Political donations and CEO compensation

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Abstract
This study investigates the relation between political donations and CEO compensation. By using data about CEO political donations in the United States between 2017 and 2022, this study demonstrates a positive relation between political donations and cash and total compensation after controlling for year, industry, firm and CEO characteristics. No interaction was observed between the levels of compensation and donating to a winning party. However, this study finds that cash compensation increases more after a donation in states with high corruption whereas, total compensation is negatively affected by a donation in an area with high corruption levels. Overall, this study implies that political donations have genuine wealth effects and that political capital matters for CEO compensation.

Keywords : Political donations, CEO compensation, Corruption

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1. Introduction

In recent years, management compensation has become a popular and intensively studied research subject in the field of strategic management. While companies generally structure compensation contracts and incentive payments based on management personality traits, research has shifted focus on other explanatory factors. One could be demonstrated from a political perspective, where a relation between political donation and CEO compensation is portrayed. This perspective has not been studied intensively yet. Political networks are a new development in research and an important factor of firm performance and operations.

United States financial markets are developed and shareholders are protected, so political donations are becoming more important in this continent (Aslan & Grinstein, 2011). The number of donations from Americans to political candidates and parties is increasing. The share of Americans that have donated has doubled from 6% in 1992 to 12% in 2016 according to data from American National Election Studies (Pew Research Center, 2020).

In past years, it was clear that some political parties use donations and connections to dominate and to win the battles about sensitive topics, such as abortion rights and climate change policy. This was also the case in Washington ahead of the midterms, a CEO of an electrical device manufacturing company donated $1,6 billion to give the Republicans a boost (Vogel & Goldmacher, 2022).

Looking at it from a theoretical perspective, political connections could significantly affect CEO compensation for several reasons. Campaign contributions can be thought of as political investments in the political market. Benefits that result from a corporate executive supporting a politician may include financial rewards. If one candidate wins, it may entail greater predicted wealth transfers to oneself or to people of one's value (Aslan & Grinstein, 2011).

Since there are different reasons to have a political connection, the following research question has been formulated: *What is the effect of political donations on CEO compensation?*

To answer this question, political connections can be measured using information from The Federal Election Commission focused on CEO's individual contributions to political candidates and campaigns between 2017 and 2022. This information is used to construct a measure to demonstrate an effect on CEO compensation. Overall, political donations are positively and significantly correlated with cash and total CEO compensation after controlling for year, industry, and observable firm and CEO characteristics.

The results are mostly explained by two factors. Political connections, which indicate strategic alliances between influential people and companies to build a network, come first. CEOs provide the company with a variety of benefits with significant strategic value, and they are compensated for the knowledge and resources they contribute (Goldman et al., 2008). On the other hand, political capital can be used as a negotiating tool, and CEOs with numerous and extensive political connections might use their alliances to demand their rents or private advantages in addition to alternative governance models. These executives get their authority from their connections in politics, which changes how much value they may appropriate (Aslan & Grinstein, 2011).

According to the findings, CEO political connections are positively related to the cash and total compensation. To examine the effect of contributions to successful candidates, more insight is provided to get a better understanding of the association. Contributions to winners consistently do not have a greater impact than contributions in general, if political contributions result in political favors and consequently matter for CEO compensation. The findings indicate, there is no relation between compensation and CEOs who are associated with successful and prominent politicians.

In addition to this, the relation between the level of corruption and political connections is examined. This analysis enables us to determine whether the number of corruption convictions in states can be connected to the relation between political connections and the levels of compensation. Donations in a high corruption state provide an increase in cash compensation of 12.5%. The total compensation is negatively associated with a high level of corruption.

Overall, the research offers a thorough investigation of how political connections affect compensation contracts and identifies a recurring pattern connecting the two. The findings of this study contribute to the existing management compensation literature by offering empirical proof that political connections have an important bearing on CEO compensation. It contributes to a deeper understanding of the literature variation in compensation arrangements. Understanding the network approach to CEO compensation is crucial because it could make it easier to identify weaknesses in the financial system caused by network independencies.

While prior research in the field of management compensation gave limited emphasis to the political explanatory factors, this study will make several contributions. A relatively recent trend in the literature on finance is the study of the function of political networks in financial markets. Because regulations must be abided and government policies have an impact on anticipated future cash flows, politics has a significant role in determining company performance.

In addition to this, executive compensation in the United States has gained more attention than few other topics in the history of the modern corporation. While earlier research on compensation was conducted at how CEO social connections might be used to influence the board and its salary setting process (e.g. Bebchuk & Fried, 2006), it neglected to take into account the findings of more recent studies showing that CEO networks are an important organizational resource.

The remainder of this thesis is structured as follows: the main body of literature is reviewed in section two. Based on the literature review, an hypothesis has been developed. Section three provides a description of the research methodology for the empirical study. The empirical findings and additional tests are discussed in section four, followed by the conclusions and any research limitations in section five.

2. Literature Review and Hypotheses Development

2.1 Literature Review

In this chapter the most relevant concepts, theories and works of literature about the impact of political donations on CEO compensation are discussed. It is divided into four separate sections. Literature concerning the definition of political money is discussed in the first section, followed by literature about the effect of political connections on firms in the second section. In the third section, the benefits and costs of political connections are covered. Finally, the literature about the incentives of having a political connection is reviewed in section four.

2.1.1 What is political money?

Hard money and soft money are the two main kinds of political money in the United States. According to Aslan and Grinstein (2011), hard money refers to federally regulated campaign contributions and other money to affect the results of federal elections. The number of contributions that an individual can make to a specific federal campaign candidate is strictly regulated by the Federal Election Committee. The Federal Election Committee (FEC) is an independent regulatory body in charge of enforcing and administering federal campaign financing regulations. It places strict limits on an individuals' ability to donate large sums of money to political campaigns (Federal Election Commission, n.d.).

In the context of political committees and parties, funds that support political parties are referred to as soft money. Soft donations from individuals are allowed to the Democratic or Republican parties but not as contributions to a specific candidate's campaign. While soft money cannot be used directly to support the federal candidates, there are several gray areas and gaps in regulation that allow party treasuries to easily use the funds (Masterclass, 2023).

According to Aslan and Grinstein (2011), The Federal Election Campaign Act does not apply to these soft money contributions because they were not intended to support a particular candidate, therefore individuals, corporations and unions were free to donate an unlimited amount of soft money. The Bipartisan Campaign Reform Act of 2002 increased the contribution limits for individuals giving to federal candidates and political parties, while outlawing unregulated soft money contributions to national party committees.

2.1.2 Firm and political connections

Politics play a significant role in determining how well a firm performs, because government policies have an impact on future cash flows and firms must operate within the regulations (Aslan & Grinstein, 2011). According to Fang et al. (2022), the political environment is an external environment that is crucial to the survival and growth of businesses. The government has various public resources and disposal rights. However, due to lack of funding and high information costs, the government is unable to offer free assistance to every business in need and cannot effectively allocate resources to those businesses. Therefore, having a particular political connection to the government can help businesses in obtaining essential resources and creating competitive advantages. Political connection is commonly used as a political competition strategy by CEOs as a means to serve as the carrier for the crucial relationship resource.

According to Goldman et al. (2009) a political connection occurs when two seemingly unconnected political and financial actors are linked, giving financial agents and institutions large payoff advantages. In the United States, where financial markets are well developed and shareholders are properly protected, they demonstrated that political connections are significant.

Arslan and Grinstein (2012) state that political connections can be thought of as a type of social capital, which is made up of resources available through political social networks that an actor can utilize to influence outcomes that are seen to be in the actor’s best interest. Idowu (2013) believes that political connections are relations between companies and individuals with political influence and power. Firms or individuals try to gain benefits through the political system. Examples of benefits could be grants or forms of special regulation. Some firms try to maintain current regulations that restrict competition. Also, according to Claessens (2008), firm financing and financial structure of the firms in certain emerging markets depend on the relationship with politicians. Others link political connections to financial support for political campaigns or parties (Idowu, 2013). Contributions to political campaigns and lobbying are examples of an indirect political connection. Donations to political campaigns are argued to be political investments in the political market (Arslan & Grinstein, 2012).

Thus, CEOs with political capital may provide intangible resources and potential financial return to their constituents, such as investment resources, preferential access to strategic information, having relatively easier access to legislators and an opportunity to directly voice their concerns to the legislator or other forms of service. However, for a firm to capitalize on those advantages, it has to be successful in attracting and retaining individuals who are in the possession of those crucial connections (Arslan & Grinstein, 2012).

While this concept does not have a fit-for-all definition, it can be associated with positive consequences such as better performance and enhanced economic competitiveness (Idowu, 2013). However, there are also negative consequences, for example high levels of corruption, damages to minority shareholders and destruction of the firm value.

2.1.3 Benefits and costs of political connections

Political connections are associated with negative consequences. According to Chaney (2011) political connections have a detrimental impact on a company's value and economic performance. It denotes a serious amount of company value loss or corruption. Additionally, poor management practices of those with political connections and political interference in business management can be harmful to the economic performance. Idowu (2013) states that politically connected CEOs will focus on the alignment of firm goals with governmental objectives rather than maximization of the firm value.

On the other hand, political connections also have positive consequences. Claessens (2008) finds that the bank leverage of companies that made political donations increased during the four years following an election. This shows that contributing companies were given priority access to bank financing. Their findings corroborate the idea that finance may not be the only channel through which firms gain benefit from political connections, it is however a significant way. Other positive consequences are an increased firm value, better performance, and enhanced economic competitiveness.

Idowu (2013) states that the anticipation of benefits from the preferential treatment accorded to the politically connected firms will result in competitive advantages and have a positive impact on their economic performance and value. This motivates businesses to be politically connected. These firms get special treatment when bidding for government contracts, preferential access to government grants, regulatory protection, easier access to debt financing by government institutions and government aid for financially troubled firms.

The positive consequence of a political connection can be explained through the resource-based theory. The value of firms is increased by the political

connection, which enables the firm to get crucial resources that are expensive or difficult to obtain for other firms (Idowu, 2013). And according to Faccio (2009) politically connected firms do definitely enjoy preferential financing access, lower tax rates and larger market shares.

2.1.4 Incentives for a political connection

Studies of drivers of individual donations are scarce. According to Fremeth et al. (2012) over 90% of the campaign contributions come from individuals, they dominate money in politics. Personal ties, ideologies and political goals all play a role in how much money people give to campaigns. Private preferences and the function within an organization may interact in ways that cause people to engage in political actions that are not entirely in line with their personal interests. So, in theory any position a person holds at any sort of organization might be connected to their patterns of political contributions. The major findings of Fremeth et al. (2012) show that CEOs cause a statistically and economically significant rise in the amount of money that people donate to political campaigns, compared to prior stages of their individual career.

Furthermore, according to Teso (2020), the reason these political donations are beneficial is that they help corporate executives open the door so that lobbyists can try to persuade politicians to agree with them. The idea of access-seeking behavior from corporate leaders is in line with the fact that the companies actively lobbying are the ones whose leaders are actively donating. Also, Aslan and Grinstein (2011) claim that political connections are difficult to trade or transfer to another executive. This may boost the CEO value from a resource standpoint, but it also highlights how crucial it is to link CEO's political connections with executive compensation. In addition to this, Teso (2020) states that during the election cycles when companies were actively lobbying the federal government, the likelihood of a CEO making a political donation increased by 31%.

According to Aslan and Grinstein (2011), CEOs use social connections to gain power and status over the board and its method of determining compensation. According to Idowu (2013) the politically connected CEO has certain incentives, because of higher wages, public states and easy access to political decisions. CEOs negotiate for increased salary by using political capital. According to Tang and Sun (2014), CEOs at politically connected enterprises receive a significantly higher salary and they are compelled to take on a political persona. After all, many people have connections to businesses, and if they are up high enough in the organizational hierarchy, they may stand to gain significantly from the election of a specific politician (Aslan & Grinstein, 2011).

2.2 Hypotheses Development

This studies hypotheses are covered in this chapter. The literature review has served as the foundation for these hypotheses. The motivations for the hypotheses are stated first, then the hypotheses themselves.

2.2.1 Motivation and hypotheses

Based on the foregoing information, the expectation is that CEOs use political donations and connections as a method to determine their compensation. A different viewpoint contends that political donations might not have an immediate impact on CEO compensation. CEO compensation is controlled by a complicated web of market and political elements. These factors include business size, operation complexity, financial performance, CEO power. According to Wu et al. (2018) it is crucial to understand CEO compensation from a variety of angles, including economic, social and political ones. This perspective allows us to concentrate on the importance of political ties in generating competitive advantages for businesses. CEO political connections should be a significant factor in determining CEO compensation since they are strategically significant for businesses to establish political legitimacy and gain access to government-controlled resources.

Based on the prior literature, the hypothesis is set as a positive relation:

H1: Political donations are positively associated with CEO compensation.

In addition, Goldman et al. (2008) demonstrate that, despite the strong legal system in the United States, political connections have a widespread effect on the value of firms. This study divides business into those with ties to the Democrats and those with ties to the Republicans and examines the value of these connections. First, following a Republican win, there is a positive return differential between businesses with Republican boards and those with Democratic boards. Additionally, the portfolio returns for the Republicans are positive while the portfolio returns for the Democrats are negative.

Furthermore, political donations can be considered in a different way. According to Faccio (2009), political connections are more prevalent in countries with high levels of corruption and countries that prohibit foreign investments. On the other hand, political connections are less common in countries with stricter regulation on political conflicts of interest. Corruption represents the use of public authority for private gain (Faccio, 2006). It takes various factors into account, from the frequency of additional payments to get things done, to how corruption practices affect the business environment.

According to the United States Public Integrity Section (2021) some states in the United States have more corruption convictions than others. The states

California and Texas have the highest number of corruption convictions for the last decade. Whereas New Hampshire, Wyoming and Vermont have the lowest number of corruption convictions.

Faccio (2009) also states that some companies are led to political connections because of perceived corruption. Companies will occasionally use political connections to address commercial or environmental challenges. Political connections are necessary in countries with high levels of perceived corruption in order to avoid losing market share to competitors. So perceived corruption serves as a motivator for political connections. In countries with weak legal or regulatory environments, firms are directed to political connections in order to reduce this weakness or market threat. However, in the end, political connections are driven by a desire to increase firm value.

In general, connections are less frequent when political conflicts of interest are more strictly regulated (Faccio, 2006). On the other hand, political connections are particularly common in countries that are seen as being quite corrupt, countries that place restrictions on foreign investments by their citizens, and countries with more transparent structures. This last consequence can simply be a result of easier access to knowledge in these economies. In countries where laws place more restrictions on political conflicts of interest, connections are less frequent.

Given this information, the second hypothesis is as follows:

H2: The positive relation between political donations and CEO compensation is more pronounced in corrupt states.

3. Research Design

This chapter will go over the research design and methodology applied in this thesis, as well as the procedure for selecting and cleaning samples. The first section discusses the process of selecting and cleaning samples, the second examines the independent variable used to measure political connectedness, the third examines the dependent variables used to measure CEO compensation. After that, the moderating and control variables are discussed and the sixth section presents the regression model used to examine the impact of political donations.

3.1 Sample Selection

A quantitative study is carried out to investigate the effect of political donations on CEO compensation. The Wharton Research Data Service has been used to retrieve the data. With the use of the ExecuComp database CEO compensation data between 2017 and 2022 is retrieved. This dataset consists of S&P 1500 companies, this covers approximately 90% of the U.S. market

capitalization (S&P Composite 1500, n.d.). The United States and the era were chosen since this study focuses on the election of 2020 in the United States. Age, gender and tenure information is available in this database. The Compustat database is used to retrieve financial information.

Using the FEC comprehensive individual contribution file for the years 2017 to 2022, political connectedness can be defined. The data displays the individual CEO donations related to the elections of 2020 in the United States. In the sample, donations made by CEOs to the President, Senate and The House of Representatives are included. Along with the date and amount of the contribution, the file contains the recipient's identity number, name, city, state, zip code and employer information of the donor in the company. The data does not provide details for contributions less than $200, since those individual contributions are not itemized by candidates and are instead reported in bulk. This means that the focus is on the higher amounts, which also have more impact.

Once all the information was gathered, the cleaning process started. Filtering was done on the variable CEOANN to obtain the CEO's data from the ExecuComp database. This indicates that the executive was CEO for all or most of the indicated fiscal year. After removing missing values and checking for possible duplicates, the dataset consists of executive compensation information about 2789 CEOs. The Compustat data with firm characteristics was matched with the ExecuComp dataset using "gvkey" and "year" identifiers. That left a final sample of 2447 individuals.

The individual campaign data consist of 389,780 contributions made by 97,066 individuals to candidates and political parties after removing duplicates and missing values. To merge these two datasets together, the CEO's full name in the FEC data was matched with the CEO's full name in the ExecuComp dataset. It was occasionally challenging to connect CEOs based merely on their names. Matching was challenging because many times the names of the CEOs in either dataset contain some type of abbreviation, contraction or suffix.

After merging databases, there were 15,380 observations left by 2447 individual CEOs between 2017 and 2022. Of this number of CEOs, 328 have donated in the past five years. This means around 12 percent of the matched CEO sample. The rest of the CEOs chose not to donate and their observations have donations of zero.

3.2 Independent Variable

This study concentrates on CEOs who built political connections through campaign donations as a means of establishing political relationships. To measure the political connectedness between CEOs and political candidates, there are

various, straightforward and logical metrics of how contributions may be interpreted in terms of the existence and strength of the communication channel.

One distinct method of measuring political connectedness has been used to examine the impact of political connections on CEO compensation. A dummy variable was created that has a value of 1 if a CEO donated to a political candidate and a value of 0 if the CEO did not donate.

3.3 Dependent Variable

Three alternative methods were utilized to measure CEO compensation for the dependent variable. First, to measure the total compensation of the CEO the variable Total Compensation Including Option Grant (TDC1) was used. This variable includes salary, bonuses, other annual compensation, the total value of restricted stock granted, the total value of stock options granted, long-term incentive payouts, and all other totals.

Cash compensation is used as a second method to measure the impact. This consists of salary, bonus, and other annual compensation. Salary is the total amount of the base salary earned during the fiscal year. This is made up of cash and non-cash.

The last method used is stock compensation. To measure this, the total value of restricted stock granted and the total value of stock options granted were added together. Stock compensation is an alternative way to reward employees in the form of stocks, performance shares or stock options. Companies frequently use stock compensation to boost employee performance, retention and motivation.

These three compensation variables were all normalized by a logarithm. This means that the variables became more comparable. To handle outliers and inaccurate inferences, all variables were winsorized at the top and bottom 1% of their respective distributions.

3.4 Moderating Variables

3.4.1 Corruption

According to the United States Public Integrity Section (2021) the last decade some states in the United States are more corrupt than others. To draw conclusions about whether donations are more common in certain states, it is possible to use the annual report of the Department of Justice of the United States about corruption convictions. This report describes by state the number of corruption convictions.

The sample was split in order to measure corruption. The states can be categorized based on the median value of corruption convictions, which is equal to

93. If the state has 93 or more corruption convictions, we speak of a high level of corruption. It is possible to quantify the interaction effect with the donation dummy using the high corruption variable.

Table 1: Corruption convictions per state
This table shows the corruption convictions of the last decade ranked per state according to the United States Public Integrity Section (2021).

	States	**Corruption convictions**
1.	New Hampshire	5
2.	Wyoming	6
3.	Vermont	7
4.	Delaware	13
5.	North Dakota	13
6.	Utah	13
7.	Maine	17
8.	Oregon	18
9.	Rhode Island	19
10.	Alaska	20
11.	Hawaii	28
12.	Nevada	29
13.	Idaho	32
14.	Colorado	34
15.	Iowa	41
16.	Minnesota	44
17.	South Carolina	45
18.	Connecticut	48
19.	New Mexico	48
20.	Kansas	52
21.	Nebraska	61
22.	South Dakota	63
23.	Washington	77
24.	Wisconsin	85
25.	Arkansas	88
26.	West Virginia	98
27.	Mississippi	104
28.	North Carolina	115
29.	Montana	126
30.	Indiana	149
31.	Missouri	149
32.	Alabama	158
33.	Oklahoma	164
34.	Massachusetts	167
35.	Kentucky	176
36.	Tennessee	186
37.	Ohio	187
38.	Michigan	192
39.	Arizona	230
40.	New Jersey	272
41.	Maryland	286
42.	Georgia	322
43.	Louisiana	341
44.	Illinois	351
45.	Virginia	356
46.	Pennsylvania	366
47.	New York	424
48.	Florida	553
49.	California	621
50.	Texas	750

3.4.2 The winner’s effect

To examine the effects of making contributions to winning candidates, the winner's effect can be measured. It is possible to anticipate that contributions to winners consistently have a greater impact than contributions in general, if political donations result in political favors and consequently matter for CEO compensation. The winners of the election in the United States in 2020 were the Democrats. So, all the Democrats are qualified as “winners” in this sample.

3.5 Control Variables

3.5.1 Firm characteristics

Since a company’s financial health has a significant impact on the CEO compensation, some proxies were used to account for a firm’s financial state and performance. According to Smith and Watts (1992) the availability of growth options and firm size is related to executive compensation policies. They find that firms with more growth options, have higher executive compensation and greater use of stock-option plans (Smith & Watts, 1992).

To control for the firm size, the natural logarithm of the book value of assets was used. According to Jeppson et al. (2011) in larger firms CEO compensation is higher. Larger organizations may be able to afford CEOs who are better qualified to lead since they are paid more. In addition to this, market to book ratio was used as a characterization of the growth opportunities of a firm relative to the assets. The market to book ratio reflects the difference between the market value and book value. This represents the growth and investment opportunities (Bushman et al., 1996).

In addition, firm performance is also related to CEO compensation. Base salary, cash bonuses, benefits and the value of stock awards are all significantly influenced by corporate performance (Jeppson et al., 2011). According to Bushman et al. (1996) there is a positive association between traditional measures of performance, ROA and net income, and CEO pay. Return on assets is the standard accounting measure of firm performance. According to Kato and Kubo (2006) there is a positive link between CEO compensation and return on assets. The return on assets was calculated as the firm’s net income divided by the total assets.

According to Adu-Ameyaw (2021) managerial cash compensation is strongly and negatively connected to financial leverage. However, leverage is positively and significantly impacted by stock compensation. This means that financial leverage is also a control variable. This was calculated as the sum of short-term and long-term debt divided by the total assets.

For the regression, there is also control for industry and year fixed effects. Economists may not be able to observe industry and time specific variability in compensation structures. To account for these unobservable effects, fixed effects regressions with year and industry specific parameters were used. Any covariation brought on by certain industries or time periods with special characteristics is likely to be captured by the fixed effects.

3.5.2 CEO characteristics

Given the relation between CEO characteristics and CEO compensation, some proxies were used to account for CEO characteristics. The first characteristic is CEO tenure. This consists of the time an individual spends in a CEO position. This is a fairly basic measurement of experience and can also be used to measure other concepts such as managerial power and entrenchment (Aslan & Grinstein, 2011). Furthermore, the results of Hill and Phan (1991) support the idea that having a longer tenure allows CEOs to gain greater clout within their organization and as a result, more closely align their compensation packages with their personal preferences.

However, zooming in on the gender of the CEO, according to Adams et al. (2007) women are not paid as well as men before becoming CEO, but those few who do reach the CEO position receive similar compensation as men. Although looking at age, female CEOs are on average younger than male CEOs. They have remarkable professional and educational backgrounds.

3.6 Regression Model

A regression model has been set up to ascertain the impact of political donations on CEO compensation. The empirical mode listed below is employed:

$$CEO\ compensation = \beta_0 + \beta_1 * DONATED\ D + \beta_2 * FIRM\ SIZE + \beta_3 * ROA + \beta_4 * MTB + \beta_5 * LEVERAGE + \beta_6 * CEO\ AGE + \beta_7 * CEO\ GENDER + \beta_8 * CEO\ TENURE + Industry\ FE + Year\ FE + e$$

A list of definitions of the variables is included in the Appendix Table 1. Three different methods - Total compensation, stock compensation and cash compensation - were used as dependent variables. The political donation dummy measures whether a donation was made or not.

4. Results

4.1 Descriptive Statistics

Table 2 shows the descriptive statistics of the variables used in this empirical study. First, the statistics of the firm characteristics are shown. The average asset

firm size is close to $15,699. The median leverage is 0.317, and the mean is 0.338. This low ratio indicates that equity rather than debt funded more of a company's assets. The minimum return on assets is equal to -2.45. A negative return on assets means that the firm is not experiencing the expected benefits, but is generating losses. The average market to book ratio is 3.621, this indicates that the stock price will be high.

Thereafter, the characteristics of the CEOs are presented. The average age of CEOs is 59. The minimum age of the contributors is 41 and the maximum age is 78. In this sample there are 2,301 male CEOs and 146 female CEOs included. The mean gender of CEOs is equal to 0.963. In addition, the average years a CEO has spent in this position equals 12.5. This ranges from 0.3 years to 38 years. So, the sample consists of a wide variety in number of years a CEO has held the position.

Then, the table shows more information about the CEO fees. The mean cash compensation is equal to $1,399.91 dollars. This can vary from $12.60 to $7,889.15 dollars. In addition, the average stock compensation is equal to $5,936.64 dollars. In the sample, there are also individuals who receive no stock compensation. Further, the average total compensation of the CEO is $9,150.97 dollars. The maximum total compensation of a contributor is $38,554 dollars. Lastly, the table shows statistics about the donation dummy. The mean is equal to 0,544.

Table 3 shows the mean values of the donor and non-donor CEO characteristics. To test the differences between the donating CEO sample and the non-donating sample the t-test was used. For each variable, the t-statistic is higher than the critical cutoffs and they are all significant at a level of 1%. This means that the averages of the two samples are not equal.

Table 4 shows the correlation coefficients of the dependent, independent and control variables. The matrix's coefficients demonstrate that there are no variables in the sample that have a perfect correlation of 1 or - 1, indicating that there is no multicollinearity. The coefficients show that firm size, CEO age and CEO tenure have a high correlation with the donation dummy. In addition, there is a high correlation of 0.68 ($p < 0.01$) between firm size and total compensation. This shows that the size of a company affects the amount of compensation. Furthermore, there is a high correlation of 0.54 ($p < 0.01$) between CEO age and CEO tenure. So, the higher the age of the CEO, the longer the CEO will stay in this function. Finally, it is noticeable that leverage also has a positive correlation of 0.20 ($p < 0.01$) with cash compensation. So, the ratio of equity and debt has to do with how much compensation is left for the CEO.

Table 2 : Descriptive Statistics

This table shows summary statistics for all the variables used in the study.

	Mean	St. Dev.	Median	Min	Max
Firm Size	$15,699	$25,450	$4,413	$2.25	$104,768
Leverage	0.338	0.240	0.317	0.000	2.456
MTB	3.621	12.42	2.137	- 84.3	90.87
ROA	0.039	0.140	0.045	- 2.45	0.508
Age	59.30	7.262	59.00	41.00	78.00
Gender	0.963	0.189	1.000	0.000	1.000
Tenure	12.55	9.158	9.900	0.300	38.20
Cash Compensation	$1,399.916	$1,072.710	$1,140.821	$12.604	$7,889.150
Stock Compensation	$5,936.640	$5,650.329	$4,132.158	$0.0000	$30,005.49
Total Compensation	$9,150.977	$7,239.646	$6,992.352	$126.88	$38,554.00
Donate_D	0.544	0.498	1.000	0.000	1.000

Table 3 : CEO characteristics

This table presents the mean values of the CEO characteristics and compensation for donor and non-donor CEOs. The t-test is also shown.

Variables:	Donor (Mean)	Non-Donor (Mean)	T-test
Age	61.07	57.18	34.21***
Gender	0.981	0.941	12.85***
Tenure	15.08	9.563	39.92***
Cash Compensation	1,513.90	1,263.92	14.47***
Stock Compensation	6,542.91	5,213.32	14.79***
Total Compensation	10,334.6	7,738.81	22.71***

Table 4 : Correlations

In this table the correlation coefficients of the variables used are shown. *** p < 0.01, ** p < 0.05, * p < 0.1

	Donate_D	Firm Size	ROA	MTB	Leverage	Age	Gender	Tenure	Cash Compensation	Stock Compensation
Firm Size	0.28***									
ROA	0.02*	0.13***								
MTB	- 0.01	0.04***	0.06***							
Leverage	0.06***	0.19***	- 0.05***	- 0.08***						
Age	0.27***	0.01	0.05***	- 0.04***	- 0.01					
Gender	0.11***	0.03***	- 0.01	- 0.01	0.01	0.02**				
Tenure	0.30***	- 0.07***	0.01	- 0.02**	- 0.07***	0.54***	0.07***			
Cash Compensation	0.15***	0.46***	- 0.01	0.02*	0.20***	0.10***	- 0.01	0.01		
Stock Compensation	0.09***	0.37***	0.07***	0.03***	0.09***	- 0.05***	0.02**	- 0.14***	0.26***	
Total Compensation	0.22***	0.68***	0.12***	0.05***	0.16***	0.06***	0.01	- 0.06***	0.63***	0.65***

4.2 Main Results

4.2.1 Do politically connected CEOs have higher compensation?

Table 5 presents the regression results with the independent variable and the control variables. All variables were winsorized to account for outliers. Year and industry fixed effects were used in all the regression models.

The first regression findings, using the donation dummy as the independent variable, are shown in Table 5. The donation dummy is an indicator variable that equals 1 if the CEO donates to a political party. All the three regression models have an adjusted R^2 of 45.9%, 31.8% and 59.5%. To clarify the results, the CEO compensation is divided into three levels: cash, stock and total compensation.

The empirical results of model 1 show a statistically positive coefficient of 0.097 and are statistically significant at a level of 1%. These results indicate that if the CEO donates to a political party the cash compensation will increase with 9.7%. This is translated into $110.65 dollars for a CEO who is compensated at the median level. However, model 2 shows different outcomes regarding stock compensation. A negative coefficient of - 0.069 is found with no statistically significant result. On the other hand, the last model shows a statistically positive coefficient of 0.095 and is statistically significant at a level of 1%. The total compensation also includes stock compensation. So, it is challenging to draw clear conclusions. However, he null hypothesis that political donations do not influence the cash and total compensation is rejected.

Other noteworthy associations include that CEO tenure is negatively related for all levels of compensation. This is not consistent with the fact that CEOs with more years of experience have a higher compensation and more power. Additionally, coefficient estimates suggest that the level of compensation is higher for CEOs of large and growing companies.

All in all, the magnitudes imply that networks have actual wealth effects on the CEOs and the data demonstrate that political connectedness matters in terms of compensation. In the next section, the impact of winning will be taken into consideration in order to better answer the research question.

Table 5 : Level of compensation and political connectedness

In this table the regression estimates are shown from a regression of the level of compensation for the CEO (measured in natural logarithms) on the political donation measure and other factors. The sample consists of donor and non-donor CEOs. Year and industry fixed-effects are included.

	Dependent variable:		
	Cashcompensation	Stockcompensation	Totalcompensation
	(1)	(2)	(3)
DONATE_D	0.097***	-0.069	0.095***
	(0.013)	(0.046)	(0.015)
FIRMSIZE	0.203***	0.524***	0.404***
	(0.004)	(0.014)	(0.004)
LEVERAGE	0.232***	0.339***	0.150***
	(0.024)	(0.084)	(0.027)
MTB	-0.0004	0.0004	0.0002
	(0.0004)	(0.001)	(0.0004)
ROA	-0.502***	0.348***	-0.029
	(0.035)	(0.119)	(0.038)
TENURE	-0.002**	-0.019***	-0.004***
	(0.001)	(0.003)	(0.001)
AGE	0.006***	0.001	0.005***
	(0.001)	(0.003)	(0.001)
GENDER	-0.052**	-0.158*	-0.126***
	(0.026)	(0.089)	(0.028)
Fixed effects	Industry-Year	Industry-Year	Industry-Year
Observations	15,380	15,380	15,380
R^2	0.471	0.333	0.604
Adjusted R^2	0.459	0.318	0.595
Residual Std. Error (df = 15038)	0.544	1.873	0.590
Note:			*p<0.1; **p<0.05; ***p<0.01

4.2.2 Impact of winning

What happens to a CEO who has political connections when their politician wins or loses an election? How much does the CEO's capacity to secure further benefits suffer from the election of his or her preferred candidate?

This study focuses on the elections of 2020. The winners are presented as Democrats. Table 6 presents the regression results with the interaction effect. This interaction effect shows if the donation to a winner affects the levels of compensation. To clarify the results, the CEO compensation is divided into three levels: cash, stock and total compensation. All three regression models have an adjusted R^2 of 46%, 31.8% and 59.5%.

The empirical results of model 1 show a positive coefficient of 0.031 which is not statistically significant for a donation to a winning party. This result indicates that if the CEO donates to a winning political party, cash compensation is not affected. Again, different outcomes can be seen when examining model 2 about stock compensation. This model shows a negative coefficient of - 0.013 for a winning donation and does not show a statistically significant result. Also, the last model shows a negative coefficient of - 0.009 and is not statistically significant. So, to draw a conclusion, the fact that donations are to winning political party does not have an impact on the levels of compensation.

In summary, the data reveal that political networks with CEOs receive more compensation benefits regardless of which party they vote for, which suggests that the findings do reflect the use of political relationships. In the next section, the relation between compensation and corruption is taken into consideration.

Table 6 : The winner effect

This table presents the regression estimates from a regression of the level of compensation (measured in natural logarithm) on the political donation measure taking into account the winning or losing political parties. This interaction effect combines the effects of variables on the level of compensation. This sample consists of donor and non-donor CEOs. Year and industry fixed-effects are included.

	Dependent variable:		
	Cashcompensation	Stockcompensation	Totalcompensation
	(1)	(2)	(3)
DONATE_D	0.078***	-0.068	0.101***
	(0.017)	(0.059)	(0.019)
DONATE_D:WINNER_D	0.031	-0.013	-0.009
	(0.022)	(0.074)	(0.023)
WINNER_D	-0.068***	-0.075	0.028*
	(0.015)	(0.052)	(0.016)
FIRMSIZE	0.204***	0.525***	0.404***
	(0.004)	(0.014)	(0.004)
LEVERAGE	0.232***	0.340***	0.150***
	(0.024)	(0.084)	(0.027)
MTB	-0.0004	0.0004	0.0002
	(0.0004)	(0.001)	(0.0004)
ROA	-0.504***	0.346***	-0.028
	(0.035)	(0.119)	(0.038)
TENURE	-0.002**	-0.019***	-0.004***
	(0.001)	(0.003)	(0.001)
AGE	0.006***	0.001	0.004***
	(0.001)	(0.003)	(0.001)
GENDER	-0.056**	-0.167*	-0.124***
	(0.026)	(0.089)	(0.028)
Fixed effects	Industry-Year	Industry-Year	Industry-Year
Observations	15,380	15,380	15,380
R^2	0.472	0.333	0.604
Adjusted R^2	0.460	0.318	0.595
Residual Std. Error (df = 15036)	0.543	1.873	0.590

Note: *p<0.1; **p<0.05; ***p<0.01

4.2.3 Does corruption play a role?

To test whether corruption plays a role in the relation between political donations and CEO compensation, corruption convictions per state are examined. Every CEO made a donation to a political party located in one of the 50 states of the United States.

Table 7 presents the regression results with the interaction effect. This interaction effect shows if the CEO made a donation to a political party that is located in a corrupt state. To clarify the results, the CEO compensation is divided into three levels: cash, stock and total compensation. All three regression models have an adjusted R^2 of 46%, 31.8% and 59.6%.

The empirical results of model 1 show a positive coefficient of 0.125 and are statistically significant at a level of 1% for a donation in a highly corrupt state. This means that cash compensation will significantly increase by 12,5%. This result indicates that if the CEO donates in a highly corrupt state, the cash compensation increases more than in other situations. In this regression, there are also different outcomes when examining model 2 about stock compensation. This model shows a negative coefficient of - 0.106 and is not statistically significant. On the other hand, the last model shows a statistically negative coefficient of - 0.109 and is statistically significant at a level of 1%. So, for a donation to a party in a highly corrupt state, the total compensation has a statistically significant decrease of 10.9%.

So, to draw a conclusion, the relation between political donations and cash compensation is more pronounced in states with high corruption, and there is a negative relation between political donations and total compensation in high corruption areas.

Table 7 : The corruption effect

This table presents the regression estimates from the regression of the level of compensation (measured in natural logarithm) on the political donation measure taking into account the level of corruption. This interaction effect combines the effects of variables on the level of compensation. This sample consists of donor and non-donor CEOs. Year and industry fixed-effects are included.

	Dependent variable:		
	Cashcompensation	Stockcompensation	Totalcompensation
	(1)	(2)	(3)
DONATE_D	-0.005	0.021	0.185***
	(0.027)	(0.093)	(0.029)
DONATE_D:HIGH_CORRUPTION	0.125***	-0.106	-0.109***
	(0.029)	(0.098)	(0.031)
HIGH_CORRUPTION	-0.009	0.138**	0.038*
	(0.019)	(0.065)	(0.021)
FIRMSIZE	0.201***	0.523***	0.405***
	(0.004)	(0.014)	(0.004)
LEVERAGE	0.231***	0.334***	0.150***
	(0.024)	(0.084)	(0.027)
MTB	-0.0004	0.0004	0.0002
	(0.0004)	(0.001)	(0.0004)
ROA	-0.502***	0.350***	-0.028
	(0.035)	(0.119)	(0.038)
TENURE	-0.002***	-0.019***	-0.004***
	(0.001)	(0.003)	(0.001)
AGE	0.006***	0.001	0.004***
	(0.001)	(0.003)	(0.001)
GENDER	-0.047*	-0.152*	-0.128***
	(0.026)	(0.089)	(0.028)
Fixed effects	Industry-Year	Industry-Year	Industry-Year
Observations	15,380	15,380	15,380
R^2	0.472	0.333	0.605
Adjusted R^2	0.460	0.318	0.596
Residual Std. Error (df = 15036)	0.543	1.873	0.590
Note:			*p<0.1; **p<0.05; ***p<0.01

5. Conclusions

The relation between political donations and CEO compensation was investigated in this thesis. The research question is answered by focusing on three levels of compensation: cash, stock and total compensation. A quantitative analysis has been conducted to assess the relation between political donations and CEO compensation. In addition to this, there was additional focus on whether other factors, such as the effect of winning or corruption, would strengthen the relation. The sample focused on CEOs between 2017 and 2022. There were two hypotheses developed to answer the research question. A positive effect of donations on CEO compensation was expected.

The findings show that there is a significant positive relation between political donations and cash and total compensation. Stock compensation is not affected by political donations. So, the results show that it may be attractive to donate to a political party as a CEO. Furthermore, the moderating variables provide further clarity. According to the results, there is no relation between CEO compensation and a donation to a winning party. In addition to that, on cash compensation a donation in a highly corrupt state has a greater effect and the total compensation will highly decrease after a donation in a highly corrupt state.

This study adds to the body of knowledge because it is one of the first to look at political donations and CEO compensation in this time frame. This study exclusively focused on the impact of political donations, as opposed to earlier studies that considered firm and social effect on CEO compensation. The findings are important for regulators, investors and may provide suggestions for new laws on the impact of political donations.

This study has limitations despite all efforts to avoid them. The possibility of an endogeneity issue is the first constraint. Despite the application of all the control variables in this study, additional factors may still affect CEO compensation. This is due to the fact that it can be exceedingly challenging to ascertain how political connectedness influences CEO compensation. The second restriction is a data limitation. The data does not include small donations of less than $200 and there is a focus on the interval of time between 2017 and 2022. This results in fewer observations.

For additional research, the examination of political donations from other executives might be interesting. In addition to that, the focus on a particular industry can also add value. In some industries, political donations will be more of an issue than in others. This is the reason it will be difficult to generalize the results of this research.

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Appendix

Table 1 : Definitions of variables

Donate_D	An indicator variable that equals one if a CEO donates
Winner_D	An indicator variable that equals one if a CEO donates to a Democratic party
High_Corruption	An indicator variable that equals one if a state has more corruption convictions than the median value.
Cash Compensation	Salary + Bonuses + Other annual compensation
Stock Compensation	Total value of restricted stock granted + Total value of stock options granted
Total Compensation	Salary + Bonuses + Other annual compensation + Total value of restricted stock granted + Total value of stock options granted + Long-term incentive payouts + All other totals
Gender	An indicator variable that equals one if a CEO is male or otherwise
Age	The length of time that an individual lives
Tenure	The years an individual spends in the CEO position.
ROA	Return on assets (net income / assets)
MTB	Market to Book ratio (market value / book value)
Leverage	Total debt / Total assets
Firm Size	Size of a firm measured by the book value of total assets