.3. The vector Controls includes firm financial characteristics, ownership concentration, and corporate governance variables discussed below. Firm fixed effects absorb time-invariant firm characteristics that may correlate with both political connections and investment-financing maturity mismatch. Year fixed effects control for macroeconomic and regulatory shocks common to all firms in a given year. With both sets of fixed effects included, the coefficient on PC is estimated from changes in political connectedness within individual firms over time. Standard errors are clustered at the firm level to account for serial correlation within firms.

The vector of control variables follows the existing literature on the determinants of corporate maturity mismatch (Guedes and Opler, 1996; Ma et al., 2022; Chen et al., 2025). I include two groups of controls. The first group captures firm financial characteristics. Firm size is included because larger firms generally have broader access to long-term credit markets (Chen et al., 2025). Return on assets and operating cash flow control for internal funding capacity, as firms with stronger profitability and more abundant operating cash flows are less dependent on short-term external financing to fund long-term investment. Higher leverage may affect the maturity structure of corporate financing, increasing the use of short-term debt in supporting ongoing investment (Chen et al., 2025). Tobin's Q captures growth opportunities. Firms with stronger investment demand may therefore exhibit greater maturity mismatch when financing maturity does not adjust in line with investment horizon (Gaver and Gaver, 1993). Firm age is included to account for differences in financing capacity over the corporate life cycle (Kieschnick and Moussawi, 2018).

The second group captures ownership concentration and corporate governance. The shareholding ratio of the largest shareholder controls for the concentration of decision-making power over financing choices. CEO-chairman duality, board size, and the proportion of independent directors are included to capture differences in managerial discretion and board monitoring intensity that may affect debt maturity choices and the extent to which firms use short-term financing for long-term investment (Chen et al., 2025; Tang et al., 2023;

Hu et al., 2023; Ma et al., 2022). All control variables are measured annually and are time-varying. Detailed definitions and data sources for all variables are provided in Appendix C.1.

3.3.5. Descriptive Statistics

Panel A of Table 3-1 reports the summary statistics for the main variables. The mean of SDLI is -0.048 and the median is zero, indicating that the median firm's long-term investment is approximately matched by its long-term financing sources. The negative mean suggests that the distribution is left-skewed, with a majority of firms retaining some surplus long-term funding relative to long-term investment. The maximum of SDLI reaches 0.663, suggesting that a non-trivial share of firms in the sample rely on short-term borrowings to finance long-term investment. The distribution is broadly comparable to Chen et al. (2025), who report a mean of -0.058 for a similar investment-financing mismatch measure among Chinese listed firms. Approximately 29% of firm-year observations are classified as politically connected, where the CEO or chairman holds or has held a position as a government official or as a member of the NPC or CPPCC. The sample firms have a mean ROA of 0.040, average leverage of 0.413, and a mean logged total assets of 22.26, indicating that the typical firm in the sample is moderately leveraged with positive but modest profitability.

As the sample spans sixteen years of rapid market expansion, Panel B reports the distribution of observations by year. The number of firm-year observations increases from 885 in 2008 to 3,716 in 2023, reflecting the growth of the A-share market over the sample period. The share of politically connected firm-years remains between 41% and 45% from 2008 to 2014, drops to approximately 30% in 2015, and declines further to 15% by 2023. The sharp reduction around 2015 coincides with the introduction of Regulation No. 18 in 2013, which prohibited serving government officials from holding independent directorships at listed firms (Ding et al., 2023). The continued decline after 2018 reflects both the sustained enforcement of restrictions on officials' corporate affiliations and a compositional shift as newly listed firms, predominantly private enterprises without political backgrounds, entered the market in increasing numbers. Mean SDLI varies across years, reaching its most negative values in 2009 (-0.108) and 2015 (-0.110), and stabilising between -0.026 and -0.039 from 2017 onward. These aggregate year-level fluctuations are absorbed by year fixed effects in

the regression analysis. Appendix Table C.2 reports the distribution of firm-year observations and the share of politically connected firms across provinces. The provincial PC share ranges from approximately 13% to 45%, indicating substantial regional variation in the prevalence of political connections among listed firms. Figure 3-1 illustrates the distribution of listed firms by level of political connections over the sample period. The total number of firms increases steadily as new listings enter the market, while the absolute number of politically connected firms remains relatively stable, producing a declining connected share over time.

Beyond the time dimension, the prevalence of political connections and the level of maturity mismatch also vary across industries. Panel C reports the distribution of observations across industry groups. Manufacturing firms, subdivided into four categories following the CSRC classification, account for the largest share of the sample, consistent with the sectoral composition of the Chinese A-share market. Sectors such as real estate, transportation, and mining exhibit more negative mean SDLI values than the sample average, while the share of politically connected firm-years ranges from under 20% in information technology to nearly 50% in culture, sports, and entertainment.

While the preceding panels describe the sample along time and industry dimensions, Panel D relates directly to the main variable of interest by disaggregating SDLI across levels of political connections. Firm-years with no political connection have a median SDLI of zero, whereas those with municipal- and provincial-level connections (Levels 2 and 3) show a median of -0.015, and national-level connections (Level 4) show the most negative median at -0.027. The standard deviation of SDLI is slightly higher among connected firm-years (approximately 0.11) than among non-connected firm-years (0.10).

Table 3-1: Descriptive Statistics

Panel A: Descriptive Statistics					
Variable	Observations	Mean	Min	Median	Max
SDLI	33,659	-0.0480	-0.7596	0.0000	0.6625
PC	33,659	0.2895	0.0000	0.0000	1.0000
ROA	33,659	0.0400	-0.5562	0.0388	0.2223
Ln (Size)	33,659	22.2600	19.4149	22.0508	26.4523
Lev	33,659	0.4131	0.0278	0.4084	0.9077
Tobin's Q	33,659	1.9948	0.7946	1.6122	17.6759
Top1	33,659	0.3412	0.0780	0.3199	0.7579
Firm Age	33,659	10.4956	2.0000	9.0000	34.0000
Cash Flow	33,659	0.0517	-0.2218	0.0499	0.2822
Dual	33,659	0.2920	0.0000	0.0000	1.0000
Ln (Board Size)	33,659	2.1259	1.6094	2.1972	2.7081
Independent	33,659	0.3750	0.2500	0.3571	0.6000
Panel B: Sample Distribution by Year					
Year	Observations	Percentage	PC (%)	Mean SDLI	
2008	885	2.629	41.921	-0.056	
2009	965	2.867	44.249	-0.108	
2010	1,044	3.102	43.678	-0.085	
2011	1,332	3.957	43.619	-0.041	
2012	1,571	4.667	44.940	-0.048	
2013	1,708	5.074	42.916	-0.061	
2014	1,679	4.988	41.275	-0.083	
2015	1,769	5.256	30.695	-0.110	
2016	1,953	5.802	30.364	-0.060	
2017	2,155	6.402	32.343	-0.037	
2018	2,545	7.561	30.255	-0.026	
2019	2,665	7.918	27.242	-0.030	
2020	2,798	8.313	23.874	-0.039	
2021	3,169	9.415	20.006	-0.035	
2022	3,705	11.007	16.194	-0.033	
2023	3,716	11.040	14.666	-0.032	
Panel C: Sample Distribution by Industry					
Industry Name	Observations	PC (%)	Mean SDLI		
Metal, Machinery & Electronic Equipment Mfg.	10,695	24.628	-0.037		
Chemical, Pharmaceutical & Related Mfg.	8,204	30.765	-0.049		
Light Manufacturing (Food, Textile, etc.)	2,964	33.063	-0.045		

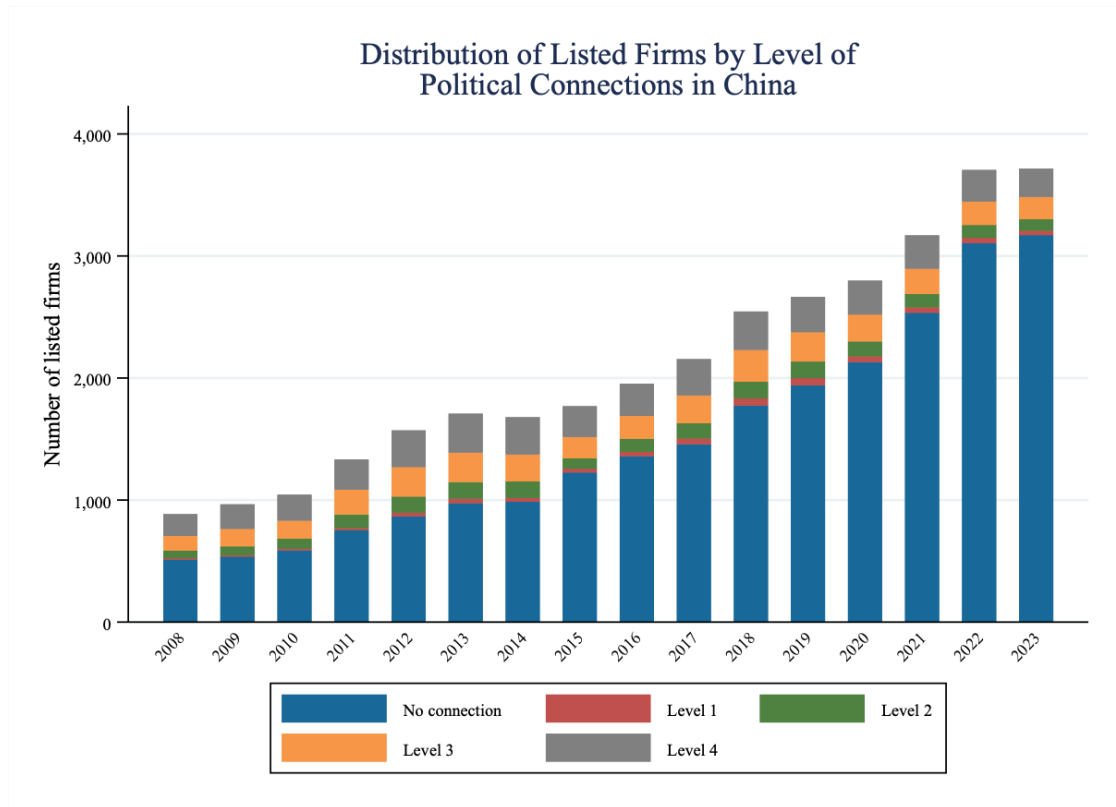
Information Transmission, Software & IT Services	2,429	19.432	-0.033
Wholesale and Retail Trade	1,639	33.984	-0.046
Transportation, Warehousing & Postal Services	1,115	38.565	-0.084
Electricity, Heat, Gas & Water Supply	1,013	29.220	-0.094
Real Estate	1,011	46.489	-0.100
Construction	830	27.349	-0.050
Instruments and Other Manufacturing	648	19.444	-0.040
Mining	625	17.760	-0.095
Water Conservancy, Environment & Public Facilities	462	38.528	-0.047
Scientific Research and Technical Services	406	21.429	-0.035
Leasing and Business Services	397	37.783	-0.045
Culture, Sports and Entertainment	368	49.728	-0.041
Agriculture, Forestry, Animal Husbandry & Fishery	355	39.437	-0.031
Conglomerate	266	38.722	-0.055
Accommodation and Catering	99	30.303	-0.064
Health and Social Work	67	40.299	-0.145
Education	37	2.703	-0.008
Resident Services and Other Services	29	58.621	-0.026

Panel D: Descriptive Statistics of SDLI by Political Connection Level

PC Level	Observations	Median	SD
No Connection	24,660	0.000	0.100
Level 1 (County/Township)	568	0.000	0.110
Level 2 (Municipal)	1,790	-0.015	0.114
Level 3 (Provincial)	3,279	-0.015	0.113
Level 4 (National)	4,267	-0.027	0.113

Note: Manufacturing (C) is subdivided into four categories following the CSRC industry classification. Financial and insurance industries (J) are excluded from the sample. Firm Age is the number of years since the firm's IPO. Independent is the proportion of independent directors on the board. In Panel D, Level 1 denotes county/township-level connections, Level 2 municipal-level, Level 3 provincial-level, and Level 4 national-level connections.

Figure 3-1: Distribution of Listed Firms by Level of Political Connections in China



3.4. Empirical Results and Discussion

3.4.1. Baseline Regression Result

Table 3-2 reports the baseline results from estimating Equation (3.1). The coefficient on PC is 0.006 and statistically significant at the 1% level in both specifications. Column (1) includes firm financial characteristics only, with 34,460 firm-year observations. Column (2) adds governance controls, reducing the sample to 33,659 observations due to missing values in governance variables, while the coefficient remains unchanged. The stability of the estimate across the two specifications suggests that the baseline relation is not sensitive to the inclusion of observed governance characteristics. Column (2) serves as the preferred specification throughout the subsequent analysis. The result supports the prediction of *H1*. Firm-years in which the firm is politically connected are associated with higher investment-financing maturity mismatch, relative to firm-years in which the same firm is not connected. In terms of magnitude, the coefficient corresponds to approximately 5.8% of the standard deviation of SDLI. The standard deviation of SDLI in the Column (2) estimation sample is 0.104, equivalent to an investment-financing gap of 10.4% of lagged total assets. The coefficient of 0.006 therefore represents a widening of the gap equal to approximately 0.6% of lagged total assets, indicating a modest but economically meaningful association.

The control variables are broadly consistent with expectations. Firms with stronger profitability and operating cash flows exhibit lower maturity mismatch, while more highly leveraged firms show greater mismatch. Larger firms also appear less exposed to maturity mismatch, consistent with their broader access to long-term financing.

The positive coefficient on PC indicates that politically connected firm-years exhibit a wider gap between long-term investment expenditure and the long-term and internal funding sources included in SDLI. Prior evidence shows that political connections facilitate access to bank credit in China, particularly where formal market institutions are less developed (Li et al., 2008), and that politically affiliated firms tend to obtain more favourable debt maturity terms (Caglayan et al., 2024). Wang et al. (2021), using the proportion of politically connected executives as a proxy for financial constraints, also observe a positive association between political connections and maturity mismatch, which they interpret as evidence for their active mismatch hypothesis. The baseline result complements these findings by

showing that, even with such financing advantages, the alignment between investment horizons and funding sources does not necessarily improve. A wider gap indicates that a greater portion of long-term investment may need to be financed through short-term sources. When the gap is financed through short-term borrowing, the resulting obligations may require renewal before the investment matures, increasing the firm's exposure to rollover risk and financing pressure.

Table 3-2: Baseline Regression

	(1) SDLI	(2) SDLI
PC	0.006*** (0.002)	0.006*** (0.002)
ROA	-0.446*** (0.021)	-0.440*** (0.022)
Size	-0.028*** (0.002)	-0.029*** (0.002)
Lev	0.034*** (0.008)	0.035*** (0.008)
Tobin's Q	0.001 (0.001)	0.001 (0.001)
Firm Age	-0.031*** (0.003)	-0.029*** (0.003)
Cash Flow	-0.529*** (0.013)	-0.529*** (0.013)
Top1		0.030** (0.012)
Dual		0.002 (0.002)
Board Size		0.008 (0.008)
Independent		0.023 (0.021)
_cons	0.667*** (0.046)	0.641*** (0.050)
Observations	34,460	33,659
Adjusted R ²	0.327	0.325
Firm FE	YES	YES
Year FE	YES	YES

Note: This table reports OLS estimates of the effect of political connections on maturity mismatch. The dependent variable is SDLI. Column (1) includes firm-level controls only. Column (2) adds additional governance controls. All variables are defined in Appendix C.1. All regressions include firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.2. Robustness Tests

3.4.2.1. Alternative Measurement of Variable and Model Specification

The baseline analysis relies on a specific measure of maturity mismatch, a particular fixed-effects structure, and the fact that the political connection variable is measured in the same year as the dependent variable. Each of these choices could in principle affect the estimated relation between political connections and maturity mismatch. Table 3-3 examines the sensitivity of the baseline result to alternative specifications along these dimensions.

The first two columns adopt alternative measures of maturity mismatch as the dependent variable. Column (1) uses *SDLI_Dummy*, a binary indicator equal to one if the firm's *SDLI* is positive in a given year and zero otherwise, following Luo et al. (2018) and Wang et al. (2021). This specification captures whether maturity mismatch occurs rather than its intensity. The coefficient on *PC* is 0.018 and significant at the 5% level, indicating that politically connected firm-years are more likely to exhibit a positive mismatch. Column (2) uses *SDLA*, defined as the difference between the proportion of short-term liabilities to total liabilities and the proportion of short-term assets to total assets (Fazzari et al., 1988; McLean and Zhao, 2014; Chen et al., 2023). Although *SDLA* differs from *SDLI* in construction, the coefficient on *PC* is 0.007 and marginally significant at the 10% level, directionally consistent with the baseline estimate. The positive association between political connections and maturity mismatch therefore does not depend on the use of a single mismatch measure.

The remaining two columns examine whether the baseline result is sensitive to model specification choices. In the baseline specification, *PC* is measured in the same year as *SDLI*, raising the possibility that changes in political connections and maturity mismatch may be jointly determined within the same period. Column (3) uses the one-year lag of *PC*, placing political connection status prior to the observed level of maturity mismatch. The coefficient on lagged *PC* is 0.005 and significant at the 5% level, consistent in sign and comparable in magnitude with the baseline estimate. Column (4) substitutes province-by-year fixed effects for year fixed effects. Year fixed effects absorb nationwide shocks common to all firms, but political conditions and credit market environments in China vary substantially across provinces and may evolve differently over time. Province-by-year fixed effects restrict

identification to comparisons among firms within the same province and year, absorbing such time-varying regional heterogeneity. The coefficient on PC is 0.006 and statistically significant at the 1% level, identical in magnitude to the baseline estimate. The unchanged Column (4) coefficient therefore provides evidence against a common local-cycle explanation of the baseline association.

The evidence in Table 3-3 indicates that the positive association between political connections and investment-financing maturity mismatch is robust to alternative dependent variables, to the use of a lagged political connection measure, and to a more demanding fixed-effects structure that absorbs time-varying provincial heterogeneity.

Table 3-3: Robustness Test

	(1) SDLI_Dummy	(2) SDLA	(3) SDLI	(4) SDLI
PC	0.018** (0.008)	0.007* (0.004)		0.006*** (0.002)
PC _{t-1}			0.005** (0.002)	
ROA	-1.231*** (0.065)	-0.146*** (0.024)	-0.437*** (0.022)	-0.438*** (0.022)
Size	-0.003 (0.006)	-0.034*** (0.005)	-0.029*** (0.002)	-0.030*** (0.002)
Lev	0.114*** (0.027)	-0.164*** (0.018)	0.044*** (0.009)	0.041*** (0.008)
Tobin's Q	0.009** (0.002)	0.003** (0.001)	0.000 (0.001)	0.001 (0.001)
Top1	0.122*** (0.040)	-0.050** (0.025)	0.032** (0.013)	0.031** (0.012)
Firm Age	-0.141*** (0.010)	0.061*** (0.006)	-0.021*** (0.004)	-0.031*** (0.003)
Cash Flow	-1.451*** (0.042)	0.137*** (0.017)	-0.531*** (0.014)	-0.526*** (0.013)
Dual	0.007 (0.007)	-0.005 (0.004)	0.002 (0.002)	0.003 (0.002)
Board Size	0.015 (0.023)	0.006 (0.014)	0.009 (0.008)	0.008 (0.008)
Independent	-0.008 (0.069)	-0.027 (0.041)	0.032 (0.022)	0.018 (0.021)
_cons	0.490*** (0.150)	0.955*** (0.112)	0.621*** (0.052)	0.664*** (0.051)
Observations	33,659	33,659	29,876	33,659
Adjusted R ²	0.247	0.573	0.327	0.330
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	NO
Province × Year FE	NO	NO	NO	YES

Note: This table reports results from alternative variable measurements and model specifications. The dependent variable is SDLI unless otherwise stated. Column (1) uses SDLI_Dummy as the dependent variable. Column (2) replaces the dependent variable with SDLA. Column (3) replaces the contemporaneous PC with its one-year lag. Column (4) replaces year fixed effects with province-by-year fixed effects to account for time-varying regional heterogeneity. All variables are defined in Appendix C.1. All regressions include firm fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.2.2. Placebo Test

A potential concern with the baseline result is that the positive coefficient on PC may reflect unobserved time-varying firm characteristics that correlate with both political connections and maturity mismatch. To mitigate this concern, I conduct a placebo test based on within-firm permutation of the political connection variable (Bertrand et al., 2004; Chen et al., 2024; Qian and Qiu, 2023). Specifically, for each firm, I randomly shuffle the assignment of PC across years while keeping all other variables unchanged and re-estimate the baseline regression using the randomly assigned PC variable. By permuting within firms rather than across firms, the test preserves firm-level heterogeneity and isolates the role of the timing relationship at the firm level between PC and SDLI. This process is repeated 500 and 1,000 times, respectively. If the baseline result is driven by unobserved confounders rather than the within-firm temporal variation in PC, the estimated coefficient should persist even after the random reassignment.

Figure 3-2 and Figure 3-3 report the results for 500 and 1,000 iterations, respectively. In each figure, the scatter points represent the p-values of the placebo coefficients, the solid curve represents the kernel density distribution, the vertical dashed line indicates the baseline estimate from the preferred specification in Table 3-2 (0.006), and the horizontal dashed line marks the 5% significance level. The placebo coefficients are concentrated around zero, and the kernel density of their distribution is approximately symmetric and centred well below the baseline estimate. In the 500-iteration exercise, 4.6% of placebo regressions yield p-values below 0.05, and in the 1,000-iteration exercise, this proportion is 3.9%. Both figures are below the 5% nominal rejection rate, consistent with the expected Type I error rate under the null of no association. The results are stable across both exercises, suggesting that the estimated positive association between political connections and maturity mismatch is unlikely to be driven by persistent unobserved firm characteristics.

Figure 3-2: Placebo Test - Within-Firm Permutation of Political Connections (500 iterations)

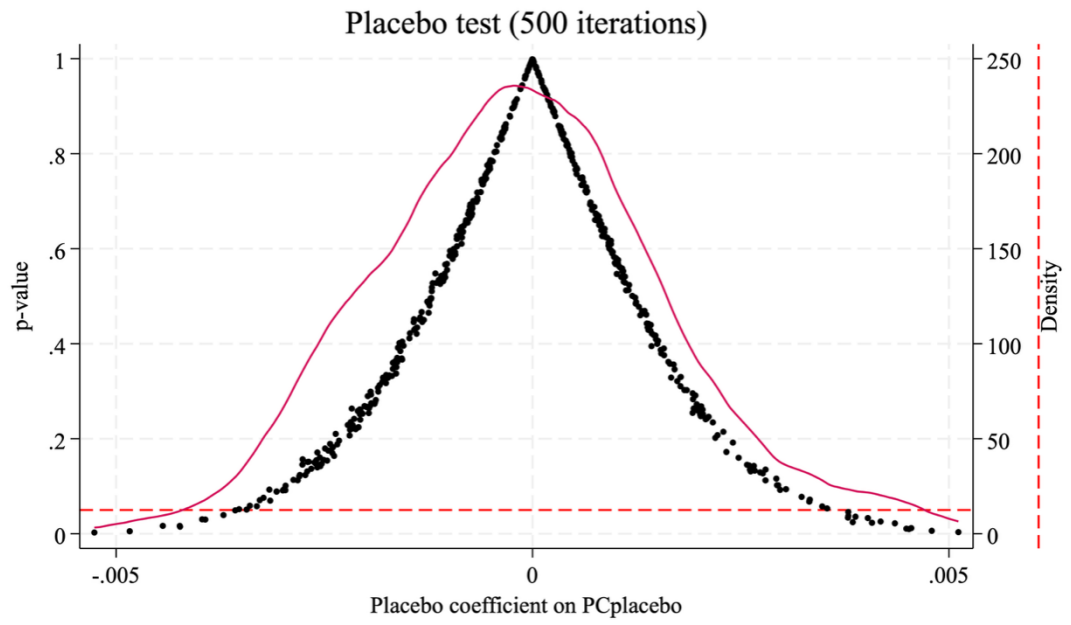
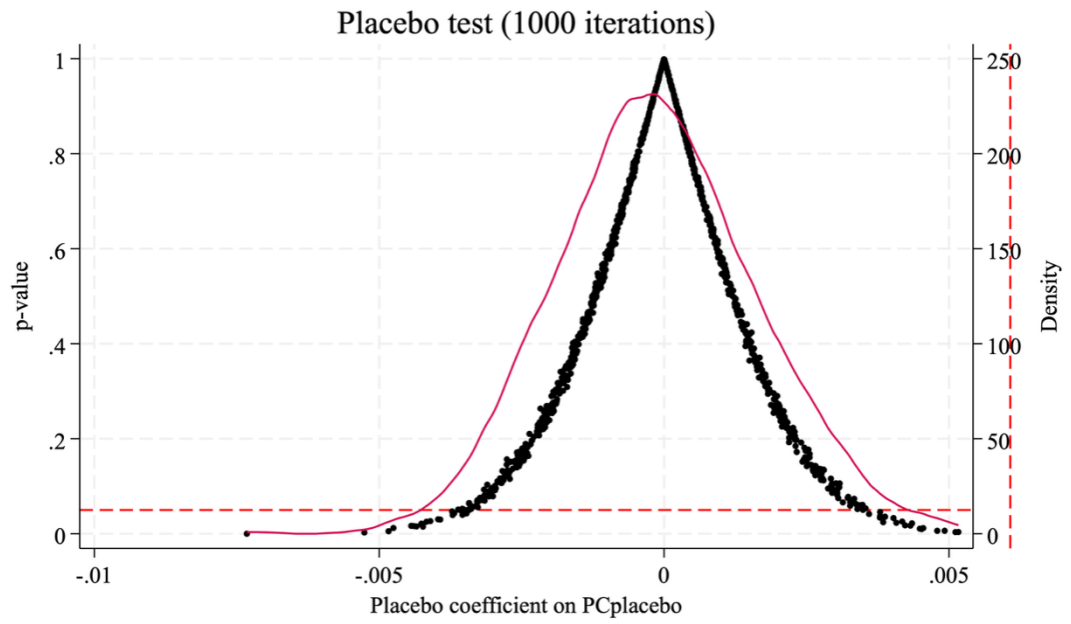


Figure 3-3: Placebo Test - Within-Firm Permutation of Political Connections (1,000 iterations)



3.4.2.3. Entropy Balancing Results

Although the baseline regressions control for firm financial and governance characteristics, including these variables parametrically in a regression does not ensure that politically connected and non-connected firms are comparable in the distribution of those observables. If the two groups differ substantially in covariates such as CEO-chairman duality, board size, or leverage, the estimated coefficient on PC may partly reflect differences in sample composition. To address this concern, I apply the entropy balancing procedure proposed by Hainmueller (2012), which reweights control group observations so that the first three moments of the covariates are aligned more closely with those of the treated group, producing a more comparable weighted sample.

Panel A of Table 3-4 reports the covariate balance before and after reweighting. Prior to entropy balancing, several variables exhibit non-trivial standardised differences between connected and non-connected firms. The standardised differences for Dual and Board Size, at approximately 19% and 17% respectively, are among the largest, indicating that the two groups differ meaningfully in governance characteristics in the unweighted sample. After reweighting, the standardised differences for all covariates fall to values close to zero, confirming that covariate balance has been achieved. Panel B re-estimates the baseline model using the entropy-balancing weights. The coefficient on PC is 0.006 and significant at the 1% level, identical to the baseline estimate reported in Table 3-2. The positive association between political connections and maturity mismatch therefore does not appear to be driven by observable differences between connected and non-connected firms. As a further robustness check, propensity score matching on the full set of control variables yields a coefficient of 0.008, significant at the 5% level on a matched sample of 15993 firm-year observations (Appendix C.3). The entropy-balancing and permutation results strengthen the baseline analysis. These procedures do not generate exogenous variation in PC. Time-varying project choices, local growth policies, evolving bank relationships, preferential access to credit resembling that received by SOEs, and managerial incentives may still influence both political connection status and financing choices. The coefficient is therefore interpreted as a within-firm association between PC and SDLI. Its stability across alternative specifications supports the empirical relevance of the relationship.

Table 3-4: Entropy Balancing

Panel A: Covariate Balance						
Variables	Before Weighting			After Weighting		
	Treated	Control	Std. Diff.(%)	Treated	Control	Std. Diff.(%)
ROA	0.042	0.039	5.06	0.042	0.042	-0.58
Size	22.332	22.247	6.58	22.332	22.325	0.59
Lev	0.425	0.409	8.02	0.425	0.424	0.22
Tobin's Q	1.930	2.015	-6.96	1.930	1.931	-0.11
Top1	0.345	0.341	2.96	0.345	0.345	0.10
Firm Age	2.113	2.087	3.44	2.113	2.108	0.69
Cash Flow	0.052	0.052	0.56	0.052	0.052	0.11
Dual	0.232	0.317	-18.95	0.232	0.233	-0.03
Board Size	2.148	2.115	16.81	2.148	2.149	-0.29
Independent	0.374	0.377	-4.83	0.374	0.373	0.87
Panel B: Regression Results						
	(1)					
	SDLI					
PC	0.006***					
	(0.002)					
Observations	33,659					
Adjusted R ²	0.336					
Other Controls	YES					
Firm FE	YES					
Year FE	YES					

Note: This table reports results using entropy balancing to address potential selection bias. Panel A presents the covariate balance between treated and control firms before and after weighting, reporting group means and standardised differences for each covariate. Panel B reports the weighted OLS regression results. The dependent variable is SDLI. All variables are defined in Appendix C.1. The regression includes the full set of controls, firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.3. Investment- and Financing-Side Decomposition

The positive association between PC and SDLI reported in Table 3-2 reflects the combined movement of long-term investment expenditure and the funding sources included in the measure. Decomposing SDLI provides a more precise account of whether this association arises from the investment side or the financing side. Political affiliation is associated with access to longer-maturity debt in China (Caglayan et al., 2024), while firms facing fewer financing constraints may still adopt maturity mismatch when short-term funding provides cost advantages (Wang et al., 2021). These findings suggest that financing advantages and maturity alignment need not move together. Table 3-5 therefore examines how PC is associated with each side of the investment-financing gap.

Panel A separates long-term investment expenditure from total long-term and internal funding. The coefficient on PC for the investment component is 0.0002 and is not statistically significant. The coefficient for the total financing component is -0.0062 and statistically significant at the 1% level. A change in PC from zero to one is associated with measured long-term and internal funding being lower by approximately 0.62% of lagged total assets. As the financing component is deducted from investment expenditure in the construction of SDLI, this magnitude closely accounts for the positive baseline coefficient. The decomposition therefore locates the baseline association primarily on the financing side, with no significant evidence of higher long-term investment expenditure in connected firm-years.

Panel B further separates the financing component. The coefficient on PC for the increase in long-term debt is -0.0015 and significant at the 10% level. This estimate corresponds to a smaller increase in long-term debt equal to approximately 0.15% of lagged total assets. The coefficient for the increase in equity is -0.0045 and significant at the 1% level, equivalent to a smaller increase of approximately 0.45% of lagged total assets. The coefficients for operating cash flow and asset-disposal proceeds are not statistically distinguishable from zero. The financing-side result is therefore concentrated in smaller increases in long-term debt and equity. These two components together account for most of the total financing estimate. This pattern can coexist with the longer debt maturity documented by Caglayan et

al. (2024), as the proportion of outstanding liabilities that is long term may increase without a corresponding expansion in the annual flow of long-term funding. The decomposition indicates that the higher SDLI associated with PC reflects lower measured long-term and internal funding relative to investment rather than an increase in long-term investment expenditure.

Table 3-5: Investment- and Financing-Side Decomposition

Panel A: Aggregate Decomposition				
	(1)	(2)		
	Investment side	Total financing side		
PC	0.0002 (0.0010)	-0.0062*** (0.0019)		
Observations	33,659	33,659		
Adjusted R2	0.485	0.561		
Firm FE	YES	YES		
Year FE	YES	YES		
Panel B: Components of the Financing Side				
	(1)	(2)	(3)	(4)
	Increase in long-term debt	Increase in equity	Operating cash flow	Asset-disposal proceeds
PC	-0.0015* (0.0009)	-0.0045*** (0.0017)	-0.0006 (0.0013)	0.0001 (0.0002)
Observations	33,659	33,659	33,659	33,659
Adjusted R2	0.368	0.390	0.383	0.131
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: This table reports OLS estimates of the investment and financing components of SDLI. Panel A separates SDLI into the investment side and total financing side. Panel B further decomposes the financing side into increases in long-term debt, increases in equity, operating cash flow, and asset-disposal proceeds. All components are scaled by total assets in the last period. Unreported long-term borrowing, current portions of non-current liabilities, and asset-disposal proceeds are set to zero; the remaining inputs are not imputed. All variables are defined in Appendix C.1. All regressions use the baseline sample and include the full set of controls, firm fixed effects, and year fixed effects, except that Cash Flow is excluded from Column (3) of Panel B because it overlaps mechanically with the dependent variable. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.4. Monitoring and Credit Environment

The positive association between political connections and maturity mismatch may vary with the conditions that shape how firms translate political ties into financing behaviour. This section examines whether the baseline association varies with the strength of external monitoring and with macroeconomic conditions that shape credit availability.

3.4.4.1. External Monitoring – Institutional Ownership

The positive association between political connections and maturity mismatch reported in the baseline regression may be conditional on the strength of external monitoring that firms face. If external monitoring limits the financing patterns associated with political connections, that association should be weaker in firms subject to greater scrutiny. Institutional investors represent a natural candidate for this monitoring role. I measure institutional ownership (INST) as the proportion of total shares outstanding held by institutional investors. Prior evidence indicates that institutional shareholders with independent, long-term holdings actively monitor managerial decisions and improve governance outcomes (Chen et al., 2007). When such monitoring is absent, whether through investor distraction or reduced attention, board oversight and director discipline weaken (Liu et al., 2020). Applied to the present setting, these findings suggest that higher institutional ownership should constrain the financing behaviour associated with political connections, yielding a weaker positive relationship between political connections and maturity mismatch.

Table 3-6 reports the results. The coefficient on PC is 0.005 ($p < 0.05$) and institutional ownership enters with a coefficient of -0.089 ($p < 0.01$). The interaction term between PC and INST is -0.026 and strongly statistically significant at the 1% level. This implies that the positive association between political connections and maturity mismatch is substantially weakened in firms with higher institutional ownership. The result suggests that the baseline association reflects financing arrangements that are subject to governance discipline rather than a fixed consequence of credit access alone. Where institutional investors exercise greater oversight, the scope for politically connected firms to channel short-term funding into long-term investment is more constrained. The moderation result also provides indirect evidence on the nature of the baseline association, indicating that the relationship between

political connections and maturity mismatch is not uniform across firms but varies with the intensity of external oversight.

Institutional ownership also reflects the information and financing environment in which firms operate. Firms with higher institutional ownership may have stronger governance, more transparent disclosure, and broader market access, each of which may independently shape financing structure. Firm fixed effects absorb persistent differences across firms, although contemporaneous changes in these characteristics may coincide with changes in institutional holdings. The aggregate INST measure does not distinguish between domestic and foreign institutions, whose monitoring incentives may differ. The negative interaction is therefore consistent with external oversight attenuating the PC–SDLI association, while allowing for related selection and information-environment explanations.

Table 3-6: External Monitoring - Institutional Ownership

	(1) Institutional Ownership
PC	0.005** (0.002)
INST	-0.089*** (0.009)
PC × INST	-0.026*** (0.009)
ROA	-0.432*** (0.021)
Size	-0.022*** (0.002)
Lev	0.029*** (0.008)
Tobin's Q	0.003*** (0.001)
Top1	0.074*** (0.013)
Firm Age	-0.033*** (0.003)
Cash Flow	-0.528*** (0.013)
Dual	0.002 (0.002)
Board Size	0.012 (0.008)
Independent	0.016 (0.021)
_cons	0.471*** (0.051)
Observations	33,610
Adjusted R ²	0.331
Firm FE	YES
Year FE	YES

Note: This table examines whether institutional ownership moderates the effect of political connections on maturity mismatch. The dependent variable is SDLI. Column (1) interacts PC with institutional ownership. All variables are defined in Appendix C.1. All regressions include firm fixed effects, and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.4.2. Macro-Financial and Policy Conditions

The association between political connections and maturity mismatch may vary with the conditions that shape both credit availability and long-term investment demand. In China's bank-dominated financial system, the maturity structure of corporate credit responds to aggregate monetary conditions and local fiscal incentives (Zhong et al., 2016), while firm-level characteristics such as asset composition and perceived policy uncertainty shape investment behaviour. Table 3-7 interacts the binary PC indicator with four variables that capture different aspects of the macro-financial and policy environment.

Firms with higher asset tangibility, measured as the ratio of net fixed assets to total assets, tend to commit a larger share of their expenditure to long-term fixed-asset investment. Wang et al. (2021) document that Chinese listed firms have the widest gap between long-term investment and long-term debt availability among 39 international markets, with a median fixed asset ratio of approximately 44% but a median long-term debt ratio of only 11%. When political connections facilitate access to credit that remains predominantly short-term, the investment-financing gap captured by SDLI is likely to be wider in firms where long-term investment accounts for a larger proportion of total expenditure. Almeida and Campello (2007) formalise a related mechanism, showing that pledgeable assets support additional borrowing, which in turn finances further investment in pledgeable assets. This credit multiplier implies that firms with greater asset tangibility are more responsive to changes in financing conditions, amplifying the financing advantage that political connections provide. Column (1) reports the interaction between PC and asset tangibility. The interaction term is 0.037 and statistically significant at the 1% level, indicating that the positive association between political connections and maturity mismatch is substantially stronger among firms with higher asset tangibility. This result is consistent with the interpretation that the baseline association reflects a joint outcome of the investment and financing sides of corporate balance sheets. Political connections may facilitate credit access, but the resulting mismatch is more pronounced where the composition of the firm's assets generates greater long-term investment demand, widening the structural gap between investment horizon and the maturity of available financing that Wang et al. (2021) document.

The remaining three interactions examine whether aggregate credit and policy conditions moderate the baseline association. If accommodative monetary conditions expand the supply of short-term credit, the financing advantages associated with political connections may be easier to realise in periods of monetary expansion. Similarly, when local governments face fiscal pressure, the allocation of credit resources may become more responsive to political considerations, potentially raising the value of political connections in securing financing. Column (2) interacts PC with provincial fiscal pressure, measured as the ratio of local government revenue to expenditure, and Column (3) interacts PC with M2, measured as the natural logarithm of the year-end broad money supply balance. Neither interaction term reaches significance levels ($PC \times M2 = 0.001$, $PC \times FisPres = -0.003$). The baseline association does not appear to vary detectably with aggregate monetary conditions or the degree of local fiscal strain. One methodological consideration is that M2 is a national-level variable with limited cross-sectional variation, and fiscal pressure varies only at the provincial level. Year fixed effects absorb most of the temporal variation in M2, and province-level variation in fiscal pressure may be insufficient to identify a moderation effect with precision in this specification.

Firm-level economic policy uncertainty may also shape the scope for the baseline association to materialise. Nie et al. (2020) construct a firm-level measure of policy uncertainty perception from Chinese listed firms' annual report MD&A sections and find that firms perceiving greater uncertainty reduce their real investment. If elevated policy uncertainty reduces firms' willingness to undertake long-term investment commitments, the scope for political connections to be reflected in higher maturity mismatch would narrow. Column (4) reports the interaction between PC and FEPU. The interaction term is -0.004 and statistically insignificant, providing no evidence that perceived policy uncertainty moderates the baseline association in the current specification.

The results in Table 3-7 indicate that the baseline association between political connections and maturity mismatch does not vary significantly with aggregate credit conditions or firm-level policy uncertainty. The association is, however, substantially more pronounced among firms with higher asset tangibility, where long-term investment demand is greater. This pattern reinforces the interpretation that maturity mismatch associated with political

connections is shaped by the interaction between the financing and investment sides of corporate balance sheets, rather than by credit supply conditions alone.

Table 3-7: Macro-Financial and Policy Conditions

	(1) Asset Tangibility	(2) Fiscal Pressure	(3) M2	(4) Policy Uncertainty
PC	0.005** (0.002)	0.006*** (0.002)	0.006*** (0.002)	0.006*** (0.002)
Asset Tangibility	0.000 (0.010)			
PC × Asset Tangibility	0.037*** (0.012)			
FisPres		0.036* (0.019)		
PC × FisPres		-0.003 (0.012)		
PC × M2			0.001 (0.004)	
FEPU				-0.014* (0.007)
PC × FEPU				-0.004 (0.013)
ROA	-0.438*** (0.022)	-0.440*** (0.022)	-0.440*** (0.022)	-0.440*** (0.022)
Size	-0.028*** (0.002)	-0.029*** (0.002)	-0.029*** (0.002)	-0.029*** (0.002)
Lev	0.035*** (0.008)	0.036*** (0.008)	0.035*** (0.008)	0.036*** (0.008)
Tobin's Q	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
Top1	0.030** (0.012)	0.030** (0.012)	0.030** (0.012)	0.030** (0.012)
Firm Age	-0.030*** (0.003)	-0.029*** (0.003)	-0.029*** (0.003)	-0.029*** (0.003)
Cash Flow	-0.531*** (0.013)	-0.529*** (0.013)	-0.529*** (0.013)	-0.529*** (0.013)
Dual	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)	0.002 (0.002)
Board Size	0.008 (0.008)	0.008 (0.008)	0.008 (0.008)	0.008 (0.008)
Independent	0.023 (0.021)	0.023 (0.021)	0.023 (0.021)	0.021 (0.021)
_cons	0.640*** (0.050)	0.641*** (0.050)	0.641*** (0.050)	0.645*** (0.050)
Observations	33,659	33,659	33,659	33,639
Adjusted R2	0.325	0.325	0.324	0.325
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: This table examines whether credit and policy conditions moderate the association between political connections and maturity mismatch. The dependent variable is SDLI. Column (1) interacts PC with Asset Tangibility, Column (2) interacts PC with FisPres, Column (3) interacts PC with M2 and Column (4) interacts PC with FEPU. All variables are defined in Appendix C.1. All regressions include the full set of controls, firm fixed effects, and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.5. Firm Characteristics and External Conditions

The association between political connections and maturity mismatch may vary across firm types and institutional settings. This section examines the baseline association along several dimensions to identify the firm characteristics and institutional conditions under which it becomes more or less apparent. A final subsection considers how the local political cycle shapes the conditions under which political connections operate. The subsample estimates describe the magnitude and precision of the association within each setting and allow the control coefficients and fixed effects to vary across groups. The corresponding formal interaction tests assess whether the PC coefficients differ significantly across groups and are reported in Appendix Table C.5.

3.4.5.1. Ownership Heterogeneity

The positive association between political connections and maturity mismatch may not operate uniformly across ownership types. In China's institutional environment, the role that political connections play differs between SOEs and non-SOE firms, and this distinction has implications for how political ties relate to financing arrangements. SOEs maintain institutional access to bank credit through state ownership itself. China's banking sector has historically been dominated by state-owned commercial banks whose lending decisions have favoured state-owned borrowers (Cong et al., 2019), and this preferential access does not depend on whether individual executives hold political positions. The senior managers of SOEs tend to be current or former government officials appointed through the cadre management system, and their political affiliations are therefore largely a product of the institutional appointment mechanism rather than a deliberate strategy to acquire additional financing resources. When credit access is already embedded in the ownership structure, the marginal financing advantage that an individual executive's political connection provides is limited, and the scope for PC to generate additional maturity mismatch is correspondingly narrow.

Non-SOE firms face a different financing environment. Private firms in China encounter more severe borrowing constraints and more limited access to long-term funding than their state-owned counterparts (Li et al., 2008). Cull et al. (2015) find that large non-state firms

with weak government connections are especially financially constrained, reflecting the dominance of state-owned borrowers in the formal credit market. For non-SOE firms, political connections represent a genuine channel through which financing constraints can be alleviated. When PC facilitates access to short-term bank credit, non-SOE firms may be better able to maintain long-term investment despite limited long-term and internal funding, thereby widening the investment-financing gap captured by SDLI. The association between political connections and maturity mismatch should therefore be more clearly observed among non-SOE firms, where PC represents an incremental change in financing capacity.

Table 3-8 Panel A reports subsample regressions by ownership type. The coefficient on PC in the non-SOE subsample is 0.008 and statistically significant at the 5% level, while the SOE estimate is 0.004 and not statistically significant. The non-SOE coefficient is larger. The corresponding interaction coefficient reported in Panel A of Appendix Table C.5 is -0.0032 and not statistically significant. The difference between the two ownership groups is not formally established.

Panel B further partitions the sample by the hierarchy of state control, distinguishing non-SOE firms, central government-controlled SOEs, and local government-controlled SOEs. The coefficient on PC remains statistically significant only in the non-SOE subsample (0.007, $p < 0.05$). The estimates for central SOEs (0.005) and local SOEs (0.002) are not statistically significant, and the local SOE point estimate is the smallest of the three groups. The joint interaction test does not indicate significant differences across the three ownership categories ($p = 0.638$), and the central and local SOE coefficients also do not differ significantly ($p = 0.735$). The larger non-SOE point estimate remains descriptively consistent with political connections having greater relevance for financing arrangements outside the state sector, where institutional credit access is not embedded in ownership.

Table 3-8: Ownership Heterogeneity

Panel A: SOE versus Non-SOE			
	(1)	(2)	
	Non-SOE	SOE	
PC	0.008** (0.004)	0.004 (0.003)	
ROA	-0.398*** (0.024)	-0.590*** (0.039)	
Size	-0.031*** (0.003)	-0.025*** (0.004)	
Lev	0.044*** (0.010)	0.023 (0.015)	
Tobin's Q	0.001 (0.001)	0.005*** (0.002)	
Top1	0.051*** (0.017)	0.014 (0.019)	
Firm Age	-0.044*** (0.004)	-0.019*** (0.006)	
Cash Flow	-0.459*** (0.016)	-0.640*** (0.022)	
Dual	0.002 (0.002)	0.002 (0.004)	
Board Size	0.011 (0.010)	0.003 (0.012)	
Independent	0.021 (0.030)	0.040 (0.030)	
_cons	0.705*** (0.066)	0.563*** (0.084)	
Observations	22,014	11,611	
Adjusted R ²	0.313	0.352	
Firm FE	YES	YES	
Year FE	YES	YES	
Panel B: Hierarchy of State Control			
	(1)	(2)	(3)
	Non-SOE	Central SOE	Local SOE
PC	0.007** (0.004)	0.005 (0.005)	0.002 (0.004)
ROA	-0.397*** (0.024)	-0.860*** (0.059)	-0.876*** (0.045)

Size	-0.031*** (0.003)	-0.039*** (0.005)	-0.036*** (0.005)
Lev	0.043*** (0.010)	0.068** (0.028)	0.058*** (0.021)
Tobin's Q	0.001 (0.001)	0.005* (0.002)	0.004 (0.002)
Top1	0.052*** (0.017)	0.006 (0.032)	-0.013 (0.024)
Firm Age	-0.044*** (0.004)	-0.018* (0.010)	-0.039*** (0.009)
Cash Flow	-0.459*** (0.016)	-0.862*** (0.035)	-0.818*** (0.026)
Dual	0.001 (0.002)	0.003 (0.006)	0.001 (0.006)
Board Size	0.010 (0.010)	-0.019 (0.019)	0.026* (0.015)
Independent	0.021 (0.031)	0.064 (0.050)	0.019 (0.033)
_cons	0.701*** (0.066)	0.917*** (0.131)	0.826*** (0.121)
Observations	21,973	2,893	5,818
Adjusted R ²	0.313	0.447	0.444
Firm FE	YES	YES	YES
Year FE	YES	YES	YES

Note: This table reports subsample regressions by ownership structure. The dependent variable is SDLI. Panel A estimates the baseline model separately for non-state-owned enterprises and state-owned enterprises. Panel B further distinguishes state ownership by control hierarchy and reports separate estimations for non-state-owned enterprises, central state-owned enterprises, and local state-owned enterprises. All variables are defined in Appendix C.1. All regressions include the full set of controls, firm fixed effects, and year fixed effects. The corresponding formal interaction tests are reported in Panel A of Appendix Table C.5. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.5.2. Financing Constraints and Managerial Power

The strength of the association between political connections and maturity mismatch may also depend on firms' capacity to act on politically facilitated financing and on how decision-making authority is distributed internally. This subsection examines the baseline association along these two dimensions. Financing constraints are measured using the absolute value of the SA index (Hadlock and Pierce, 2010), with higher values indicating more severe constraints. Managerial power is measured as the share of total executive compensation received by the three highest-paid executives. Table 3-9 reports the results.

Columns 1 and 2 partition the sample by the annual median of the SA index. The coefficient on PC is 0.009 and statistically significant at the 1% level in the low-constraint subsample, while the estimate in the high-constraint subsample is 0.002 and not statistically significant. The corresponding interaction coefficient, $PC \times \text{High Constraint}$, is -0.0069 and not statistically significant. The difference between the PC coefficients in the low- and high-constraint subsamples is therefore not formally established. The larger low-constraint point estimate remains descriptively consistent with the active mismatch view. SDLI captures the gap between long-term investment expenditure and the long-term and internal funding sources included in the measure. The gap can widen when long-term investment increases or when these funding sources fall relative to investment. Less constrained firms may have greater flexibility to maintain long-term investment while relying on shorter-term sources and bearing the associated rollover risk. The decomposition in Table 3-5 does not indicate that the association is accompanied by higher long-term investment expenditure. The larger low-constraint estimate is therefore interpreted in terms of firms' financing choices and potential rollover exposure, rather than an expansion of long-term investment. This interpretation is consistent with Wang et al. (2021), who find that maturity mismatch is more pronounced among firms facing fewer financial constraints and relate this pattern to firms' active financing choices.

Columns 3 and 4 partition the sample by the annual median of executive compensation concentration. The coefficient on PC is 0.004 and not statistically significant in the low-power subsample. In the high-power subsample, the coefficient is 0.007 and marginally

significant at the 10% level. A formal comparison produces an interaction coefficient of 0.0030, which is not statistically significant. This result does not support a difference in the PC coefficient across levels of managerial power. The larger high-power point estimate remains descriptively consistent with political ties being more readily reflected in financing arrangements when decision-making authority is concentrated among fewer senior executives. Within the subsamples, the association is descriptively more apparent among firms with fewer financing constraints and more concentrated managerial authority.

Table 3-9: Financing Constraints and Managerial Power

	Financing Constraints		Managerial Power	
	(1) Low Constraint	(2) High Constraint	(3) Low Power	(4) High Power
PC	0.009*** (0.003)	0.002 (0.003)	0.004 (0.003)	0.007* (0.004)
ROA	-0.486** (0.033)	-0.393*** (0.030)	-0.459*** (0.033)	-0.430*** (0.029)
Size	-0.033*** (0.004)	-0.032*** (0.003)	-0.033*** (0.003)	-0.027*** (0.003)
Lev	0.046*** (0.012)	0.063*** (0.013)	0.050*** (0.012)	0.040*** (0.011)
Tobin's Q	0.003** (0.002)	-0.001 (0.001)	0.002 (0.002)	0.002 (0.001)
Top1	0.028* (0.017)	0.038* (0.020)	0.044** (0.019)	0.031* (0.018)
Firm Age	-0.023** (0.005)	-0.037*** (0.005)	-0.021*** (0.004)	-0.039*** (0.004)
Cash Flow	-0.535*** (0.018)	-0.531*** (0.019)	-0.574*** (0.019)	-0.497*** (0.018)
Dual	0.004 (0.003)	0.002 (0.003)	0.002 (0.003)	0.003 (0.003)
Board Size	0.028** (0.011)	-0.014 (0.011)	0.010 (0.011)	0.004 (0.011)
Independent	0.083*** (0.028)	-0.044 (0.033)	0.001 (0.031)	0.052* (0.031)
_cons	0.668*** (0.081)	0.788*** (0.070)	0.723*** (0.075)	0.623*** (0.073)
Observations	16,703	16,780	16,520	16,449
Adjusted R ²	0.325	0.350	0.359	0.311
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: This table reports subsample regressions by financing constraints and managerial power. The dependent variable is SDLI. Columns 1 and 2 estimate the baseline model separately for firms with below-median and above-median SA index values. Columns 3 and 4 estimate the model separately for firms with below-median and above-median managerial power. All variables are defined in Appendix C.1. All regressions include the full set of controls, firm fixed effects, and year fixed effects. The corresponding formal interaction tests are reported in Panel A of Appendix Table C.5. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.5.3. Market Discipline and Institutional Environment

Product market competition may constrain the financing behaviour associated with political connections by limiting the room for inefficient corporate policies to persist. Giroud and Mueller (2010) show that corporate governance matters primarily in non-competitive industries, where the absence of market discipline allows managerial slack to continue without immediate performance consequences. Applied to the present setting, their logic suggests that in less competitive industries, the financing arrangements associated with political connections face fewer external constraints and are more likely to persist, making the positive association between political connections and maturity mismatch more pronounced. In more competitive environments, pressure on margins and market share may impose tighter discipline on financing decisions, reducing the scope for political connections to be reflected in maturity mismatch. Columns 1 and 2 of Table 3-10 partition the sample by the annual median of the Herfindahl-Hirschman Index. The coefficient on PC is 0.006 in the high-competition subsample and 0.005 in the low-competition subsample, and neither estimate reaches conventional significance levels. The point estimates are similar in magnitude, while the formal interaction estimate of -0.0003 is also not statistically significant. The results therefore provide no evidence that the PC coefficient differs across the two competition environments.

The quality of the formal institutional environment may also shape the relevance of political connections for corporate financing. Where legal institutions and market intermediaries are less developed, firms face weaker contract enforcement and greater regulatory frictions, which may increase the relative value of informal political ties as a means of securing financing. Li et al. (2008) find that political connections are associated with better access to financing among Chinese private firms, and that these advantages are more pronounced in regions where legal and market systems are less developed. If informal political ties matter more where formal institutions are weaker, the baseline association should be stronger in provinces with lower institutional quality. Columns 3 and 4 partition the sample by the provincial median of the sub-index of development of market intermediaries and the legal environment from the NERI Marketisation Index (Wang et al., 2021). In the weak legal environment subsample, the coefficient on PC is 0.006 and marginally significant at the 10%

level. In the strong legal environment subsample, the coefficient is 0.005 and not statistically significant. The weak-legal point estimate is slightly larger and directionally consistent with the theoretical prediction. However, the formal interaction estimate of -0.0014 is not statistically significant. Overall, the formal tests do not establish that either industry competition or the legal environment moderates the association between PC and maturity mismatch.

Table 3-10: Market Discipline and Institutional Environment

	Industry Competition		Legal Environment	
	(1)	(2)	(3)	(4)
	High Competition	Low Competition	Weak Legal	Strong Legal
PC	0.006 (0.004)	0.005 (0.003)	0.006* (0.003)	0.005 (0.003)
ROA	-0.465*** (0.030)	-0.406*** (0.031)	-0.436*** (0.031)	-0.444*** (0.032)
Size	-0.033*** (0.003)	-0.030*** (0.003)	-0.029*** (0.003)	-0.031*** (0.003)
Lev	0.046*** (0.013)	0.039*** (0.012)	0.056*** (0.012)	0.041*** (0.013)
Tobin's Q	0.001 (0.001)	0.002 (0.002)	0.002 (0.001)	0.001 (0.001)
Top1	0.045** (0.019)	0.037** (0.017)	0.024 (0.017)	0.029 (0.018)
Firm Age	-0.034*** (0.004)	-0.028*** (0.005)	-0.040*** (0.005)	-0.025*** (0.004)
Cash Flow	-0.514*** (0.020)	-0.557*** (0.018)	-0.532*** (0.019)	-0.541*** (0.019)
Dual	0.002 (0.003)	0.005 (0.003)	0.002 (0.003)	0.001 (0.003)
Board Size	0.023** (0.011)	-0.005 (0.011)	0.010 (0.011)	0.013 (0.012)
Independent	0.022 (0.032)	0.024 (0.031)	0.017 (0.030)	0.036 (0.032)
_cons	0.693*** (0.078)	0.694*** (0.076)	0.657*** (0.070)	0.663*** (0.079)
Observations	15,427	17,495	17,071	16,359
Adjusted R ²	0.329	0.338	0.323	0.337
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: This table reports subsample regressions by industry competition and legal environment quality. The dependent variable is SDLI. Columns 1 and 2 estimate the baseline model separately for firms in industries with above-median and below-median Herfindahl–Hirschman Index (HHI) values, where the median is calculated within each year. Columns 3 and 4 estimate the baseline model separately for firms located in provinces with below-median and above-median scores on the sub-index of development of market intermediaries and the legal environment from the NERI Marketization Index (Wang, Hu and Fan, 2021). All variables are defined in Appendix C.1. All regressions include the full set of controls, firm fixed effects, and year fixed effects. The corresponding formal interaction tests are reported in Panel A of Appendix Table

C.5. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.5.4. Government Officials' Tenure and Career Incentives

The stage of local government officials' tenure may affect the stability of the political environment and the maturity of political networks within a jurisdiction. This subsection examines whether tenure stage and career incentives shape the strength of the association between political connections and maturity mismatch. I hand-collect tenure data for governors, provincial party secretaries, mayors, and municipal party secretaries, together with age data for mayors and municipal party secretaries, from publicly available government websites and online biographical sources (descriptive statistics are reported in Appendix Table C.4). For the tenure analysis, each firm-year observation is classified into an early-tenure group if the relevant official has been in office for one year or less, and a later-tenure group otherwise. The first year of an official's term typically involves personnel adjustment and policy transition, which provides a practical institutional rationale for this classification. Official turnovers disrupt existing political networks and raise political uncertainty, reducing corporate investment until relationships with the incoming administration have had time to re-form (An et al., 2016; Fang et al., 2023). The disruption extends to credit conditions. Tan and Zhou (2015) find that provincial credit supply follows an inverted U-shaped pattern over the tenure of governors and party secretaries, with lending activity lower in the initial phase when policy direction remains unsettled. If political connections are associated with easier access to short-term credit, this association may be more clearly observed in later tenure, when policy direction has stabilised and political networks have had time to develop.

Beyond tenure, the strength of an official's career incentives may also condition the association. Under China's cadre promotion system, prefecture-level officials are generally considered ineligible for further promotion once they reach the age of 58 (Kou and Tsai, 2014). Officials below this threshold retain stronger incentives to intervene in local economic governance, as promotion prospects remain intact. Prior evidence suggests that this age threshold has behavioural consequences for local officials, with those below 58 more actively shaping local economic outcomes (Huang et al., 2024; Zeng and Zhou, 2024). For the career incentive analysis, official age is calculated as the difference between the current year and the official's birth year. The sample is split at age 58, consistent with the promotion

threshold identified in the studies above. Because governors and mayors are the officials most directly responsible for local economic governance and credit policy implementation, the tenure and promotion analyses treat these economic officials as the primary tests, with party secretary results reported as supplementary evidence.

Panel A of Table 3-11 reports subsample regressions by provincial officials' tenure. For governors, the coefficient on PC is 0.005 and not statistically significant in early tenure, compared with 0.006 and significant at the 5% level in later tenure. For provincial party secretaries, the coefficient is 0.003 and not statistically significant in early tenure, compared with 0.008 and significant at the 1% level in later tenure. Both positions therefore show larger later-tenure point estimates, consistent in direction with political networks and credit conditions becoming more settled as tenure progresses.

Panel B extends the tenure analysis to municipal officials. For mayors, the coefficient on PC is positive and statistically significant in both early tenure (0.008, $p < 0.05$) and later tenure (0.005, $p < 0.10$). For municipal party secretaries, the point estimate is 0.006 in both tenure stages, although it is not statistically significant in early tenure and is significant at the 5% level in later tenure. The municipal results show that the association between PC and SDLI is present across both tenure stages for mayors and that the point estimates for municipal party secretaries are similar across tenure stages.

Panel C partitions the sample by the age of municipal officials relative to the 58-year promotion threshold. For mayors, the coefficient on PC is 0.007 and significant at the 5% level when the mayor is below 58, compared with 0.003 and not statistically significant when the mayor is 58 or older. Municipal party secretaries display the same directional pattern, with a coefficient of 0.007 that is significant at the 5% level below age 58 and 0.003 that is not statistically significant at or above age 58. The common direction across the two positions is consistent with the career-incentive view, under which promotion-eligible officials have stronger incentives to shape local resource allocation.

Appendix Table C.5 complements these group-specific estimates with formal interaction tests. The later-tenure interaction estimates are 0.0017 for governors, 0.0052 for provincial party secretaries, -0.0036 for mayors, and 0.0001 for municipal party secretaries. For officials aged 58 or above, the interaction estimates are -0.0032 for mayors and -0.0037 for municipal party secretaries. These estimates do not reach conventional levels of statistical significance. Accordingly, the larger later-tenure point estimates for provincial officials and the larger below-58 estimates for municipal officials remain descriptive rather than established evidence of moderation. Across the specifications, the positive association between PC and SDLI is observed across several official roles and local political settings.

Table 3-11: Government Officials' Characteristics

Panel A: Provincial Officials' Tenure				
	Provincial Governor		Provincial Party Secretary	
	(1)	(2)	(3)	(4)
	Early Governor	Later Governor	Early Secretary	Later Secretary
PC	0.005 (0.003)	0.006** (0.003)	0.003 (0.003)	0.008*** (0.003)
ROA	-0.379*** (0.028)	-0.505*** (0.032)	-0.382*** (0.027)	-0.529*** (0.032)
Size	-0.026*** (0.003)	-0.033*** (0.003)	-0.024*** (0.003)	-0.038*** (0.003)
Lev	0.021* (0.011)	0.042*** (0.012)	0.006 (0.010)	0.079*** (0.013)
Tobin's Q	-0.001 (0.001)	0.002* (0.001)	0.001 (0.001)	0.001 (0.001)
Top1	0.048*** (0.016)	0.012 (0.017)	0.043*** (0.015)	0.035* (0.020)
Firm Age	-0.027*** (0.004)	-0.030*** (0.004)	-0.024*** (0.004)	-0.036*** (0.005)
Cash Flow	-0.499*** (0.018)	-0.599*** (0.019)	-0.502*** (0.017)	-0.593*** (0.020)
Dual	0.005 (0.003)	0.000 (0.003)	0.004 (0.003)	-0.001 (0.004)
Board Size	0.003 (0.010)	0.015 (0.011)	0.007 (0.009)	0.011 (0.011)
Independent	0.028 (0.029)	0.019 (0.030)	0.014 (0.027)	0.034 (0.031)
_cons	0.588*** (0.066)	0.721*** (0.070)	0.551*** (0.059)	0.841*** (0.078)
Observations	17,182	15,219	18,966	14,180
Adjusted R ²	0.303	0.334	0.320	0.327
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Panel B: Municipal Officials' Tenure				
	Municipal Mayor		Municipal Party Secretary	
	(1)	(2)	(3)	(4)
	Early Mayor	Later Mayor	Early Secretary	Later Secretary
PC	0.008** (0.004)	0.005* (0.003)	0.006 (0.004)	0.006** (0.003)
ROA	-0.418***	-0.463***	-0.424***	-0.458***

	(0.039)	(0.025)	(0.037)	(0.025)
Size	-0.026***	-0.028***	-0.023***	-0.029***
	(0.004)	(0.003)	(0.004)	(0.003)
Lev	0.030**	0.027***	0.021	0.033***
	(0.015)	(0.010)	(0.014)	(0.010)
Tobin's Q	0.000	0.001	0.003**	-0.000
	(0.002)	(0.001)	(0.001)	(0.001)
Top1	0.023	0.035**	0.015	0.035**
	(0.020)	(0.014)	(0.020)	(0.014)
Firm Age	-0.037***	-0.025***	-0.034***	-0.026***
	(0.005)	(0.004)	(0.005)	(0.004)
Cash Flow	-0.522***	-0.560***	-0.519***	-0.558***
	(0.025)	(0.015)	(0.024)	(0.015)
Dual	0.003	0.003	0.001	0.003
	(0.004)	(0.002)	(0.004)	(0.003)
Board Size	0.014	0.005	0.024*	0.002
	(0.014)	(0.009)	(0.013)	(0.009)
Independent	0.016	0.021	0.071*	0.004
	(0.039)	(0.025)	(0.039)	(0.025)
_cons	0.595***	0.637***	0.474***	0.665***
	(0.083)	(0.058)	(0.080)	(0.058)
Observations	8,859	23,461	9,546	22,578
Adjusted R ²	0.307	0.325	0.318	0.322
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Panel C: Municipal Officials' Promotion Incentives

	Municipal Mayor		Municipal Party Secretary	
	(1)	(2)	(3)	(4)
	Mayor < 58	Mayor ≥ 58	Secretary < 58	Secretary ≥ 58
PC	0.007**	0.003	0.007**	0.003
	(0.003)	(0.006)	(0.003)	(0.004)
ROA	-0.443***	-0.406***	-0.436***	-0.420***
	(0.024)	(0.054)	(0.027)	(0.038)
Size	-0.029***	-0.036***	-0.030***	-0.030***
	(0.002)	(0.006)	(0.003)	(0.004)
Lev	0.038***	0.035	0.051***	0.017
	(0.009)	(0.024)	(0.010)	(0.015)
Tobin's Q	0.001	0.001	0.002*	-0.002
	(0.001)	(0.002)	(0.001)	(0.002)
Top1	0.030**	0.017	0.031**	0.030
	(0.014)	(0.034)	(0.015)	(0.024)

Firm Age	-0.033*** (0.003)	-0.016** (0.007)	-0.036*** (0.004)	-0.012** (0.005)
Cash Flow	-0.537*** (0.014)	-0.501*** (0.032)	-0.531*** (0.016)	-0.532*** (0.024)
Dual	0.003 (0.002)	0.003 (0.005)	0.001 (0.003)	0.006* (0.004)
Board Size	0.007 (0.008)	0.000 (0.017)	0.012 (0.010)	0.005 (0.013)
Independent	0.008 (0.024)	0.094* (0.051)	0.026 (0.028)	0.058* (0.034)
_cons	0.669*** (0.054)	0.761*** (0.138)	0.674*** (0.061)	0.646*** (0.096)
Observations	27,757	5,183	22,482	10,190
Adjusted R ²	0.331	0.341	0.320	0.340
Firm FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Note: This table reports subsample regressions by government officials' characteristics. The dependent variable is SDLI. Panels A and B examine the role of officials' tenure in shaping the political environment. In Panel A, Columns 1 and 2 distinguish early-tenure and later-tenure provincial governors; Columns 3 and 4 apply the same approach to provincial party secretaries. In Panel B, Columns 1 and 2 distinguish early-tenure and later-tenure municipal mayors; Columns 3 and 4 apply the same approach to municipal party secretaries. Early tenure is defined as one year or less since taking office. Panel C examines the role of municipal officials' promotion incentives. Columns 1 and 2 partition by mayor age; Columns 3 and 4 partition by municipal party secretary age. The threshold is set at age 58, consistent with the cadre promotion eligibility cutoff (Kou and Tsai, 2014). All variables are defined in Appendix C.1. All regressions include firm and year fixed effects. The corresponding formal interaction tests are reported in Panel B of Appendix Table C.5. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.6. Further Analysis: Dimensions of Political Connections

The preceding analysis measures political connections as a single binary indicator. This section examines whether the association with maturity mismatch varies across three dimensions of the connection itself, including the executive role through which the connection is held, the administrative level of the political affiliation, and whether the connection is sustained over consecutive years.

3.4.6.1. Political Connections by Executive Role

The baseline specification defines political connections using a composite indicator that equals one if either the chairman or the CEO holds or has held a political position. In Chinese listed firms, the chairman generally occupies the senior position in the corporate hierarchy and exercises greater influence over corporate strategy, whereas the CEO is more closely involved in operational management and implementation (Firth et al., 2006; Wang, Duan and Liu, 2021). This allocation of authority suggests that the chairman's political connection may be particularly relevant to strategic investment decisions and major financing relationships, including access to bank credit. Consistent with this division of responsibilities, the distribution of power between the chairman and CEO is associated with corporate debt financing, while political connections held by the chairman are also associated with firms' long-term investment (Wang, Duan and Liu, 2021; Li, 2022). Because SDLI jointly reflects long-term investment and the funding available to support it, connections held through either role may be relevant to the measure through different organisational channels. Table 3-12 therefore examines whether the baseline association is confined to one executive source.

Table 3-12 replaces the composite PC with two separate indicators. Column (1) uses PC_CEO and Column (2) uses PC_Chairman. The coefficient on PC_CEO is 0.006 and statistically significant at the 5% level, while the coefficient on PC_Chairman is 0.004 and marginally significant at the 10% level. All control variables remain virtually unchanged.

Table 3-12 shows that the positive association is present under both role-specific measures. The CEO estimate is closer in magnitude to the baseline coefficient, whereas the chairman estimate is smaller. The different institutional responsibilities of the two positions provide a possible interpretation of this pattern. The chairman's senior position suggests greater

influence over strategic investment and major financing relationships, while the CEO's operational responsibilities provide a separate channel through which political connections may be reflected in the implementation of investment and financing policies. The positive estimates under both role-specific measures support retaining both executive sources in the composite PC indicator.

Table 3-12: Political Connections by Executive Role

	(1) CEO	(2) Chairman
PC_CEO	0.006** (0.003)	
PC_Chairman		0.004* (0.002)
ROA	-0.440*** (0.022)	-0.440*** (0.022)
Size	-0.028*** (0.002)	-0.029*** (0.002)
Lev	0.035*** (0.008)	0.035*** (0.008)
Tobin's Q	0.001 (0.001)	0.001 (0.001)
Top1	0.030** (0.012)	0.030** (0.012)
Firm Age	-0.029*** (0.003)	-0.029*** (0.003)
Cash Flow	-0.530*** (0.013)	-0.529*** (0.013)
Dual	0.001 (0.002)	0.002 (0.002)
Board Size	0.008 (0.008)	0.008 (0.008)
Independent	0.023 (0.021)	0.023 (0.021)
_cons	0.638*** (0.050)	0.639*** (0.050)
Observations	33,659	33,659
Adjusted R ²	0.324	0.324
Firm FE	YES	YES
Year FE	YES	YES

Note: This table examines the effect of political connections by executive role. The dependent variable is SDLI. Column (1) replaces PC with PC_CEO, a dummy equal to one if the CEO holds or has held a political position. Column (2) replaces PC with PC_Chairman, a dummy equal to one if the chairman of the board holds or has held a political position. All variables are defined in Appendix C.1. All regressions include the full set of controls, firm fixed effects, and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.6.2. Political Connections by Administrative Level

The baseline specification collapses all levels of political affiliation into a single binary measure. However, political affiliations at different administrative levels are likely to carry different institutional weight. Prior evidence suggests that the economic effects of political connections are not uniform across levels of affiliation (Schweizer et al., 2019), and that national and provincial-level NPC or CPPCC membership is associated with improved access to debt financing (Feng et al., 2015). Section 3.3.3 constructs PC Level, an ordinal variable ranging from 0 to 4 based on the highest administrative level of the political position held by the chairman or CEO (Fan et al., 2007; Luo and Liu, 2019). Table 3-13 uses this variable to examine whether the baseline association varies with the administrative level of the connection. Column (1) replaces the binary PC with the ordinal PC Level. Columns 2 through 5 each use a binary indicator defined at a specific administrative level, restricting the sample to non-connected firms and firms connected at that level.

In Column (1), the coefficient on PC Level is 0.002 and significant at the 1% level, indicating that higher-level political affiliations are associated with greater maturity mismatch on average. The level-specific regressions in Columns (2) through (5) show where this average gradient is concentrated. Among the four administrative levels, only national-level connections carry a statistically significant positive coefficient (0.008, $p < 0.05$). The county/township (0.004), municipal (0.005), and provincial (0.005) estimates are all positive but statistically insignificant. The three sub-national estimates are similar to each other in magnitude but notably smaller than the national-level estimate, and none is precisely estimated.

The positive association is most clearly observed for national-level affiliations, consistent with prior evidence that the consequences of political ties vary across administrative levels (Feng et al., 2015). The level-specific results indicate that the positive association reported in the baseline is not uniform across administrative levels, and that the aggregate gradient captured by PC Level is driven primarily by connections at the highest administrative tier.

Table 3-13: Political Connections by Administrative Level

	(1) PC Level	(2) County	(3) Municipal	(4) Provincial	(5) National
PC Level	0.002*** (0.001)				
PC		0.004 (0.007)	0.005 (0.005)	0.005 (0.004)	0.008** (0.004)
ROA	-0.440*** (0.022)	-0.422*** (0.024)	-0.421*** (0.024)	-0.434*** (0.023)	-0.427*** (0.023)
Size	-0.029*** (0.002)	-0.027*** (0.003)	-0.028*** (0.003)	-0.028*** (0.002)	-0.028*** (0.003)
Lev	0.035*** (0.008)	0.030*** (0.010)	0.030*** (0.009)	0.029*** (0.009)	0.037*** (0.009)
Tobin's Q	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.000 (0.001)	0.001 (0.001)
Top1	0.030** (0.012)	0.022 (0.014)	0.025* (0.014)	0.023* (0.014)	0.028** (0.013)
Firm Age	-0.029*** (0.003)	-0.024*** (0.004)	-0.025*** (0.003)	-0.025*** (0.003)	-0.028*** (0.003)
Cash Flow	-0.529*** (0.013)	-0.486*** (0.016)	-0.491*** (0.015)	-0.499*** (0.015)	-0.511*** (0.014)
Dual	0.002 (0.002)	0.002 (0.002)	0.004* (0.002)	0.003 (0.002)	0.001 (0.002)
Board Size	0.008 (0.008)	0.013 (0.009)	0.011 (0.009)	0.011 (0.008)	0.012 (0.008)
Independent	0.023 (0.021)	0.033 (0.023)	0.030 (0.024)	0.023 (0.022)	0.028 (0.023)
_cons	0.642*** (0.050)	0.585*** (0.060)	0.606*** (0.059)	0.623*** (0.054)	0.609*** (0.057)
Observations	33,659	24,408	25,615	27,077	28,105
Adjusted R2	0.325	0.323	0.323	0.324	0.322
Firm FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Note: This table examines the effect of political connection intensity. The dependent variable is SDLI. Column (1) replaces the binary PC variable with PC Level, an ordinal measure ranging from 0 to 4 based on the highest administrative level of the political position held. Columns (2) through (5) each use a binary PC indicator defined at a specific administrative level, restricting the sample to non-connected firms and firms connected at that level. Column (2) uses county or township level connections, Column (3) municipal level, Column (4) provincial level, and Column (5) national level. All variables are defined in Appendix C.1. All regressions include the full set of controls, firm fixed effects, and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.4.6.3. Persistence of Political Connections

The financing advantages associated with political connections are unlikely to materialise instantaneously. Credit relationships develop incrementally over time (Boot, 2000), and a newly acquired political connection may not translate into observable changes in financing arrangements within the first year. Conversely, the loss of a political connection may disrupt existing financing channels. Hu et al. (2020) find that political connections are instrumental in helping firms secure longer debt maturities, and Ding et al. (2023) show that firms without social connections to banks experience a significant decline in bank lending after losing political ties under Regulation No. 18. These findings suggest that the positive association between political connections and maturity mismatch should be most clearly observed when connections are sustained over consecutive years, rather than in firm-years characterised by recent acquisition or loss of political ties.

Table 3-14 examines this prediction. Column (1) replaces the binary PC variable with a categorical regression based on each firm's PC status in consecutive years. The categories are Stayed non-PC (no connection in either year), Stayed PC (connected in both years), Lost PC (connected in t-1 but not in t), and Gained PC (not connected in t-1 but connected in t), with Stayed non-PC as the omitted reference category. Column (2) constructs a more restrictive indicator, Persistent PC, equal to one if the firm has maintained political connections for three consecutive years from t-2 to t, and zero otherwise. This indicator excludes firm-years in which PC status was maintained for only two consecutive years but not the third. Both measures require lagged PC status, reducing the available sample relative to the baseline specification.

Panel A reports descriptive statistics by transition status. The Stayed non-PC and Stayed PC groups together account for over 95% of the transition sample, with the Lost PC and Gained PC groups considerably smaller. The unconditional mean of SDLI is more negative for Stayed PC (-0.058) than for Stayed non-PC (-0.047). This raw difference does not account for systematic differences in firm characteristics across groups and should not be interpreted independently of the conditional regression results. The standard deviation of SDLI is higher

in both transition groups than in either of the stable groups, consistent with greater heterogeneity in financing outcomes during periods of connection status change.

The composition of the two transition groups also helps clarify the source of within-firm variation in PC. Of the 1,497 Lost PC and Gained PC observations in Panel A, 1,041 (69.5%) occur in years with CEO or chairman turnover⁹. This correspondence is consistent with changes in executive composition: appointing a politically connected CEO or chairman can move PC from zero to one, while the departure of the firm's only connected executive can move it from one to zero. Transitions without contemporaneous executive turnover may instead reflect changes in incumbents' recorded political affiliations or revisions to annual records. Given the dominance of the two stable categories, the coefficient on PC is identified by the subset of firms that switch status and should be interpreted as the within-firm association between changes in PC and changes in SDLI. The limited identifying variation may reduce statistical power, making the fixed-effects specification a conservative test of this association.

Panel B reports the regression results. In Column (1), only Stayed PC carries a positive and significant coefficient (0.007, $p < 0.01$), while Lost PC (0.001) and Gained PC (0.004) are both statistically insignificant. This implies that the positive association between political connections and maturity mismatch is concentrated among firm-years in which connections are sustained across consecutive years, rather than those characterised by recent changes in connection status. The sustained presence of a connection may allow the financing advantages associated with political ties to accumulate over time, as firms progressively develop the credit relationships and financing arrangements through which political access translates into observable changes in the investment-financing gap. The coefficient on Lost PC is particularly informative for assessing the role of unobserved heterogeneity. If the baseline association were driven by time-invariant firm characteristics that correlate with both political connectedness and financing behaviour, such characteristics would persist

⁹ CEO and chairman turnover data are obtained from the CSMAR database. The corresponding firm-year indicators equal one if at least one change in the relevant executive position is recorded during the year; multiple changes in the same position and year are treated as a single turnover observation. In the Panel A sample, 813 of the 1,079 consecutive-year changes in PC_CEO (75.3%) coincide with CEO turnover, while 840 of the 1,379 corresponding changes in PC_Chairman (60.9%) coincide with chairman turnover.

after the loss of political connections, and the Lost PC coefficient would likely remain positive and significant. Instead, the coefficient falls to 0.001 and is statistically indistinguishable from zero, suggesting that the association largely disappears once political connections are no longer present. This pattern is more consistent with a direct role of political connections in shaping financing outcomes than with an omitted firm characteristic that happens to correlate with executive political background. The smaller size of the Lost PC and Gained PC groups relative to Stayed PC limits the precision of those estimates, but the direction and magnitude of the Lost PC coefficient nonetheless provide evidence against a pure selection interpretation of the baseline result.

Column (2) replaces the transition variable with the three-year Persistent PC indicator. The coefficient remains positive and statistically significant under the more restrictive three-year definition (0.007, $p < 0.01$). The positive association is therefore not sensitive to how sustained political connectedness is defined, and reflects the cumulative influence of political connections on financing arrangements. The more restrictive definition assigns a value of one only to firm-years in which the firm has maintained political connections continuously from $t-2$ to t . The consistency of the result across the two measures suggests that the relationship between political ties and corporate financing behaviour requires time to develop and consolidate rather than reflecting short-lived fluctuations in connection status. The persistence of the estimate under the more restrictive three-year definition is also less consistent with an explanation based solely on temporary fluctuations in local economic conditions.

Table 3-14: Political Connections Stability and Maturity Mismatch

Panel A: Descriptive Statistics by Transition Status			
	Observations	Mean SDLI	Std. Dev.
Stayed non-PC	20,156	-0.047	0.099
Stayed PC	8,150	-0.058	0.109
Lost PC	957	-0.072	0.119
Gained PC	540	-0.069	0.133
Panel B: Regression Results			
	(1)	(2)	
	Transition	Persistent PC (3yr)	
Stayed PC	0.007*** (0.003)		
Lost PC	0.001 (0.004)		
Gained PC	0.004 (0.005)		
Persistent PC (3yr)		0.007*** (0.003)	
ROA	-0.438*** (0.022)	-0.436*** (0.023)	
Size	-0.029*** (0.002)	-0.029*** (0.003)	
Lev	0.046*** (0.009)	0.055*** (0.010)	
Tobin's Q	0.000 (0.001)	0.001 (0.001)	
Top1	0.032** (0.013)	0.038*** (0.014)	
Firm Age	-0.021*** (0.004)	-0.001 (0.006)	
Cash Flow	-0.530*** (0.014)	-0.524*** (0.015)	
Dual	0.003 (0.002)	0.004* (0.002)	
Board Size	0.009 (0.008)	0.014 (0.009)	
Independent	0.036 (0.022)	0.041* (0.023)	
_cons	0.619***	0.558***	

	(0.053)	(0.059)
Observations	29,260	25,555
Adjusted R ²	0.328	0.323
Firm FE	YES	YES
Year FE	YES	YES

Note: This table examines the stability and persistence of political connections. The dependent variable is SDLI. Panel A reports descriptive statistics of SDLI by political connection transition status. Panel B reports OLS estimates. Column (1) replaces the binary PC variable with a four-category transition variable based on consecutive-year PC status changes. The baseline category is Stayed non-PC, defined as firms without political connections in both the current and prior year. Column (2) uses a persistent PC indicator that equals one if the firm has maintained political connections for three consecutive years ($t-2$, $t-1$, and t), and zero otherwise. The sample requires one lag of PC, resulting in the loss of each firm's first observation. All regressions include the full set of controls, firm fixed effects, and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.5. Conclusion

The baseline estimates indicate that politically connected firms exhibit higher investment-financing maturity mismatch among Chinese A-share listed firms over the period 2008 to 2023, and this finding is robust to alternative variable measurements, model specifications, placebo tests, and entropy balancing. The decomposition further indicates that the wider mismatch is associated primarily with smaller increases in long-term debt and equity relative to investment, while the investment component remains small and not statistically significant. The association weakens as institutional ownership increases and is substantially stronger among firms with higher asset tangibility, where long-term investment demand is greater. The baseline association does not vary significantly with aggregate monetary conditions, local fiscal pressure, or firm-level policy uncertainty. The larger estimates for non-SOEs and less financially constrained firms are consistent with political connections being more relevant when firms expand financing capacity and firms have greater scope to act on the resulting credit access. The association is also more apparent when managerial authority is concentrated among fewer senior executives. Formal interaction tests do not establish statistically significant moderation across these dimensions. The evidence for product market competition, the formal legal environment, and the local political cycle as moderating factors is limited. The tenure and promotion analyses suggest a stronger association in later tenure for provincial officials and when municipal officials are below age 58. Both chairman and CEO connections are individually associated with higher maturity mismatch, with the CEO estimate significant at the 5% level and the chairman estimate at the 10% level. National-level political affiliations yield the largest level-specific coefficient, and only firms that maintain connections across consecutive years exhibit a statistically significant positive result, while firms that newly acquire or recently lose connections do not.

These findings contribute to two strands of literature. The chapter extends research on corporate political connections (Li et al., 2008; Firth et al., 2009; Fan et al., 2007; Caglayan et al., 2024) by examining whether the financing advantages associated with political connections remain aligned with the investment commitments firms undertake. The alignment between these two margins cannot be inferred from financing terms or investment behaviour considered separately. Caglayan et al. (2024) find that political affiliation is

associated with longer debt maturity, but the present evidence shows that this improvement does not translate into closer maturity matching, as politically connected firms exhibit wider investment-financing gaps. The positive coefficient depends on the source, administrative level, and continuity of the connection, and does not retain statistical significance when connections are recently lost, indicating that the finding reflects ongoing political connectedness rather than time-invariant firm characteristics. The chapter also contributes to the maturity mismatch literature (Zhong et al., 2016; Ma et al., 2022) by identifying executive-level political connections as a firm-level factor associated with the alignment between long-term investment and the long-term and internal funding available to support it. The decomposition locates this association primarily in financing composition, rather than higher long-term investment expenditure. Variation in the association is most clearly evident across levels of institutional ownership and asset tangibility, while the subgroup estimates describe patterns across ownership type, financing capacity, and local political settings.

The financing advantages associated with political connections may coexist with a wider investment-financing gap. Such mismatch is not inherently inefficient when shorter-term financing lowers borrowing costs and rollover capacity is reliable. The higher SDLI associated with PC nevertheless indicates greater exposure to refinancing and liquidity shocks when credit conditions deteriorate, rather than realised distress or an unconditional reduction in firm value. The weaker association at higher levels of institutional ownership is consistent with institutional investors playing a monitoring role in limiting the associated maturity mismatch. At the policy level, the findings point to the importance of considering whether politically facilitated credit provides sufficient long-term funding for firms' investment commitments. This issue may be particularly relevant for private firms, which lack the institutional access to state-backed credit channels available to SOEs.

While the robustness tests and matching procedures support the reliability of the main findings, the absence of an instrumental variable leaves open the possibility that time-varying factors influence both PC and maturity mismatch. The estimates are therefore interpreted as evidence of a within-firm association between political connections and maturity mismatch. The stability of the evidence across alternative variable measurements, model specifications, placebo tests, and balancing procedures supports the view that the

baseline association captures a substantive feature of how political connections relate to corporate financing behaviour in China.

3.6. Appendix C

3.6.1. Appendix C.1: Definition of Variables

Table C.1: Definition of Variables

Variable	Definition	Source
Maturity mismatch (SDLI)	$SDLI = [\text{Cash expenditure for investment activities such as purchasing and building fixed assets} - (\text{Long-term borrowing increase in the current period} + \text{Equity increase in the current period} + \text{Net cash flow from operating} + \text{Cash inflow from selling fixed assets})] / \text{Total assets in the last period}$	CSMAR
Maturity Mismatch Dummy (SDLI_Dummy)	A dummy variable equal to one if $SDLI > 0$, indicating the presence of maturity mismatch, and zero otherwise	CSMAR
Maturity mismatch _{alternative} (SDLA)	The difference between the proportion of short-term liabilities to total liabilities and the proportion of short-term assets to total assets.	CSMAR
Political Connections (PC)	A dummy variable equal to 1 if the chairman or CEO currently holds or has previously held a position as a government official or as a member of the National People's Congress (NPC) or the Chinese People's Political Consultative Conference (CPPCC), and 0 otherwise.	1. CSMAR Database 2. Firms' annual reports 3. http://www.cninfo.com.cn/
PC Level	Political Connection Level (PC Level) is an ordinal variable ranging from 0 to 4, measured based on the political position held by the chairman or CEO: PC Level = 0: The chairman or CEO has neither held nor currently holds a position as an NPC or CPPCC member, nor served as a government official at any level; PC Level = 1: The chairman or CEO currently holds or has held a position as an NPC or CPPCC member or served as an official at the county or township government level; PC Level = 2: The chairman or CEO currently holds or has held a position as an NPC or CPPCC member or served as an official at the municipal government level; PC Level = 3: The chairman or CEO currently holds or has held a position as an NPC or CPPCC member or served as an official at the provincial government level; PC Level = 4: The chairman or CEO currently holds or has held a position as an NPC or CPPCC member or served as an official at the national government level.	1. CSMAR Database 2. Firms' annual reports 3. http://www.cninfo.com.cn/
PC_CEO	A dummy variable equal to 1 if the CEO currently holds or has previously held a position as a government official or as a member of the NPC or CPPCC, and 0 otherwise.	CSMAR

PC_Chairman	A dummy variable equal to 1 if the chairman of the board currently holds or has previously held a position as a government official or as a member of the NPC or CPPCC, and 0 otherwise.	CSMAR
Provincial Governor/ Party Secretary Tenure	The number of years the incumbent provincial governor/party secretary has served in office. Observations are classified into early tenure (one year or less) and later tenure (more than one year) groups.	Manually collected from publicly available government websites and online biographical sources
Mayor Tenure/ Municipal Secretary	The number of years the incumbent municipal mayor/ party secretary has served in office. Observations are classified into early tenure (one year or less) and later tenure (more than one year) groups.	Manually collected from publicly available government websites and online biographical sources
Mayor Age / Municipal Secretary Age	The age of the incumbent mayor/ party secretary of the prefecture-level city in which the firm is registered, calculated as the difference between the current year and the official's birth year.	Manually collected from publicly available government websites and online biographical sources
Size	Natural logarithm of total assets	CSMAR
ROA	Net earnings / Total assets	CSMAR
Lev	Total liabilities / Total assets	CSMAR
Tobin's Q	Market value of total asset/book value of total assets	CSMAR
Top1	Ownership concentration, measured as the shareholding ratio of the largest shareholder.	CSMAR
Firm Age	Natural logarithm of the total number of years the company has been listed	CSMAR
Cashflow	Cash flow from operating activities divided by total assets	CSMAR
Dual	Duality, an indicator that equals 1 if the chairman is also the CEO and 0 otherwise.	CSMAR
Board Size	Total number of directors on the board.	CSMAR
Independent	Board independence, measured as the number of independent directors divided by the total number of directors on the board.	CSMAR
Investment Side	Cash expenditure on the purchase and construction of fixed assets, intangible assets, and other long-term assets, scaled by lagged total assets.	CSMAR
Total Financing Side	The sum of the increase in long-term debt, the increase in equity, operating cash flow, and asset-disposal proceeds, scaled by lagged total assets.	CSMAR
Long-term Debt Increase	The annual increase in long-term debt, constructed from long-term borrowing and current portions of non-current liabilities, scaled by lagged total assets.	CSMAR
Equity Increase	The annual increase in shareholders' equity, scaled by lagged total assets.	CSMAR

Operating Cash Flow	Net cash flow from operating activities, scaled by lagged total assets.	CSMAR
Asset Disposal Proceeds	Cash proceeds from the disposal of fixed assets, intangible assets, and other long-term assets, scaled by lagged total assets.	CSMAR
INST	The proportion of shares held by institutional investors to total shares outstanding.	CSMAR
HHI	Herfindahl-Hirschman Index, calculated as the sum of squared market shares of all firms within each industry-year, where market share is measured by firm revenue as a proportion of total industry revenue. Industries are classified following the CSRC industry classification.	CSMAR
Legal Environment	The sub-index of "development of market intermediaries and the legal environment" from the NERI Marketization Index	Wang, X., Hu, L. and Fan, G. (2021)
SOE	A dummy variable equal to 1 if the firm is a state-owned enterprise (based on the ultimate controller classification), and 0 otherwise.	CSMAR
Managerial Power	Executive compensation concentration, measured as the ratio of the total compensation of the top three highest-paid executives to the total compensation of all executives.	CSMAR
SA Index	The financial constraint index proposed by Hadlock and Pierce (2010), calculated as $SA = -0.737 \times \text{Size} + 0.043 \times \text{Size}^2 - 0.040 \times \text{Age}$, where Size is the natural logarithm of total assets and Age is the number of years since the firm's initial listing	CSMAR
FEPUS	Firm-level perceived economic policy uncertainty, measured as the ratio of policy-uncertainty-related words in MD&A text to total MD&A word count	Nie, H., Ruan, R. and Shen, J. (2020)
FisPres	Fiscal pressure, measured as the ratio of provincial general public budget revenue to expenditure	National Bureau of Statistics of China
M2	Natural logarithm of year-end broad money supply (M2) balance, in hundred million RMB	National Bureau of Statistics of China
PPE	Ratio of net fixed assets to total assets.	CSMAR

3.6.2. Appendix C.2: Political Connections and Geographic Distribution by Province

Table C.2: Political Connections and Geographic Distribution by Province

Province	Observations	Percentage (%)	PC (%)	Mean SDLI
Guangdong	5,514	16.382	27.748	-0.046
Zhejiang	4,293	12.754	32.611	-0.045
Jiangsu	3,764	11.183	21.227	-0.036
Beijing	3,185	9.463	25.243	-0.052
Shanghai	2,864	8.509	26.047	-0.045
Shandong	2,088	6.203	29.119	-0.049
Fujian	1,225	3.639	34.041	-0.048
Anhui	1,141	3.390	39.527	-0.055
Sichuan	1,032	3.066	34.787	-0.051
Hubei	967	2.873	34.023	-0.050
Hunan	964	2.864	37.967	-0.048
Henan	767	2.279	34.159	-0.057
Liaoning	570	1.693	29.825	-0.044
Hebei	548	1.628	30.839	-0.063
Tianjin	475	1.411	25.053	-0.050
Chongqing	457	1.358	29.103	-0.059
Jiangxi	433	1.286	26.328	-0.050
Shaanxi	415	1.233	12.530	-0.033
Yunnan	325	0.966	27.692	-0.069
Jilin	323	0.960	39.009	-0.048
Xinjiang	315	0.936	23.492	-0.060
Guangxi	305	0.906	41.967	-0.062
Guizhou	274	0.814	21.898	-0.061
Shanxi	272	0.808	31.618	-0.086
Heilongjiang	263	0.781	31.559	-0.044
Inner Mongolia	236	0.701	22.881	-0.093
Gansu	219	0.651	26.027	-0.052
Hainan	173	0.514	45.087	-0.027
Tibet	128	0.380	35.938	-0.063
Ningxia	74	0.220	25.676	-0.041
Qinghai	50	0.149	28.000	-0.064

Note: This table reports the provincial distribution of firm-year observations in the full sample. PC (%) is the share of firm-year observations in each province for which PC equals one. Mean SDLI is the average value of the investment-financing maturity mismatch measure for each province. Province is defined based on the registered location of the listed firm. Provinces are sorted by firm-year observations in descending order.

3.6.3. Appendix C.3: Propensity Score Matching

I employ propensity score matching to address the concern that the baseline results may be driven by systematic differences in observable characteristics between politically connected and non-connected firms. I estimate a logit model of PC on the full set of control variables with year and industry fixed effects and use the predicted propensity scores to perform one-to-one nearest-neighbour matching with a calliper of 0.01 and common support.

Panel A of Table C.3 reports the covariate balance before and after matching. Prior to matching, several covariates differ significantly between the two groups. The largest pre-matching differences are observed for CEO-chairman duality, board size, leverage, and Tobin's Q, with statistically significant gaps also present in firm size, ROA, ownership concentration, firm age, and the proportion of independent directors. The covariate balance before and after matching is reported in Panel A.

Panel B re-estimates the baseline specification on the matched sample of 15993 firm-year observations with firm and year fixed effects. The coefficient on PC is 0.008 and statistically significant at the 5% level, consistent in sign with the baseline estimate and comparable in magnitude. The matched-sample regression includes firm fixed effects, which absorb remaining time-invariant differences between matched pairs. This result suggests that the positive association between political connections and investment-financing maturity mismatch is not attributable to selection on observable firm characteristics. The entropy balancing procedure reported in the main text (Table 3-4) serves as the primary reweighting approach and achieves full covariate balance across all covariates. The propensity score matching results reported here provide supplementary evidence that the baseline finding is robust to an alternative matching approach.

Table C.3: Propensity Score Matching

Panel A: Covariate Balance								
Variables	Before Matching				After Matching			
	Treated	Control	Diff	t-stat	Treated	Control	Diff	t-stat
ROA	0.042	0.039	0.003	4.110***	0.042	0.041	0.001	1.200
Size	22.325	22.232	0.093	6.050***	22.325	22.359	-0.034	-1.820*
Lev	0.424	0.408	0.016	7.010***	0.424	0.429	-0.005	-1.750*
Tobin's Q	1.931	2.019	-0.088	-5.920***	1.931	1.905	0.026	1.600
Top1	0.345	0.340	0.005	2.800***	0.345	0.346	-0.001	-0.340
Firm Age	2.108	2.075	0.033	3.660***	2.108	2.138	-0.030	-2.820***
Cash Flow	0.052	0.052	0.000	0.440	0.052	0.052	0.000	0.410
Dual	0.232	0.317	-0.085	-15.450***	0.232	0.237	-0.005	-0.730
Board Size	2.149	2.116	0.033	13.900***	2.149	2.148	0.001	0.410
Independent	0.373	0.376	-0.003	-3.370***	0.373	0.375	-0.002	-2.310**
Panel B: Matched Sample Regression								
	SDLI							
PC	0.008** (0.003)							
ROA	-0.490*** (0.033)							
Size	-0.037*** (0.003)							
Lev	0.055*** (0.012)							
Tobin's Q	0.001 (0.002)							
Top1	0.019 (0.018)							
Firm Age	-0.041*** (0.004)							
Cash Flow	-0.620*** (0.019)							
Dual	-0.000 (0.003)							
Board Size	0.002 (0.011)							
Independent	0.011 (0.031)							
_cons	0.862*** (0.073)							

Observations	15,993
Adjusted R ²	0.350
Firm FE	YES
Year FE	YES

Note: This table reports results from propensity score matching. The treatment group consists of firm-year observations with political connections (PC = 1), and the control group consists of those without (PC = 0). Matching is performed using one-to-one nearest-neighbour matching with a caliper of 0.01 and common support. Panel A reports the covariate balance between the treated and control groups before and after matching. Panel B reports OLS estimates of the baseline specification on the matched sample, where the dependent variable is SDLI. The matched-sample regression includes firm and year fixed effects. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.

3.6.4. Appendix C.4: Officials' Tenure and Age Descriptive Statistics

Panel A reports the tenure characteristics of provincial and municipal officials over the sample period. Provincial governors and party secretaries serve relatively short terms, with mean tenures of 2.65 and 2.77 years respectively, and early-tenure observations (one year or less since taking office) account for over half of the firm-year sample at the provincial level. Municipal officials serve considerably longer terms, with mean tenures exceeding five years for both mayors and municipal party secretaries. Early-tenure observations account for only 8% and 7% of firm-years for mayors and municipal secretaries respectively, consistent with the smaller early-tenure subsamples observed in the municipal regressions reported in Table 3-11 Panel B. Panel B reports the age distribution of municipal officials. The mean age of mayors is approximately 55 and that of municipal party secretaries approximately 57, both close to the 58-year promotion eligibility threshold used in the career incentive analysis.

Table C.4: Officials' Tenure and Age Descriptive Statistics

Panel A: Officials' Tenure						
Official Type	Number of Turnovers	Mean Tenure	Median Tenure	Early- Tenure	Later- Tenure	Share Early (%)
Provincial Governor	131	2.65	2.00	17,690	15,969	52.6
Provincial Party Secretary	133	2.77	2.00	19,010	14,649	56.5
Mayor	398	5.04	5.00	2,066	23,729	8.0
Municipal Secretary	371	5.35	5.00	1,723	24,152	6.7
Panel B: Officials' Age						
Official Type	Mean Age		Median Age			
Mayor	54.99		55.00			
Municipal Secretary	56.93		57.00			

Note: Panel A reports the number of turnovers, mean and median tenure, and the distribution of firm-year observations across early-tenure and later-tenure groups for each official type. Panel B reports the mean and median age of municipal officials within the regression sample.

3.6.5. Appendix C.5: Formal Interaction Tests

Table C.5: Formal Interaction Tests Corresponding to the Subsample Analyses

Panel A: Firm Characteristics and External Conditions						
	(1) SOE Status	(2) High Constraint	(3) High Managerial Power	(4) Low Competition	(5) Strong Legal Environment	(6) State-control Hierarchy
PC	0.0077** (0.0035)	0.0094*** (0.0033)	0.0041 (0.0031)	0.0056 (0.0037)	0.0060* (0.0033)	0.0074** (0.0035)
PC × Moderator	-0.0032 (0.0047)	-0.0069 (0.0048)	0.0030 (0.0046)	-0.0003 (0.0049)	-0.0014 (0.0047)	
PC × Central SOE						-0.0027 (0.0064)
PC × Local SOE						-0.0050 (0.0053)
Joint Test for Hierarchy Central SOE = Local SOE						0.638 0.735
Observations	33625	33483	32969	32922	33430	30684
Adjusted R ²	0.337	0.337	0.335	0.334	0.330	0.379
Controls	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES

Panel B: Government Officials' Characteristics						
	(1) Governor Tenure	(2) Provincial Party Secretary Tenure	(3) Mayor Tenure	(4) Municipal Party Secretary Tenure	(5) Mayor Promotion Incentive	(6) Municipal Party Secretary Promotion Incentive
PC	0.0047 (0.0032)	0.0031 (0.0030)	0.0084** (0.0040)	0.0060 (0.0038)	0.0066** (0.0026)	0.0068** (0.0028)
PC × Moderator	0.0017 (0.0042)	0.0052 (0.0039)	-0.0036 (0.0044)	0.0001 (0.0042)	-0.0032 (0.0060)	-0.0037 (0.0049)
Observations	32401	33146	32320	32124	32940	32672
Adjusted R ²	0.322	0.328	0.320	0.320	0.333	0.325
Controls	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES

Year FE	YES	YES	YES	YES	YES	YES
<p>Note: This table reports formal interaction tests corresponding to the subsample regressions in Tables 3-8 to 3-11. Panel A examines SOE status, financing constraints, managerial power, industry competition, the legal environment, and the hierarchy of state control. Panel B examines government officials' tenure and promotion incentives. Later tenure is compared with early tenure, and officials aged 58 or above are compared with those below age 58. In Column (6) of Panel A, non-SOEs are the reference group, while Central SOE and Local SOE denote central and local state-owned enterprises, respectively. The entries for Joint Test for Hierarchy and Central SOE = Local SOE are p-values. To correspond to the separate subsample specifications, the coefficients on all controls and the firm and year fixed effects are allowed to vary across groups. All variables are defined in Appendix C.1. Standard errors clustered at the firm level are reported in parentheses. *, **, *** denote significance at the 10%, 5%, and 1% levels, respectively.</p>						

Conclusion

This thesis has examined how political forces shape investment, governance, and financing decisions across three institutional settings. The evidence from Chapter 1 indicates that PE and VC firms' lobbying is positively associated with deal frequency while PAC contributions are not, with the heterogeneity analysis most consistent with an information acquisition channel. Chapter 2 shifts from political engagement to political risk and finds that higher firm-level political risk is associated with a lower probability of forced CEO turnover, operating through both attribution difficulty and replacement cost. In the Chinese setting examined in Chapter 3, executive-level political connections are associated with higher investment-financing maturity mismatch, extending the analysis from individual financing dimensions to the joint alignment of investment and financing maturities. The three chapters address different corporate financial decisions, but their comparison shows that the consequences of political factors depend on how they enter the firm, the decision under consideration, and the institutional setting.

The associations documented in the three chapters are robust to alternative variable measurements, model specification changes, and sensitivity analysis. Their strength nevertheless depends on the decision context and the institutional conditions under which each political factor operates. Election-period uncertainty illustrates this distinction across the two US chapters: it weakens the association between lobbying and deal activity in Chapter 1, whereas it strengthens the association between political risk and forced turnover in Chapter 2. In Chapter 3, the association between political connections and maturity mismatch weakens as institutional ownership increases, whereas greater asset tangibility strengthens it. Across the three chapters, political factors operate through different mechanisms, and their relevance depends on the corporate decision and institutional setting under examination.

The relevant channels can be understood in terms of changes in the information available to decision-makers, the incentives under which they act, and the institutional resources to which firms gain access, though the relative importance of each differs by setting and decision domain. The information channel operates in both US settings, though in opposing

directions. The lobbying association in Chapter 1 strengthens when policy content is harder to assess from public sources, does not vary with the firm's partisan orientation, and is not detected for PAC contributions, which primarily serve relationship maintenance rather than issue-specific inquiry. These patterns are consistent with lobbying reducing informational frictions about policy direction rather than securing broader political access. In the governance setting of Chapter 2, political risk also operates partly through information, but in a way that impairs rather than aids decision-making. Elevated political risk increases the difficulty of attributing poor firm outcomes to CEO quality as opposed to external political conditions, weakening the sensitivity of forced turnover to firm performance and raising the perceived cost of leadership replacement. The information channel in Chapter 2 thus operates differently from that in Chapter 1. Lobbying appears to reduce informational uncertainty for market participants by providing access to policy-relevant content. Political risk, by contrast, compounds the noise in performance signals that boards must interpret, adding uncertainty to the governance process.

The access channel features more prominently in the Chinese setting, where the state's direct role in resource allocation gives political connections particular relevance to corporate financing arrangements. The financing-side decomposition in Chapter 3 provides the clearest illustration of the offsetting consequences of political factors documented across the thesis. Caglayan et al. (2024) find that political affiliation is associated with longer debt maturity among Chinese firms, yet the evidence in Chapter 3 indicates that connected firms are associated with wider investment-financing gaps. The same political factor that eases one financing friction may simultaneously create exposure to another if improved access to particular forms of credit is not accompanied by an expansion in the long-term and internal funding available to support investment. More broadly, political forces do not produce uniformly beneficial or harmful outcomes across the three studies. Their consequences depend on which channel is activated and which decision margin is under consideration, and the institutional context shapes which channel predominates.

Existing research in the political economy of corporate finance typically examines one political channel in relation to one corporate outcome in a specific institutional context. This thesis extends that literature by comparing political activity, political risk, and political

connections as they relate, respectively, to investment, governance, and financing decisions across different institutional settings. The value of this comparative structure lies not only in documenting each association individually but in revealing patterns that are not visible within any single study. The contrast between the financing advantages associated with political connections and the wider maturity mismatch documented in Chapter 3, for instance, becomes more informative when compared with the information-acquisition interpretation of lobbying in Chapter 1 and the attribution difficulties associated with political risk in Chapter 2. The three institutional settings differ in ownership structure, market organisation, and the institutional embedding of political relationships, providing variation that a single-country or single-channel study cannot offer. The organising lens of information, incentives, and access provides a common basis for comparing these channels while retaining the institutional differences among the three settings.

These findings also carry practical relevance. In private capital markets, the information content of lobbying may be more relevant than policy concession interpretations for understanding political engagement. For corporate governance, succession readiness and access to political information each attenuate the association between political risk and reduced board discipline, which may be relevant to governance assessments under elevated political risk. In the Chinese setting, the financing advantages associated with political connections may come at the cost of greater rollover risk exposure, and institutional monitoring appears to play a role in containing this risk.

The three studies are not without limitations. Chapter 1 examines deal activity rather than deal quality or post-investment performance. Whether lobbying is associated not only with more deals but with investments that are better selected remains an open question. Evidence from settings outside the United States where political engagement takes different institutional forms would help assess the generality of the finding. Chapter 2 relies on a political risk measure derived from the language of earnings call transcripts, which may capture strategic communication choices alongside actual political risk exposure. Hassan et al. (2019) provide validation evidence supporting the measure. Constructing comparable firm-level political risk measures for non-US settings would permit cross-country comparison and could test whether institutional differences in governance regulation

moderate the association. How boards respond to political risk through margins other than CEO dismissal, including compensation adjustments and changes in strategic direction, remains largely unexplored.

Chapter 3 focuses on formal political connections measured through NPC and CPPCC membership and prior government service. It relies on entropy balancing and sensitivity analysis to support the baseline association, as the data environment does not provide a credible source of exogenous variation in political connections. Broader forms of relationship-based political access, including informal ties and business-government networks, are not captured by this measure. Connected firms may exhibit higher maturity mismatch for different reasons. It may reflect an unintended consequence of politically facilitated credit, or a deliberate risk-taking strategy enabled by perceived implicit guarantees of refinancing support. This analysis cannot fully resolve which explanation applies. Disentangling these channels would require data on rollover outcomes or creditor behaviour following adverse shocks to connected firms. At the thesis level, the three studies examine political engagement, political risk, and political connections as separate phenomena. Whether and how these political factors interact when multiple channels are present simultaneously, and whether such interactions reinforce or offset the individual associations documented here, remains an open question that could extend the cross-domain perspective developed in this thesis.

The evidence presented across the three studies indicates that political factors are not a uniform background condition for corporate decisions. Rather, political forces enter firm-level decision-making through channels whose nature and consequences vary across decision domains and institutional settings in ways that are not fully visible from within any single study. This thesis offers empirical grounds for a more differentiated understanding of these relationships, and for further research on when and how political factors shape corporate financial decisions.

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