

# Effects of Political Affiliation on Firm Investment Behavior: Evidence from an Election Upheaval in Turkey

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## Abstract

This paper investigates the impact of political affiliation on firm investment decisions and market performance, focusing on Turkey between 1998 and 2008, which includes years before and after the 2002 elections. Using a novel panel dataset on firm investment that I collected by scraping stock market yearbooks and a new approach to identify political affiliations through Google searches of board members' ties to businessman associations, the study explores how the political alignment of key board members affects firms' investment decisions based on their market capitalization within their sector. Key empirical findings reveal that large firms tend to initiate investment projects after losing political connections, whereas smaller firms are more likely to invest when politically aligned with the government. Additionally, political alignment boosts stock market returns, and firms adjust their board composition to strengthen political ties, especially when new firms enter the stock market in their sector.

## 1 Introduction

Political power has a profound impact on the economy and having political connections with the government is crucial for firms. The government offers businesses numerous benefits, such as public procurement contracts, more accessible and cost-effective financing through public banks, public procurement contracts, favorable exchange rates, exclusive access to subsidies, tax exemptions, and other advantages (Francis, Hussain, & Schiffbauer, 2018).<sup>1</sup> Being aligned with this political power becomes even more significant for firms in a world where political polarization and partisanship are on the rise.

Although political connections are important, not all firms have the same opportunities to establish them. The ease of forming such connections depends on various exogenous factors, including networks,

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<sup>1</sup>"Government" is going to be used interchangeably with "political power"

geography, ideological or political views, and cultural background. In this context, sharing similar values and political views with the government—hereafter referred to as political alignment—plays a crucial role.

Understanding the significance of political alignment is essential for predicting the real business effects of political events and turnovers. The existing literature has examined the impact of political connections on market value and innovation. However, the influence of political alignment on investment remains understudied. Kempf, Luo, Schafer, & Tsoutsoura (2023) argue that political alignment reduces frictions in foreign investment, but its effect on domestic investment is still ambiguous.

This paper examines the effect of political alignment with the government on firms' investment decisions. Specifically, I analyze firms' investment behavior and political affiliations in the context of an exogenous political turnover. A significant election resulting in a major shift in political power provides an ideal setting to study this effect, as it significantly alters firms' political alignment with the government. I investigate if such a change in alignments affects the firm's investment decision. Furthermore, I explore whether this effect varies depending on a firm's position within its sector or relative to similar firms.

Identifying the effect of political alignment presents several empirical challenges. To conduct this analysis, it is necessary to observe firm-level investment decisions, firms' political alignment, and a shift in political alignment. Finding all three simultaneously is challenging, especially in developing countries where the effect is expected to be more pronounced. Data on political views is often scarce, and firm-level data, when available, frequently lacks historical depth. Additionally, in some countries, political turnovers are infrequent, further complicating the study of these dynamics.

To address these challenges, I focus on the 2002 general elections in Turkey, which offer a valuable case study due to the significant shift in political power during this period.<sup>2</sup> To construct a firm-level dataset, I compile a novel dataset by scraping yearbooks of firms listed on Turkey's Stock Market (BIST) between 1998 and 2008. This unique dataset includes information on continuing and planned investment projects for each firm-year, as well as firm profiles and board member details, providing a rich source of firm-level investment data for a developing country.

To identify political affiliations, I propose a novel, replicable, and objective measure based on Google Search results for board members. Specifically, I link board members to business associations associated with different political camps. Using this approach, I determine the political affiliations of over 4,000 board members. By observing the board compositions of more than 200 firms over 11 years, I track the political alignment of firms with the government over time. The exogenous political change during the period under study provides a unique opportunity to analyze the impact of a major change

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<sup>2</sup>See Appendix for details on the election.

in political alignment on firm behavior.

I also explore whether the effect of political alignment on investment varies depending on a firm’s market capitalization within their sector, which I find it does. For the largest firms, losing political alignment following the election increases the probability of initiating an investment project compared to other largest firms. In contrast, for not-largest firms, being politically aligned at the start of the year significantly raises the probability of starting an investment project within that year. Additionally, if a politically aligned firm becomes the largest within its peer group, its probability of initiating an investment project drops significantly -a pattern that is not observed among firms that are not politically aligned.

My empirical strategy addresses concerns about endogeneity and confounding factors by employing a firm fixed-effects binary choice model and leveraging exogenous election results.<sup>3</sup> The firm fixed effects account for firm-specific and sector-specific characteristics, ensuring that these factors do not bias the analysis. The data show that firms’ political affiliations are relatively stable over time and exhibit less variability compared to other variables. This stability supports the assumption that changes in political alignment are predominantly driven by the exogenous election outcomes.

A crucial aspect of this analysis is identifying the political affiliations of board members, for which no direct measures exist. However, Turkey’s political landscape includes two prominent business associations (BAs): TUSIAD and MUSIAD, could be associated with left-wing and right-wing, respectively, in Turkey’s political context (Cokgezen, 2000). Establishing a connection between a board member and one of these associations provides insight into their political affiliation. Because public membership data for these BAs is unavailable, I rely on Google Search to discover these connections. Specifically, I search for each board member’s name alongside the official websites of the BAs, collecting the number of search results from each query. This data serves as a proxy for determining the political affiliation of board members. With this metric, I also infer the political alignment of the firms by aggregating the affiliations of their board members.

Before applying my novel political affiliation measure to analyze investment decisions, I validate it by examining its effect on market returns. The positive relationship between political connections and market returns is well-established in the literature. If political alignment reduces barriers to political connections, it should result in positive market returns. After controlling for time and firm fixed effects, my analysis reveals a significant positive effect of political alignment with the government on market returns. This result confirms the validity of my measure as an indicator of political affiliation.

As an additional investigation, I explore whether changes in board composition that increase political alignment with the government can be explained by the variables in my dataset. Over the six

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<sup>3</sup>See Appendix for election results.

years following the election, 15 out of more than 200 firms altered their board compositions in a way that led to greater political alignment with the government, based on the measure I employed. I find that the primary predictor of this change is the entry of new firms into the sector in the previous year. This result shows that new entrants into the stock market creates pressure on the existing firms in their sector.

After establishing the results, the paper discusses the possible mechanisms that could explain them. Market leader firms that have close ties with the political power may raise barriers for competitors, leading to lower investment for them, while losing such advantages incentivizes new investment projects. Conversely, smaller or rising firms use political alignment to overcome these barriers and reduce costs, boosting their investment. Financial constraints of smaller firms could be another channel, as political alignment can ease financing for smaller firms, which often face tighter constraints compared to top firms with easier access to funding. Additionally, political connections may depend more heavily on alignment for smaller firms, while top firms can secure political connections regardless of government alignment.

The rest of this paper proceed as follows: Section 2 presents the motivation and literature review. Section 3 introduces the data, political affiliation metric, and constructed variables. Section 4 illustrates the empirical strategy while Section 5 shares the results. Section 6 discusses suggested mechanisms for the results.

## 2 Motivation and Related Literature

My study is motivated by the growing political polarization and its potential economic consequences. While corruption is a well-documented phenomenon in developing countries, the indirect impact of ideological or positional alignment with the government on firms’ decisions remains unclear. Moreover, this paper complements an earlier endogenous growth theory study I conducted to understand the potential effects of political turnover on economic growth and innovation ([Seker, n.d.](#)). The implications of my model regarding the effects of political alignment and political turnover on firms’ investment decisions—differentiated by alignment—address an understudied area in the literature. By filling this gap, my paper contributes to multiple strands of research on political economy and firm behavior.

First, my paper contributes to the literature on measuring political connection and affiliation. The recent works in the literature ([Kempf & Tsoutsoura, 2021](#)) and ([Kempf et al., 2023](#)) measures the political affiliation of credit analysts and board members in the US respectively based on their voter registration zipcode. Previous works in the literature focus on measuring political connections of firms. The most common method, that is also used in the surveys ([Akcigit, Baslandze, & Lotti, 2020](#)),

(Khawaja & Mian, 2005), (Stark & Vedres, 2012), is finding old party members in the firms payrolls or board members. Claessens, Feijen, & Laeven (2006) uses the campaign donations as a measure of political connections. Fisman (2001) uses the relatives of the president Suharto in the executive team as an indicator of the political connection with the government.

My empirical analysis also contributes to studies that investigate the effects of political events and political connections on investments and innovation. Akcigit et al. (2020) investigates the relation between business dynamism and political connection rate in the sector in the context of Italy. They show that a higher political connection rate leads to lower business dynamism, such as R&D activities and new entrants. Bellettini, Berti Ceroni, & Prarlolo (2013) shows that the sudden death of a mayor leads to increase in investments in an area. Atanassov, Julio, & Leng (2019) shows that patent applications in the US increase before the gubernatorial elections. Francis et al. (2018) show that politically connected firms in Egypt innovate less and use their sources to get policy privileges. Khwaja & Mian (2005) and Claessens, Feijen, & Laeven (2006) document that politically connected firms find cheaper financing opportunities and increase their debt ratio.

Additionally, this paper contributes to studies that investigate the effects of political connection on market returns. Fisman (2001) shows that the market values of the firms connected to Indonesia’s president Suharto were affected by news about health conditions of the president. Faccio, (2006) defines political connection as a shareholder of a firm being also a top officer in the government. By establishing worldwide firm-level political connection dataset, it shows that new political connection establishment leads to jump in the firm’s market value. Finally, this paper could also contribute to a broad literature of the relation between corruption and growth (Aidt, 2009) through novel data collection method.

## 3 Data

The primary dataset used in this analysis is constructed from yearbooks, Google search results, and market returns. The data sources are outlined below as well as constructed metrics.

### 3.1 Yearbooks

Yearbooks are forms submitted annually by firms listed on the stock market, accessible through the BIST DataStore.<sup>4</sup> Each yearbook is a Word document that includes the firm’s profile, along with key metrics related to production, import-export activities, ongoing and planned investments, shareholders, and more. The yearbooks cover the period from 1998 to 2008. While some sections of the forms are

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<sup>4</sup><https://datastore.borsaistanbul.com/>

standardized across all yearbooks, others—particularly those related to production—are either sector-specific or firm-specific.

From these yearbooks, I extract several key pieces of information. I obtain details on what each firm produces from their profiles and match this with NACE sector codes to gather sector data. I also collect data on board members, listed by their significance within the firm, to determine the political affiliation of each firm at the beginning of each year. To calculate market capitalization, I use outstanding shares along with price data. Most importantly, I collect the table on continuing investments, where firms list their ongoing and planned projects, including project names, start and end dates, and estimated vs. realized costs. I compile these investment tables to create my own firm-level investment dataset over time.

Fortunately, the available yearbooks cover the period of interest, including the 2002 election. Although these yearbooks are accessible, they have not been used in prior research due to their format, which makes it challenging to extract and convert the data into a usable form.

## 3.2 Google Search Results - Political Affiliation Measures

Identifying political affiliation is central to this research. I use the names of board members to determine political affiliation, as these are public information, making the approach both accessible and reproducible. However, the method for identifying a board member’s political affiliation is context-dependent. In Turkey, political polarization can be present in a business as well. There are two main business associations, TUSIAD and MUSIAD, which can be identified as representing left-wing and right-wing<sup>5</sup>, respectively, within Turkey’s political landscape (Cokgezen, 2000). A person’s association with these business organizations is a strong indicator of their political views.

There is no publicly available data regarding BA memberships. For this reason, I use Google search results to examine a board member’s connection with these business associations. Specifically, I search the board member’s name along with the official websites of TUSIAD and MUSIAD, and collect the number of search results that appear. The number of search results reflects how frequently the board member’s name appears on the BA’s website, providing a tangible and objective metric of the strength of the relationship between the board member and the BA, as well as the board member’s public prominence.

When examining the search result data for board members, I observe that the red and blue search results are negatively correlated for individuals with positive results in both categories. This suggests a clear distinction between the two business associations. This observation supports the idea of a strong political polarity between the associations. Additionally, when I examine well-known board members

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<sup>5</sup>Will be called blue and red respectively hereafter.

from each side, I find that their search results are high for their expected association (red or blue) and low for the opposite one. These initial findings do not raise any concerns or anomalies.

I want to categorize board members as left (blue), right (red), or none (white). I identify a board members affiliation with the following method: If a board member does not have greater than 10 search results from blue or red search, categorized as none. If has more than 10 search result from one color only, categorized with that color. If has more than 10 search results from both colors, I compare the quantiles within the group of the search results from both colors and categorize as the color of the greater quantile result.

Using categorized board members allows me to identify a firm’s political affiliation each year based on the board member list in the yearbook. Because board members are ordered by their significance in the firm, I take first top-3 board members and look at the ratio of blue and red board members in top-3 board members. If the number of blue board members is greater, then the firm is colored as blue. If the number of red board members is greater, then the firm is colored as red. If there are one red and one blue board member, then the firm is colored as blue and red together. In case of all the board members are white, the firm has no color as well. This completes my political affiliation identification of firms. Denote that even though my board member political affiliation is not changing over time, firm’s political affiliation is dynamic due to changes in the board composition.

### 3.3 Constructing Largest Firm Variables

To examine how a firm’s competitive position influences the outcomes, I introduced two dummy variables:

**Largest in the sector ( $LS_{it}$ ):** This variable equals 1 if firm  $i$  has the largest market capitalization in its sector at the beginning of year  $t$ , and 0 otherwise.

**Largest among similar firms ( $LaS_{it}$ ):** A more localized measure of dominance, this variable identifies whether firm  $i$  is the largest among its peers in both sector and market capitalization. Specifically, firms are considered similar if they belong to the same sector and have a market capitalization ratio between 1/2 and 2. The variable takes the value 1 if firm  $i$  has the largest market capitalization among its similar firms at the start of year  $t$ , and 0 otherwise.

These variables enable me to determine whether firms are in a leading position within their competitive landscape. I will call them top firms if they have a leading position in the competition.

### 3.4 Treatment Variable

The primary treatment variable is being politically aligned with the central government. Following the general election in November 2002, Turkey’s political landscape shifted from blue to red. Accordingly,

I define the treatment variable as follows:

$D_{it}$  : 1 if firm  $i$  in year  $t$  is identified as red and  $t \geq 2003$  or if firm  $i$  in year  $t$  is identified as blue and  $t \leq 2002$ . 0 otherwise.

### 3.5 Summary Statistics

Detailed table of summary statistics could be found in the appendix. Average political alignment ratio for all firm-years is 26%. In 31% of firm-years there is a starting investment project. 20% of the firms are the largest in their sector and almost 50% of the firms are the largest among similar firms.

## 4 Empirical Strategy

One might argue that political alignment with the central government is not randomly assigned, potentially leading to endogeneity concerns. To address this issue, I employ firm fixed effects to account for firm-specific characteristics that remain constant over time. Additionally, the use of exogenous election results, which shift political power, allows me to isolate and capture the causal effect of political alignment with the government.

### 4.1 Market Returns

To validate whether my measure of political alignment is effective, I examine its impact on firms' market returns. Specifically, I estimate the following regression using the full panel dataset:

$$R_{i,t} = \alpha_i + \beta_t + \delta D_{i,t} + \epsilon_{i,t} \quad (1)$$

The variable  $R_{i,t}$  is the market return of firm  $i$  in year  $t$ . It is calculated as

$$R_{i,t} = \ln P_{i,t+1} - \ln P_{i,t}$$

where  $P_{i,t}$  denotes the adjusted price of firm  $i$  at the first day of year  $t$ . The variable  $D_{i,t}$  is the political alignment indicator constructed in the previous section. It equals 1 if firm  $i$  is politically aligned with the government at the beginning of year  $t$ , 0 otherwise.

$\alpha_i$  represents firm fixed effects, and  $\beta_t$  captures time fixed effects. Incorporating these terms allows me to control for firm-specific characteristics that remain constant over time, as well as year-specific effects stemming from overall market performance. I estimate the model using both fixed effects and random effects approaches to compare the results and ensure robustness.



## 4.2 Investments Over Time

Using raw investment amounts can be misleading due to the presence of extreme cases and the lack of comparability across sectors. To address this, I constructed a binary variable  $I_{i,t}$ , where:

$$I_{i,t} = \begin{cases} 1 & \text{if firm } i \text{ initiated any investment project in year } t, \\ 0 & \text{otherwise.} \end{cases}$$

This approach ensures a more consistent and comparable measure of investment activity across firms and sectors.

I ran the following regression for different groups based on their  $LS_{i,2003}$  and  $LaS_{i,2003}$ , which are determined by the firm's market capitalization during the election. Specifically, I examine the effect of political alignment on firms' investment decisions by categorizing firms based on their market position at the time of the election. This approach allows me to assess how political alignment influences investment behavior, depending on a firm's position within its sector at the time of the election.

$$I_{i,t} = \mathbf{1}[\alpha_i + \delta D_{i,t} > \epsilon_{i,t}] \quad (2)$$

A probit model with firm fixed effects is used to estimate this relationship. To address potential bias in finite time panel data, I applied the method suggested by (Fernandez-Val, 2009) for bias correction in all binomial choice models in the paper. The results of the model provide insights into the effect of political alignment on investment decisions for each group.

Note that in the analysis described above, the firm groups are static, as they are defined solely based on their position at the time of the election. To examine the effect of changes in position over time, I ran the following regression after the election, using data from all firms.

$$I_{i,t} = \mathbf{1}[\alpha_i + \delta_1 D_{i,t} + \beta LaS_{i,t} + \delta_2 D_{i,t} \times LaS_{i,t} > \epsilon_{i,t}] \quad (3)$$

In this analysis, firm fixed effects and the effect of political alignment are supplemented with the variable indicating whether a firm is the largest among similar firms, as well as the interaction term between this variable and political alignment. The interaction term captures whether the effect of political alignment on investment decisions increases or decreases when a firm becomes the largest firm among its similar peers.

### 4.3 Investments After the Political Turnover

In this analysis, I examine the effect of political alignment changes after the election using the following regressions.

$$I_i = \mathbf{1}[\beta_0 + \delta \Delta D_i > \epsilon_{i,t}] \quad (4)$$

$$I_i = \mathbf{1}[\beta_0 + \delta_1 \Delta D_i + \beta LaS_i + \delta_2 D_i \times LaS_i > \epsilon_i] \quad (5)$$

In this model, there is no time subscript. I define my investment variable  $I_i$  as the initiation of any investment project after the election, measured over different time spans: 1 year, 2 years, and 3 years, specifically. The variable  $\Delta D_i$  represents the change in political alignment for firm  $i$  following the election. It can take values of -1, 0, or 1:

- -1 indicates the firm lost political alignment after the election,
- 1 indicates the firm gained alignment with the government after the election,
- 0 means there was no change in alignment status.

In my data, it is more common for firms to lose their alignment ( $\Delta D_i = -1$ ) than to gain it ( $\Delta D_i = 1$ ). Therefore, the results will predominantly reflect the impact of losing political alignment.

The variable  $LaS_i$  represents the "largest among similar firms" dummy, where  $LaS_i = LaS_{i,2003}$ . The interaction term  $\Delta D_i \times LaS_i$  allows me to investigate whether the effect of losing political alignment differs between the largest firms and others.

### 4.4 Changes in the Board Composition

As a supplementary analysis, I investigate if the firms reacts to some occasions by changing their board composition such that it will allow them to get closer to the government.

Following the election, 26 out of 271 firms were identified as  $D_{i,2003} = 1$ , indicating alignment with the government. Between 2003 and 2008, an additional 15 firms became aligned by altering their board composition. To explore whether these changes are influenced by the entry of new competitors into their respective sectors, I utilize the following regression:

$$\Delta D_{i,t} = \mathbf{1}[\beta_0 + \beta_1 \Delta NoC_{i,t-1} > \epsilon_{i,t}] \quad (6)$$

In the model above,  $\Delta D_{i,t}$  is the indicator of the board composition change that the board aligns with the government. It takes a value of 1 if firm  $i$  became politically aligned with the government in year  $t$ . 0 otherwise.  $\Delta NoC_{i,t-1}$  denotes the change in the number of competitor firms listed on the stock market within the sector of firm  $i$  in year  $t - 1$ . This model aims to investigate whether the

entry of new competitors into a sector incentivizes existing firms in the sector to adjust their board composition to align with the government.

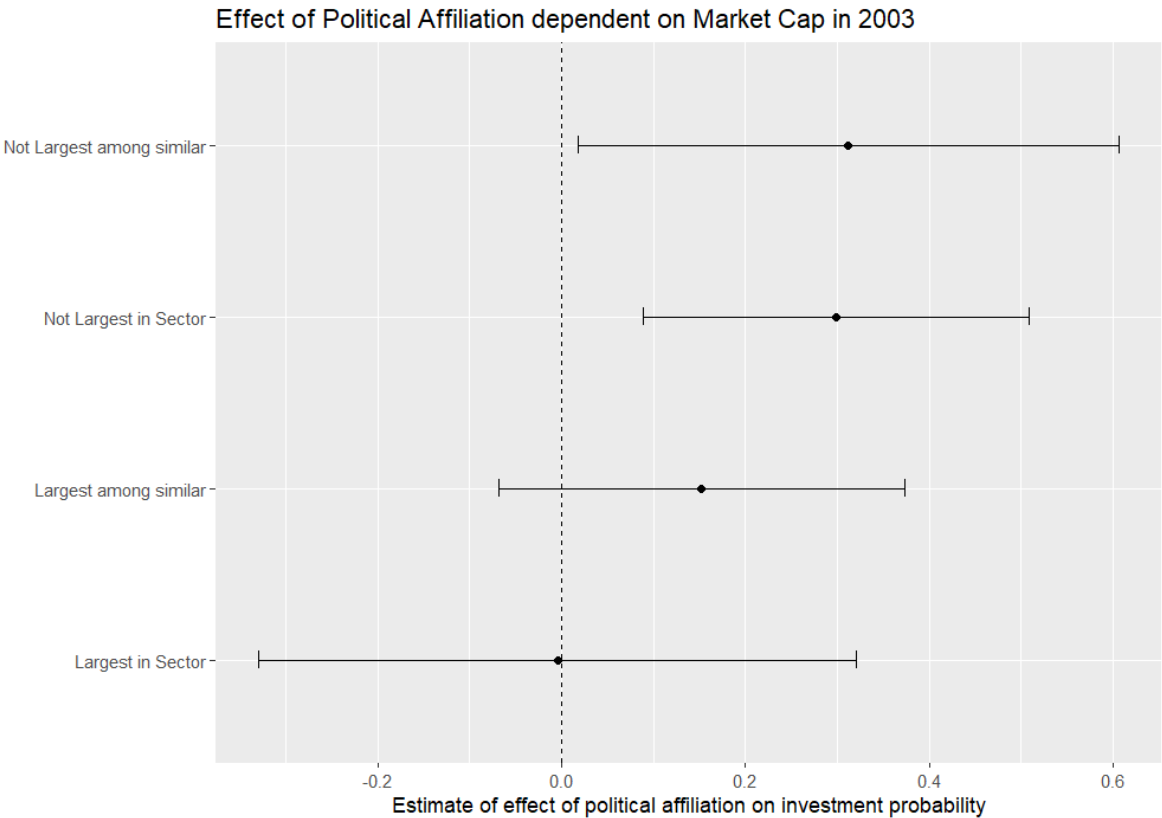
## 5 Results

### 5.1 Market Returns

In the market return analysis, I find a significant effect of political alignment on market returns, after controlling for both time and firm fixed effects. This suggests that my measure of political alignment is meaningful. Additionally, the coefficient indicates a 6-8% increase in market returns after accounting for firm-specific and year-specific effects. These returns are comparable to those found in (Faccio, 2006) and (Fisman, 2001). Detailed results can be found in Table 7.1 in the appendix.

### 5.2 Investments Over Time

When I run the regressions in equation (2), I find that the coefficient for political alignment is not significant for the largest firms, while it is significant for the other firms. The figure below illustrates the effect of political alignment on investment probability for different groups, along with the corresponding confidence intervals.



The results of the regression in equation (3) are quite interesting. They show that political alignment leads to a higher investment probability, but this effect disappears when a firm becomes the largest among similar firms. For the other firms, being the largest does not appear to affect their investment probability. Detailed regression results can be found in Table 2 in the appendix.

### 5.3 Investments After the Political Turnover

In the regression from equation (4), I examine the effect of political alignment changes on post-election investment probabilities over 1, 2, and 3 years. You can refer to Table 3 for the results. Political alignment changes do not appear to affect investment probability after the election. However, the results change significantly when I include the interaction term for the largest firms in the regression, as shown in equation (5). This interaction reveals that the largest firms that lose political alignment are more likely to initiate an investment project after the election compared to other groups. This suggests that for the largest firms, losing political alignment increases the probability of investment. For detailed results, see Table 7.1.

### 5.4 Changes in the Board Composition

The regression results based on equation (6) suggest that when new firms are listed on the stock market, existing firms in the sector become more likely to alter their board composition in order to align more closely with the government. The entry of new firms creates pressure on existing firms to strengthen their connections with the government. For detailed results, see Table 5.

## 6 Mechanisms

So far, I have documented results showing that the effect of political alignment depends on a firm's position. Specifically, being the top firm decreases investment for politically aligned firms, while political alignment increases the investment probability for non-top firms. In this section, I explore potential channels that could explain these empirical findings.

One possible explanation for these findings is the difference in how political advantages are utilized by top firms and non-top firms. Top firms are more likely to use their political connections to increase barriers in the sector, thereby reducing competition and investment efforts. When they lose this advantage, it prompts more investment from the largest firms. In contrast, young or rising firms seek to leverage political advantages to challenge the top firms, leading to higher investment. These

firms use their political connections to lower the barriers set by top firms, thereby reducing their own investment costs.

Another potential channel is the effect of binding financial constraints. Closer ties to the government can enhance financing opportunities, as shown by (?, ?). For smaller firms, financial constraints may be more binding, and an increase in financing options could lead to a higher probability of investment. In contrast, for top firms, financing is generally more accessible, and therefore, financial constraints may not be as significant, which could explain why political alignment does not have the same impact on their investment behavior.

Moreover, political connections may depend on alignment for smaller firms only. Larger firms are more likely to establish the necessary political connections with any type of government, whereas smaller firms can typically secure these connections only when their political views align with those of the government.

All of these mechanisms could contribute to the observed outcomes. However, to decompose and confirm their relevance, further structural analysis using a more detailed dataset would be necessary.

## 7 Conclusion

I introduce a novel, replicable, and objective measurement of political affiliations using Google search, which can be adapted to different political contexts by adjusting the search methodology. I demonstrate that this measure of political alignment behaves similarly to political connections in terms of market returns, confirming its validity. Using this method alongside a novel firm-level investment dataset I collected, I show that political alignment significantly influences firms' investment decisions. Firms aligned with the government are more likely to invest, although this effect disappears for the top firms. Additionally, I find that top firms that lose their alignment invest more compared to other top firms after the election. My findings align with existing studies on political connections, yielding similar results with political alignment. As a secondary result, I also show that new entrants to the stock market create pressure on existing firms to strengthen their ties with the government.

Although the source of these results is beyond the scope of this paper, potential explanations include differences in how political advantages are utilized by top firms versus others, financial constraints, or the nature of political connections. These factors should be investigated more thoroughly with a more detailed dataset and a structural model. I believe there is still much to explore regarding the relationship between business and politics.

These results provide insights into the potential real-world business outcomes of political changes, particularly in developing countries. They can help identify sectors where we might expect increased

investment and competition following a political shift. This understanding could improve the accuracy of sector- and firm-level predictions, assisting investors and lenders in making more informed decisions.

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## Appendix

### Summary Statistics Tables

Group sizes around the election is given below

	$\Delta D_{2003} = 1$	$\Delta D_{2003} = 0$	$\Delta D_{2003} = -1$	Total
$LS_{2003} = 1$	5	23	35	63
$LS_{2003} = 0$	14	113	90	217
Total Firms	19	136	125	280

	$\Delta D_{2003} = 1$	$\Delta D_{2003} = 0$	$\Delta D_{2003} = -1$	Total
$LaS_{2003} = 1$	13	62	77	152
$LaS_{2003} = 0$	6	74	48	128
Total Firms	19	136	125	280

Summary statistics table for all panel data.

$D_{i,t}$	$I_{i,t}$	$LS_{i,t}$	$LaS_{i,t}$	$R_{i,t}$
Min. :0.0000	Min. :0.0000	Min. :0.000	Min. :0.0000	Min. :-2.0053
1st Qu.:0.0000	1st Qu.:0.0000	1st Qu.:0.000	1st Qu.:0.0000	1st Qu.: -0.2259
Median :0.0000	Median :0.0000	Median :0.000	Median :1.0000	Median : 0.1738
Mean :0.2634	Mean :0.3116	Mean :0.209	Mean :0.5094	Mean : 0.2033
3rd Qu.:1.0000	3rd Qu.:1.0000	3rd Qu.:0.000	3rd Qu.:1.0000	3rd Qu.: 0.6317
Max. :1.0000	Max. :1.0000	Max. :1.000	Max. :1.0000	Max. : 3.3801
			NA's :27	NA's :7

## 7.1 Result Tables

You could find the regression tables in this section of the appendix.

Table 1: Market Returns Analysis

	Fixed Effect	Random Effect
D	0.059*** (0.021)	0.077*** (0.022)
Constant		0.194*** (0.009)
Observations	3,045	3,045
R <sup>2</sup>	0.002	0.013
Adjusted R <sup>2</sup>	-0.150	0.012
F Statistic	4.872**	2.745*
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01	

Table 2: Effect of Political Alignment with Being Largest in post-election years

<i>Dependent variable:</i>	
Starting An Investment Project in Year $t$	
$D_{i,t}$	2.1662** (0.8648 )
$LaS_{i,t}$	0.1991 (0.1742 )
$D_{i,t} \times LaS_{i,t}$	-1.6018** (0.8158 )
Observations	n= 621, N= 128
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01

Table 3: Effect of political alignment change on investment after the election

<i>Dependent variable:</i>			
Any investment projects started in			
	1 year	2 years	3 years
$\Delta D$	-0.288 (0.223)	-0.260 (0.202)	-0.344* (0.201)
Constant	-0.974*** (0.163)	-0.353** (0.146)	-0.116 (0.145)
Observations	269	270	268
Log Likelihood	-162.872	-184.173	-184.281
Akaike Inf. Crit.	329.744	372.346	372.563
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01		



Table 4: Effect of Political alignment change with the election on investment after the election

	Any investment projects started in		
	1 year	2 years	3 years
$\Delta D$	0.522 (0.366)	0.451 (0.326)	0.320 (0.321)
$LaS$	-0.209 (0.334)	-0.279 (0.299)	-0.067 (0.294)
$\Delta D \times LaS$	-1.317*** (0.479)	-1.184*** (0.428)	-1.094*** (0.421)
Constant	-0.883*** (0.225)	-0.208 (0.208)	-0.070 (0.209)
Observations	269	270	268
Log Likelihood	-158.308	-179.996	-179.910
Akaike Inf. Crit.	324.616	367.992	367.820
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01		

Table 5: The factor that leads to change in board composition to get closer to the government

	<i>Dependent variable:</i>
	$\Delta D_{i,t}$
$\Delta NoC_{i,t-1}$	0.558*** (0.200)
Constant	-4.544*** (0.303)
Observations	1,133
Log Likelihood	-76.633
Akaike Inf. Crit.	157.267
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01