Firm Boundaries and Political Uncertainty: Evidence from State Elections in India*

Arkodipta Sarkar†

May 7, 2021

Abstract

This paper investigates how political uncertainty shocks propagate through firms with different organizational structures. Using subsidiary-level debt issuance data for Indian firms and staggered state elections in India, I find that subsidiary-level leverage is 8% higher and borrowing costs are 9% lower at subsidiaries of conglomerates relative to standalone firms in the months leading up to state elections. These effects primarily reflect a relative increase in the supply of credit to conglomerate subsidiaries, which in turn leads to relatively lower capital distortions and higher overall investment within these firms. Overall, the results point to firm organizational form playing an important role in determining the sensitivities of firm investment and leverage to uncertainty shocks.

Key Words: Conglomerate, stand-alone, political uncertainty, leverage, misallocation

*I thank Daron Acemoglu, Pat Akey, Aleksander A. Aleszczyk, Ashok Banerjee, Taylor Begley, Utpal Bhattacharya, Bo Bian, João Cocco, Emanuele Colonelli, Ian Cooper, Francesca Cornelli, Nuno Clara, Mahitosh Dutta, Dimas Mateus Fazio, Julian Franks, Mihai Ion, Nirupama Kulkarni, Howard Kung, Stefan Lewellen, Jean-Marie A. Meier, Abhiroop Mukherjee, Lakshmi Sankararama Naraayanan, Elias Papaioannou, Ishita Sen, Rik Sen, Henri Servaes, Rui Silva, Manpreet Singh, Shikhar Singla, Jan Starmans, Krishnamurthy Subramanian, Prasanna Tantri, Vikrant Vig, Jin Xie, Luofu Ye, and all participants at the American Finance Association (AFA) PhD Poster Session, London Business School internal seminar, Trans-Atlantic Doctoral Conference (TADC), Western Finance Association (WFA) annual meeting 2017, Center for Analytical Finance (CAF) summer research conference 2017 at ISB, China International Conference in Finance (CICF) 2018, and the Indian Institute of Management Calcutta Financial Research Workshop 2018 and HKUST brown bag seminar for their helpful comments and suggestions.

†HKUST, e-mail: asarkar@ust.hk

1 Introduction

Uncertainty associated with the possibility of a change in government policy or national leadership can have a significant impact on the business environment of firms. While major events such as Brexit in the UK and national election outcomes in the US have discernible effects on the economy, any imminent election is invariably a potential source of uncertainty.[1] Given this premise, there has been an increase in interest to study the different ways through which political uncertainty can impact corporate decision making.[2] However, only limited attempts has been made to identify attributes that make firms more vulnerable to political uncertainty.[3] In this paper, we fill this gaps by investigating whether firms with different organizational structures have varying degrees of sensitivity to political uncertainty. More specifically, this paper investigates whether firm belonging to a conglomerate structure is differently affected by political uncertainty compared to a stand alone firm.

The importance of organizational structure in the decision making of firms has been at the centre of economic research since the introduction of the idea of 'new institutional economics' by Coase (1937). Since then, a large amount of intellectual effort has gone into understanding why firms expand their boundaries to form conglomerates. The primary benefit of expanding into a conglomerate originates from efficient resource allocation through centralized capital control and the potential to co-insure debt.[4] However, the increased agency problems and corporate socialism in conglomerates can lead to a fall in value and inefficient resource allocation.[5] The salience of these opposing characteristics can however vary to a great extent by the prevailing economic and political climate. Subsidiaries of a conglomerate, by virtue of being part of an organization spanning diverse industries and geographic locations, can be more immune to such uncertainty compared with stand-alone firms. Nevertheless, the inherent agency problems in conglomerates can make their subsidiaries more vulnerable to adverse economic situations. Lenders might consider these opposing firm characteristics while making lending decisions during times of uncertainty, thus impacting differently the leverage and borrowing costs of firms. These

[1] Even in the context of the US midterm elections, Goldman Sachs' chief of US equity strategy said, "*Policy uncertainty and equity volatility usually register above average during midterm election years, rising in particular during the three months ahead of the election.*GOLDMAN SACHS: A steadfast source of stock market turmoil is poised to make a comeback.

[2] Julio and Yook (2012), Gulen and Ion (2015), Baker, Bloom, and Davis (2015), Jens (2017).

[3] Gulen and Ion (2015) highlighted the cross-sectional heterogeneity of firms based on asset redeployability, while Akey and Lewellen (2015) suggested that firms with political connections are more likely to be affected by political uncertainty.

[4] Lewellen (1971), Williamson (1975), Williamson (1985), and Stein (1997).

[5] Lang and Stulz (1994), Berger and Ofek (1995), Rajan, Servaes, and Zingales (2000), and Schoar (2002), among others,

potentially contradictory predictions motivate our empirical investigation in this paper.

The primary contribution of the paper is to identify stand-alone organizations as more vulnerable to political uncertainty than conglomerate subsidiaries. The paper also highlights that political uncertainty may affect corporate decision making primarily through reduced access to credit. In this context, the study supports the recent literature highlighting the importance of conglomerates and their internal capital market in mitigating external financing constraints during economic shocks (Kuppuswamy and Villalonga (2015)). The study also contributes through its identification strategy of combining staggered state elections with differences in organizational structure.

The study uses subsidiary-level information of the Indian conglomerates known as Indian business groups (or business houses) (IBGs hereafter).[6] Subsidiary-level information helps in identifying the conglomerate affiliates largely similar to stand-alone firms. We use the Indian state elections as a measure of political uncertainty. India is federal in nature, and numerous policies likely to impact business decisions are taken at the state level.[7] Government policies and their implementation vary significantly depending on the political party getting elected into power. Thus, the period in the run up to an election provides a natural experiment setup to study the impact of political uncertainty.

We employ a triple-difference specification exploiting both the staggered nature of Indian state elections and the difference in organizational structure across firms. Staggered elections identify a set of control states for every group of states going to elections. The empirical specification allows us to compare stand the difference in the outcome of stand alone firms in control and treated states with difference in conglomerate across the control and treated states. The methodology thus allows us to solve two primary concerns. First, it allows us to avoid direct comparison of stand alone and conglomerate firms as they can have many difference between them. Second, it allows us to control for national trend other than political uncertainty that could potentially impact our findings.[8] We also include several fixed effects in our empirical specification to control for other unobservable confounding factors. State×indistry×year fixed effects control for any time varying factor that might have a idiosyncratic impact on a particular industry in a state. This also allows the identification to come from comparing firms varying in the organizational structure belonging to the same industry. Organization Structure×industry×year fixed effects allows the identification to generate from comparing firms within the same

[6]For the purpose of this paper, we use the terms conglomerate and IBG interchangeably.

[7]Gujarat, a large state in India, passed a law in 2015 that sought to take greater control over the running of industries and while trying to minimise disputes between labourers and employees in out-of-court settlement. New Gujarat labour bill passed, set to give govt more control over industries

[8]This is also why we do not use national elections as the natural experiment setup in this paper.

industry across control and treatment states. This also controls for national time trend differently affecting stand alones and conglomerates within the same industry. Finally firm fixed effects control for time invarying firm specific characteristics.

Using this methodology, we find that compared to the subsidiaries of IBGs, stand-alone firms suffer a significant decline in their debt-to-asset ratio in states going to election vis-á-vis in states with no election. We find that the impact is mostly due to the decline in short-term (ST) lending, with the impact of long-term (LT) lending remaining statistically insignificant. Since ST loans have maturities of less than a year, firms have to roll over their debt during the period of uncertainty. Hence, if any heterogeneity exists between the borrowing of conglomerates and stand-alone firms, it should reflect in ST loans. This raises the natural question as to why firms do not anticipate elections and raise a longer-term debt beforehand. This is mainly due to two reasons. First, our results are driven by more uncertain elections, which are difficult to predict beforehand. Second, and more important, firms can front load debt only when they have more information than banks do on political uncertainty, of which there is no evidence in our setting. I also observe that, relative to the subsidiaries of conglomerate firms, stand-alone firms show a decline in investment, which is associated with the increase in borrowing cost. From the complete election cycle, including the interaction term between stand-alone firms and dummies for different years of the election cycle, we find the effect only during the year just before election, that is, the period of political uncertainty.

We refine our results by grouping the elections into more uncertain and less uncertain ones. More uncertain elections are those where the difference between the number of seats won by the winner and runner-up is less than 5% of the total number of seats. Since elections in India are at the constituency level, with the winner forming the government, the true competition in terms of vote share occurs in the constituencies.[9] However, the state-level competition intensifies when the number of constituencies won by the political parties are very close such that any slight change can allow a different party to form the government. Hence we choose difference in seat share as our measure of uncertainty. The magnitude of our results increases during a more uncertain election.

From our results, difference in credit supply plays a major role and the impact is not driven entirely by the demand channel (as indicated by models on the option value of waiting). If the results were based on the subdued firm demand only, then a decline in quantity should be accompanied by a fall in prices. However, the aforementioned result showing that a decline in the equilibrium level of quantity borrowed (or lent) is associated

[9]Constituencies, as the sub-unit of states, are the lowest unit in a state-level election. The winner of a constituency in a state election becomes a Member the Legislative Assembly (MLA). A party (or coalition) having at least 50% of MLAs can form the government.

with an increase in interest rate indicates that the outcome is not driven entirely by the demand channel. On the contrary, a decline in quantity coupled with an increase in prices would indicate that the supply side shock is the dominant driving force for equilibrium outcomes. We corroborate this hypothesis by computing capital distortions, as in Hsieh and Klenow (2007). The idea being that in a perfect market capital should be allocated based on it's marginal productivity. Thus the degree of separation between marginal productivity of capital and actual capital allocation gives a measure of misallocation (or distortion).[10] High capital distortion will occur when productive firms have low access to credit, while firms with cheap credit will have low capital distortion. We find that stand alone firms have relatively higher capital distortion during periods of elevated political uncertainty. This further adds to our assertion that supply is the driving mechanism.

Next, we explore some of the dimensions of heterogeneity in the data to further probe the robustness of the results as well as the causal pathways underlying the relationship between political uncertainty and firm boundaries. Our results are robust to an alternative measure of political uncertainty, Effective Number of Party (ENOP), which measures the competition between different political parties. We also compute the financial constraints based on tangibility and size as well as bank relationships, to find that constrained stand-alone firms are more susceptible to political uncertainty.

Several studies have examined the sensitivity of firms' organizational forms to different economic shocks, such as demand shock (Maksimovic and Phillips, 2002) and market turmoil and distress shocks (Almeida and Kim (2012), Matvos and Seru (2014), Kuppuswamy and Villalonga (2015), among others). However, there has been a lack of consensus on the relative performance of stand-alone firms *vis-á-vis* conglomerate subsidiaries during such shocks. We introduce political uncertainty as a new dimension in this debate. Our empirical strategy provides a clean setting for causal inference of the effect of political uncertainty on firms varying in their organisation structure. Our findings empirically support the view that conglomerate firms are more immune to such risks.

Structure: The remainder of this paper proceeds as follows. Section 2 discusses the related literature. Section 3 provides the institutional background for our study, describes the IBGs and state elections, and presents the data used. Section 4 lays down the primary hypotheses of the paper and provides the details of our empirical strategy. Section 5 describes the primary results, while Section 6 provides robustness checks. Section 7 concludes the paper.

[10] As we will explain later, marginal product of capital will be equalised with prevailing interest + capital distortion parameter

2 Related Literature

Given this study's attempts to link the mature strand of the literature on firm boundaries with the expanding literature on political uncertainty, we briefly review the literature and highlight the novelty of this paper. First, we use the empirical evidence on the costs and benefits of conglomerates to highlight how the existing literature studies the role of firm boundaries during periods of exogenous shocks. This provides a premise to introduce political uncertainty as a new dimension in this literature. Second, we add to the growing literature examining the effects of aggregate political uncertainty on firm outcomes, particularly focusing on the factors causing the differential sensitivities of firms to such uncertainties. The heterogeneity in this paper comes from the different organizational forms, that is, from whether a firm is the subsidiary of a conglomerate or a stand-alone firm.

2.1 Firm Boundaries

The entire literature on the importance of firm boundaries, as mentioned earlier, originated from the seminal work of Coase (1937). Since then, this topic has been one of the most intensely studied ones in economics. The theoretical model of Williamson (1985) (which follows the earlier work Williamson (1975)) suggested ease in transaction and reduction in contractual agreement complexity as the primary reasons for forming conglomerates. Meanwhile, Grossman and Hart (1986), through their modern property rights approach, and Milgrom and Roberts (1992), through the cost of bureaucracy approach, laid the theoretical foundations for the formation of conglomerates. The debt co-insurance argument of Lewellen (1971) is one of the likely theoretical foundations for the empirical results of this paper. In the following literature review, we first focus on the contradictory views on the usefulness of the internal capital market, particularly in the Indian context. We then highlight the relatively more recent addition to this debate in terms of comparing the two organizational forms of conglomerate subsidiaries and stand-alone firms and how this paper augments them.

Conglomerates have an internal capital market that can be used either positively for new investment opportunities in group firms or for supporting firms in financial difficulty, or negatively by tunnelling funds for private gains. Bertrand, Mehta, and Mullainathan (2002) developed a general empirical technique to quantify the resources tunnelled by the controlling shareholders from group firms where they have less cash flow rights to the firm where they have more rights. Using data from the IBGs, they show that such activities are prevalent in India. Meanwhile, Gopalan, Nanda, and Seru (2007), using data from

the same source, finds that solvent business groups allow their member firms to use the internal capital markets and thereby significantly lower the probability of default; this also prevents any negative spillover to other group firms. They also observe that the implicit guarantee by group firms also provides confidence to external borrowers and thereby improves the credit scenario. The paper found limited evidence of group loans being used to tunnel cash. Hund, Monk, and Tice (2012) and Hoberg and Phillips (2014), among others, have highlighted that the use of the internal capital market also depends on how comparable single-segment firms are chosen, as well as on the availability of data and industry classification.[11]

More recent studies have focused on how conglomerate firms differ in their response to an exogenous shock compared to a stand-alone firm. Giroud and Mueller (2015) documents that a positive shock (such as introduction of a new airline route reducing the travel time) to a plant in a firm spills over to other firms in the same group. The introduction of the airline is an instrument for sudden shock to an opportunity in investment. The paper finds a resource re-allocation such that investment in the treated plant increases but that in the other decreases, but nevertheless increasing the productivity of the entire group. The intuition is that the headquarters minimize the loss by withdrawing resources from the least productive plant. Bai (2015), using the event of import tariff reduction, finds that conglomerate firms more actively restructure to improve their overall efficiency and focus more on their areas of competitive advantage. Our paper adds to this strand of the literature by highlighting the importance of firm boundaries in the ability of firms to navigate through a shock in political uncertainty, identified as periods of state elections in India.

The study closest to the spirit of this paper is Kuppuswamy and Villalonga (2015), which shows that the value of diversification increased during a financial crisis. The increase was due to better access to the external credit market coupled with an efficient internal capital market. Our findings complement that paper, but the uncertainty that we are examining is significantly different in nature. A financial crisis is a one-off unforeseen event affecting the entire economy through multiple channels, such as the financial sector and investor sentiments and perceptions, and even leading to policy uncertainty. Consequently, the financial crisis as an event does not clearly indicate which of the above mechanisms primarily drive the result. However, we focus on policy uncertainty and government functioning by considering the recurring event of elections, which are foreseen and yet exogenous in terms of timing. Further, given that the 2007–09 crisis originated from the financial sector, considering this as an exogenous shock to financial decisions

[11]For a detailed discussion on this issue, refer to the survey paper Maksimovic and Phillips (2013).

could be a matter of concern.

2.2 Political Uncertainty

The relationship between politics and financial outcomes has been a topic of public discourse, because political uncertainty automatically translates into policy uncertainty impacting all agents in the economy (Barro (1989), Alesina and Perotti (1996), Mauro (1995), among others). Uncertainties associated with possible government policy or national leadership changes resulting in different policy outcomes can have major impacts on firm behaviour. One main concern is to identify periods of elevated policy uncertainty. Elections provide a recurring natural setup to study the impact of political uncertainty (Julio and Yook, 2012). While numerous studies have examined the time series impact, there has been relatively lower focus on the cross-sectional impact on firms.

Gulen and Ion (2015) is one of the few papers that examined the cross-sectional heterogeneity of firm sensitivity to policy uncertainty. Using the policy uncertainty index developed by Baker, Bloom, and Davis (2016), they found that capital investments of firms with higher degrees of irreversible investment are more prone to the negative impacts of uncertainty. The intuition behind this result is that the option value of waiting is proportional to investment irreversibility. They also found cross-sectional differences in firms in terms of their dependence on government spending, with more dependence leading to lower investment during periods of uncertainty. Akey and Lewellen (2015) shows that policy-sensitive firms accumulate higher political capital and are more likely to be impacted by election uncertainties than less sensitive firms.[12] Jens (2017) uses term limit as an instrumental variable for close elections, and shows that investment in firms decreases in states going to elections compared with states with no elections. These studies are in line with Julio and Yook (2012), one of the first papers to document corporate investment cycles using the timing of elections across different countries as a period of political uncertainty, and to show that investment decreased significantly prior to an election. Note that apart from the first few papers, the others do not explore the cross-sectional variation. We add to the literature of identifying cross-sectional variation in response to political uncertainty through the heterogeneity in organizational form.

In this study, we relate the literature of firm boundaries to that of political (policy) uncertainty, and examine the interaction between them. To the best of our knowledge, this is the first study to bridge this gap in the literature.

[12]Political capital is accumulated by contribution to political parties. There are several studies related to political connectedness and accumulation of political capital, but we do not venture into that area in this paper.

3 Background and Data

In this section, we discuss the structure of Indian conglomerates and elections in India. The data used are primarily of two types: the IBG subsidiary and stand-alone firm data, and the Indian states election data.

3.1 Organizational Structure of Indian Firms

Conglomerate firms are known as business groups or business houses in India, and are a group of legally independent entities held together by a core owner. The entities largely engage in diverse activities in different industries, mostly unrelated to one another. IBGs can use equity and debt to transfer funds across the groups; they also use subordinate unsecured debt. As discussed before, the motives behind their transactions are profitable investment opportunity, support for group firms, or tunnelling funds (Bertrand, Mehta, and Mullainathan (2002) and Gopalan, Nanda, and Seru (2007)).

Our primary data source is the Prowess database maintained by the Center for Monitoring of Indian Economy (CMIE). Prowess maintains the annual financial data of public and private Indian firms from 1989. For the purpose of this paper, we use the data from 1992 to 2014, excluding the data from 1989 to 1991 because this period was before the liberalization of the Indian economy, following which significant structural changes occurred in the economy. We collect data primarily for 3 broad groups: financial information for each subsidiaries, group affiliation and industry affiliation.. To classify the firms affiliated to a group, that is, whether the firm is part of a conglomerate or otherwise, we use the Prowess group classification as used in the literature (Bertrand, Mehta, and Mullainathan (2002), Gopalan, Nanda, and Seru (2007), among others). According to Gopalan, Nanda, and Seru (2007), the Prowess classification is based on monitoring company announcements and qualitative understanding of the group-wise behaviour of individual firms, and is therefore likely to provide a better measure than equity-centred classification. Prowess contains a panel of around 34,000 listed and unlisted firms with assets plus sales greater than INR 40 million.[13] In this paper, we use a non-banking and non-financial sector firm database covering more than 10,000 firms. Prowess also classifies the firms into the government sector, non-government sector, and into foreign and joint ventures based on the identity of the controlling shareholders. Non-government sector firms are sub-divided into business groups and stand–alone firms, and this classification primarily forms the basis of our identification. We do not use the government sector firms primarily because

[13]Note that the coverage of public firms is more comprehensive owing to reporting requirements compared to that of private firms.

their optimizing function is very different from that of the private sector firms, and often, they are used by the incumbent government for their own interest, which is likely to increase during election periods. We also remove the firms whose debt-to-asset ratio is over the [0,1] bound, because firms whose ratio is greater than 1 are typically subject to debt restructuring and referred to the Bureau of Industrial and Financial research (BIFR) (Gopalan, Mukherjee, and Singh, 2014). Further, our sample includes non-banking and non-financial sector firms. The data are arranged by the financial calendar year of India, which is from April to March. Hence, FY2015 is from April 2014 to March 2015 of the calendar year.

3.2 State Assembly Elections

India has a federal structure, with elections held both at the state and national levels. Elections are held regularly for all the states and union territories at the average electoral cycle of five years. Although elections can be held early if the assembly is dissolved, such instances occur rarely in the sample. We drop such elections from the sample because the decision to call early elections could be related to economic conditions (Kumar, 2014). Elections are staggered across states; that is, all the states do not go to elections the same year, and even if two states have elections the same year, they might not be held at the same time. However, every year at least one state is scheduled to have elections (1). This model of elections provides a good setting for identification.

Note that the Indian constitution bestows significant power to the state governments. The legislature provides complete power to the states on the items mentioned in the state list, such as the incorporation of corporates, trade and commerce, public law, labour markets, and property rights. Further, state governments have their own civil services, and law and order are under the control of politicians in a state. Since all these have significant influence on firm performance, state elections are considerably important for corporate managers.

The national elections in general and state elections in particular follow the first-past-the-post system. That is, candidates from multiple parties compete for a single seat in a legislative constituency, and the one with the highest vote share wins.[14] Thus, in India, the competitiveness of an election is at the constituency level, and not at the state level. However, if the number of constituencies secured by the competing parties are close, then an election can be classified as a closely contested one. We use this method to identify

[14]In India, it is not required to get 50% vote share to win the election. For example, in a constituency with four candidates, a contestant can win with 26% vote share if none of the others get more than that

the close/more uncertain elections to strengthen our empirical specification in Section (4.2). The primary data on elections are collected from the statistical reports compiled by the Election Commission of India.

3.3 Summary Statistics

In Table 1, we provide the descriptive statistics of the firms in our sample. In the upper panel, we report the characteristics of an IBG. The median (mean) number of subsidiaries of each group is found to be 11 (22), spanning around 6(10) industries and covering 3(3.6) states. This suggests that conglomerates are fairly diverse and cover a large number of states. A concern might be raised about such diversification because the number of subsidiaries are higher than the number of industries. However, note that for the purpose of this paper, we use a four-digit classification, but the classification can diversify at a more granular industry level.

Columns 1 and 4 of the table report the mean and median of the IBG subsidiaries, while columns 6 and 9 give the same for stand-alone firms. We find that on an average, IBG subsidiaries are larger in size than the stand-alone firms. To alleviate this concern, we match the sample of firms according to their size and perform our primary regression specifications using the matched sample.[15] The other variables are economically similar in magnitude for both conglomerates and stand-alone firms. Table 1B reports the summary statistics from the matched sample, which we obtain by minimizing the distance between the stand-alone and conglomerate firms in terms of size. We find the firms more comparable with respect to size, with the difference in size between the stand-alone and conglomerate firms much less than that shown in Table 1.[16]

Our sample covers around 90 elections, which, as shown in Figure 1, are staggered across time. We plot the densities of different electoral competition measures in Figure 2. In panel 1, we plot the difference in vote share between the election winner and runner-up as a competition measure; in panel 2, we plot the difference in seat share; in panel 3, we plot the ENOP measure using the share of votes; and in panel 4, we plot the ENOP measure using the share of seats. As already explained, we use the measure shown in panel 2 to identify the periods of more election uncertainty, as this seems to be the most relevant measure in the context of the first-past-the-post election system in India.

[15] We report the unmatched regressions in the appendix, which gives qualitatively similar results (IA.3 - IA.5). We also perform other robustness checks to mitigate concerns emanating from the differences in size (table IA.2).

[16] However, because some difference can still be observed, we perform other checks, as shown in Appendix Table IA.2, to alleviate those concerns.

4 Hypothesis and Empirical Strategy

4.1 Hypothesis

As highlighted above, we attempt to introduce political uncertainty as a new dimension to the existing literature on firm boundaries. Given that conglomerate subsidiaries are diversified in their business and across geographies—unlike stand-alone firms—we expect them to be more resilient to policy uncertainty; consequently, the stand-alone firms could find it more difficult to raise debt or avail loans during election periods. Thus, we have our first hypothesis:
H1: Compared to the IBG subsidiaries, stand-alone firms have lower leverage in states with elections vis-á-vis in states with no elections.

Since the ST loans issued during the run up to elections are likely to mature around the period before the uncertainty of the election has been completely resolved, we expect the impact of the uncertainty to be reflected primarily on ST loans. However, since LT loans have longer maturity, they should be largely unaffected by election uncertainty.[17] To understand this concept, consider the following:
Stand-alone firm with LT debt: no effect—-the stand-alone firm is riskier, but unless the LT debt is due at the time of election, the election would have no impact on the firm's existing borrowing.
Conglomerate firm with LT debt: no effect—-the conglomerate is safer, but unless the LT debt is due at the time of election, the election would have no impact on the firm's existing borrowing.
Stand-alone firm with ST debt: large effect—-the stand-alone firm has to roll over its ST debt during the period of high uncertainty, and since it is riskier than the conglomerate, it is more likely for the bank to charge a higher rate or refuse to refinance the loan.
Conglomerate firm with ST debt: small effect—-the conglomerate has to roll over its ST debt during the period of high uncertainty. However, since the conglomerate is safer, the above effect (as in stand-alone firms) should be fairly small.
Given these premises, our follow-up to Hypothesis H1 is as follows:
H1A: Compared to IBG subsidiaries, stand-alone firms are expected to have a lower ST debt-to-asset ratio in a given year in states going to elections vis-à-vis in states with no elections.

[17] However, this will not be the case if the LT loan's refinancing is scheduled during some election period.

H1B: We find no significant difference between the LT debt-to-asset ratios of IBG and stand–alone firms.[18]

Since we hypothesize the leverage and borrowing outcomes of firms to be impacted heterogeneously, the findings should reflect in their investment outcomes as well.[19]
H2: Compared to the states with no impending elections, the states going to an election show a heterogeneous impact on the investment of IBG and stand-alone firms.

We now focus on whether the impacts are due to the stand-alone firms' lack of demand for funds or the subdued supply of funds. The difference in demand between the IBG and stand-alone firms could be due to the difference in their option values of waiting for investment Julio and Yook (2012). However, it is unlikely for the IBG and stand-alone firms from the same industry to have a systemic difference in investment irreversibility or government procurements, which are the likely reasons for differences in borrowing demand during policy uncertainty periods (Gulen and Ion, 2015). Given this premise, we believe that the effect could be largely due to the reduced supply of funds to stand-alone firms. One way to verify this is to check whether the equilibrium prices and quantity move in opposite directions from the uncertainty due to elections.[20] Consequently, given H1 and H2, we have our third hypothesis:
H3: The interest rate is higher for stand-alone firms vis-á-vis IBG subsidiaries in a state going to elections compared to in a state with no elections.

In a competitive market, the factors of production should be allocated to firms on the basis of their marginal productivity. Any distortion to this could lead to misallocation in the economy. In a standard two-factor production model, we follow Hsieh and Klenow (2007) in computing the capital and output distortions. A distortion that changes the marginal productivity of capital more than that of labour is termed as capital distortion. However, an output distortion affects the marginal productivity of both capital and labour equally. Hsieh and Klenow (2007) highlights capital distortion as the measure of a firm's access to credit ('*[Capital distortion] would be high for firms that do not have access to*

[18]We do not have data on the aggregate ST and LT debts of companies. However, we have data on the ST and LT bank borrowings. In the empirical section, we test Hypotheses H1A & H1B using the ST and LT bank borrowings data. In this regard, we need to note that since the Indian corporate debt market is underdeveloped, bank lending is one of the major sources of corporate borrowing.

[19]Given that we find that the impact is primarily through supply side effects, the effect on investment is not as strong as the effect on investment

[20]Note that this does not mean that the impact is entirely driven by the supply of funds. However, this could indicate that supply has a larger impact than demand.

credit but low for firms with access to cheap credit.'). Given our premise that access to credit is the driving factor, our fourth hypothesis is as follows:
H4A: Capital distortion is higher for stand-alone firms vis-á-vis IBG subsidiaries in states going to elections compared to in states with no elections.
H4B: Periods of elections have no significant impact on output distortions.

4.2 Empirical Strategy

In this section we lay down the estimating equation and discuss the approach to identify the impact of political uncertainty on the organizational structure. As already noted, the staggered elections in Indian states play a crucial role in identification, which would not be possible with national elections. Staggered elections help us to distinguish between any time trend likely to exist in a developing country with evolving capital and organizational structure and periods of uncertainty. State elections also help us to identify a control state (no elections) for every treatment state (state with elections). Using the state elections and subsidiary-level data, we can deal with the criticism in the literature that conglomerate and stand-alone firms are very different in multiple dimensions and therefore comparing them could be a matter of concern. State elections provide a set up where a stand-alone firm in a treated state can be compared not only with conglomerate subsidiaries in treated states but also with other stand-alones in control states. Since a state is a treated state in an election year and a control state in non-election year, the control and treatment states on average are the same across time.

Political uncertainty is assumed to be highest during the run up to elections; this is identified in the financial year preceding the elections in a state. For example, if there is an election in the state of Maharashtra in May 2015, the financial variables of firms located in Maharashtra for FY2015 (April2014–March 2015) would be associated with the period of political uncertainty.[21]

Using subsidiary-level data, we group the firms under IBG or stand–alone firms. The same identification has been used in Bertrand, Mehta, and Mullainathan (2002) and Gopalan, Nanda, and Seru (2007), among others.[22] We need to note that all the conglomerate firms continue to be in the same conglomerate throughout the sample. We do not consider any firm that is a stand-alone until a certain point in time and then becomes a business group, because this could lead to endogeneity problems.[23]

[21]This raises the question as to under which period should the elections held between January and February 2015 be classified. Our assumption is that the uncertainty due to elections held in this period is already reflected in the variables corresponding to FY2015.

[22]As already discussed, Prowess classifies every firm under the business group it belongs to.

[23]Firms switching from being stand-alone to conglomerate can help in identifying the impact of political

We are interested to know how political uncertainty heterogeneously impacts IBG and stand-alone firms. As illustrated through an example in Section (1), we exploit the variation in election timing across the Indian states and the subsidiary-level data for identification. Political uncertainty is identified from three differences: (1) the difference between stand-alone and conglomerate firms in a state with impending elections (say state A year t); (2) the difference between stand-alone and conglomerate firms in the same state (A) when it does not have any impending elections (year $t-1$); and (3) the difference in a stand-alone firm between years t and $t-1$ in another state B where there is no election in either of the years. Thus, we follow a triple difference identification strategy. For this, we estimate the following difference-in-difference specification:

$$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}, \quad (1)$$

where for state s, the dependent variable Y_{sit} measures the variable of interest such as leverage, investment, and interest rates for firm 'i' located in the state 's' at time 't'. The firm locations are identified by the state where the headquarters of the firms are registered (Gopalan, Mukherjee, and Singh, 2014). Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The dummy $Election_{st}$ takes a value of 1 when there is an election in state 's' at year 't', and 0 otherwise. As noted earlier, an election in the calendar year 2015 is mapped to the financial variables of FY2015 hence the election dummy and dependent variable have the same subscript 't'. Further, note that when we refer to a time period as the 'period of election,' we refer to the fiscal year corresponding to the period of political uncertainty. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. The coefficient β_1 captures the differential effect of being a stand-alone or conglomerate firm due political uncertainty, measured by state election in this scenario. This interpretation of β_1 also shows the importance of state elections over national elections. State elections are staggered across time, and thus provide a natural experiment setting to compare the states with elections to those with no elections the same year. Such comparison is not possible with national elections. Given that, as noted in Section (3.3), an average IBG subsidiary is bigger than the average stand-alone firm, we perform our primary results using a matched sample based on size.[24]

uncertainty, since we can compare the same firm before and after the merger. However, the choice of such mergers could be endogenous to the election timing, and hence we do not include them in the sample to mitigate the concern.

[24]The results on the entire sample without propensity score matching is presented in the appendix (IA.3 - IA.5)

The state-industry-time dummies (β^j_{st}) allows us to control for the unobserved state and industry characteristics that vary by time. The organization form-industry-time dummies (β^I_{jt}) controls for industry-trend specific to stand-alones or conglomerates. Finally, firm fixed effects (β_i) allows us to control for time invariant firm-specific characteristics. We also control for firm's profitability, size, working capital, earnings, age and square of age in the regression specifications. In the estimation we allow the error term ϵ_{sit} to be clustered at the state level, that is, the level at which the uncertainty shock occurs.

We refine the analysis by grouping the elections as more and less uncertain ones. More uncertain elections are those where the election results are difficult to predict (close elections). We identify close elections as those where the difference between the number of constituencies won by the winner and runner-up is less than 5% of the total number of constituencies. Akey (2015) and Boutchkova, Doshi, Durnev, and Molchanov (2012), among others, identified the close elections in the US as those where the vote difference between the winner and runner-up is less than 5%. However, as mentioned above, India, unlike the US, follows a multi-party first-past-the-post system, and hence the competition to form a government in a state comes from the ability to secure 50% of the constituencies. Hence, when the competition between two parties is close, the difference between the number of constituencies they manage to secure under their banner would be very small. To investigate whether the results are largely driven by close and therefore more uncertain elections, we use the following regression specification.[25]

$$\begin{aligned} Y_{sit} \quad = \quad & \beta_1 HighUncertainElection_{st} \times StandAlone_i + \\ & \beta_2 LowUncertainElection_{st} \times StandAlone_i + \\ & \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit} \end{aligned} \tag{2}$$

The coefficients of interest are β_1 and β_2, and we try to see whether the former is higher in magnitude than the latter.

5 Results

5.1 National Election as Political Uncertainty

Prior to going into our main empirical specification considering the staggered state election in India, we run a difference-in-difference specification of the following form

[25]The methodology is similar to that in Mukherjee, Singh, and Zaldokas (2015), where the tax changes are categorized as tax increases or decreases, and the impact on innovation is examined.

based on the national elections in India:

$$Y_{sit} = \beta_0 + \beta_i + \beta_{jt} + \beta_1 Election_t \times StandAlone_i + \delta' Controls_{sit} + \epsilon_{sit}. \quad (3)$$

The variables and subscripts are defined in the same way as in equation 1 and 2. The results on our primary variable of interest, that is, leverage, reported in Table 2 indicate a decline by around 50 basis points during the periods of national elections. The effect is around 1.7 percentage points during the periods following more uncertain elections. However, as already stated, there are concerns with the comparison of a stand-alone firm with a conglomerate firm. Therefore, in the sections that follow, we use the state elections in general and close elections in particular, to identify the periods of increased uncertainty, and use them as events for causal inference.

5.2 Impact on Leverage

During the period of elections with elevated political uncertainty, the borrowing capacity of firms could decrease from the perceived riskiness in investments. As mentioned in Section (2.1), the literature has contradictory views on the effect of uncertainty on stand-alone and conglomerate firms. While stand-alone firms are more vulnerable to such risks compared to conglomerate firms due to their lack of internal capital market, the latter might be more exposed to policy uncertainty due to perverse managerial incentives.

We begin the analysis by first plotting a graph of leverage around the uncertain election cycles for conglomerate and stand-alone firms separately using the following specification:

$$Y_{sit} = \beta_0 + \beta_s + \sum_{t=-2}^{2} \beta_t Time\,to\,Uncertain\,Election_t + \epsilon_{sit}. \quad (4)$$

We plot the coefficients in Figure 3. The omitted time period are all periods outside the 5-year cycle surrounding an uncertain election. We see that there is no significant change in leverage of either stand alone or conglomerate subsidiaries in the years before the period of political uncertainty. Also, and more importantly the coefficients β_{-2} and β_{-1} for either type of firms are largely identical. In year 0 (period of uncertainty), the leverage of stand-alone firms decreases, whereas that of the subsidiaries stays the same, indicating that political uncertainty impacts the stand-alone firms, but not the conglomerate subsidiaries.

To empirically test this in a regression setting, we consider equation (1), with the dependent variable $\left(\frac{Debt}{Asset}\right)_{sit}$. The primary coefficient of interest is β_1, which is the

average difference between a stand-alone and conglomerate firm in a state going to election vis-a-vis in a state with no election. Column (1) of Table 3 shows that stand-alone firms have an 80 basis points lower leverage than conglomerate firms in a state going to elections compared to in a state with no elections. The average debt-to-asset ratio of 34% indicates a decline of around 2.5%. In column (2), we control for the firm characteristics.

In columns 3 and 4, elections are grouped into two subsets, close (uncertain) elections and non-close (less uncertain) elections. In the former, the difference between the seat share of the winner and runner-up is less than 5%. From regression specification (2), we find the results stronger and statistically significant during periods of more uncertain elections. Column 3(4) shows that during uncertain elections, the difference between stand-alone and conglomerate firms goes down by 2.7 percentage points, which is almost an 8% decline compared to the sample mean. However, we find the coefficient for $LowUncertainElection_{st} \times StandAlone_i$ (β_2) much lower in magnitude and statistically insignificant. Table 3B gives the same specification as in equations (1 and 2), where the primary dependent variable is the natural logarithm of each firm's debt level. We find that our results hold in this specification as well. Compared to stand-alone firms, the subsidiaries of conglomerates decline by around 4.0% (14%) during elections (more uncertain elections).

We also investigate the impact on bank loans. Since the Indian bond market is not well developed, bank loans comprise a large part of the total debt.[26] The results for bank debts are also in the same direction as the result on aggregate debt. The results in Table 4 indicate that the bank debt goes down by 60 basis points (2.1 percentage points) for stand-alone firms compared to conglomerate firms during election time (more uncertain elections). Table 4B shows that bank loans decrease by 8.9% during elections in general, and by around 20% during close elections in particular.

The results confirms Hypothesis H1 and lends empirical support to the debt co-insurance argument, as explained in Section (1). One of the likely reasons for the immunity of conglomerate subsidiaries could be that their availability of funds in the internal capital market co-insures the debt of group firms and thereby reduces the likelihood of default (Lewellen (1971) and Kim and McConnell (1977), among others). The results also support the finding of Kuppuswamy and Villalonga (2015), who showed that when credit becomes rationed, banks and bond holders find it safer to lend to the subsidiaries of conglomerates, with the result that stand-alone firms are likely to suffer more. Constraints can arise from the incumbent government's increased use of banks during the election to

[26]Examining the impact on bank loans is found to be important from the perspective of this paper because the results obtained indicate that the impact is through reduced supply of credit to stand-alone firms.

divert funds to the sectors and/or areas that are in line with their political motive (Cole (2009), Kumar (2014)). In the following sections, we consider the sub groups of debt by investigating the impact on ST and LT debt.

5.3 Impact on ST and LT Debt

As hypothesized in Section (4.1), the impact of political uncertainty is likely to manifest itself primarily through the ST borrowing of firms, since ST loans are for less than one year and are more likely to cover the periods of uncertainty. Meanwhile, LT borrowing (or lending) is likely to be less impacted since the repayment period commences after the uncertainty resolves. We test these specifications with equations (1 and 2). In columns 1 and 2 of Table 5, the dependent variable is $\left(\frac{Short-Term\,Debt}{Asset}\right)_{sit}$. We find that compared to the subsidiaries of conglomerates, ST debt of stand-alone firms decrease by around 60 basis points (coefficient β_1 from equation 1). Given that the average ST debt for stand-alone firms is around 14%, the decline is around 4% during elections. In columns 3 and 4, when the elections are grouped by more and less uncertain elections, we find a stronger difference between a stand-alone firm and conglomerate in a state in the year of election. The coefficient β_1 from equation 2 is negative and significant, indicating that in more uncertain elections, the stand-alone firms have a 1.6 percentage points lower ST leverage than conglomerates. This is around 11% decline compared to the sample mean. The coefficient β_2, the impact of less uncertain elections, is insignificant.

We perform the same tests with $\left(\frac{Long-Term\,Debt}{Asset}\right)_{sit}$, to find no impact during election periods (columns 5 and 6). When specification 2 is performed, we find a decline of 50 basis points in column (7), which is statistically insignificant when controls are included in column (8). This supports Hypotheses H1A and H1B, according to which the impact of uncertainty is likely to be highest on loans with shorter tenure.

We repeat the same analysis with the natural logarithm of ST and LT debt. The results corroborate our initial finding that the decline in total debt is primarily led by ST debt. Columns 1(2) and 3(4) of Table 5B show that the ST debt declined by 6.6 (21.5) percentage points. Meanwhile, we do not find any consistent change in LT debt.[27]

[27] Column (7) shows a decline in log (LT loans) during the periods of more uncertain elections. However, when all controls are included, the impact is statistically insignificant.

5.4 Impact on Investment

Following the analysis on leverage, we next investigate the impact of political uncertainty on corporate investment. Investment has been widely used in the literature to study the impact of political uncertainty on firm performance (Julio and Yook (2012) and Gulen and Ion (2015), among others). Investments can decrease as a result of a fall in demand from firms or decrease in the supply of resources from banks, or both. The fall in demand could be through an increase in the option value of waiting, while the decrease in supply could be through the risk aversion of banks or tighter financial constraints in times of elections. If demand is the dominant factor, a *ceteris paribus* fall in equilibrium investment is associated with a decline in interest rate.[28] If supply is the dominant factor, a *ceteris paribus* fall in equilibrium investment is associated with an increase in interest rate. In this section, we investigate whether the investment for a particular group of firms has relatively declined during elections, while in the next section, we examine the impact on the interest rate.

Given our setting, we examine whether the investment prior to the elections were different for the IBG subsidiaries compared to the stand-alone firms. We define investment as the change in property, plant, and equipment of a firm over time. We scale this by the lagged gross fixed assets, and use it as the dependent variable in regression specifications 1 and 2. The results from the above equation is summarized in Table 6. In columns (1) and columns (2) of the table, where all the explanatory variables are elections, the investment of stand-alone firms is not significantly different from that of conglomerate subsidiaries. In columns (3) and (4), where the elections are grouped as more and less uncertain, we find the investment-asset ratio to decline by more than 8 percentage points. The results thus validate Hypothesis H2. The impact of investment is significant only during more uncertain election periods. Thus, investment is sensitive for stand-alone firms only during periods of more political uncertainty.[29]

5.5 Impact on Interest Rate

While the previous sections examined the impact of political uncertainty on the quantity of borrowing and investment, in this section, we focus on the price of borrowing

[28] Note that we consider the investment opportunity constant in the statement. We acknowledge that a reduction in investment opportunity can increase the riskiness of a firm and consequently raise the interest rate. However, in this case, we have no prior to believe that during elections, a subsidiary and a similar stand-alone firm belonging to the same industry will have different investment opportunities.

[29] In Appendix Table IA.6, we follow Gopalan, Nanda, and Seru (2007) and measure investment as $log\left(\frac{FixedAsset_t}{FixedAsset_{t-1}}\right)$.

measured by the interest rate. Since we do not have data on the interest rates that the firms pay, we use interest expense as a share of the total debt as the dependant variable in our regression specifications 1 and 2.

The above regression results are summarized in Table 7. Columns 1 and 2 show that compared to conglomerates, stand-alone firms pay a 64 basis points higher interest rate in the states going to elections vis-a-vis in other states. This highlights and reiterates the significant cross-sectional heterogeneity in the impact of political uncertainty. This result, combined with the prior findings, indicates that the decline in quantity is not entirely determined by the subdued demand. When performing specification using the more and less uncertain elections, we find that during uncertain elections, the interest rate increased by 1.1 percentage points for stand-alone firms relative to the subsidiaries of conglomerates; during low uncertain elections, the rise was by 50 basis points.[30]

The above results highlight significant cross-sectional heterogeneity in the performance of a conglomerate vis-a-vis a stand-alone firm in the face of political uncertainty. The findings support the hypothesis that stand-alone firms are more likely to be adversely affected by political uncertainty compared to IBG firms. Furthermore, the decline in quantity coupled with increase in interest rate emphasises that shortage of supply played a dominant role, although our empirical setting does not rule out the role of demand.

5.6 Dynamic Effect

In this section, we test our findings for the entire election cycle. We run a baseline specification including the interaction terms between stand-alone firms and one year before, during, one year after, and two years after the election uncertainty period. The regression specification is of the following form:

$$Y_{sit} = \sum_{t=-1}^{2} \beta_t Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \epsilon_{sit}. \quad (5)$$

The results of this regression are reported in Table 8. We see the impact only in the period of election uncertainty. There is particularly no effect one year before the uncertainty period, indicating the presence of no pre-trend. The impact also does not continue after the uncertainty has been resolved. We also present a graphical representation of the results in Figure 4.

[30]Using data on interest rate charged by a large bank in India, we provide qualitatively similar results in appendix table (IA.1).

5.7 Impact on Capital and Output Distortion

The above results on the decline in borrowing and increase in borrowing cost indicate that an increased supply-side constraint could be a likely reason for the difference between the outcomes of the stand-alone and conglomerate firms. We extend this argument further by estimating the capital and output distortion using the methodology of Hsieh and Klenow (2007). This methodology uses a standard setting of monopolistic competitions and heterogeneous firms with two inputs, labour(L) and capital (K), to identify the distortions affecting both capital and labour. The distortion affecting the marginal product of capital and labour by the same amount is output distortion (τ_Y), while the distortion that affects the marginal product of capital more than labour is capital distortion (τ_K).

The production function in Hsieh and Klenow (2009) is given by

$$Y_{si} = A_{si} K_{si}^{\alpha_s} L_{si}^{1-\alpha_s}, \tag{6}$$

where Y_{si} is the output of firm i in industry s, A_{si} is the total factor of firm i in industry s, and α_s is the share of output to labour in industry s. Given the distortions, the profit of a firm is given by

$$\pi_{si} = (1 - \tau_{Y_{si}}) P_{si} Y_{si} - w L_{si} - (1 + \tau_{K_{si}}) R K_{si}. \tag{7}$$

Given this structure, Hsieh and Klenow (2009) computes the distortions as

$$1 + \tau_{K_{si}} = \frac{\alpha_s}{1 - \alpha_s} \frac{w L_{si}}{R K_{si}} \tag{8}$$

$$1 - \tau_{Y_{si}} = \frac{\sigma}{1 - \sigma} \frac{w L_{si}}{(1 - \alpha_s) P_{si} Y_{si}}. \tag{9}$$

Hsieh and Klenow (2009) interprets τ_Y to be high for firms facing high government restriction, while τ_K is likely to be high for firms with lower access to credit. Since prior tests have indicated that the supply of capital plays a dominant role in driving the results, we examine whether τ_K is different for stand-alone and conglomerate firms during elections. We compute 1-α_s as the average labour share of an industry.[31]

$$1 - \alpha_s = \sum_{i \epsilon s} \frac{w L_{si}}{P_{si} Y_{si}} \tag{10}$$

[31] Hsieh and Klenow (2009) uses α_s of the corresponding industry in the US. However, the data are available only for the manufacturing sector, the sector of interest in the paper. However, we consider all non-financial sectors and use the industry averages of the labour share of Indian firms as an alternative measure of α_s.

The interest rate, (R)= the industry average of the interest rate and σ, the intertemporal elasticity of substitution, is considered to be 3, following Hsieh and Klenow (2009).

We regress specifications (1) and (2) using the logarithm of gross distortion. That is, our dependent variables are $log(1+\tau_{K_{si}})$ and $log(1-\tau_{Y_{si}})$. Since our measure of interest rate varies at the industry level, we do not include industry fixed effects here. We find that the capital distortion for stand-alone firms is higher than for conglomerates during the periods of more uncertain elections, as can be seen in Table 9. However, we do not find much impact on output distortion. This provides some supporting evidence to our initial conjecture that access to capital could be the primary factor driving the results.

6 Robustness Test

6.1 Alternate Measure of Political Uncertainty - ENOP

In this section, we examine the robustness of our results to alternate methods of computing political uncertainty. ENOP is the measure of competition between political parties. It is defined as the inverse of the Herfindahl measure using the share of votes p_i for every political party i (Laakso and Taagepera, 1979),

$$ENOP = \frac{1}{\sum_{i=1}^{n} p_i^2}.$$

A higher ENOP implies greater competition. Thus, the period of run up to an election associated with a high ENOP is classified as a period of political uncertainty. To empirically investigate our hypotheses, we perform the following regression specifications:

$$\begin{aligned} Y_{sit} &= \beta_1 HighENOP_{st} \times StandAlone_i + \beta_2 LowENOP_{st} \times StandAlone_i \\ &\quad \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit} \end{aligned} \tag{11}$$

In the above equation, $HighENOP_{st}$ is the period corresponding to more uncertain elections. The results of this regression are reported in Table 10. In line with our earlier findings, the debt-to-asset ratio decreases by 2.1 percentage points (columns 1 and 2), while the bank loan-to-asset-ratio decreases by 1.3 percentage points, led primarily by the ST loan-to-asset ratio. The interest rate meanwhile increased by around 1.1 percentage points.

Alternatively, we use ENOP as a continuous variable and a measure of political uncer-

tainty, and test our hypotheses using the following empirical specification:

$$Y_{sit} = \beta_1 log(1 + ENOP_{st}) \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \epsilon_{sit} \quad (12)$$

The results are reported in Table 10B. We find that 100% increase in ENOP leads to around 60 basis points decline in debt-to-asset ratio, while the bank loan-to-asset ratio declines by 50 basis point and the interest rate increases by around 50 basis points. These results thus provide additional evidence on the differential effect of political uncertainty on firms varying by organizational structure.

6.2 Heterogenous Effect of Borrowing Capacity

In our earlier sections, we provided empirical evidences that stand-alone firms are more susceptible to political uncertainty compared to subsidiaries of conglomerates, and highlighted that reduced access to capital is the primary channel for this. If this is the case, the impact should be higher for firms with a higher borrowing constraint. In this section, we use tangibility and size as two proxies for measuring the constraints to external financing. Beck, Demirgüç-Kunt, and Maksimovic (2005) and Hadlock and Pierce (2010), among others, have highlighted size as an important determinant of borrowing capacity, while Almeida and Campello (2007) emphasized the role of tangibility in measuring financial constraints. Particularly, in the context of India, Hsieh and Klenow (2009) highlighted that smaller firms are capital constrained, while Vig (2013) used tangibility to identify the effect of easier access to credit on firm leverage.

In Table 11, we present the results of empirical specifications 1 and 2 separately for firms above and below the median tangibility level ratio. We find that the difference in leverage between stand-alone and conglomerates are more pronounced with low tangibility, while for higher tangibility, the effect is low and statistically insignificant, highlighting that the effect is more pronounced for firms with prior borrowing constraints. [32]

In Table 12, we perform empirical specifications 1 and 2 separately for firms above and below the median level. In line with our thesis, we find that the differential impact between stand-alone and conglomerate firms occurs primarily for smaller firms, which tend to be more credit constrained.

[32]This result shows that the effect does not emanate from demand-specific factors. If demand is the driving factor, then we can expect stand-alone firms with higher tangibility to be impacted more. As already discussed, Gulen and Ion (2015) finds that firms with lower asset redeployability are impacted more, as these firms have a higher propensity to wait out the period of uncertainty.

6.3 Bank Relationship

In this section, we examine whether stand-alone firms having a relationship with banks are relatively less impacted by political uncertainty compared to the subsidiaries of a conglomerate. Relationship banking mitigates information asymmetry and consequently helps to access capital (Boot, 2000). In the context of India, Bhue, Prabhala, and Tantri (2015) highlighted the importance of relationship banking as regards change in creditor rights. To test our above thesis, we use the following regression specification:

$$\begin{aligned} Y_{sit} \quad = \quad & \beta_1 log(No.of Relationship) \times HighUncertainElection_{st} \times StandAlone_i \\ & + \beta_2 log(No.of Relationship) \times LowUncertainElection_{st} \times StandAlone_i + \\ & \beta_3 HighUncertainElection_{st} \times StandAlone_i + \beta_4 LowUncertainElection_{st} \times StandAlone_i \\ & \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \epsilon_{sit} \end{aligned} \tag{13}$$

We define a firm as having a relationship with a bank if it has at least two years of transaction with it. Log(No. of Relationship) is the natural logarithm of the number of banks with which firm i shares the banking relationship. If our assertion is right, we can expect β_3 to be negative and the coefficient β_1 to be positive. That is, the negative impact of political uncertainty on stand-alone firms is attenuated with an increase in number of relationship bankers. We present the results in Table 13, where, in the absence of a banking relationship, the lenders' bank debt decreases by 2.1 percentage points, but with the doubling of bankers with existing relationship (increase by 100%), the decline is dampened by 1 percentage point.

7 Conclusion

This paper has attempted to study the link between political uncertainty and the organizational structure of firms. Specifically, we investigate whether the impact of political uncertainty has differential impacts on stand-alone firms and subsidiaries of conglomerates. The motivation for this study ensues from the extant literature on both political uncertainty and firm boundaries.

Political uncertainty emanates from the uncertainty relating to the possible policies that a government might adopt. Such uncertainty has major consequences on the decision making of firms. A recent survey by *PWC* showed that political uncertainty bothered managers more than any other form of risk. Given this scenario, we study how political uncertainty has a differential impact on stand-alone and conglomerate firms. In the

context of firm boundaries, the existing literature has debated on the costs and benefits of being a conglomerate firm. While the former stems from agency costs, the latter is primarily from the ability of the subsidiaries to co-insure each other's debt. During periods of uncertainty in general and political uncertainty in particular, which of these characteristics would be more salient is unclear. Thus, we try to determine which type of firms, stand-alone or conglomerates, are more vulnerable to policy uncertainty.

The identification strategy to answer the above question exploits the staggered elections in Indian states as a natural experiment. The staggered nature of state elections supports the identification primarily in two ways. First, it provides a setup where the outcomes of firms in a state going to elections can be compared with those of firms in states with no election in the same year. Second, it helps us to differentiate between the time trend and impact of elections, which would be difficult to separate under national elections. We also group the elections as more and less uncertain based on the closeness of outcomes between the competing political parties, to find that the results are particularly driven by periods associated with more uncertain elections.

Given this premise, we find lower leverage for stand-alone firms compared with firms belonging to IBGs. A closer look reveals that the primary impact is through ST debt, which is in line with the expectation that ST loans are likely to be refinanced during election periods.

We also find lower equilibrium investments of stand-alone firms compared with IBGs. The decrease in borrowing and investment is associated with the increase in borrowing cost measured by the interest rate on debt. The above finding of opposite movement in prices and quantity at equilibrium indicate that the shortage in supply of funds to stand-alone firms compared with IBGs in the state going to elections plays a larger role than the (subdued) demand of firms in driving the results. Our results thus suggest that one advantage of being an IBG firm is the immunity from the shocks of uncertainty, measured as political uncertainty in this paper.

References

Akey, P. (2015): "Valuing changes in political networks: evidence from campaign contributions to close congressional elections," *Review of Financial Studies*, 28(11), 3188–3223.

Akey, P., and S. Lewellen (2015): "Policy Uncertainty, Political Capital, and Firm Risk-Taking," .

Alesina, A., and R. Perotti (1996): "Income distribution, political instability, and investment," *European economic review*, 40(6), 1203–1228.

Almeida, H., and M. Campello (2007): "Financial constraints, asset tangibility, and corporate investment," *The Review of Financial Studies*, 20(5), 1429–1460.

Almeida, H., and C. S. Kim (2012): "The effect of internal capital markets on corporate investment: Evidence from the Asian Financial Crisis," in *AFA 2013 San Diego Meetings Paper*.

Bai, J. J. (2015): "Firm Boundaries, Restructuring, and Productivity: Plant-Level Evidence from Competitive Shocks," *Restructuring, and Productivity: Plant-Level Evidence from Competitive Shocks (November 11, 2015)*.

Baker, S. R., N. Bloom, and S. J. Davis (2015): "Measuring economic policy uncertainty," Discussion paper, National Bureau of Economic Research.

——— (2016): "Measuring economic policy uncertainty," *The Quarterly Journal of Economics*, 131(4), 1593–1636.

Barro, R. J. (1989): "Economic growth in a cross section of countries," Discussion paper, National Bureau of Economic Research.

Beck, T., A. Demirgüç-Kunt, and V. Maksimovic (2005): "Financial and legal constraints to growth: does firm size matter?," *The Journal of Finance*, 60(1), 137–177.

Berger, P. G., and E. Ofek (1995): "Diversification's effect on firm value," *Journal of financial economics*, 37(1), 39–65.

Bertrand, M., P. Mehta, and S. Mullainathan (2002): "Ferreting out Tunneling: An Application to Indian Business Groups*," *The Quarterly journal of economics*, 117(1), 121–148.

Bhue, G. S., N. Prabhala, and P. Tantri (2015): "Creditor rights and relationship banking: Evidence from a policy experiment," .

Boot, A. W. (2000): "Relationship banking: What do we know?," *Journal of financial intermediation*, 9(1), 7–25.

Boutchkova, M., H. Doshi, A. Durnev, and A. Molchanov (2012): "Precarious politics and return volatility," *Review of Financial Studies*, 25(4), 1111–1154.

Coase, R. H. (1937): "The nature of the firm," *economica*, 4(16), 386–405.

Cole, S. (2009): "Fixing market failures or fixing elections? Agricultural credit in India," *American Economic Journal: Applied Economics*, pp. 219–250.

Giroud, X., and H. M. Mueller (2015): "Capital and labor reallocation within firms," *The Journal of Finance*, 70(4), 1767–1804.

Gopalan, R., A. Mukherjee, and M. Singh (2014): "Do Debt Contract Enforcement Costs Affect Financing and Asset Structure?," *Available at SSRN 2186835*.

Gopalan, R., V. Nanda, and A. Seru (2007): "Affiliated firms and financial support: Evidence from Indian business groups," *Journal of Financial Economics*, 86(3), 759–795.

Grossman, S. J., and O. D. Hart (1986): "The costs and benefits of ownership: A theory of vertical and lateral integration," *The Journal of Political Economy*, pp. 691–719.

Gulen, H., and M. Ion (2015): "Policy uncertainty and corporate investment," *Review of Financial Studies*, p. hhv050.

Hadlock, C. J., and J. R. Pierce (2010): "New evidence on measuring financial constraints: Moving beyond the KZ index," *The Review of Financial Studies*, 23(5), 1909–1940.

Hoberg, G., and G. M. Phillips (2014): "Product Market Uniqueness, Organizational Form and Stock Market Valuations," *Organizational Form and Stock Market Valuations (August 31, 2014)*.

Hsieh, C.-T., and P. J. Klenow (2007): "Misallocation and manufacturing TFP in China and India," Discussion paper, National Bureau of Economic Research.

——— (2009): "Misallocation and Manufacturing TFP in China and India," *The Quarterly Journal of Economics*, 124(4), 1403–1448.

Hund, J., D. Monk, and S. Tice (2012): "Apples to apples: The economic benefit of corporate diversification," *Available at SSRN 2023786*.

Jens, C. E. (2017): "Political uncertainty and investment: Causal evidence from US gubernatorial elections," *Journal of Financial Economics*, 124(3), 563–579.

Julio, B., and Y. Yook (2012): "Political uncertainty and corporate investment cycles," *The Journal of Finance*, 67(1), 45–83.

Kim, E. H., and J. J. McConnell (1977): "Corporate mergers and the co-insurance of corporate debt," *The Journal of Finance*, 32(2), 349–365.

Kumar, N. (2014): "Political interference on firms: Effect of elections on bank lending in India," Discussion paper, Working paper, University of Chicago.

Kuppuswamy, V., and B. Villalonga (2015): "Does diversification create value in the presence of external financing constraints? Evidence from the 2007–2009 financial crisis," *Management Science*.

Laakso, M., and R. Taagepera (1979): ""Effective" number of parties: a measure with application to West Europe," *Comparative political studies*, 12(1), 3–27.

Lang, L. H., and R. M. Stulz (1994): "Tobin's q, Corporate Diversification, and Firm Performance," *Journal of Political Economy*, pp. 1248–1280.

Lewellen, W. G. (1971): "A pure financial rationale for the conglomerate merger," *The journal of Finance*, 26(2), 521–537.

Maksimovic, V., and G. Phillips (2002): "Do conglomerate firms allocate resources inefficiently across industries? Theory and evidence," *The Journal of Finance*, 57(2), 721–767.

Maksimovic, V., and G. M. Phillips (2013): "Conglomerate Firms, Internal Capital Markets and the Theory of the Firm," *Robert H. Smith School Research Paper*.

Matvos, G., and A. Seru (2014): "Resource allocation within firms and financial market dislocation: Evidence from diversified conglomerates," *Review of Financial Studies*, 27(4), 1143–1189.

Mauro, P. (1995): "Corruption and growth," *The quarterly journal of economics*, pp. 681–712.

Milgrom, P. R., and J. D. Roberts (1992): "Economics, Organization and Management.," .

Mukherjee, A., M. Singh, and A. Zaldokas (2015): "Do Corporate Taxes Hinder Innovation?," *Available at SSRN 2585458*.

Rajan, R., H. Servaes, and L. Zingales (2000): "The cost of diversity: The diversification discount and inefficient investment," *The journal of Finance*, 55(1), 35–80.

Schoar, A. (2002): "Effects of corporate diversification on productivity," *The Journal of Finance*, 57(6), 2379–2403.

Stein, J. C. (1997): "Internal capital markets and the competition for corporate resources," *The Journal of Finance*, 52(1), 111–133.

Vig, V. (2013): "Access to collateral and corporate debt structure: Evidence from a natural experiment," *The Journal of Finance*, 68(3), 881–928.

Williamson, O. E. (1975): "Markets and hierarchies," *New York*, pp. 26–30.

——— (1985): *The economic intstitutions of capitalism*. Simon and Schuster.

Figure 1: Staggered Elections in India

In this chart, we show that elections occur in a staggered manner in India; every time a state has an election, there is at least one neighbouring state that does not go to election.

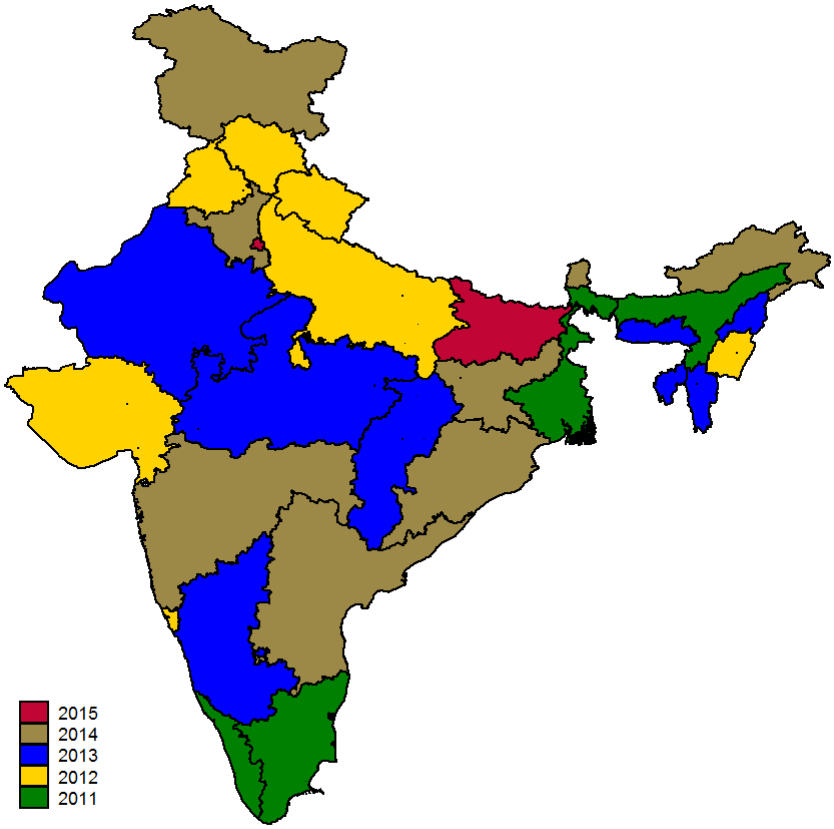

Figure 2: Density of Different Electoral Competition Measures

In this chart, we show the density function of different electoral competition measures. We plot four different measures: difference in share of seats, difference in share of votes, ENOP based on vote share, and ENOP based on seat share.

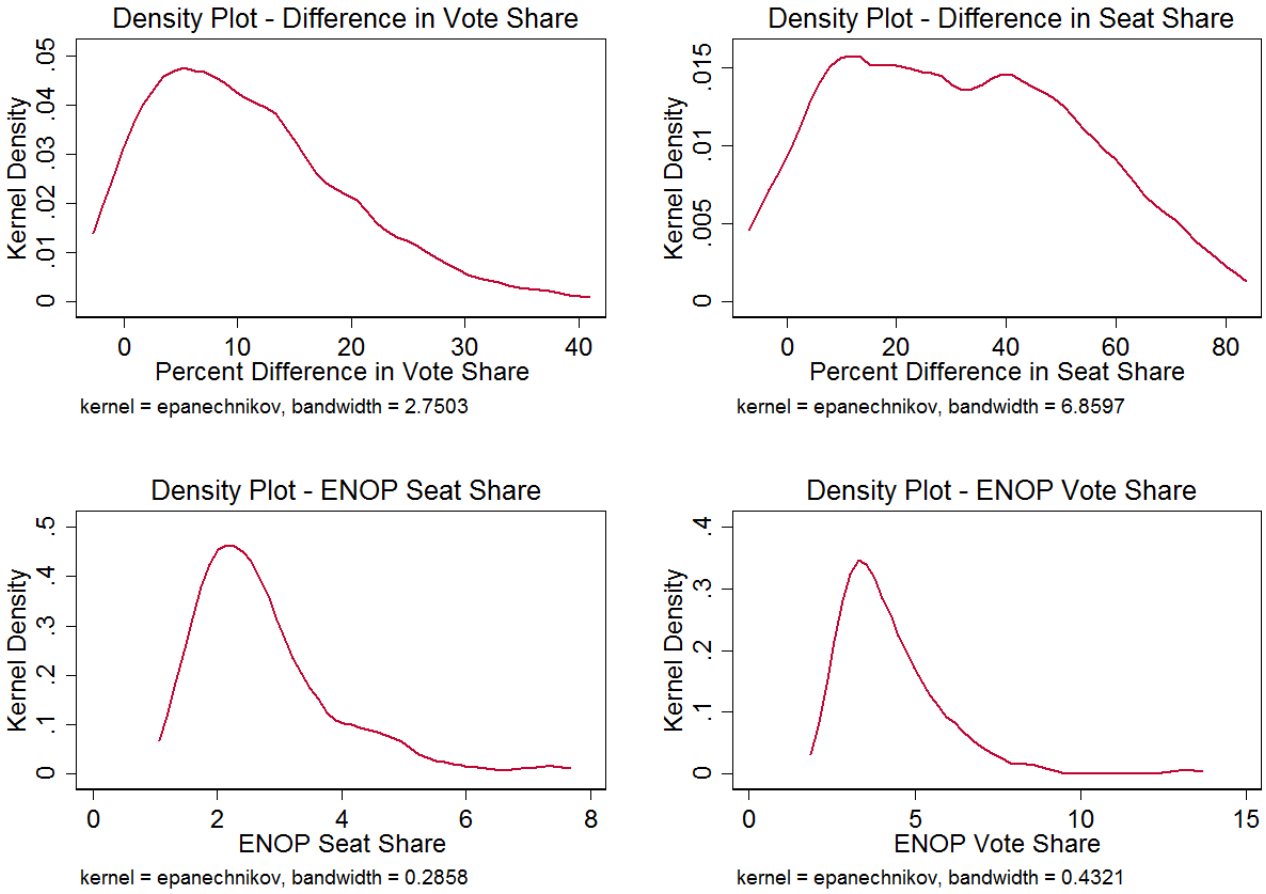

Figure 3: Stand-Alone vs. Conglomerate Debt-to-Asset Ratio

In this graph, we present the coefficients obtained from regressing the debt-to-asset ratio on the event cycle. We perform the regressions separately for the IBGs and stand-alone firms. The following figure plots the coefficients from the regression: $Y_{sit} = \beta_0 + \beta_s + \sum_{t=-2}^{2} \beta_t Time\,to\,Uncertain\,Election_t + \epsilon_{sit}$

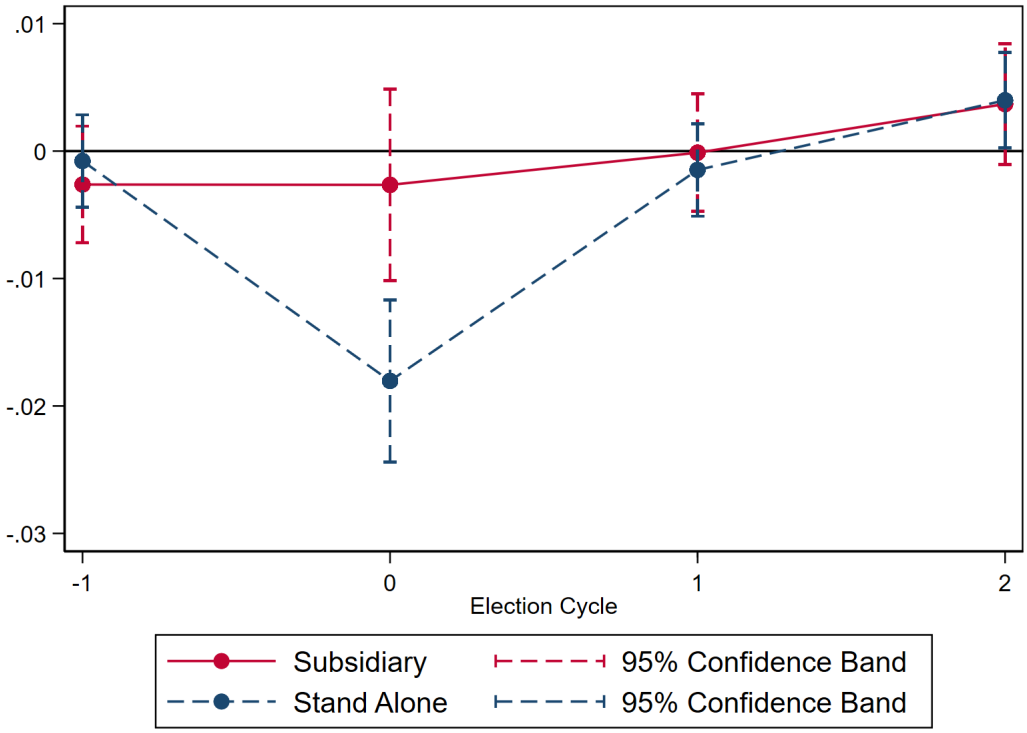

Figure 4: The Coefficient of Dynamic Regression

In this graph, we present the coefficients obtained from regressing the main variable of interest on the interaction term between stand-alone firms and the years of election cycle. Two years prior to the period of uncertainty is the omitted group. The following figure plots the coefficients from the regression: $Y_{sit} = \sum_{t=-1}^{2} \beta_t Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \epsilon_{sit}$

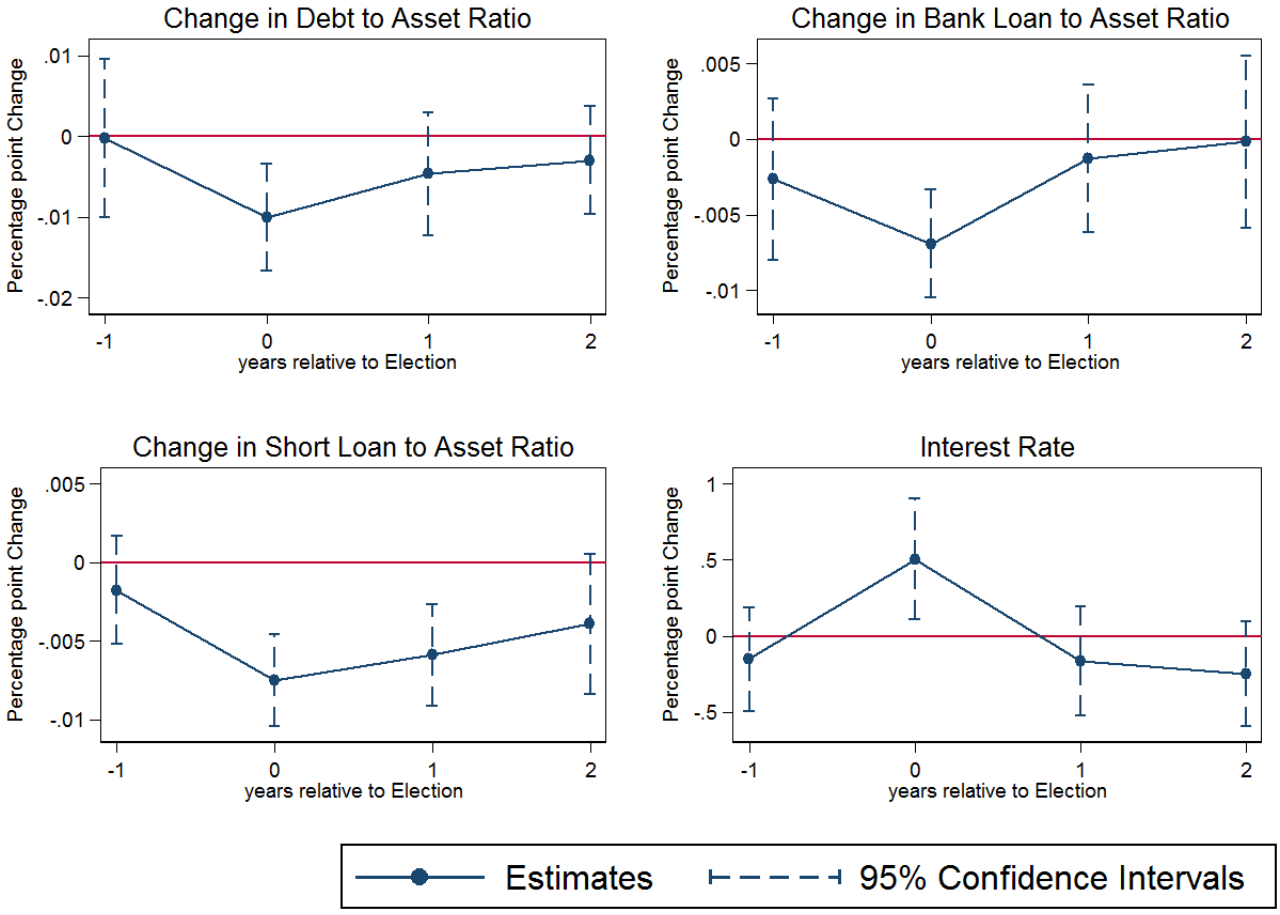

Table 1: Summary Statistics

The following table reports the summary statistics of the primary variables of interest separately for the IBGs and their subsidiaries, and stand-alone firms. We find that the IBG subsidiaries are close to stand-alone firms in all economic magnitudes of the parameters, except size.

	Indian Business Group				
	Mean	St Dev	P25	P50	P75
No. of Subsidiaries	21.99	31.7	5	11	27
No. of Industries	9.52	10.76	3	6	12
No. of State	3.57	3.21	1	3	4

	Subsidiaries of Conglomerates					Stand Alone				
	Mean	St Dev	P25	P50	p75	Mean	St Dev	P25	P50	P75
Total Assets (INR Mn)	3402.83	6444.49	259.70	872.10	3090.80	855.24	2532.67	79.60	205.30	574.40
Tangibility (%)	26.00	23.10	6.90	19.30	41.00	26.60	23.10	7.50	21.10	41.20
PAT to Asset Ratio (%)	2.20	10.40	-0.10	2.80	6.90	1.70	9.70	0.00	2.00	5.60
Debt-to-Asset Ratio (%)	36.50	23.30	18.20	35.20	51.90	34.40	22.00	16.10	32.80	49.80
Short Term Debt-to-Asset Ratio (%)	11.30	10.40	2.90	9.20	17.00	14.50	12.70	3.80	12.20	21.70
Investment to Asset Ratio (%)	45.20	85.30	6.40	30.20	54.80	46.60	82.60	10.50	31.90	55.20
Interest Rate (%)	12.02	8.55	7.00	11.19	15.50	10.71	8.25	5.75	10.22	14.24

Table 1B: Summary Statistics - Matched Sample

The following table reports the summary statistics of the primary variables of interest separately for the IBGs and their subsidiaries, and stand-alone firms for the sample matched on the basis of propensity score.

	Indian Business Group				
	Mean	St Dev	P25	P50	P75
No. of Subsidiaries	20.88	30.65	4	10	26
No. of Industries	9.14	10.45	3	6	11
No. of State	3.45	3.13	1	2	4

	Subsidiaries of Conglomerates					Stand Alone				
	Mean	St Dev	P25	P50	p75	Mean	St Dev	P25	P50	P75
Total Assets (INR Mn)	1643.61	3578.50	160.70	457.80	1391.40	855.24	2532.67	79.60	205.30	574.40
Tangibility (%)	26.62	23.10	7.50	21.08	41.21	26.60	23.10	7.50	21.10	41.20
PAT to Asset Ratio (%)	2.00	11.00	-0.45	2.70	7.00	1.70	9.70	0.00	2.00	5.60
Debt-to-Asset Ratio (%)	35.60	23.60	16.70	33.70	51.10	34.40	22.00	16.10	32.80	49.80
Short Term Debt-to-Asset Ratio (%)	11.80	10.79	3.06	9.55	17.53	14.50	12.70	3.80	12.20	21.70
Investment to Asset Ratio (%)	43.40	84.34	5.38	27.33	53.81	46.60	82.60	10.50	31.90	55.20
Interest Rate (%)	12.27	8.90	6.98	11.55	15.95	10.71	8.25	5.75	10.22	14.24

Table 2: Results using National Election

In this table, we present the regression estimates using debt-to-asset ratio and bank loan-to-asset ratio as the dependent variables. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to national elections. The results in columns (1) and (4) are obtained from regressions in the following form:

$Y_{sit} = \beta_0 + \beta_i + \beta_{jt} + \beta_1 Election_t \times StandAlone_i + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the debt-to-asset ratio/bank loan-to-asset ratio of firm 'i' located in that state at time 't'. The dummy $Election_t$ takes a value of 1 when there is a national election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_t \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (2), (3), (5) and (6) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_0 + \beta_i + \beta_{jt} + \beta_1 High\,Uncertain\,Election_t \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_t \times StandAlone_i + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Debt Asset Ratio	(2) Debt Asset Ratio	(3) Debt Asset Ratio	(4) Bank Loan Asset Ratio	(5) Bank Loan Asset Ratio	(6) Bank Loan Asset Ratio
Stand Alone× National Election	-0.005*			-0.005***		
	(0.003)			(0.001)		
Stand Alone× More Uncertain Election		-0.017***	-0.010**		-0.012***	-0.009***
		(0.005)	(0.004)		(0.003)	(0.003)
Stand Alone× Less Uncertain Election		-0.002	-0.004		0.000	-0.000
		(0.004)	(0.004)		(0.003)	(0.002)
Controls	No	No	Yes	No	No	yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.630	0.630	0.718	0.608	0.608	0.656
Obs.	98299	98299	98299	84320	84320	84320

Table 3: Heterogeneous Impact on Debt-to-Asset Ratio

In this table, we present the regression estimates using debt-to-asset ratio as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the debt-to-asset ratio of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 HighUncertain\,Election_{st} \times StandAlone_i + +\beta_2 LessUncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	Debt-to-Asset Ratio (1)	Debt-to-Asset Ratio (2)	Debt-to-Asset Ratio (3)	Debt-to-Asset Ratio (4)
Stand Alone× Election	-0.008***	-0.008***		
	(0.002)	(0.002)		
Stand Alone× More Uncertain Election			-0.027***	-0.022***
			(0.004)	(0.004)
Stand Alone× Less Uncertain Election			-0.003	-0.004
			(0.003)	(0.003)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.643	0.725	0.643	0.725
Obs.	86484	86484	86484	86484

Table 3B: Heterogeneous Impact on Log Debt

In this table, we present the regression estimates using log debt as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the log(1+debt) of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 HighUncertain\,Election_{st} \times StandAlone_i + +\beta_2 LessUncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Log(1+Debt)	(2) Log(1+Debt)	(3) Log(1+Debt)	(4) Log(1+Debt)
Stand Alone× Election	-0.028	-0.039**		
	(0.027)	(0.018)		
Stand Alone× More Uncertain Election			-0.240***	-0.141***
			(0.043)	(0.039)
Stand Alone× Less Uncertain Election			0.032	-0.010
			(0.027)	(0.021)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.806	0.893	0.806	0.893
Obs.	86484	86484	86484	86484

Table 4: Heterogeneous Impact on Bank Loan-to-Asset Ratio

In this table, we present the regression estimates using bank loan-to-asset ratio as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the bank loan-to-asset ratio of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + +\beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Bank Loan Asset Ratio	(2) Bank Loan Asset Ratio	(3) Bank Loan Asset Ratio	(4) Bank Loan Asset Ratio
Stand Alone× Election	-0.006***	-0.007***		
	(0.002)	(0.002)		
Stand Alone× More Uncertain Election			-0.021***	-0.019***
			(0.004)	(0.004)
Stand Alone× Less Uncertain Election			-0.001	-0.003
			(0.002)	(0.002)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.613	0.663	0.613	0.663
Obs.	72817	72817	72817	72817

Table 4B: Heterogeneous Impact on Log Bank Loans

In this table, we present the regression estimates using log bank loans as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the log(1 + bank loans) of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 HighUncertain\,Election_{st} \times StandAlone_i + +\beta_2 LessUncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Log(1+Bank Loan)	(2) Log(1+Bank Loan)	(3) Log(1+Bank Loan)	(4) Log(1+Bank Loan)
Stand Alone× Election	-0.065***	-0.089***		
	(0.022)	(0.018)		
Stand Alone× More Uncertain Election			-0.292***	-0.201***
			(0.059)	(0.048)
Stand Alone× Less Uncertain Election			0.003	-0.056**
			(0.025)	(0.020)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.779	0.835	0.779	0.835
Obs.	72814	72814	72814	72814

Table 5: Heterogeneous Impact on ST and LT Debt-to-Asset Ratio

In this table, we present the regression estimates using ST (LT) debt-to-asset ratios as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1), (2), (5), and (6) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the ST (LT) debt-to-asset ratios of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3), (4), (7), and (8) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + +\beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Short Term Debt-to-Asset	(2) Short Term Debt-to-Asset	(3) Short Term Debt-to-Asset	(4) Short Term Debt-to-Asset	(5) Long Term Debt-to-Asset	(6) Long Term Debt-to-Asset	(7) Long Term Debt-to-Asset	(8) Long Term Debt-to-Asset
Stand Alone× Election	-0.005***	-0.006***			-0.001	-0.001		
	(0.002)	(0.001)			(0.002)	(0.001)		
Stand Alone× More Uncertain Election			-0.016***	-0.015***			-0.005**	-0.003
			(0.004)	(0.003)			(0.002)	(0.002)
Stand Alone× Less Uncertain Election			-0.001	-0.003*			-0.000	-0.001
			(0.002)	(0.002)			(0.002)	(0.002)
Controls	No	Yes	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.606	0.649	0.606	0.649	0.602	0.614	0.602	0.614
Obs.	72817	72817	72817	72817	72817	72817	72817	72817

Table 5B: Heterogeneous Impact on ST and LT Debt

In this table, we present the regression estimates using log ST debt (log LT debt) as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1), (2), (5), and (6) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the Log (1+ ST debt) (Log (1+ LT debt)) of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3), (4), (7), and (8) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Log Short Term	(2) Log Short Term	(3) Log Short Term	(4) Log Short Term	(5) Log Long Term	(6) Log Long Term	(7) Log Long Term	(8) Log Long Term
Stand Alone× Election	-0.041	-0.066***			0.006	-0.010		
	(0.025)	(0.020)			(0.045)	(0.042)		
Stand Alone× More Uncertain Election			-0.299***	-0.215***			-0.141**	-0.059
			(0.058)	(0.053)			(0.053)	(0.046)
Stand Alone× Less Uncertain Election			0.035	-0.021			0.049	0.005
			(0.029)	(0.022)			(0.065)	(0.059)
Controls	No	Yes	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.713	0.764	0.713	0.764	0.638	0.671	0.638	0.671
Obs.	72816	72816	72816	72816	72815	72815	72815	72815

Table 6: Heterogeneous Impact on Capital Expenditure

In this table, we present the regression estimates using capital expenditure to asset ratio as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the $\frac{CAPEX_{it}}{Assetoffirm_{it-1}}$ of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) $\frac{CAPEX}{Asset}$	(2) $\frac{CAPEX}{Asset}$	(3) $\frac{CAPEX}{Asset}$	(4) $\frac{CAPEX}{Asset}$
Stand Alone× Election	-0.015	-0.012		
	(0.016)	(0.015)		
Stand Alone× More Uncertain Election			-0.088*	-0.085*
			(0.043)	(0.045)
Stand Alone× Less Uncertain Election			0.005	0.009
			(0.018)	(0.018)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.153	0.169	0.153	0.169
Obs.	69389	69389	69389	69389

Table 7: Heterogeneous Impact on Interest Rate

In this table, we present the regression estimates using interest rate as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the interest rate of firm 'i' located in that state at time 't'. Interest rate is the share of total interest expense to total debt. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Interest Rate	(2) Interest Rate	(3) Interest Rate	(4) Interest Rate
Stand Alone× Election	0.642***	0.645***		
	(0.168)	(0.155)		
Stand Alone× More Uncertain Election			1.117***	1.155***
			(0.249)	(0.261)
Stand Alone× Less Uncertain Election			0.512***	0.505***
			(0.145)	(0.135)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.489	0.505	0.489	0.505
Obs.	72888	72888	72888	72888

Table 8: Dynamic Effect of Political Uncertainty

In this table, we present the dynamic regression estimates of the primary dependent variables for the period of political uncertainty, and one year before and after it. The results reported are based on the following equation:

$Y_{sit} = \sum_{t=-1}^{2} \beta_t Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \epsilon_{sit}$
where for state 's', the dependent variable Y_{sit} measures the primary outcome variables of firm 'i' located in that state at time 't'. The primary coefficients of interest are β_{-1}, β_0, β_1, and β_2. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Debt to Asset Ratio	(2) Debt to Asset Ratio	(3) Bank Loan to Asset Ratio	(4) Bank Loan to Asset Ratio	(5) Short Term Loan to Asset Ratio	(6) Short Term Loan to Asset Ratio	(7) Interest Rate	(8) Interest Rate
Stand Alone× Election(-1)	-0.000	0.001	-0.003	-0.001	-0.002	-0.001	-0.151	-0.096
	(0.005)	(0.005)	(0.003)	(0.003)	(0.002)	(0.002)	(0.173)	(0.147)
Stand Alone× Election	-0.010***	-0.009**	-0.007***	-0.007***	-0.007***	-0.008***	0.504**	0.500**
	(0.003)	(0.004)	(0.002)	(0.002)	(0.001)	(0.001)	(0.202)	(0.179)
Stand Alone× Election(+1)	-0.005	-0.001	-0.001	0.000	-0.006***	-0.005**	-0.163	-0.241
	(0.004)	(0.004)	(0.002)	(0.003)	(0.002)	(0.002)	(0.182)	(0.176)
Stand Alone× Election(+2)	-0.003	0.001	-0.000	0.000	-0.004	-0.003	-0.247	-0.267*
	(0.003)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)	(0.176)	(0.143)
Controls	No	Yes	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.643	0.717	0.613	0.660	0.606	0.649	0.489	0.504
Obs.	86484	86484	72817	72817	72817	72817	72888	72888

Table 9: Heterogeneous Impact on Capital and Output Distortion

In this table, we present the regression estimates using Capital Distortion (τ_{K_i}) and Output distortion (τ_{Y_i}) as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1), (2), (5), and (6) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \beta_{st} + \sum_{I=SA,Cong} \beta_t^I + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the $log(1+\tau_{K_i})$ and $log(1-\tau_{Y_i})$ of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3), (4), (7), and (8) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \beta_{st} + \sum_{I=SA,Cong} \beta_t^I + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Capital Distortion	(2) Capital Distortion	(3) Capital Distortion	(4) Capital Distortion	(5) Output Distortion	(6) Output Distortion	(7) Output Distortion	(8) Output Distortion
Stand Alone× Election	0.026	0.020			0.013	0.022**		
	(0.015)	(0.018)			(0.012)	(0.010)		
Stand Alone× More Uncertain Election			0.069***	0.052*			0.020	0.027
			(0.024)	(0.027)			(0.034)	(0.029)
Stand Alone× Less Uncertain Election			0.014	0.012			0.012	0.021*
			(0.022)	(0.024)			(0.014)	(0.011)
Controls	No	Yes	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.697	0.724	0.697	0.724	0.681	0.748	0.681	0.748
Obs.	93649	93649	93649	93649	95463	95463	95463	95463

Table 10: Alternative Measure of Political Uncertainty - ENOP

In this table, we present results from an alternate definition of political uncertainty. Elections are classified as uncertain if the ENOP in an election is in the highest tercile. The results from columns 1-8 are obtained using the following regression specification

$$Y_{sit} = \beta_1 High\,ENOP_{st} \times StandAlone_i + \beta_2 Low\,ENOP_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit},$$

where for state 's', the dependent variable Y_{sit} is the variable we are interested to study of firm 'i' located in that state at time t. The primary variable of interest is the interaction term between $High\,ENOP_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate.. The primary coefficients of interest are β_1 and β_2. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Debt to Asset Ratio	(2) Debt to Asset Ratio	(3) Bank Loan to Asset Ratio	(4) Bank Loan to Asset Ratio	(5) Short Term Loan to Asset Ratio	(6) Short Term Loan to Asset Ratio	(7) Interest Rate	(8) Interest Rate
Stand Alone× High ENOP	-0.021***	-0.017***	-0.013***	-0.011**	-0.010***	-0.009***	1.139***	1.117***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.003)	(0.003)	(0.190)	(0.218)
Stand Alone× Low ENOP	-0.003	-0.004	-0.003	-0.005*	-0.002	-0.004	0.429***	0.444***
	(0.003)	(0.003)	(0.002)	(0.003)	(0.002)	(0.002)	(0.147)	(0.142)
Controls	No	Yes	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.643	0.725	0.613	0.663	0.606	0.649	0.489	0.505
Obs.	86484	86484	72817	72817	72817	72817	72888	72888

Table 10B: Alternative Measure of Political Uncertainty - ENOP

In this table, we present the regression estimates of the primary variables of interest. We use the ENOP as measure of political uncertainty. The results from columns 1-8 are obtained using the following regression specification

$$Y_{sit} = \beta_1 Log(1 + ENOP_{st}) \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit},$$

where for state 's', the dependent variable Y_{sit} is the variable we are interested to study of firm 'i' located in that state at time t. The primary variable of interest is the interaction term between $Log(1 + ENOP_{st}) \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The primary coefficient of interest is β_1. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Debt to Asset Ratio	(2) Debt to Asset Ratio	(3) Bank Loan to Asset Ratio	(4) Bank Loan to Asset Ratio	(5) Short Term Loan to Asset Ratio	(6) Short Term Loan to Asset Ratio	(7) Interest Rate	(8) Interest Rate
Log (1 + ENOP)× Stand Alone	-0.006***	-0.006***	-0.004***	-0.005***	-0.003***	-0.004***	0.493***	0.494***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.097)	(0.090)
Controls	No	Yes	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.643	0.725	0.613	0.663	0.606	0.649	0.489	0.505
Obs.	86484	86484	72817	72817	72817	72817	72888	72888

Table 11: More vs. Less Tangible Firms

In this table, we group firms on the basis of their tangible assets. Firms above the median tangibility ratio are termed as high-tangible firms, while those with tangibility ratio below the median are termed low-tangible firms. We perform our benchmark specifications on each of these groups of firms. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1), (2), (5), and (6) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \beta_{st} + \sum_{I=SA,Cong} \beta_t^I + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} is the variable we are interested to study of firm 'i' located in that state at time t. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3), (4), (7), and (8) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + +\beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \beta_{st} + \sum_{I=SA,Cong} \beta_t^I + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	Debt to Asset Ratio				Bank Loan to Asset Ratio			
	Low Tang (1)	High Tang (2)	Low Tang (3)	High Tang (4)	Low Tang (5)	High Tang (6)	Low Tang (7)	High Tang (8)
Stand Alone× Election	-0.014***	0.002			-0.012***	-0.004		
	(0.003)	(0.003)			(0.004)	(0.003)		
Stand Alone× More Uncertain Election			-0.018**	0.004			-0.020***	-0.010*
			(0.007)	(0.005)			(0.006)	(0.005)
Stand Alone× Less Uncertain Election			-0.013***	0.001			-0.008**	-0.003
			(0.004)	(0.003)			(0.003)	(0.003)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.710	0.784	0.710	0.784	0.660	0.687	0.660	0.687
Obs.	38340	38336	38340	38336	30446	33385	30446	33385

Table 12: Big Vs. Small Firms

In this table, we group firms on the basis of their size (total assets). Firms above the median size are termed as high-size firms, while those with their size below the median are termed low-size firms. We perform our benchmark specifications on each of these groups of firms. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1), (2), (5), and (6) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \beta_{st} + \sum_{I=SA,Cong} \beta_t^I + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} is the variable we are interested to study of firm 'i' located in that state at time t. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3), (4), (7), and (8) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 Uncertain\,Election_{st} \times StandAlone_i + + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \beta_{st} + \sum_{I=SA,Cong} \beta_t^I + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	Debt to Asset Ratio				Bank Loan to Asset Ratio			
	Low Size (1)	High Size (2)	Low Size (3)	High Size (4)	Low Size (5)	High Size (6)	Low Size (7)	High Size (8)
Stand Alone× Election	-0.012***	-0.004			-0.010**	-0.006		
	(0.003)	(0.003)			(0.004)	(0.004)		
Stand Alone× More Uncertain Election			-0.028***	-0.006			-0.029***	-0.006
			(0.005)	(0.008)			(0.006)	(0.008)
Stand Alone× Less Uncertain Election			-0.005	-0.004			-0.001	-0.006
			(0.005)	(0.002)			(0.004)	(0.005)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.752	0.773	0.752	0.773	0.679	0.705	0.679	0.705
Obs.	43210	33655	43210	33655	33527	30325	33527	30325

Table 13: Effect of Bank Relationship

In this table, we investigate whether bank relationship helps alleviate the lower level of lending of a stand-alone firm. For this, we perform the following regression:

$Y_{sit} = \beta_1 log(No.of Relationship) \times HighUncertainElection_{st} \times StandAlone_i + \beta_2 log(No.of Relationship) \times LowUncertainElection_{st} \times StandAlone_i + \beta_3 HighUncertainElection_{st} \times StandAlone_i + \beta_4 LowUncertainElection_{st} \times StandAlone_i + \delta' Controls_{sit} + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \epsilon_{sit}$,

where for state s, the dependent variable Y_{sit} is the bank debt-to-asset ratio of firm i located in that state at time t. The dummy $Election_{st}$ takes the value of 1 when there is an election in state s in year t, and 0 otherwise. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Bank Borrow Asset Ratio	(2) Bank Borrow Asset Ratio	(3) Short Term Asset Ratio	(4) Short Term Asset Ratio	(5) Long Term Asset Ratio	(6) Long Term Asset Ratio
Log(No. of Relationship) × Stand Alone× More Uncertain Election	0.010*	0.012**	0.012***	0.011**	-0.004*	-0.001
	(0.005)	(0.005)	(0.004)	(0.004)	(0.002)	(0.002)
Stand Alone× More Uncertain Election	-0.021**	-0.022***	-0.026***	-0.026***	0.007**	0.006
	(0.008)	(0.007)	(0.007)	(0.005)	(0.003)	(0.004)
Log(No. of Relationship) × Stand Alone× Less Uncertain Election	0.001	-0.003	-0.001	-0.003	0.001	-0.000
	(0.008)	(0.005)	(0.006)	(0.004)	(0.004)	(0.004)
Stand Alone× Less Uncertain Election	0.007	0.008	-0.000	0.000	0.008	0.009
	(0.010)	(0.007)	(0.006)	(0.005)	(0.006)	(0.005)
Controls	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.582	0.637	0.575	0.624	0.544	0.565
Obs.	30548	30548	30548	30548	30548	30548

Internet Appendix:

IA.1 Data From a Large Indian Bank

In this section, we perform our baseline specification using data from a large bank in India. The data provide loan-level information of firms for the period (1988-2004). The data give the type of firms (single segment or part of a conglomerate), location, location of the project, loan quantity, and interest rate. These data help us to provide additional evidence on the effect of political uncertainty on bank lending using the granular data of bank lending to each firm. The data also allow us to investigate the impact on the interest rate more precisely, because earlier in the absence of the interest rate, we used the share of the average interest payment to total debt as the interest rate. To test these predictions, we perform the following regression specifications.

$$\begin{aligned} Y_{sit} &= \beta_0 + \beta_i + \beta_{st} + \beta_1 Election_{st} \times StandAlone_i \\ &\quad + \gamma' Stand\,Alone \times Year + \delta' Stand\,Alone \times State + \epsilon_{sit} \end{aligned} \tag{A-1}$$

$$\begin{aligned} Y_{sit} &= \beta_0 + \beta_i + \beta_{st} + \beta_1 HighUncertainElection_{st} \times StandAlone_i \\ &\quad + \beta_2 LowUncertainElection_{st} \times StandAlone_i + \gamma' Stand\,Alone \times Year + \\ &\quad \delta' Stand\,Alone \times State + \epsilon_{sit} \end{aligned} \tag{A-2}$$

In the above equation, $HighUncertainElection_{st}$ ($LowUncertainElection_{st}$), unlike in 2, indicates whether a state in which a firm operates (but is not located) has an impending election the next year, which then resulted in a very close competition between the winner and runner-up. The results from the above specifications are presented in Table IA.1. As shown in columns 1 and 3, we do not find any election effect in general. However, when we classify the elections as more and less uncertain, we find that during periods of more uncertainty, the total bank lending to stand-alone firms decreases by more than 40%, while the interest rate increases by around 60 basis points. This lends further support to our initial hypothesis that stand-alone firms are more vulnerable to political uncertainty, and that the opposite movement in quantity and prices that we observed earlier is consistent with the data of this bank as well.

IA.2 Additional Robustness For Size

As noted in Section 3.3, stand-alone firms are relatively smaller than conglomerate firms. We earlier tried to resolve this issue by performing our initial specifications using a propensity-score-matched sample. Further, note that our empirical strategy compares

the stand-alone firms in a state with elections with those in a state without elections, and uses conglomerates as a control. Thus, the identification comes primarily from the difference between the stand-alone and conglomerate firms in the treatment and control states. However, size can still be a concern, and in this section, we try to compare the stand-alone and conglomerate firms for each decline in size using the size decile ×-year fixed effects. We report the results in Table IA.2, and the coefficients of our main variables of interest are qualitatively similar to the earlier ones.

IA.3 Placebo

In this section, we provide a placebo test by randomly assigning firms to the treatment and control groups. That is, each firm is assigned randomly to a conglomerate or stand–alone firm group. Thus, we obtain an artificially generated sample for our baseline regression specification with the generated control and treatment groups. We repeat the regression 1,000 times, to obtain a nonparametric distribution of the coefficients. In Figure IA.1, we plot the distribution of the coefficients and compare it with those of the coefficients from our primary regression specifications. In all the four panels, we find that the coefficients fall in the extreme right tail and consequently add to the evidence that stand-alone and conglomerate firms are impacted differently during periods of political uncertainty.

IA.4 Tests without Propensity-Score Matching

As shown in Section 4.2, we performed our main empirical specification using a propensity-score-matched sample because of two different types of firms, conglomerate and stand-alone. In this section, we perform our primary empirical specifications with the entire sample. We present the results with the main dependent variables in Tables (IA.3, IA.4, and IA.5).

Figure IA.1: Placebo Regression Plot

In this chart, we plot the coefficients from a regression where the control and treatment groups are randomly distributed. We compare the regression coefficients from our primary results with those in the distribution.

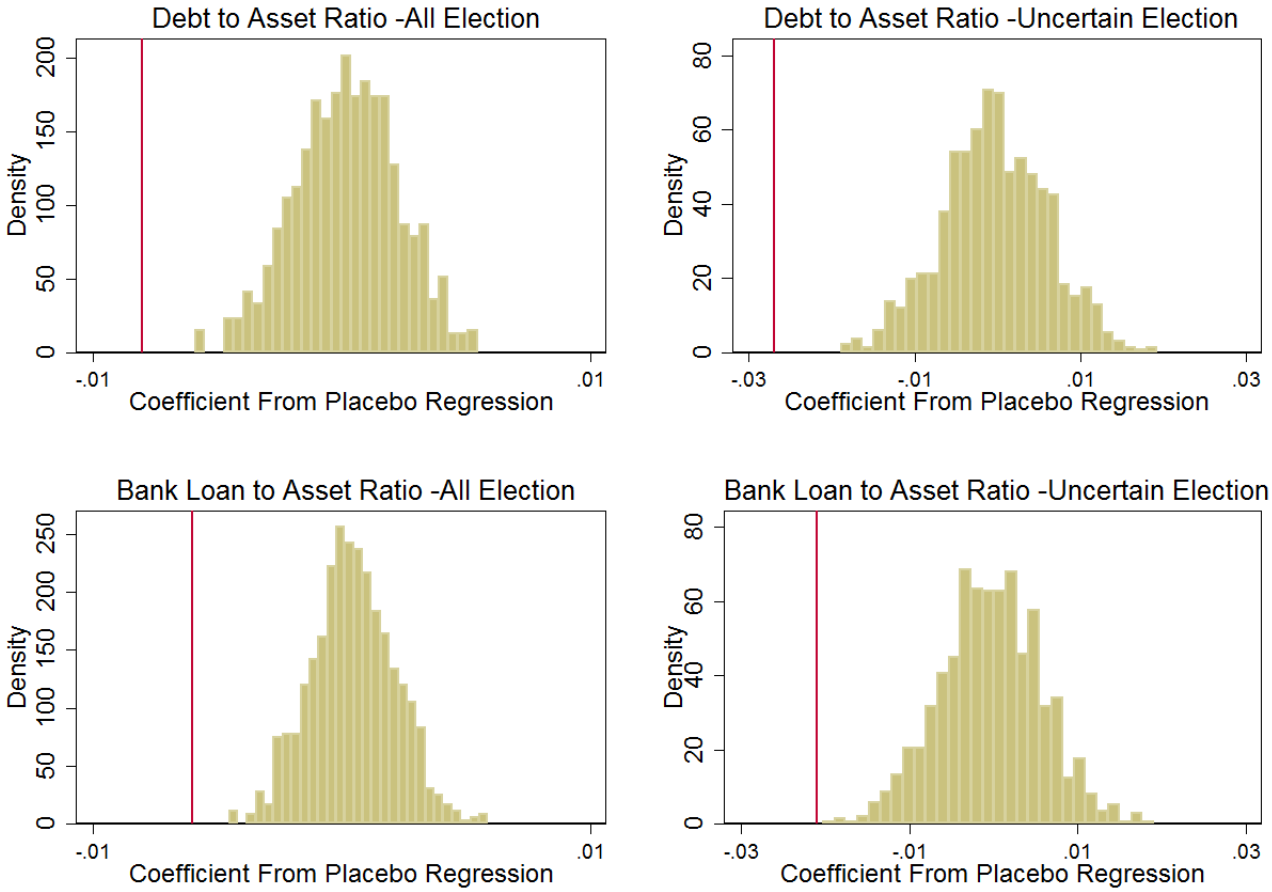

Table IA.1: Data from a Large Bank

In this table, we present the log of debt and interest rate regression estimates using data from a large bank. The event of interest is the election period in the Indian states. The interaction term coefficient indicates the difference in the dependent variable between conglomerate and stand-alone firms in a state going to election vis-a-vis a state with no elections. The standard errors are clustered at the state level. The results in columns (1) and (3) are obtained from regressions in the following form form:

$Y_{sit} = \beta_0 + \beta_i + \beta_{st} + \beta_1 Election_{st} \times StandAlone_i + \delta' Stand\,Alone \times State + \gamma' Stand\,Alone \times Year + \epsilon_{sit}$,
where for state s, the dependent variable Y_{sit} measures the log (debt) and interest rate of firm i located in that state at time t. The dummy $Election_{st}$ takes the value of 1 when there is an election in state s in year t, and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$, where the stand-alone firm does not belong to a conglomerate. The results in columns (2) and (4) are obtained by grouping the election dummies into more and less uncertain elections in the form

$Y_{sit} = \beta_0 + \beta_i + \beta_{st} + \beta_1 Uncertain\,Election_{st} \times StandAlone_i + +\beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \gamma' Stand\,Alone \times Year + \delta' Stand\,Alone \times State + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	Log (Debt) (1)	Log (Debt) (2)	Interest Rate (3)	Interest Rate (4)
Stand Alone× Election	-0.114		0.004	
	(0.172)		(0.224)	
Stand Alone× More Uncertain Election		-0.419*		0.567**
		(0.219)		(0.221)
Stand Alone× Less Uncertain Election		-0.034		-0.143
		(0.214)		(0.251)
Firm FE	Yes	Yes	Yes	Yes
State × Time FE	Yes	Yes	Yes	Yes
Stand Alone × State	Yes	Yes	Yes	Yes
Organization Structure × Time FE	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Adj.-R^2	0.286	0.286	0.331	0.331
Obs.	7153	7153	7153	7153

Table IA.2: Robustness Check Using Size Decile × Time-Fixed Effects

In this table, we present an additional robustness check to see whether size is a factor driving the relationship. For this, we add the size decile × time-fixed effect to our primary regression specifications. The main dependent variables are leverage, bank debt-to-asset ratio, ST bank debt-to-asset ratio, and interest rate. In columns 1, 3, 5, and 7, are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \beta_{st} + \sum_{I=SA,Cong} \beta_t^I + + \sum_{Size=1}^{10} \beta_t^{size} + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} is the variable we are interested to study of firm 'i' located in that state at time t. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (2), (4), (6), and (8) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 Uncertain\, Election_{st} \times StandAlone_i + \beta_2 Less\, Uncertain\, Election_{st} \times StandAlone_i + \beta_i + \beta_{st} + \sum_{I=SA,Cong} \beta_t^I + \sum_{Size=1}^{10} \beta_t^{size} + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Debt to Asset Ratio	(2) Debt to Asset Ratio	(3) Bank Loan to Asset Ratio	(4) Bank Loan to Asset Ratio	(5) Short Term Loan to Asset Ratio	(6) Short Term Loan to Asset Ratio	(7) Interest Rate	(8) Interest Rate
Stand Alone× Election	-0.009***		-0.008***		-0.006***		0.637***	
	(0.002)		(0.002)		(0.001)		(0.165)	
Stand Alone× More Uncertain Election		-0.022***		-0.019***		-0.014***		1.167***
		(0.004)		(0.004)		(0.003)		(0.285)
Stand Alone× Less Uncertain Election		-0.005*		-0.005*		-0.003**		0.493***
		(0.003)		(0.002)		(0.001)		(0.134)
Controls	No	Yes	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Size Decile × Time FE	0.726	0.726	0.666	0.666	0.652	0.652	0.507	0.507
Adj.-R^2	86484	86484	72817	72817	72817	72817	72888	72888

Table IA.3: Heterogeneous Impact on Debt-to-Asset Ratio

In this table, we present the regression estimates using debt-to-asset ratio as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the debt-to-asset ratio of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	Debt-to-Asset Ratio (1)	Debt-to-Asset Ratio (2)	Debt-to-Asset Ratio (3)	Debt-to-Asset Ratio (4)
Stand Alone× Election	-0.004***	-0.004**		
	(0.001)	(0.002)		
Stand Alone× More Uncertain Election			-0.008*	-0.010**
			(0.004)	(0.004)
Stand Alone× Less Uncertain Election			-0.003	-0.002
			(0.002)	(0.002)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.603	0.692	0.603	0.692
Obs.	101047	101047	101047	101047

Table IA.4: Heterogeneous Impact on Bank Loan-to-Asset Ratio

In this table, we present the regression estimates using bank loan-to-asset ratio as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the bank loan-to-asset ratio of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta_{st}^j + \sum_{I=SA,Cong} \beta_{jt}^I + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Bank Loan Asset Ratio	(2) Bank Loan Asset Ratio	(3) Bank Loan Asset Ratio	(4) Bank Loan Asset Ratio
Stand Alone× Election	-0.003**	-0.003**		
	(0.001)	(0.001)		
Stand Alone× More Uncertain Election			-0.006*	-0.007*
			(0.003)	(0.003)
Stand Alone× Less Uncertain Election			-0.001	-0.002
			(0.002)	(0.002)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.581	0.630	0.581	0.630
Obs.	85955	85955	85955	85955

Table IA.5: Heterogeneous Impact on ST and LT Debt-to-Asset Ratio

In this table, we present the regression estimates using ST (LT) debt-to-asset ratios as the dependent variable. The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1), (2), (5), and (6) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the ST (LT) debt-to-asset ratios of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3), (4), (7), and (8) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) Short Term Debt-to-Asset	(2) Short Term Debt-to-Asset	(3) Short Term Debt-to-Asset	(4) Short Term Debt-to-Asset	(5) Long Term Debt-to-Asset	(6) Long Term Debt-to-Asset	(7) Long Term Debt-to-Asset	(8) Long Term Debt-to-Asset
Stand Alone× Election	-0.003*	-0.003**			0.000	0.000		
	(0.001)	(0.001)			(0.001)	(0.001)		
Stand Alone× More Uncertain Election			-0.006**	-0.007**			-0.000	0.000
			(0.003)	(0.003)			(0.002)	(0.002)
Stand Alone× Less Uncertain Election			-0.001	-0.002			0.000	0.000
			(0.002)	(0.002)			(0.001)	(0.002)
Controls	No	Yes	No	Yes	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj.-R^2	0.572	0.616	0.572	0.616	0.586	0.599	0.586	0.599
Obs.	85955	85955	85955	85955	85955	85955	85955	85955

Table IA.6: Alternate Definition of Investment

In this table, we present the regression estimates for an alternate definition of investment. We follow Gopalan, Nanda, and Seru (2007) and define investment as $log(fixedasset/fixedasset_{t-1})$.The event of interest is the periods of political uncertainty, measured as the financial year of firms prior to state elections. The results in columns (1) and (2) are obtained from regressions in the following form:

$Y_{sit} = \beta_1 Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$,
where for state 's', the dependent variable Y_{sit} measures the $\frac{log(fixedasset/fixedasset_{t-1})}{Assetoffirm_{it-1}}$ of firm 'i' located in that state at time 't'. The dummy $Election_{st}$ takes a value of 1 when state s goes to election at year 't', and 0 otherwise. The primary variable of interest is the interaction term between $Election_{st} \times StandAlone_i$. Each firm belongs to an industry 'j' and can be either a stand-alone or a conglomerate subsidiary. Thus, $StandAlone_i$ is a dummy variable that takes a value 1 if the firm 'i' is not a part of any conglomerate. The results in columns (3) and (4) are obtained by grouping the election dummy into more and less uncertain elections in the form

$Y_{sit} = \beta_1 High\,Uncertain\,Election_{st} \times StandAlone_i + \beta_2 Less\,Uncertain\,Election_{st} \times StandAlone_i + \beta_i + \sum_j \beta^j_{st} + \sum_{I=SA,Cong} \beta^I_{jt} + \delta' Controls_{sit} + \epsilon_{sit}$.
The primary coefficients of interest are β_1 and β_2. Additional controls include profitability, firm size, and the vintage of firms. Standard errors are clustered at the state level. ***, **, and * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1) $\frac{Investment}{Asset}$	(2) $\frac{Investment}{Asset}$	(3) $\frac{Investment}{Asset}$	(4) $\frac{Investment}{Asset}$
Stand Alone× Election	0.000	0.000		
	(0.002)	(0.002)		
Stand Alone× More Uncertain Election			-0.006*	-0.006*
			(0.003)	(0.003)
Stand Alone× Less Uncertain Election			0.002	0.002
			(0.002)	(0.002)
Controls	No	Yes	No	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Organization Structure × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.202	0.216	0.202	0.216
Obs.	69601	69601	69601	69601

Table IA.7: Imminent Election in Largest Subsidiary

This table presents the estimate of the baseline specification comparing conglomerates that have imminent elections in the largest subsidiary vs. the other conglomerates

	Debt to Asset Ratio			
	No Election Largest Subsidiary	Election Largest Subsidiary	No Election Largest Subsidiary	Election Largest Subsidiary
Stand Alone× Election	-0.021**	-0.005		
	(0.008)	(0.006)		
Stand Alone× More Uncertain Election			-0.038***	-0.015
			(0.012)	(0.011)
Stand Alone× Less Uncertain Election			-0.017**	-0.002
			(0.007)	(0.008)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Stand Alone × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.729	0.721	0.729	0.721
Obs.	73302	69855	73302	69855

Table IA.8: Conglomerates Varying in the Number of Industries

This table presents the estimate of the baseline specification comparing conglomerates that varies by the number of industries that they operate

	Debt to Asset Ratio			
	More Industries	Less Industries	More Industries	Less Industries
Stand Alone× Election	-0.009**	-0.019**		
	(0.004)	(0.009)		
Stand Alone× More Uncertain Election			-0.029***	-0.021***
			(0.007)	(0.006)
Stand Alone× Less Uncertain Election			-0.003	-0.018
			(0.004)	(0.011)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Stand Alone × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.729	0.721	0.729	0.721
Obs.	74737	69898	74737	69898

Table IA.9: Conglomerates Varying in the Number of States

This table presents the estimate of the baseline specification comparing conglomerates that varies by the number of states that they operate

	Debt to Asset Ratio			
	More States	Less States	More States	Less States
Stand Alone× Election	-0.004	-0.018		
	(0.004)	(0.011)		
Stand Alone× More Uncertain Election			-0.024***	-0.025**
			(0.007)	(0.011)
Stand Alone× Less Uncertain Election			0.001	-0.016
			(0.004)	(0.014)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
State × Industry × Time FE	Yes	Yes	Yes	Yes
Stand Alone × Industry × Time FE	Yes	Yes	Yes	Yes
Adj.-R^2	0.737	0.710	0.738	0.710
Obs.	75888	68712	75888	68712