

**THE EXTERNALITIES OF CORPORATE POLITICAL CONNECTIONS:
EVIDENCE FROM THE SUPPLY CHAIN**

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Abstract

We investigate how corporate political connections generate ripple effects along supply chains. We document that, when customer firms establish political connections, their suppliers' market value is significantly and negatively affected. This effect is amplified when recent politicians join customer firms or government contracts increase, and reverses when customers discontinue those connections. Placebo tests show no significant stock price reaction to non-politician board additions. The evidence suggests that customers' improved outside options weaken existing supply relationships, particularly harming suppliers that are more dependent on, or more easily replaceable by, the newly politically connected customers.

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It is well established that investment in political capital substantially increases firm value (Tullock (1989), Roberts (1990), Fisman (2001), Faccio (2006), Goldman, Rocholl and So (2009), Akey (2015), Acemoglu, Johnson, Kermani, Kwak, and Mitton (2016), Fotak, Lee, Megginson, and Salas (2025)), with the value of corporate political connections often exceeding that of other major corporate investment decisions. Firm value increases as political connections allow firms to secure better deals with the government (Shleifer and Vishny (1994), Fisman (2001), Khwaja and Mian (2005), Goldman et al. (2009), Schoenherr (2019), Brogaard, Denes, and Duchin (2020), Emery and Faccio (2025)), more favorable policies (Bunkanwanicha and Wiwattanakantang (2009), Faccio and Zingales (2022)), or hedge geopolitical tensions (Cen, Cohen, Wu, and Zhang (2025)).¹

In this paper, we examine how these connections ripple throughout the broader economy by investigating the externalities of corporate political connections along the supply chain. Do suppliers benefit from their clients' political connections, or do these connections hurt suppliers? Political connections might help suppliers, for example, through increased business resulting from clients' greater access to government. Alternatively, they might harm suppliers by expanding clients' outside options, thereby eroding existing supply chain relationships.

To address our research questions, we combine data from multiple sources. From FactSet Revere, we gather information on supply chain relationships and construct measures of supply chain stability. We use BoardEx to identify corporate officers and directors who held key political roles prior to joining a customer firm. A customer is classified as politically connected if at least one of its officers or directors held a major political position (President or Vice President of the United States (U.S.), head of a Cabinet department, U.S. Senator or Representative, State Governor, or State legislator) before joining the customer firm. Financial data are obtained from

¹ Akey, Gupta, and Lewellen (2025) and Cohen and Gurun (2026) provide excellent surveys of this literature.

Compustat and CRSP. Measures of difficulty to replace a customer or a supplier are constructed by combining data from these sources along with data from Hoberg, Phillips, and Prabhala (2014).

On average, we document a statistically significant drop in the value of supplier firms upon the establishment of corporate political connections by their customers. We provide several pieces of evidence in support of the notion that the reduction in value reflects newly established political connections. First, the drop in value is more pronounced among the suppliers of firms that add recent politicians as officers or directors. Recent politicians likely possess more up-to-date connections and technical knowledge (Cohen (1986), Emery and Faccio (2025)). Second, we find that the drop in value is amplified when customers experience a larger increase in government contracts after establishing their political connections. Third, the value drop reverses when customers discontinue their political connections. Fourth, placebo tests reveal no value change when customers add non-political executives, ruling out that our results simply reflect the quality of new hires.

Consistent with Cen et al.'s (2025) hedging role of political ties, we document that the negative stock price reaction experienced by suppliers when their clients establish political connections is attenuated when the suppliers make political contributions or are politically connected themselves.

Focusing on suppliers rather than on the customer firms that establish a political connection greatly mitigates endogeneity concerns, as the supply chain relationship is pre-existing to the formation of political connections and suppliers are unlikely to have a say in the formation of political connections by their customer firms. However, the stock price reaction we document may reflect other characteristics of the newly added officers and directors. To address this concern, we conduct placebo tests around addition of officers and directors who have never held a political

office. These tests indicate no change in the value of suppliers when non-politicians become officers or directors of customer firms. A further benefit of this placebo test is that, by comparing politicians and non-politicians added to the same supply chain, we ensure that any differences we observe are due to political connections, not to underlying differences in how various supply chains operate or unobservable characteristics of the customers or suppliers.

Having documented that the externalities of political connections on suppliers are negative and, at least in part, reflect increased government business by client firms, we next investigate the mechanisms underlying these negative externalities. We propose that the formation of political connections enhances customers' ability to broaden their supplier base by facilitating new supply chain relationships (Luo, Yang, and He (2019), Cao, He, Wang, and Xuan (2025)). This expansion can erode existing supply chain ties and, in some cases, lead to their dissolution, generating negative spillovers for incumbent suppliers. The magnitude of these spillover effects depends on the replaceability of the supply chain relationship. Suppliers often struggle to replace major customers, particularly with those customers' competitors (Giannetti, Serrano-Velarde, and Tarantino (2021)), suggesting that the negative effects should be most pronounced when customers are large relative to suppliers or when suppliers are more easily replaceable.

We find strong support for this "improved outside options" channel. First, the price drop is more pronounced when customers expand their supplier base following the establishment of a political connection. Second, the price drop is more pronounced when the customer firm is larger relative to the supplier. Third, the price drop is more pronounced when the client is a major customer, accounting for at least 10% of the supplier's sales. Fourth, we report some, albeit less robust, evidence that the price drop is larger when the supplier can be more easily replaced, as its products have close substitutes in the market.

The negative externalities of customer firms' political connections affect supply chain stability. Supply chains are more likely to be discontinued when suppliers are harmed by their client's formation of political connections. Although both political contributions and political connections serve as hedging tools for suppliers, political contributions are associated with a higher likelihood of supply chain termination, whereas political connections are linked to greater supply chain stability. We conjecture that firms making political contributions face a higher likelihood of supply chain termination because such contributions may trigger restrictions on their eligibility to serve as government subcontractors.

A nascent but growing literature examines the intersection of political forces and supply chain dynamics. Cen, Cohen, Wu, and Zhang (2025) document that political connections confer a significant hedging benefit in the context of trade policy uncertainty, substantially increasing the probability that politically connected importers, and particularly government contractors, obtain tariff exemptions during periods of heightened trade conflict. Luo, Yang, and He (2019) document that founding team members' political relationship building facilitates supplier connections among Chinese new ventures, yet impedes customer relationship formation, suggesting that political engagement enhances bargaining power and legitimacy while constraining broader market development. Cao, He, Wang, and Xuan (2025) provide compelling evidence that politicians exploit their positional influence to cultivate supply chain linkages between local suppliers and out-of-state firms in which they hold equity stakes, generating mutual benefits for both the firms and the politicians while simultaneously strengthening domestic supply chains. Chen, Dai, and Zhai (2024) and Gupta and Homroy (2025) highlight that political homophily plays a meaningful role in shaping supply chain formation and partner selection.

While existing studies largely focus on the role of political connections in forging new supply chain relationships, our paper breaks new ground by examining how political connection formation disrupts and reshapes existing supply chain relationships - a distinction with important implications for understanding supply chain stability and value creation. We make a novel contribution to this literature by rigorously quantifying the impact of customer firms' political connection formation on their suppliers' market value, documenting a significant and previously underexplored negative effect. Moreover, we advance the literature by providing systematic evidence that this adverse effect is amplified when political connections meaningfully expand the outside options available to customer firms, thereby weakening the relational bonds that underpin existing supply chain partnerships. Together, our findings illustrate a darker and underappreciated consequence of corporate political activity, one that reverberates beyond the politically connected firm itself and cascades through the broader supply chain.

A small number of studies have investigated the externalities of corporate political connections on workers (Fisman and Wang (2015), Faccio and Hsu (2017), Bertrand, Kramarz, Schoar, and Thesmar (2018)), customers (Faccio and Zingales (2022)), and taxpayers (Schoenherr (2019), Emery and Faccio (2025)). Our study identifies supplier welfare as an important but neglected social cost associated with corporate political influence. By bringing supplier welfare into focus, our study enriches understanding of the full scope of costs associated with corporate political activity. Our emphasis on financial externalities further distinguishes this work from existing studies.

The rest of the paper is structured as follows: Section I describes the data and the identification of supply chain relationships and politically connected customer firms. Section II presents the main event study and regression results, along with analyses to further mitigate

endogeneity concerns. Section III investigates the improved outside options channel as well as alternative explanations. Section IV presents robustness tests, and Section V concludes.

I. Data and Sample Construction

To evaluate how supplier firms' stock prices react to the establishment and discontinuation of political connections by their customer firms, we begin by gathering detailed information on firm-level supply chain relationships from the FactSet Revere Relationship database. The supply chain data in FactSet includes the identities of both the customer and supplier firms, as well as the start and end dates of their supply chain relationships. From this database, we identify 1,764,947 supplier-customer relationships between 1,133,035 pairs of firms, including 256,216 unique customer firms and 145,478 unique supplier firms, from April 2003 to January 2025. The majority of these firms are private firms and non-U.S. firms. By matching this dataset with CRSP, we identify 11,634 customer firms and 10,040 supplier firms that are listed in the U.S.

The supply chain data in FactSet is compiled from 10-K filings, conference call transcripts, presentations to investors, company press releases, company websites, and major news media reports. It provides broad coverage of supply chain relationships (Bae, Elkamhi, and Simutin (2019), Gofman, Seagle, and Wu (2020), Agca, Babich, Birge, and Wu (2022)). As data coverage in FactSet begins in 2003, we concentrate our analyses of supply chains on the sample period 2003-2025.

To identify the formation and discontinuation of political connections of the 11,634 customer firms, we rely on BoardEx. This database provides extensive coverage of the employment histories of top individuals, including officers and directors, affiliated with all publicly traded U.S. firms. For each of these individuals, BoardEx provides prior work history. To identify political connections, we first exclude officers and directors for whom start or end dates

are unavailable in BoardEx. Next, we compile a list of customer board members and officers who have previously held government positions, as indicated in BoardEx. We filter out officers and directors who have served as staffers for politicians, as well as those who have worked in government organizations and/or held the roles listed in Appendix A in their political title. Finally, we manually review the prior political backgrounds of the remaining 2,817 officers and directors to identify those who held the following political positions before joining a customer firm's board: (1) the President and Vice President of the United States, (2) the heads of the 15 Cabinet departments,² (3) U.S. Senators and Representatives, (4) State Governors, and (5) State legislators. We follow the same procedure to identify suppliers' political connections.

[Appendix A goes about here]

We manually collect the announcement dates of former politicians' joining firms as officers or directors by conducting news searches in Factiva, Perplexity AI Pro, and customer firms' SEC filings. When using Perplexity AI Pro, we verify the accuracy of the announcement dates by checking the links provided. If the announcement dates cannot be determined through searches in Factiva and Perplexity AI Pro, we examine the customer firms' SEC filings. The announcement date is the earliest date of news releases regarding the appointments. This process allows us to obtain announcement dates for 636 customer-director/officer events. These encompass 347 events for which the announcement date, for at least one supplier, falls within the duration of the supply chain relationship. The final sample includes 2,235 supplier firms reacting to the addition of former politicians as officers or directors of 298 customer firms, for a total of 5,507 observations. Among these, 102 suppliers (corresponding to 400 observations) are

² Secretary of Agriculture, Secretary of Commerce, Secretary of Defense, Secretary of Education, Secretary of Energy, Secretary of Health and Human Services, Secretary of Homeland Security, Secretary of Housing and Urban Development, Secretary of the Interior, Secretary of Justice, Secretary of Labor, Secretary of State, Secretary of Transportation, Secretary of the Treasury, Secretary of Veterans Affairs.

themselves politically connected at the time their customer firms announce the establishment of a political connection, while 370 suppliers (corresponding to 631 observations) have made political contributions.

To examine supplier firms' stock price reactions to the departure of former politicians from these customer firms, we manually collect the announcement dates of former politicians' departures from the customer firms' boards through news searches in Factiva, Perplexity AI Pro, and the customer firms' SEC filings. The sample includes 144 departure events in which the announcement date, for at least one supplier, falls within the duration of the supply chain relationship. In this sample, 1,484 unique supplier firms react to the departures of former politicians from the boards of 128 customer firms, for a total of 2,762 observations.

Supplier firms' stock price reactions to the announcements of the addition or departure of former politicians as officers or directors of the customer firms are estimated using the Eventus software in Wharton Research Data Services (WRDS). Stock prices and accounting data come from CRSP and Compustat.

II. Results

In this section, we begin by reporting the cumulative abnormal returns (CARs) of supplier firms in response to the announcement of the election as well as the departure of former politicians as officers or directors of customer firms. We report CARs for the event window that starts one day prior to the announcement and ends one day after the announcement, as well as for the event window that starts two days prior to the announcement and ends two days after the announcement. For each event window, Panels A and B of Table 1 presents the mean CAR, the precision-weighted CAR, and the ratio of positive to negative CARs, along with their corresponding Z-statistics.

Abnormal returns are computed using the market model, with the beta estimated from data starting 255 trading days (approximately one calendar year) prior to the event and ending 42 trading days (approximately two calendar months) before the event. The CRSP value-weighted index is used as a proxy for market returns. Supplier firms' stock prices come from CRSP. The mean CAR is computed by equally weighting CARs across all firms. The precision-weighted CAR is computed assigning more weight to individual CARs that have relatively lower variances of the daily abnormal returns. The standardized cross-sectional test by Boehmer, Musumeci, and Poulsen (1991) accounts for the possibility that the event itself may increase the volatility of stock returns. The generalized sign test examines whether the number of suppliers experiencing negative stock price reactions is significantly higher than the number of suppliers exhibiting positive price reactions, compared to the number of positive versus negative abnormal returns during the estimation period. Finally, the rank test is a modified Corrado (1989) test that allows for event windows that include multiple days. It addresses the concern that large positive or negative abnormal returns (i.e., outliers) may render inferences unreliable.

Panel A of Table 1 shows that the mean CAR for suppliers of firms that establish a political connection is negative for both event windows and statistically significant at the 5% level or better (1% level when we use a generalized sign test). Furthermore, CARs are negative for the majority of the suppliers. Thus, the establishment of political connections by client firms appears to create negative externalities for their suppliers.³

If the establishment of political connections by customer firms represents adverse news for their suppliers, then the departure of former politicians should constitute favorable news. This is indeed what we find. In Panel B, the mean CAR for suppliers of firms that discontinue a political

³ Panel C of Table 1 reports univariate statistics for the variables of interest, along with the control variables, which are described later.

connection is positive for both event windows and statistically significant at the 10% level or better (at the 5% level when using a generalized sign test). In addition, CARs are positive for the majority of suppliers. These results further support the finding that political connections create ripple effects along the supply chain.

[Table 1 goes about here]

Next, we conduct a placebo test to address the concern that the results might reflect traits of the former politician other than their political connections and knowledge. In this test, we examine how stock prices react to a different type of shock: the addition of officers and directors with no prior political experience by customer firms. Consistent with the conjecture that the results do not spuriously reflect other traits of the officer or director, we find no significant stock price reaction when the new officer or director has not served as a politician. These results are reported in Panel C of Table 1. A further benefit of this test is that comparing politician and non-politician additions to the same supply chain controls for potential bias arising from the supply chain's structure, or unobservable traits of either customers or suppliers.

Having documented that suppliers are negatively affected by the formation of political connections by their customer firms, and that this result is unlikely to be spurious, we provide several pieces of evidence indicating that the stock price reactions are related to the connections and/or to the knowledge of the former politicians, as opposed to other personal traits. Importantly, in the tests that follow, we keep focusing on firms using the same supply chains and on the same type of supply chain shock. These firms differ in that some have customers with government contracts, further linking them to the government, or have politicians with more up-to-date knowledge, while others do not.

First, we investigate whether the supplier's stock price reaction is more negative when the

political connection of their clients is more “up-to-date.” We follow Cohen (1986) and Emery and Faccio (2025) and compare politicians who stepped down from their political office more recently to those who stepped down long before joining the board of the client firm. For this purpose, we employ *Time since stepping down*, which is the number of days since the politician stepped down from the political positions defined earlier, up to the announcement date of joining the customer firm’s board of directors (or as an officer), divided by 365. The univariate results, reported in Panel A of Table 2, show a significantly more negative stock price reaction for suppliers when the political connection established by their clients is more up-to-date (e.g., below median). Specifically, the negative stock price reaction is amplified when the former politician left office less than 2.9 years before joining the client firm.

[Table 2 goes about here]

Second, if the stock price reaction reflects increased access to government deals by the customer firms (e.g., Schoenherr (2019), Brogaard et al. (2020), and Emery and Faccio (2025)), it should be more negative the greater the increase in access experienced by the clients following the establishment of the political connection. To investigate whether this is the case, we employ Δ *gov’t contracts*, which is the average annual value of government contracts during the five years that follow the year of the formation of the political connection, minus the average annual value of government contracts during the five years preceding the year of the formation of the political connection. (We use a shorter time interval whenever data truncation occurs and adjust the calculation of average annual values accordingly.) Data on customer firms’ government contracts comes from the USAspending.gov website, which provides detailed federal procurement data (reported by the Federal Procurement Data System, or FPDS) for contracts with a transaction value of at least \$3,000. We collect information on all transactions categorized as “Contracts” and

“Contract IDVs” from 2001 to June 2024. These data are then matched with our sample of customer firms through name matching and by manually collecting the customers’ Unique Entity Identifier (UEI), an identifier for contract recipients in FPDS.

Also consistent with the idea that the stock price drop experienced by suppliers reflects the political connection established by client firms, Panel B of Table 2 documents that the stock price drops significantly more when the client experiences a greater increase (i.e., an above-the-median change) in government contracts following the establishment of a political connection.

Given that the political connections of client firms appear to be so detrimental for suppliers, why don’t suppliers hedge by establishing political ties themselves? To investigate this hypothesis, we construct two measures of suppliers’ political ties. The first identifies whether a supplier made any political contributions in the year before or during the year in which its customer establishes a political connection, and zero otherwise. Political contributions data come from the “Database on Ideology, Money in Politics, and Elections (DIME): Public version 4.0”, maintained by Stanford University. The database contains information on contributions made by firms, organizations, and individuals to federal, state, and local elections, including entries for candidates, PACs, super PACs, leadership PACs, 527s, party committees, state ballot-measure campaigns, and other fundraising activities.

The second measure is an indicator denoting whether the supplier has a former politician on its board or among its officers. This measure is constructed following the same procedure applied to determine whether client firms have politicians as officers or directors.

Indeed, some of the suppliers in the sample do establish political ties as well, either by making political contributions or by adding former politicians as officers or directors. As predicted, Panel C of Table 2 shows that suppliers who made political contributions, on average,

do not experience a stock price drop when their customer firms establish political connections; instead, they experience a value increase. In Panel D of Table 2, we further document that politically connected suppliers also do not experience a stock price drop upon the establishment of political connections by their customer firms. These results support the hedging arguments of Cen et al. (2025) and extend their evidence to a purely domestic setting.

In Table 3, we investigate whether the significantly more negative stock price reactions experienced by the subsets of suppliers discussed above persist when control variables are included in OLS regression analyses. Supplier firms' control variables, from Compustat, are for the year (or year-end) prior to the formation of political connections. We find that the returns to suppliers remain significantly more negative when client firms elect politicians with more up-to-date knowledge to their board or experience a greater increase in access to government contracts, even after controlling for suppliers' political contributions and connections, size ($\text{Ln}(\text{Assets})$), Tobin's Q, leverage, cash-to-assets ratio, ROA, and asset tangibility of the client firm, along with fixed effects at the 2-digit NAICS and at the year levels. (Panel C of Table 1 reports the univariate statistics for these control variables; Appendix B gives the variables definitions.) We continue to find that suppliers' political ties appear to hedge the negative effects of their clients' political connections. Thus, as shown in Table 3, our conclusions are robust in a multivariate setting.

[Appendix B goes about here]

In Table 3, we account for the fact that CARs of the suppliers of each given customer are unlikely to be cross-sectionally independent, as they reflect the response to a common event: the formation of political connections by client firms. We do so by clustering the standard errors at the appointment/election level.

[Table 3 goes about here]

III. The Mechanisms

Having made the case that the establishment of political connections by customer firms negatively affects their suppliers, we turn to investigating the mechanisms.

A first mechanism driving these negative externalities operates through an expansion of customers' outside options within the supply chain. Specifically, the establishment of a political connection affords customer firms preferential access to government procurement, which in turn enhances their ability to attract and cultivate relationships with new suppliers. As the customer's supply chain network broadens, its dependence on any single incumbent supplier diminishes, eroding the ties that underpin existing supply relationships.

If the improvement in customers' outside options is indeed the channel, the magnitude of the spillover effects should not be uniform but, rather, vary systematically with supplier vulnerability. The negative externalities should be most severe for suppliers least able to absorb or offset the deterioration in their customer relationships, specifically, (1) those that are small relative to the customer and therefore can be more easily replaced, (2) those for whom the politically connected customer constitutes a large share of total sales, and (3) those whose products face close market substitutes and are thus more easily replaced. In the most acute cases, the erosion of supply chain ties may culminate in the outright dissolution of the supply relationship.

As a measure of a customer's improved outside options, we employ the change in the number of suppliers on which it relies, defined as the difference between the number of suppliers who stay in the supply chain throughout the one-year period following the client firms' establishment of political connections and the number of suppliers who stay in the supply chain throughout the one-year prior to the establishment of political connections. Consistent with this

channel, the results in Table 4 indeed show that, when customers are able to expand their supplier base more, the stock price reaction experienced by their existing suppliers to the establishment of political connections by the customer is significantly more negative. To provide further evidence in support of this mechanism, we investigate whether the results are more pronounced when the customer is more difficult to replace.

As a first proxy of difficulty to replace a customer, we use *Size difference*, the difference between the customer's market capitalization and the supplier's market capitalization, as of five event days before the announcement (Ersahin, Giannetti, and Huang (2024)). As a second measure of the difficulty to replace the customer, we employ *Major customer*, an indicator that takes the value of one if the customer firm is included in the list of major customers reported in Compustat in the year before or in the year of the announcement, and zero otherwise (Cen and Dasgupta (2021), Ersahin, Giannetti, and Huang (2024)). (Compustat reports the names of customers that account for 10% or more of a supplier's annual revenue.)

With both measures, the results in Table 4 show that, once customer firms add a former politician as an officer or directors, the stock price reaction of the supplier remains more negative the more dependent the supplier is on the customer. These results further support the notion that the improved outside options of customer firms are behind the drop in value experienced by suppliers.

[Table 4 goes about here]

The client improved outside option channel also predicts that the formation of a political connection by the client firm will have a more negative impact on a supplier that is easier to replace. To investigate whether this is the case, we employ *Supplier fluidity*, the measure of the availability of close substitutes for the supplier's product from Hoberg, Phillips, and Prabhala

(2014). It is constructed using the product descriptions from both the firm’s and its competitors’ 10-K filings. In line with our prediction, the results in Table 4 show a larger stock price drop for suppliers that are more easily replaced.

A second, non-mutually exclusive, possibility is that the results reflect reputational damage to the supplier when the client firm’s political connection is with a political party that does not align with the partisan preferences of voters in the supplier firm’s state (e.g., Chen, Dai, and Zhai (2024), and Gupta and Homroy (2025)). To investigate this possibility, we construct *Party mismatch*, an indicator that takes the value of one if the party affiliation of the former politician serving as officer or director of customer firms differs from the party receiving the largest fraction of popular votes in the state where the supplier firm is headquartered. To mitigate noise in the data, popular votes are averaged across the three presidential elections that precede the announcement date. Election results are from the Federal Election Commission. The party affiliations of the former politicians serving on the customer firms boards are identified through searches in Google Search and Perplexity AI. The supplier firm’s headquarter state is identified using the Loughran-McDonald 10X Summaries data.⁴ The results in Table 4 indicate that, while a party mismatch is associated with a more negative stock price reaction for suppliers, the difference is not statistically significant at conventional levels.

IV. Other Results and Robustness Tests

In the following sections, we examine the robustness of our results. We also assess the implications for the stability of the supply chain relationship.

IV. A. Median Regressions

⁴ <https://sraf.nd.edu/sec-edgar-data/>

We begin by documenting that the same conclusions are reached if median regressions are used to account for outliers. Median regressions (Koenker and Bassett (1978)) minimize the sum of absolute deviations from the median of the dependent variable - - an approach that is more robust in the presence of outliers. Panel A of Table 5, which parallels the OLS regressions of Table 3, confirms that, even in a median regression framework, connections established with client firms by more up-to-date politicians negatively affect their customer firms more.

Additionally, the value drop is more pronounced among suppliers of those clients that experience a greater increase in the value of government contracts following the formation of political connections. These results, therefore, support the interpretation that the stock price reaction experienced by suppliers reflects the political connections established by their clients. We continue to find evidence that suppliers' political contributions and connections serve as hedging devices.

[Table 5 goes about here]

Panel B of Table 5 revisits the mechanisms. The results show that the stock price drop experienced by supplier firms is more pronounced when newly politically connected clients' improved outside options permit the expansion of their supply chains. The results again support the notion that the drop in value experienced by suppliers is more pronounced when their client is more difficult to replace and/or when the supplier can be replaced more easily. In other words, the results remain consistent with the interpretation emphasized above. We continue to find a reduction in value if the connection established by the client firm involves a politician affiliated with a party that is not popular in the state of the supplier firms, although this result continues to lack statistical significance.

IV.B. Alternative Event Windows

Next, we proceed to show that the results are robust to using alternative event windows. Doing so allows us to account for the possibility that suppliers' stock prices may not promptly incorporate news about their clients (Cohen and Frazzini (2008)). Specifically, we consider the event windows $(-3, +3)$, $(-5, +5)$, $(-10, +10)$, and $(-20, +20)$. The results tabulated in Table 6 show that the supplier firms' CARs remain negative and statistically significant over these alternative event windows.

[Table 6 goes about here]

IV.C. Specification Curves

To address the concern that our conclusions may crucially depend on the inclusion of certain sets of control variables or types of fixed effects, we present "specification curves" (Simonsohn, Simmons, and Nelson (2020), Faccio and McConnell (2025)). In these analyses, which focus on each of the "key" independent variables of interest separately, we (1) include one control variable at a time, (2) include all control variables together, and (3) combine them with fixed effects that reflect four alternative types of industry classifications (4-digit NAICS, 2-digit NAICS, 4-digit SIC, and 2-digit SIC codes). These combinations result in 36 regressions ($36 = (8 + 1) \times 4$) for each of the two dependent variables, or a total of 72 regressions for each "key" independent variable. We continue to use the most stringent form of clustering, i.e., at the appointment level. The results are reported in Online Appendix A.

In all 72 regressions reflecting the combinations described above, the *Time since stepping down < median* indicator is significant at the 5% level or better. The $\Delta \text{gov't contracts}$ variable is also negative in all 72 models, although it is statistically significant at the 5% level or better in 64 of them. (It is statistically significant at the 10% level in all models.) The *Change in the number*

of suppliers is negative and statistically significant at the 5% level or better in 50 models, and significant at the 10% level in all of them. *Size difference > median* and the *Major customer* variables are negative and significant at the 5% level or better in all 72 models. The *Supplier fluidity > median* indicator is always negative, but it is statistically significant at the 10% level or better in only 11 models, indicating that this result is not statistically robust. Lastly, in line with the results (or lack thereof) presented in the earlier tables, the *Party mismatch* indicator, although always negative, is statistically significant at the 10% level or better on only 8 models.

IV.D. Implications for the Stability of the Supply Chain Relationships

We conclude by investigating the implications of the results for the stability of supply chain relationships. Presumably, the more negatively a supplier firm is affected by the formation of political connections by their customer firms, the more likely the supply chain will be terminated. To investigate whether this is the case, as the dependent variable in Table 7, we employ an indicator that takes the value of one if the supply chain ends within five years of the formation of the political connections by customer firms, and zero otherwise. We regress this indicator against the stock price reaction experienced by the supplier upon the announcement of the formation of political connections by their customers. We report probit regressions results for the full sample (Models 1 through 4, Table 7) as well as for the sample of suppliers reacting to the formation of political connections by their customer firms prior to 2020 to alleviate concerns of right censoring of the data (Models 5 through 8, Table 7).

As hypothesized, we find that the more negative the stock price reaction of suppliers, the more likely the supply chain relationship will be terminated - - with the results being statistically significant when we use the five-day measure of stock price reaction. Thus, the formation of political connections gives rise to negative externalities both in financial and real terms.

Suppliers' political contributions increase the likelihood of supply chain termination. We conjecture that this result reflects some restrictions on using government subcontractors who have made political contributions. However, suppliers' political connections, which are not subject to such restrictions, but are likely more costly, allow suppliers to maintain supply chain relationships.

[Table 7 goes about here]

V. Conclusions

This paper addresses the controversy regarding whether there are externalities associated with corporate political connections. We do so by focusing on supply chains. A major benefit of our setting is that we can rely on political connections formed by a third party (client firms) and study their impact on their existing suppliers. In this context, the formation of political connections is plausibly exogenous to the set of firms we investigate.

We document average negative externalities on supplier firms. Importantly, these negative externalities occur only when clients add former politicians as officers or directors, but are not present when clients appoint non-politicians to those roles. Equally importantly, the negative externalities are immediately reversed upon the discontinuation of political connections by customer firms. We also document that, consistent with political connections and knowledge, the negative stock price reaction experienced by suppliers is more pronounced when their customers appoint more recent politicians who likely possess more “up-to-date” knowledge, and when there are visible benefits from the political connection for the customer firms (e.g., an increase in government contracts). Making political contributions or establishing political connections allows suppliers to hedge these negative externalities.

The evidence further suggests that improved outside options for customer firms is the likely mechanism behind the negative stock price reactions experienced by suppliers. The stock price

drop is, in fact, more pronounced when the client expands its set of suppliers to a greater extent. Further supporting this channel, the stock price drop experienced by suppliers is more pronounced the larger the client is relative to the supplier, when it is a major customer representing a large fraction of the supplier's total sales, or when the supplier can be replaced more easily because its products have close substitutes in the market.

Suppliers appear to respond rationally to their clients' increased outside options, as supply chain relationships that destroy value for suppliers are more likely to be terminated. Overall, we document that political connections give rise to *negative* real and financial externalities along the supply chain, with the most vulnerable participants disproportionately bearing the cost.

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Appendix A. Keywords used to identify non-politicians

Accountant; Action; Actuary; Adju; Administrator; Admiral; Advisor; Advocate; Affiliate; Agen; Agency; Agronomist; Aide; Alter; Ambassador; Analyst; Architect; Area; Asset; Assistant; Assistant Secretary; Associate; Audit; Auditor; Author; Bar; Biologist; Board; Borough; Branch; British; Broker; Bureau; Captain; Cartographer; CEO; CFO; Chairman; Chancellor; Chaplain; Chef; Chemist; Chief; City; Clerk; Coach; Commandant; Commander; Commission; Commissioner; Communications; Comptroller; Consulate; Consultant; Controller; COO; Correspondent; Council; Counsel; County; Court; CTO; Deputy; Deputy Secretary; Director; Division; ED; Embassy; Emeritus; Employee; FD; Federal; Geophysicist; HR; Inspector; Institute; Judge; Judicial; Lawyer; Liaison; Librarian; Lieutenant; Lieutenant Governor; LLC; Local; Manager; Marshall; Mayor; MD; Medical; National; Naval; Negotiator; Nurse; Observer; Officer; Oversea; Park; Partner; Pastor; Pathologist; Pharmacist; Physician; Pilot; Police; Port; Principal; Privacy; Private; Procurement; Professor; Project; Property; Prosecutor; Psychologist; Public; Regional; Research; Researcher; Retirement; School; Scientist; Solicitor; Specialist; Staff; State Director; Superintendent; Technician; Technologist; Technology; Town; Treasurer; Under Secretary; Undersecretary; United Nations; Village; Visiting; Volunteer; VP.

Appendix B. Variable definitions

CAR (-1, +1)	Cumulative abnormal returns of supplier firms during the three-day event window starting one day prior to the announcement of the addition (departure) of former politicians as officers or directors of customer firms and ending one day after the announcement.
CAR (-2, +2)	Cumulative abnormal returns of supplier firms during the five-day event window starting two days prior to the announcement of the addition (departure) of former politicians as officers or directors of customer firms and ending two days after the announcement.
Time since stepping down	The number of days since the politician stepped down from the political positions defined in the paper, up to the announcement date of the addition of former politicians as officers or directors of customer firms, divided by 365.
Δ gov't contracts	The average annual value of government contracts during the five years following the year of the formation of the political connection, minus the average annual value of government contracts during the five years preceding the year of the formation of the political connection.
Change in the number of suppliers	Difference in the number of suppliers who stay in the supply chain throughout the one-year period following the client firms' establishment of political connections and the number of suppliers who stay in the supply chain throughout the one-year period prior to the establishment of political connections.
Size difference	The difference between the customer's market capitalization and the supplier's market capitalization, as of five event days before the announcement of the addition of former politicians as officers or directors of customer firms.
Major customer	An indicator variable that takes the value of one if the customer firm is included in Compustat in the year before and the year of the announcement, and zero otherwise.
Supplier fluidity	The measure of the availability of close substitutes for the supplier's product from Hoberg, Phillips, and Prabhala (2014).
Party mismatch	An indicator taking the value of one if the party affiliation of the former politician serving on the customer firm's board differs from the party receiving the largest fraction of popular votes in the state where the supplier firm is headquartered; popular votes are averaged across the three presidential elections that precede the announcement date of former politicians joining the customer firm's board.
Supply chain terminated within 5 years	An indicator that takes the value of one if the supply-chain relationship ends within five years following the announcement of former politicians joining the customer firm as officers or directors.
Supplier's political contributions	An indicator that takes the value of one if the supplier firm made any political contributions in the year before or in the year in which its customer establishes a political connection, and zero otherwise. The political contributions data contain contributions made by firms, organizations, and individuals to federal, state, and local elections, including entries for candidates, PACs, super PACs, leadership PACs, 527s, party committees, campaigns for state ballot measures, and other recipient committees that engage in fundraising activities.

Supplier's political connections	An indicator that takes the value of one if at least one former politician serves as an officer or director of the supplier firm on the date of the announcement of the establishment of a political connection by their customer, and zero otherwise.
Assets	The supplier firm's book value of total assets (Compustat item: at).
Tobin's Q	The ratio of supplier firm's market value of assets to book value of assets (Compustat item: $(at + csho * prcc_f - ceq) / at$).
Leverage	The supplier firm's leverage ratio (Compustat item: $(dltt + dlc) / at$).
Cash-to-assets	The supplier firm's ratio of cash to book value of assets (Compustat item: che / at).
ROA	The supplier firm's ratio of net income to book value of assets (Compustat item: ni / at).
Asset tangibility	The supplier firm's ratio of book value of tangible assets to book value of total assets (Compustat item: $(at - intan) / at$).

Table 1. Supplier stock price reactions and univariate statistics

Table 1, Panel A, presents the supplier firms' stock price reactions to the announcement of former politicians joining customer firms as officers or directors. Panel B presents the supplier firms' stock price reactions to the announcement of the departure of former politicians as officers or directors of customer firms. Panel C presents placebo tests of supplier stock price reactions surrounding the announcement of the addition of officers or directors with no political experience by customer firms. In Panel C, if the announcement date of the appointment of officers and directors with no political experience by customer firms is not available in BoardEx, we use the job starting dates as the event dates. Abnormal returns are computed using the market model, with the beta estimated from data starting 255 trading days prior to the event and ending 42 days before the event. The CRSP value-weighted index is used as a proxy for market returns. We report the standardized cross-sectional test z-statistics, the generalized sign test z-statistics, and the rank test z-statistics for each event window. Panel C presents the univariate statistics for the variables used in the manuscript. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Event study results for the addition of former politicians

Event window	N	Mean CAR	Precision-weighted CAR	Pos: Neg	Std. cross-sect. test	Generalized sign test	Rank test
(-1, +1)	5,507	-0.15%	-0.15%	2,506:3,001	-3.073***	-4.176***	-1.712*
(-2, +2)	5,507	-0.14%	-0.16%	2,534:2,973	-2.517**	-3.420***	-1.466

Panel B: Event study results for the departure of former politicians

Event window	N	Mean CAR	Precision-weighted CAR	Pos: Neg	Std. cross-sect. test	Generalized sign test	Rank test
(-1, +1)	2,762	0.20%	0.16%	1,394:1,368	1.722*	2.054**	0.794
(-2, +2)	2,762	0.31%	0.20%	1,426:1,336	1.954*	3.272***	1.827*

Panel C: Placebo test: Addition of officers and directors with no political experience

Event window	N	Mean CAR	Precision-weighted CAR	Pos:Neg	Std. cross-sect. test	Generalized sign test	Rank test
(-1, +1)	4,247	0.04%	-0.04%	2,026:2,221	-0.623	-0.813	-0.378
(-2, +2)	4,247	-0.03%	-0.08%	2,027:2,220	-1.036	-0.782	-0.487

Table 1. Supplier stock price reactions and univariate statistics (Cont'd)

Panel C: Univariate statistics

Variable name	N	Mean	Std dev.	25th percentile	Median	75th percentile
CAR (-1, +1), addition	5,507	-0.147%	5.444%	-2.329%	-0.282%	1.671%
CAR (-2, +2), addition	5,507	-0.145%	7.149%	-2.963%	-0.339%	2.301%
CAR (-1, +1), departure	2,762	0.203%	6.037%	-1.826%	0.037%	1.797%
CAR (-2, +2), departure	2,762	0.307%	7.215%	-2.305%	0.151%	2.677%
Time since stepping down	5,507	5.012	6.434	0.600	2.923	5.830
Δ gov't contracts (\$B)	5,507	0.143	0.747	-0.001	0.000	0.001
Change in the number of suppliers	5,404	3.495	10.398	-2.000	2.000	8.000
Size difference (\$B)	5,225	65.360	156.436	11.200	44.336	99.019
Major customer	5,507	0.045	0.207	0.000	0.000	0.000
Supplier fluidity	4,981	6.230	2.953	4.119	5.763	7.885
Party mismatch	5,507	0.336	0.473	0.000	0.000	1.000
Supply chain terminated within 5 years	5,507	0.542	0.498	0.000	1.000	1.000
Supplier's political contributions	5,507	0.115	0.319	0.000	0.000	0.000
Supplier's political connections	5,507	0.073	0.260	0.000	0.000	0.000
Assets (\$B)	5,271	19.752	90.963	0.226	1.093	5.226
Tobin's Q	5,215	2.110	2.368	1.192	1.560	2.266
Leverage	5,243	0.232	0.216	0.025	0.201	0.363
Cash-to-assets	5,271	0.202	0.204	0.042	0.131	0.303
ROA	5,270	-0.005	0.236	-0.019	0.030	0.067
Asset tangibility	5,188	0.777	0.208	0.637	0.831	0.960

Table 2. Supplier stock price reactions: Univariate analyses

Table 2 presents univariate analyses for supplier stock price reactions surrounding the announcements of former politicians joining customer firms as officers or directors. Panel A compares supplier stock price reactions between firms adding politicians with recent political experience (*Time since stepping down* < *median*) and firms adding politicians with less recent experience, based on a median split. Panel B compares supplier stock price reactions between high and low Δ gov't contracts, based on a median split. Panel C compares suppliers based on whether they made political contributions. Panel D compares supplier stock price reactions based on whether the supplier is politically connected or not. Variable definitions are given in Appendix B. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Time since stepping down			
Event window	Time since stepping down < median (N=2,752)	Time since stepping down >= median (N=2,755)	t-statistics
(-1, +1)	-0.472%	0.178%	-4.44***
(-2, +2)	-0.423%	0.134%	-2.89***
Panel B: Δ gov't contracts			
Event window	Δ gov't contracts > 0 (median) (N=1,864)	Δ gov't contracts <= 0 (N=3,643)	t-statistics
(-1, +1)	-0.450%	0.076%	-2.80***
(-2, +2)	-0.438%	0.058%	-2.02**
Panel C: Suppliers' political contributions			
Event window	The supplier made political contributions (N=631)	The supplier did not make political contributions (N=4,876)	t-statistics
(-1, +1)	0.252%	-0.199%	2.59***
(-2, +2)	0.391%	-0.214%	2.67***
Panel D: Suppliers' political connections			
Event window	The supplier is politically connected (N=400)	The supplier is not politically connected (N=5,107)	t-statistics
(-1, +1)	0.026%	-0.161%	0.82
(-2, +2)	0.143%	-0.167%	1.10

Table 3. Supplier stock price reactions: OLS regressions

Table 3 presents OLS regression results of supplier stock price reactions surrounding the announcements of former politicians joining customer firms, focusing on *Time since stepping down*, Δ gov't contracts, and supplier firm controls. *Ln(Assets)*, *Tobin's Q*, *Leverage*, *Cash-to-assets*, *ROA*, and *Asset tangibility* are based on values from the year prior to the announcements. We report t-statistics, controlling for heteroskedasticity and appointment level clustering, in parentheses. All continuous variables are winsorized at the top and bottom 1% of the distribution. Variable definitions are given in Appendix B. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, +1)			CAR (-2, +2)		
Time since stepping down < median	-0.605*** (-2.68)		-0.574** (-2.55)	-0.654** (-2.50)		-0.638** (-2.41)
Δ gov't contracts (\$Bn)		-0.250*** (-2.96)	-0.215** (-2.57)		-0.153** (-2.50)	-0.114* (-1.80)
Supplier's political contributions	0.548*** (2.79)	0.536*** (2.74)	0.532*** (2.72)	0.746*** (2.78)	0.742*** (2.77)	0.738*** (2.75)
Supplier's political connections	0.200 (0.90)	0.180 (0.82)	0.201 (0.91)	0.513* (1.89)	0.490* (1.83)	0.513* (1.90)
Ln(Assets)	-0.015 (-0.36)	-0.013 (-0.31)	-0.017 (-0.40)	-0.035 (-0.62)	-0.032 (-0.56)	-0.036 (-0.63)
Tobin's Q	-0.145* (-1.87)	-0.150* (-1.95)	-0.146* (-1.90)	-0.173* (-1.83)	-0.178* (-1.89)	-0.174* (-1.85)
Leverage	-0.125 (-0.26)	-0.096 (-0.20)	-0.130 (-0.27)	0.146 (0.24)	0.182 (0.30)	0.144 (0.24)
Cash-to-assets	0.379 (0.63)	0.449 (0.74)	0.373 (0.62)	0.699 (1.01)	0.781 (1.12)	0.697 (1.01)
ROA	0.287	0.294	0.307	-0.203	-0.207	-0.193

	(0.45)	(0.46)	(0.49)	(-0.29)	(-0.30)	(-0.28)
Asset tangibility	-0.014	-0.045	-0.024	0.187	0.159	0.182
	(-0.03)	(-0.11)	(-0.06)	(0.30)	(0.25)	(0.29)
2-digit NAICS FEs	Yes	Yes	Yes	Yes	Yes	Yes
Event year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.023	0.021	0.024	0.024	0.022	0.024
Number of observations	5,105	5,105	5,105	5,105	5,105	5,105

Table 4. Supplier stock price reactions: The mechanisms

Table 4 presents OLS regression results of supplier stock price reactions surrounding the announcements of former politicians joining customer firms, focusing on *Change in the number of suppliers*, *Size difference*, *Major customer*, *Supplier Fluidity*, *Party mismatch*, and supplier firm controls. *Ln(Assets)*, *Tobin's Q*, *Leverage*, *Cash-to-assets*, *ROA*, and *Asset tangibility* are based on values from the year prior to the announcements. We report t-statistics, controlling for heteroskedasticity and appointment level clustering, in parentheses. All continuous variables are winsorized at the top and bottom 1% of the distribution. Variable definitions are given in Appendix B. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	CAR (-1, +1)					CAR (-2, +2)						
Change in the number of suppliers	-0.038** (-2.34)					-0.035*** (-2.67)	-0.037* (-1.90)					-0.033* (-1.95)
Size difference > Median		-0.788*** (-3.38)				-0.695*** (-3.24)		-0.986*** (-3.48)				-0.994*** (-3.52)
Major customer			-1.126*** (-3.17)			-0.986*** (-2.93)			-1.090*** (-2.73)			-0.937*** (-2.65)
Supplier fluidity > median				-0.303* (-1.79)		-0.362** (-2.13)				-0.403* (-1.85)		-0.475** (-2.15)
Party mismatch					-0.311 (-1.56)	-0.210 (-1.15)					-0.338 (-1.51)	-0.245 (-1.09)
Supplier's political contributions	0.563*** (2.91)	0.531*** (2.71)	0.534*** (2.74)	0.576*** (2.76)	0.563*** (2.89)	0.540*** (2.66)	0.783*** (2.94)	0.724*** (2.70)	0.734*** (2.75)	0.798*** (2.76)	0.763*** (2.84)	0.774*** (2.76)
Supplier's political connections	0.143 (0.64)	0.087 (0.39)	0.166 (0.75)	0.238 (1.02)	0.211 (0.95)	0.142 (0.59)	0.511* (1.89)	0.376 (1.38)	0.478* (1.77)	0.631** (2.26)	0.525* (1.94)	0.570** (2.01)
Ln(Assets)	0.001 (0.03)	-0.044 (-0.98)	-0.016 (-0.39)	-0.009 (-0.21)	-0.014 (-0.33)	-0.031 (-0.66)	-0.024 (-0.42)	-0.073 (-1.22)	-0.036 (-0.63)	-0.046 (-0.78)	-0.034 (-0.59)	-0.086 (-1.39)
Tobin's Q	-0.155** (-2.00)	-0.164** (-2.12)	-0.153** (-2.00)	-0.109 (-1.34)	-0.149* (-1.93)	-0.137* (-1.70)	-0.190** (-2.00)	-0.197** (-2.09)	-0.182* (-1.93)	-0.153 (-1.58)	-0.178* (-1.88)	-0.194** (-2.03)
Leverage	-0.104 (-0.22)	-0.043 (-0.09)	-0.035 (-0.07)	-0.073 (-0.15)	-0.094 (-0.19)	-0.023 (-0.05)	0.163 (0.27)	0.243 (0.41)	0.238 (0.39)	0.250 (0.41)	0.180 (0.30)	0.309 (0.50)
Cash-to-assets	0.410 (0.67)	0.438 (0.74)	0.457 (0.76)	0.574 (0.99)	0.507 (0.84)	0.567 (1.00)	0.733 (1.04)	0.760 (1.12)	0.784 (1.14)	0.898 (1.29)	0.839 (1.22)	0.884 (1.31)

ROA	0.312 (0.50)	0.305 (0.48)	0.289 (0.45)	0.534 (0.77)	0.255 (0.40)	0.566 (0.85)	-0.247 (-0.36)	-0.178 (-0.26)	-0.204 (-0.29)	-0.056 (-0.07)	-0.238 (-0.34)	-0.098 (-0.13)
Asset tangibility	-0.015 (-0.03)	-0.058 (-0.14)	0.007 (0.02)	-0.237 (-0.55)	-0.059 (-0.14)	-0.235 (-0.56)	0.218 (0.35)	0.136 (0.22)	0.205 (0.33)	-0.160 (-0.24)	0.138 (0.22)	-0.137 (-0.21)
2-digit NAICS FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Event year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.024	0.025	0.022	0.022	0.02	0.034	0.024	0.027	0.023	0.024	0.022	0.033
Number of obs.	5,044	5,105	5,105	4,717	5,105	4,662	5,044	5,105	5,105	4,717	5,105	4,662

Table 5. Supplier stock price reactions: Median regressions

Table 5 presents median regression results of supplier stock price reactions surrounding the announcements of former politicians joining customer firms, focusing on *Time since stepping down*, Δ gov't contracts, and supplier firm controls. Panel B presents results on *Change in the number of suppliers*, *Size difference*, *Major customer*, *Supplier Fluidity*, *Party mismatch*, and supplier firm controls. *Ln(Assets)*, *Tobin's Q*, *Leverage*, *Cash-to-assets*, *ROA*, and *Asset tangibility* are based on values from the year prior to the announcements. We report t-statistics, controlling for heteroskedasticity and appointment level clustering, in parentheses. All continuous variables are winsorized at the top and bottom 1% of the distribution. Variable definitions are given in Appendix B. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Time since stepping down and Δ gov't contracts

Dependent variable:	(1)	(2)	(3)	(4)	(5)	(6)
	CAR (-1, +1)			CAR (-2, +2)		
Time since stepping down < median	-0.420** (-2.37)		-0.359** (-2.05)	-0.469** (-2.39)		-0.411** (-2.04)
Δ gov't contracts (\$Bn)		-0.250*** (-4.66)	-0.222*** (-3.93)		-0.184*** (-4.63)	-0.152*** (-3.11)
Supplier's political contributions	0.322* (1.84)	0.259 (1.54)	0.261 (1.49)	0.677*** (2.66)	0.644*** (2.68)	0.650*** (2.67)
Supplier's political connections	-0.048 (-0.30)	0.053 (0.31)	0.011 (0.07)	0.209 (0.93)	0.343* (1.65)	0.319 (1.38)
Ln(Assets)	0.041 (1.26)	0.032 (0.95)	0.039 (1.18)	0.040 (0.75)	0.051 (1.08)	0.047 (0.92)
Tobin's Q	-0.170*** (-3.56)	-0.167*** (-3.26)	-0.178*** (-3.78)	-0.093 (-0.90)	-0.094 (-0.92)	-0.101 (-0.91)
Leverage	0.095 (0.29)	0.049 (0.14)	0.048 (0.14)	0.009 (0.02)	-0.165 (-0.33)	-0.078 (-0.15)
Cash-to-assets	0.302 (0.71)	0.378 (0.86)	0.313 (0.73)	0.117 (0.20)	-0.001 (-0.00)	0.062 (0.10)

ROA	0.871 (1.51)	0.868 (1.54)	0.929* (1.66)	0.355 (0.36)	0.083 (0.09)	0.249 (0.24)
Asset tangibility	0.165 (0.45)	0.045 (0.12)	0.174 (0.48)	0.320 (0.57)	0.342 (0.65)	0.379 (0.70)
2-digit NAICS FEs	Yes	Yes	Yes	Yes	Yes	Yes
Event year FEs	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.025	0.023	0.026	0.027	0.025	0.027
Number of observations	5,105	5,105	5,105	5,105	5,105	5,105

Table 5. Supplier stock price reactions: Median regressions (Cont'd)

Panel B: The mechanisms

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	CAR (-1, +1)					CAR (-2, +2)						
Change in the number of suppliers	-0.036*** (-2.62)					-0.041*** (-3.28)	-0.030 (-1.64)					-0.034* (-1.92)
Size difference > median		-0.619*** (-3.27)				-0.505*** (-2.92)		-0.602*** (-2.74)				-0.574*** (-2.61)
Major customer			-0.762** (-2.37)			-0.500* (-1.96)			-0.642* (-1.71)			-0.421 (-1.47)
Supplier fluidity > median				-0.170 (-1.20)		-0.230* (-1.84)				-0.330* (-1.66)		-0.367** (-2.01)
Party mismatch					-0.113 (-0.66)	-0.085 (-0.55)					-0.211 (-1.09)	-0.188 (-1.00)
Supplier's political contributions	0.344* (1.93)	0.327* (1.89)	0.247 (1.45)	0.344* (1.80)	0.298* (1.76)	0.368** (2.05)	0.623** (2.43)	0.607** (2.58)	0.688*** (2.81)	0.615** (2.37)	0.695*** (2.85)	0.578** (2.30)
Supplier's political connections	-0.055 (-0.32)	-0.118 (-0.64)	-0.003 (-0.02)	0.065 (0.37)	0.021 (0.12)	-0.011 (-0.06)	0.435** (2.06)	0.283 (1.35)	0.388* (1.83)	0.388* (1.76)	0.460** (2.11)	0.397** (1.96)
Ln(Assets)	0.052 (1.45)	-0.001 (-0.02)	0.034 (0.99)	0.042 (1.14)	0.039 (1.12)	0.005 (0.13)	0.033 (0.62)	0.015 (0.30)	0.033 (0.65)	0.040 (0.77)	0.046 (0.93)	-0.011 (-0.21)
Tobin's Q	-0.148** (-2.46)	-0.179*** (-3.47)	-0.176*** (-3.41)	-0.151*** (-2.68)	-0.173*** (-3.19)	-0.158** (-2.47)	-0.092 (-0.92)	-0.089 (-0.91)	-0.082 (-0.86)	-0.057 (-0.61)	-0.092 (-0.90)	-0.084 (-0.80)
Leverage	0.153 (0.45)	0.148 (0.43)	0.104 (0.32)	0.133 (0.37)	0.069 (0.22)	0.344 (0.98)	-0.082 (-0.17)	-0.103 (-0.20)	-0.118 (-0.23)	0.012 (0.02)	-0.172 (-0.34)	-0.199 (-0.36)
Cash-to-assets	0.343 (0.79)	0.185 (0.44)	0.406 (0.92)	0.533 (1.16)	0.446 (1.02)	0.473 (1.18)	-0.148 (-0.22)	-0.140 (-0.24)	-0.037 (-0.06)	0.256 (0.45)	0.024 (0.04)	0.021 (0.03)
ROA	0.847 (1.50)	0.789 (1.61)	0.837 (1.41)	0.886 (1.51)	0.775 (1.30)	1.021* (1.93)	0.280 (0.31)	0.284 (0.31)	0.137 (0.13)	0.190 (0.19)	-0.024 (-0.02)	0.498 (0.54)
Asset tangibility	0.133 (0.36)	0.179 (0.50)	0.096 (0.24)	-0.029 (-0.08)	-0.008 (-0.02)	0.014 (0.04)	0.440 (0.79)	0.318 (0.63)	0.346 (0.60)	0.115 (0.22)	0.404 (0.74)	0.142 (0.27)
2-digit NAICS FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Event year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R ²	0.026	0.028	0.024	0.024	0.022	0.036	0.027	0.028	0.026	0.027	0.026	0.035
Number of obs.	5,044	5,105	5,105	4,717	5,105	4,662	5,044	5,105	5,105	4,717	5,105	4,662

Table 6. Supplier stock price reactions: Alternative event windows

This Table presents supplier firms' stock price reactions to the announcement of the addition of former politicians as directors or officers of customer firms over alternative event windows. Abnormal returns are computed using the market model, with the beta estimated from data starting 255 trading days prior to the event and ending 42 days before the event. The CRSP value-weighted index is used as a proxy for market returns. We report the standardized cross-sectional test z-statistics, the generalized sign test z-statistics, and the rank test z-statistics for each event window. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Event window	N	Mean CAR	Precision-weighted CAR	Pos: Neg	Std. cross-sect. test	Generalized sign test	Rank test
(-3, +3)	5,507	-0.26%	-0.26%	2,549:2,958	-3.414***	-3.016***	-2.042**
(-5, +5)	5,507	-0.03%	-0.18%	2,602:2,905	-1.887*	-1.587	-1.373
(-10, +10)	5,507	-0.02%	-0.26%	2,596:2,911	-2.007**	-1.749*	-1.466
(-20, +20)	5,508	-0.49%	-0.69%	2,591:2,917	-3.731***	-1.896*	-1.870*

Table 7. The severing of the supply chain relationship

This Table presents probit regressions results of the probability of the severing of supply chain relationship on supplier stock price reactions, political contributions, political connections, and supplier controls. The dependent variable is an indicator variable taking the value of one if the supply-chain relationship ends within five years following the announcement of former politicians joining the customer firms as officers or directors, and zero otherwise. *Ln(Assets)*, *Tobin's Q*, *Leverage*, *Cash-to-assets*, *ROA*, and *Asset tangibility* are based on values from the year prior to the announcements. We report z-statistics, controlling for heteroskedasticity and appointment level clustering in parentheses. All continuous variables are winsorized at the top and bottom 1% of the distribution. Variable definitions are given in Appendix B. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Full sample				If year of appointment < 2020 = 1 if supply chain ends within 5 years			
CAR (-1, +1)	-0.322 (-0.79)	-0.341 (-0.83)			-0.498 (-1.07)		-0.498 (-1.07)	
CAR (-2, +2)			-0.712** (-2.21)	-0.720** (-2.23)		-0.605* (-1.65)		-0.605* (-1.65)
Supplier's political contributions		0.160** (2.23)		0.164** (2.27)		0.118 (1.60)		0.118 (1.60)
Supplier's political connections		-0.252*** (-3.07)		-0.249*** (-3.03)		-0.340*** (-4.05)		-0.340*** (-4.05)
Ln(Assets)	-0.007 (-0.52)	-0.004 (-0.31)	-0.007 (-0.52)	-0.004 (-0.32)	0.000 (0.00)	0.008 (0.53)	0.000 (0.00)	0.008 (0.53)
Tobin's Q	-0.011 (-0.67)	-0.012 (-0.76)	-0.011 (-0.71)	-0.013 (-0.80)	-0.002 (-0.09)	-0.003 (-0.14)	-0.002 (-0.09)	-0.003 (-0.14)
Leverage	-0.171 (-1.56)	-0.171 (-1.57)	-0.170 (-1.56)	-0.170 (-1.57)	-0.093 (-0.81)	-0.099 (-0.87)	-0.093 (-0.81)	-0.099 (-0.87)
Cash-to-assets	0.179 (1.18)	0.185 (1.22)	0.182 (1.20)	0.188 (1.25)	0.271* (1.66)	0.273* (1.67)	0.271* (1.66)	0.273* (1.67)
ROA	-0.632*** (-3.74)	-0.643*** (-3.80)	-0.637*** (-3.75)	-0.648*** (-3.80)	-0.602*** (-3.33)	-0.628*** (-3.45)	-0.602*** (-3.33)	-0.628*** (-3.45)
Asset tangibility	-0.284**	-0.280**	-0.282**	-0.279**	-0.302**	-0.288**	-0.302**	-0.288**

	(-2.56)	(-2.54)	(-2.54)	(-2.52)	(-2.49)	(-2.40)	(-2.49)	(-2.40)
2-digit NAICS FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Event year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ² /Pseudo R ²	0.035	0.037	0.035	0.038	0.039	0.042	0.039	0.042
Number of observations	5,105	5,105	5,105	5,105	4,505	4,505	4,505	4,505

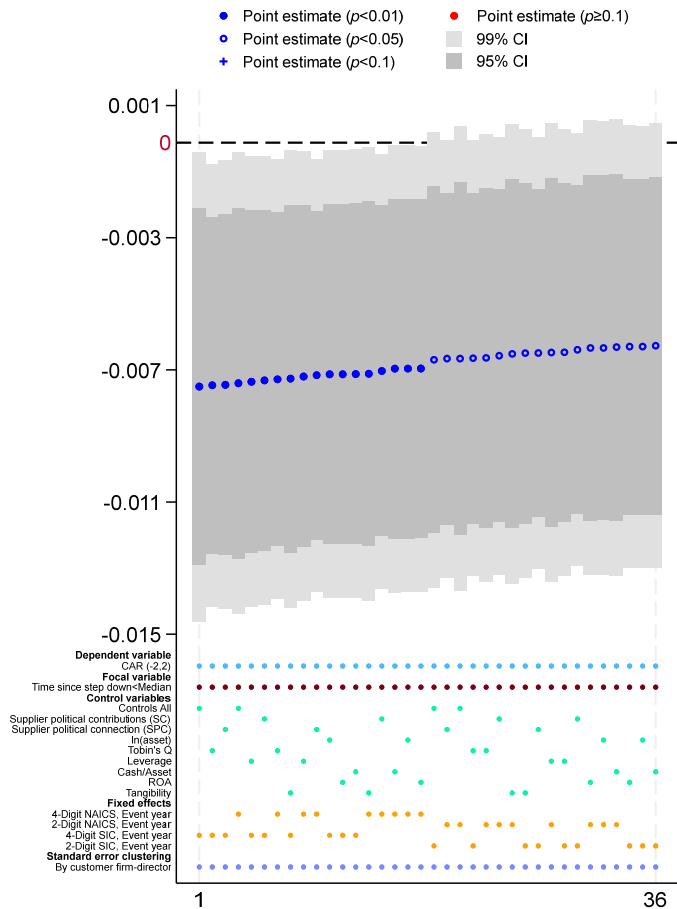
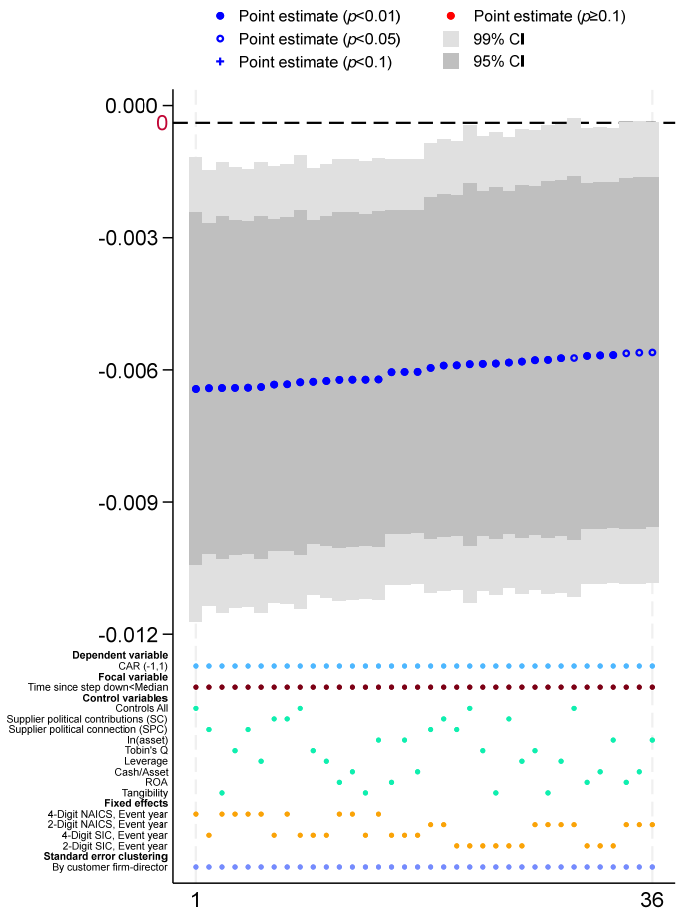
Online Appendix A

Supplier stock price reactions: Specification curves

The Tables below presents specification curves assessing the robustness of OLS regressions results in Tables 3 and 4. Confidence intervals (CIs) are based on standard errors adjusted for heteroskedasticity and appointment level clustering. All continuous variables are winsorized at the top and bottom 1% of the distribution. Variable definitions are given in Appendix B. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. The specification curves reflect specifications with the following sets of control variables: (1) one control variable at a time or (2) all (eight) control variables together. Each specification is run four times, alternatively including 4-digit NAICS, 2-digit NAICS, 4-digit SIC, or 2-digit SIC codes.

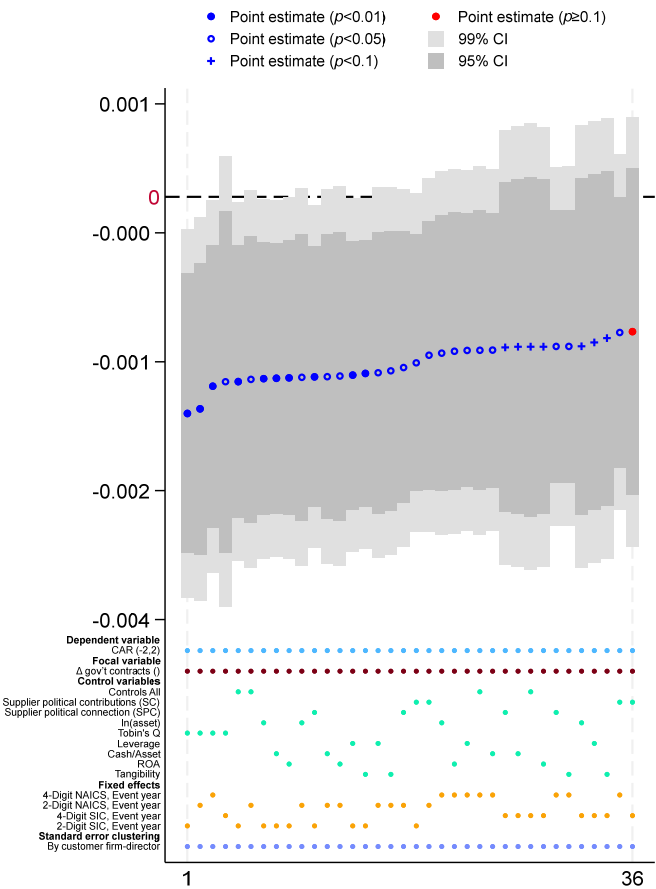
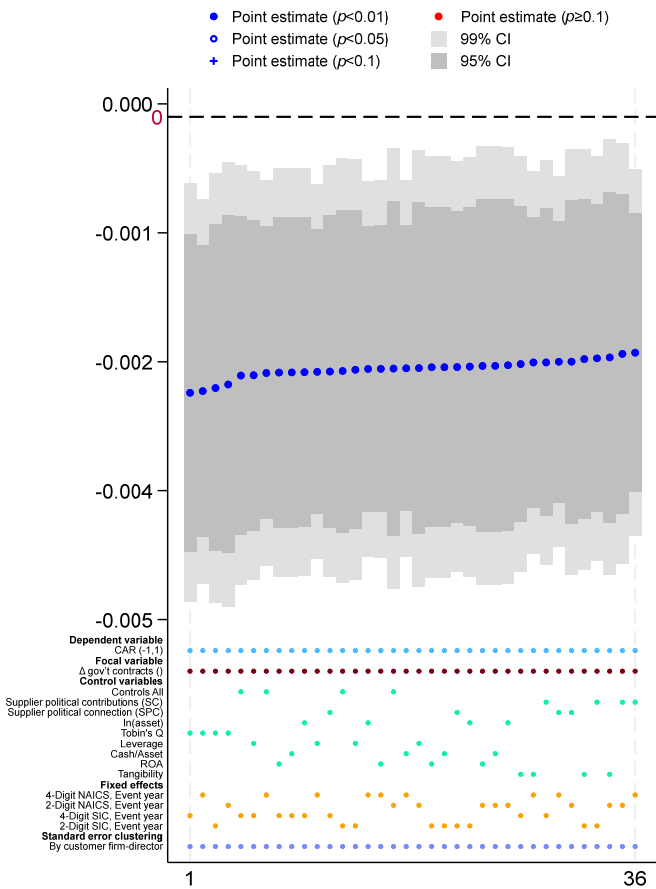
Supplier stock price reactions: Specification curves (Cont'd)

Panel A. Time since stepping down < median



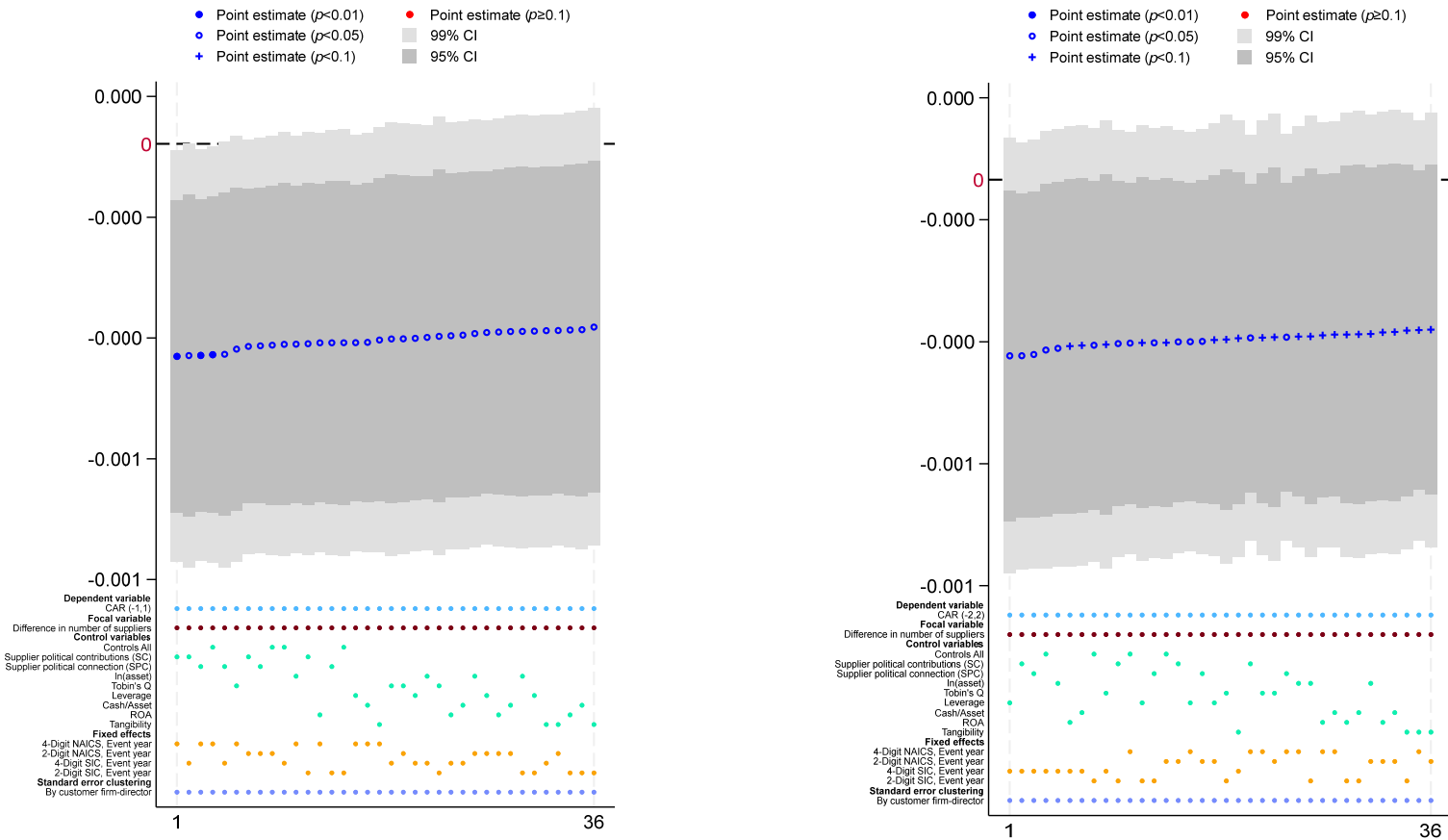
Supplier stock price reactions: Specification curves (Cont'd)

Panel B. Δ gov't contracts



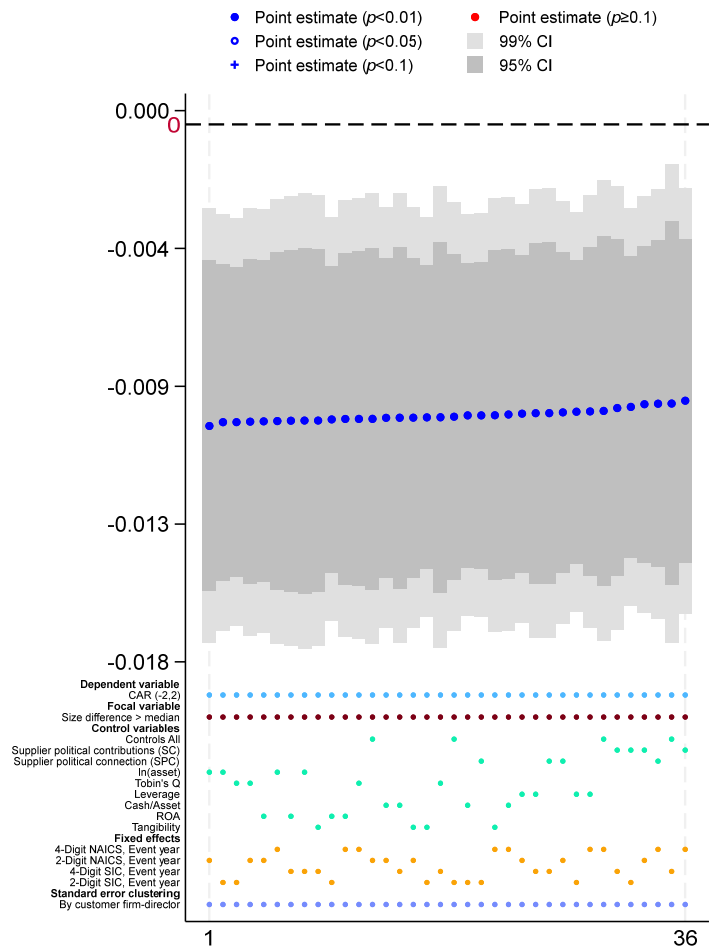
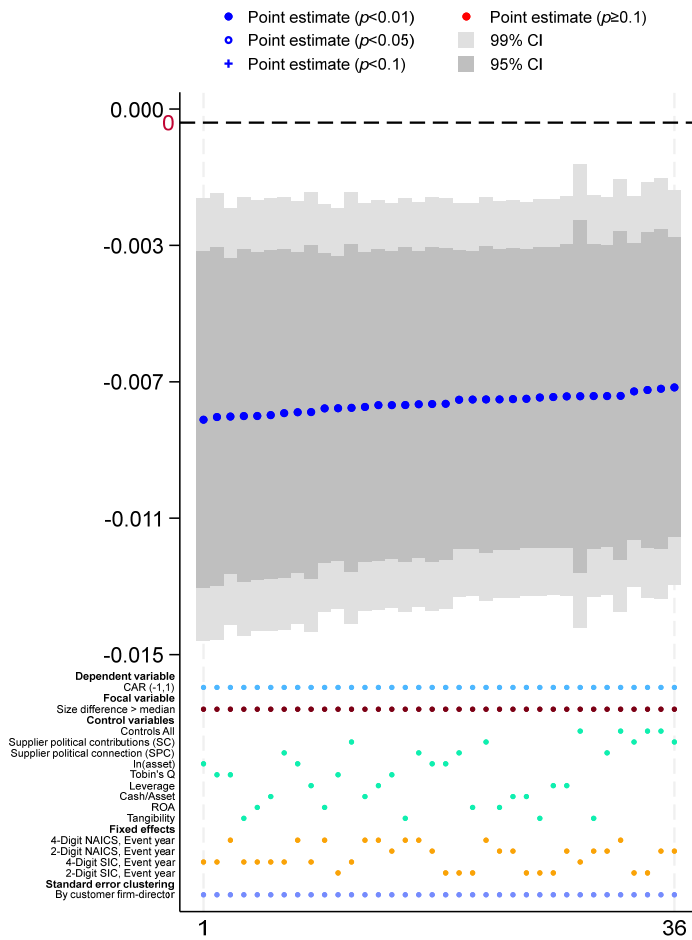
Supplier stock price reactions: Specification curves (Cont'd)

Panel C. Change in the number of suppliers



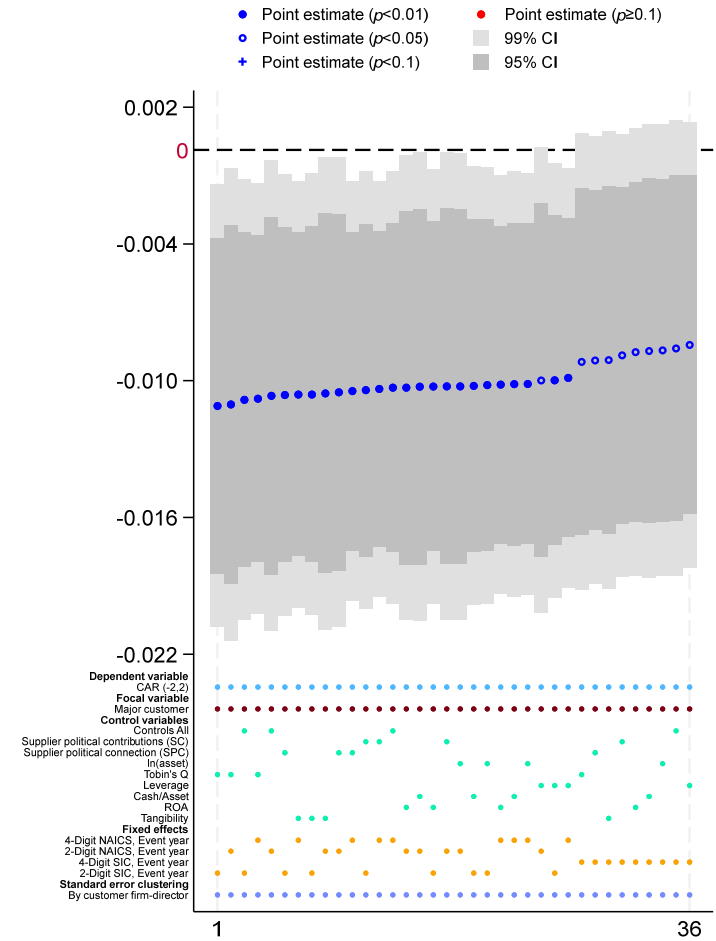
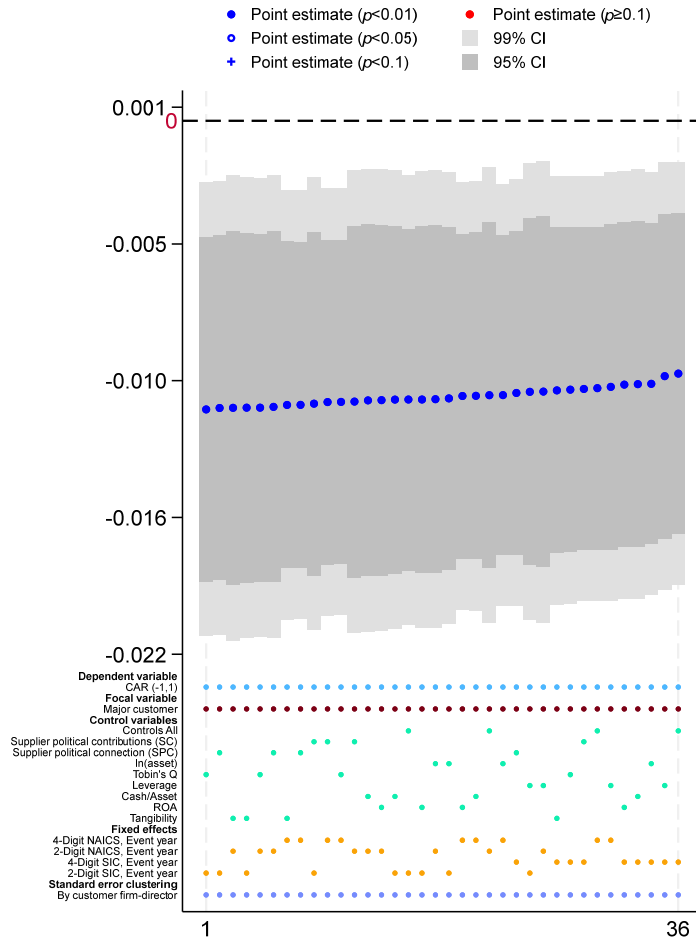
Supplier stock price reactions: Specification curves (Cont'd)

Panel D. Size difference > median



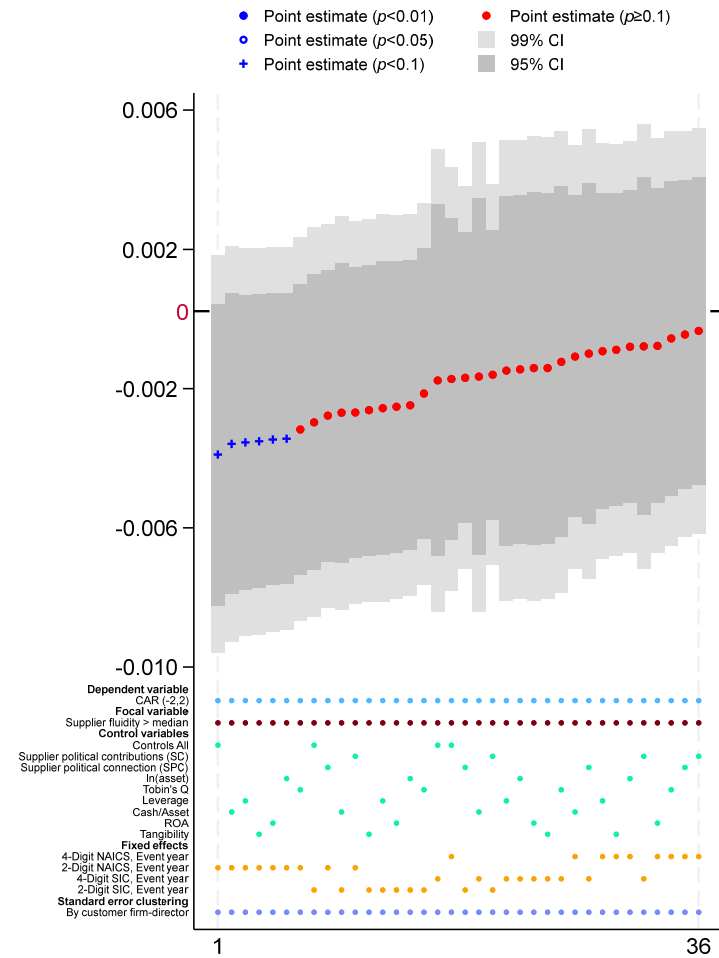
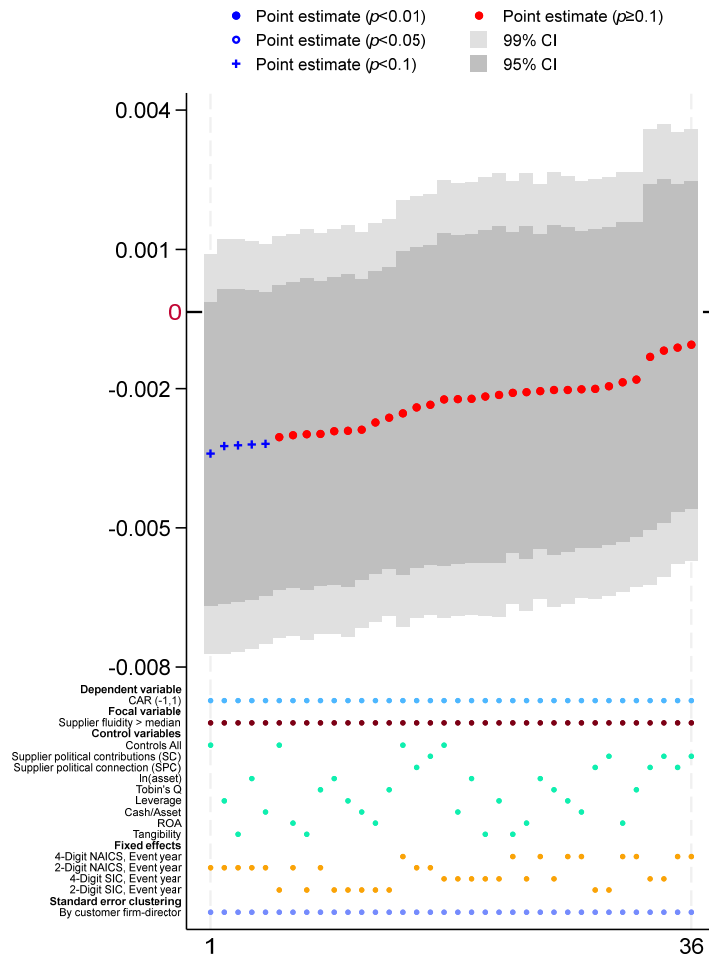
Supplier stock price reactions: Specification curves (Cont'd)

Panel E. Major customer



Supplier stock price reactions: Specification curves (Cont'd)

Panel F. Supplier fluidity > median



Supplier stock price reactions: Specification curves (Cont'd)

Panel G. Party mismatch

