Internet Appendix

For

"Birds of a feather: Value implications of political alignment between top management and directors"

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This Internet Appendix reports the results of supplementary and robustness tests as described below:

Table IA1: Summary statistics of political measures for the group of top five executives and main valuation results using these alternative political measures

Table IA2: Supplementary results to main valuation results reported in Table 2

Table IA3: Replication of Fracassi and Tate (2012), Masulis, Wang, and Xie (2012), and additional robustness checks to local market effects

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Table IA1

Summary statistics of political measures for the group of top five executives and main valuation results using these alternative political measures

In Panel A, *Top5 Rep* is the group-level average Republican index for the top five executives (based on their salary and bonus ranks). This group-level Republican index is computed as the value-weighted average of each executive's Republican index, *Rep*, using the inverse value of the executives' pay ranks as weights (Hutton, Jiang, and Kumar, 2013). Using this *Top5 Rep*, the political homophily index between the entire top five executives and independent directors is constructed similarly to the approach used for *PHI*. This new political homophily index for the group of top five executives is denoted by *PHI - Top5*. The *dyad* version of the political homophily index between top five executives and independent directors is also introduced and denoted by *PHI - Top5 (dyad)*. The summary statistics for these new political measures are reported in Panel A. The sample period is 1996-2009. In Panel B, we replicate our main valuation results using these political measures for the group of top five executives. We use *PHI - Top5* in Column 1, whereas we use *PHI - Top5 (dyad)* in Column 2. In these two columns, the dependent variable is Tobin's Q (*Q*). In Column 3, we run a change-on-change regression using the annual change in Tobin's Q (ΔQ) as a dependent variable. The annual changes of all explanatory variables are used on the right-hand-side of the regression. In all columns of Panel B, we control for year and two-digit standard industrial classification (SIC2)-level industry fixed effects. In all columns, the standard errors are clustered at the firm level, and the *t*-statistics are shown in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A							Correlation with	
Variable	*N*	Mean	Standard deviation	Minimum	Median	Maximum	*CEO Rep*	*PHI*
Top5 Rep	18,717	0.15	0.39	-1.00	0.11	1.00	0.84***	
PHI - Top5	18,683	0.83	0.13	0.21	0.86	1.00		0.67***
PHI - Top5 (dyad)	18,683	0.71	0.12	0.21	0.71	1.00		0.62***

Panel B	*Q*	*Q*	ΔQ
Variable	(1)	(2)	(3)
PHI - Top5	-0.41***		-0.17**
	(-3.45)		(-2.22)
PHI - Top5 (dyad)		-0.60***	
		(-4.24)	
Top5 Rep	-0.08*	-0.07*	-0.06
	(-1.87)	(-1.86)	(-1.36)
Board Size	-0.01***	-0.02***	-0.00
	(-2.61)	(-2.97)	(-0.72)
Majority Independent	-0.07	-0.07*	-0.01
	(-1.57)	(-1.70)	(-0.27)
ROA	5.39***	5.37***	2.49***
	(22.26)	(22.24)	(11.41)
Lagged 1-yr ROA	0.73***	0.74***	0.35**
	(3.94)	(3.96)	(2.21)
Lagged 2-yr ROA	0.70***	0.69**	-0.11
	(2.59)	(2.56)	(-0.57)
Investment	1.35***	1.35***	0.09
	(10.11)	(10.09)	(0.85)
R&D	8.77***	8.81***	1.27
	(14.98)	(15.09)	(1.29)
log(Assets)	0.01	-0.00	-0.53***
	(0.42)	(-0.26)	(-10.32)
Number of observations	17,890	17,890	14,951
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	SIC2	SIC2	SIC2
Adjusted R^2	0.453	0.453	0.117

Table IA2
Supplementary results to main valuation results reported in Table 2

The dependent variable is Tobin's Q (*Q*). In Column 1, we present the point estimates of control variables that we use in our baseline valuation regression specification in Column 2 of Table 2 in the manuscript. In Column 2, we examine which combination among the following four is the most value-adding: (1) a Democratic chief executive officer (CEO) with Republican directors (*Dem - Rep*), (2) a Republican CEO with Democratic directors (*Rep - Dem*), (3) a Democratic CEO with Democratic directors (*Dem - Dem*), and (4) a Republican CEO with Republican directors (*Rep - Rep*). All these four combinations are associated with dummy variables which take a value of one for each combination and zero otherwise. By definitions of these four combination dummies, firm-year observations for which we cannot identify the party affiliations of both the CEO and the group of independent directors are naturally ruled out from this analysis. In Column 3, we show the results of the same analysis using the political measures for the group of top five executives, *PHI - Top5* and *Top5 Rep*, instead of the political measures defined with just the CEO. In all columns, the standard errors are clustered at the firm level, and the *t*-statistics are shown in parentheses. SIC2 denotes two-digit standard industrial classification codes. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level, respectively.

Variable	Point estimates of control variables (1)	The most value-adding combination (CEO) (2)	The most value-adding combination (Top 5 All) (3)
PHI	-0.18**		
	(-2.39)		
CEO Rep	-0.04		
	(-1.62)		
Dem - Rep		0.09*	0.12**
		(1.73)	(2.39)
Rep - Dem		0.06	0.06
		(1.51)	(1.58)
Dem - Dem		0.04	0.04
		(0.88)	(0.95)
Rep - Rep		-	-
		-	-
Board Size	-0.02***	-0.02**	-0.02**
	(-2.80)	(-2.23)	(-2.43)
Majority Independent	-0.07*	-0.07	-0.09*
	(-1.71)	(-1.43)	(-1.89)
ROA	5.39***	5.89***	5.78***
	(22.31)	(17.40)	(18.59)
Lagged 1-yr ROA	0.74***	0.82***	0.86***
	(3.94)	(3.50)	(3.94)
Lagged 2-yr ROA	0.72***	0.28	0.38
	(2.63)	(0.71)	(1.08)
Investment	1.36***	1.30***	1.26***
	(10.10)	(7.75)	(7.88)
R&D	8.83***	9.91***	9.43***
	(15.04)	(10.62)	(11.94)
log(Assets)	0.01	0.02	0.01
	(0.57)	(1.34)	(0.45)
Number of observations	17,836	11,316	13,472
Year fixed effects	Yes	Yes	Yes
Industry fixed effects	SIC2	SIC2	SIC2
Adjusted R^2	0.452	0.489	0.476

Table IA3

Replication of Fracassi and Tate (2012), Masulis, Wang, and Xie (2012), and additional robustness checks to local market effects

The dependent variable is Tobin's Q (*Q*). In Columns 1 and 2, we replicate the regression results in Fracassi and Tate (2012) and Masulis, Wang, and Xie (2012), respectively. In Column 3, we show the robustness of the results reported in Column 8 of Table 4 in the manuscript by using the firms which did not change the county of their headquarters (HQ). In Column 4, we measure *Local Political Homogeneity* using the state-level presidential election voting results instead of county-level results and show the robustness of the results reported in Column 8 of Table 4 in the manuscript. The state-level voting results of presidential elections are obtained from the Office of Clerk of the US House of Representatives (http://history.house.gov/Institution/Election-Statistics/Election-Statistics/). SIC2 denotes two-digit standard industrial classification codes. In all columns, the standard errors are clustered at the firm level, and the *t*-statistics are shown in parentheses. *, **, and *** denote the statistical significance at the 10%, 5%, and 1% level, respectively.

	Fracassi and Tate (2012)	Masulis, Wang, and Xie (2012)		No change in HQ locations	State-level election results
Variable	(1)	(2)	Variable	(3)	(4)
FID (dummy)		-0.16**	*PHI*	-0.16**	-0.17**
		(-2.54)		(-1.98)	(-2.18)
SNI	-0.34***		*CEO Rep*	-0.03	-0.03
	(-3.45)			(-1.22)	(-1.29)
Gindex	-0.02**	-0.02***	*Local Poli. Homogeneity*	0.21**	0.28**
	(-2.14)	(-2.67)		(2.27)	(2.07)
Board Size	-0.04***	-0.11***	*Board Size*	-0.02***	-0.02***
	(-3.94)	(-11.28)		(-2.58)	(-2.69)
Majority Independent	-0.01	-0.14**	*Majority Independent*	-0.08*	-0.06
	(-0.15)	(-2.49)		(-1.86)	(-1.38)
Leverage (Mkt)	-3.69***				
	(-18.29)				
log(Assets)	0.005		*log(Assets)*	0.008	0.00
	(0.23)			(0.57)	(0.18)
CEO Chairman (dummy)		0.02	*Investment*	1.38***	1.32***
		(0.42)		(9.64)	(9.79)
R&D		6.90***	*R&D*	8.65***	8.79***
		(9.06)		(13.96)	(14.72)
ID Stock (%)		0.22***	*ROA*	5.37***	5.39***
		(4.96)		(21.89)	(21.87)
log(Mkt. Cap)		0.41***	*Lagged 1-yr ROA*	0.90***	0.76***
		(21.63)		(4.53)	(4.07)
Equity Beta		-0.96*	*Lagged 2-yr ROA*	0.75**	0.71**
		(-1.81)		(2.55)	(2.54)
Number of observations	7,601	10,968	Number of observations	16,085	17,457
Year fixed effects	Yes	Yes	Year fixed effects	Yes	Yes
Industry fixed effects	No	SIC2	Industry fixed effects	SIC2	SIC2
Adjusted R^2	0.244	0.404	Adjusted R^2	0.459	0.454

References

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