Supporting both political parties can help companies reduce risk

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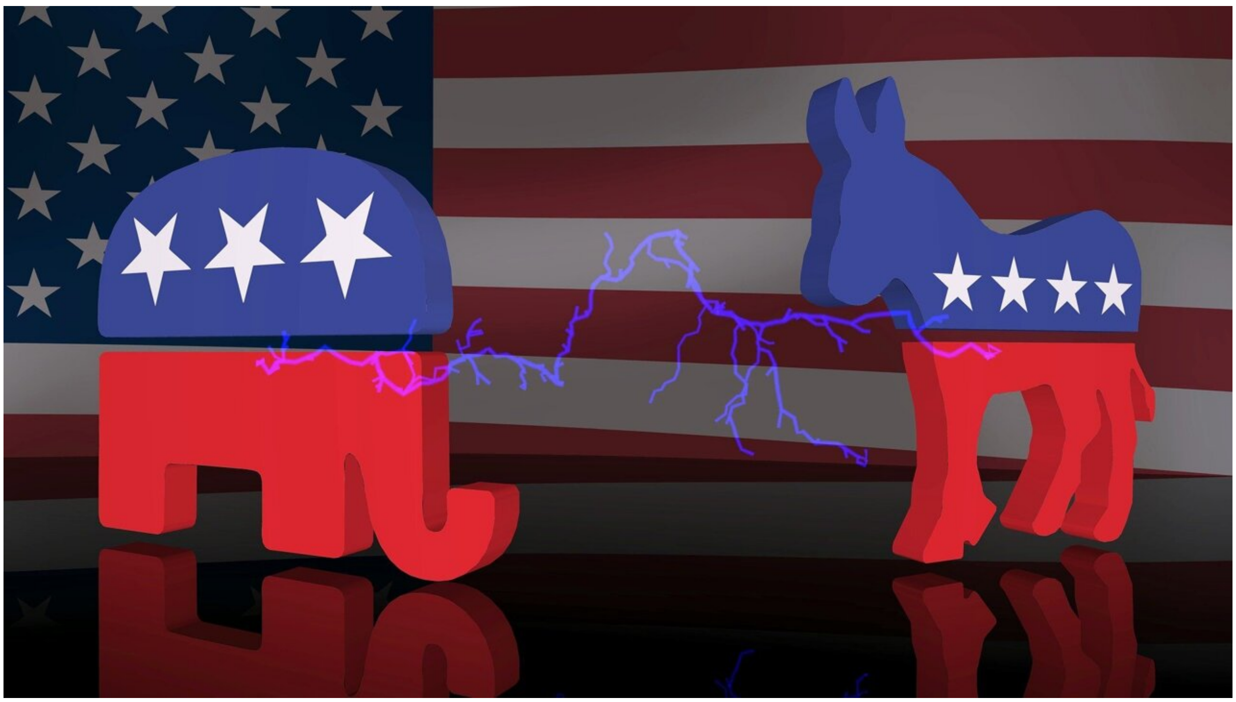

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U.S. companies that balance their political connections across party lines in a polarized partisan environment are in a position to see less volatility in their stock prices and profits, according to a University of Oregon-led study.

"Government policies can have a large impact on a company's business, and Democrats and Republicans often espouse different policies," said Dane M. Christensen, an associate professor in the Lundquist College of Business. "As the recent rise in partisanship contributes to uncertainty over whether and how government policies will change, firms face greater risk from potential policy changes."

Christensen, the Charles E. Kern Research Scholar in the School of Accounting, was the lead author on a study designed to probe how companies might reduce the risk of negative consequences caused by government actions. The study published online Nov. 22 ahead of print in the journal *Management Science*.

By establishing cross-party connections, he said, companies can retain access to information about potential policy changes and have their voices heard at the negotiating table. These balanced connections, the study concluded, translate to lower stock price volatility and less volatile firm performance in terms of earnings and investments.

Using data from Federal Election Commission databases, Christensen and his co-authors measured the extent of corporate political hedging based on financial contributions made by firms' political action committees during the study period of 1998-2016. They examined a sample of 34,782 firm-election-cycle observations for 8,325 unique public companies.

In a case study that illustrates the findings in action, the researchers analyzed the impacts of political hedging by public-sector energy and utility companies during partisan congressional debate over then-President Obama's Clean Power Plan, which sought to reduce carbon dioxide emissions by limiting carbon pollution.

"Potential policy changes represented a risk to these firms," Christensen said. "We could see what was happening in the stock market on days that

Congress was talking about the policy. Energy and utilities firms experienced elevated stock return volatility on these days, but the stock prices of politically hedged firms did not fluctuate as dramatically as those firms that had not balanced their support across party lines."

The study also revealed that political risk management strategies vary across firms. The majority stayed out of such connections all together, while others aligned themselves with one party or both parties. Firms that were most active in political hedging were in industries involved in chemicals, communications, finance and utilities.

More information: Dane M. Christensen et al, Hedging on the Hill: Does Political Hedging Reduce Firm Risk?, *Management Science* (2021). DOI: 10.1287/mnsc.2021.4050

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