

The Role of Corporate Political Strategies in M&As

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Abstract

Firms contributing to political action committees (PACs) or involved in lobbying are less likely to receive a bid and, if so, their takeover process is lengthier. Additionally, firms making political contributions, but not those engaged in lobbying, receive a higher takeover premium. These results are consistent with the notion that corporate political strategies can be regarded valuable intangible-like assets which affect takeover deals. Finally, we show that political geography also matters in acquisitions with the effect of PAC contributions on takeover premium being exacerbated by target firms' proximity to political power.

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[...] Cnooc Ltd. on Tuesday withdrew its \$18.5 billion takeover bid for California energy firm Unocal Corp., saying it could not overcome resistance from politicians in Washington [...] (Source: The Washington Post, August 3, 2005).

Corporate political strategies, such as contributions to political action committees (PACs) or lobbying, are aimed at forming political connections that are supposed to ultimately benefit firms. A plethora of prior studies has established that, on the one hand, political connections can increase firm value (see, for instance, Faccio 2006; Claessens, Feijen, and Laeven 2008; Cooper, Gulen, and Ovtchinnikov 2010) and be a useful tool used for managing political risk (e.g., see, Kim, Pantzalis, and Park 2012). On the other hand, there is also evidence that political connections between firm insiders and politicians are associated with non-value maximizing management behavior (e.g., see Firth, Rui, and Wu 2011; Chaney, Faccio, and Parsley 2011). Collectively, the evidence from prior studies can be interpreted as consistent with the notion that connected firms' valuation includes an idiosyncratic "political" component, which differentiates them relative to otherwise similar firms that are not politically active.

This study uses the mergers and acquisitions (M&As) setting for an empirical examination of the relative importance of two different corporate political strategies, contributions to PACs and lobbying. It draws motivation from the fact that, in spite of increasing awareness about the prominence of corporate political strategies in the corporate world, such links have not been addressed extensively even in those studies of corporate takeovers where some evidence shows political connections' effects.¹ Our aim is to shed

¹ The scant evidence linking political connections and takeovers is primarily concerned with the banking and energy sectors only. For example, see Chong, Liu, and Tan (2006) for a study on the wealth effects of forced bank mergers due to an intervention of the Malaysian government in 1999 and Holburn and Vanden Bergh (2014) who examine how firms use election campaign contributions to politicians as a method of influencing regulatory merger approvals in the energy sector. Additionally, Dinc and Erel (2013) show that governments in European Union countries intervene in merger attempts and deter bids from foreign bidders due to economic nationalism.

light on the way corporate political strategies affect firm behavior and particular aspects of the takeover process and outcomes, and how the market for corporate control assesses valuation implications of political connections. Specifically, we address the following important, yet unanswered, questions: Do political connections established via two distinctly different corporate political strategies (i.e., PAC contributions and lobbying) affect the probability of target firms receiving a bid? Do political connections delay the M&A process when an offer arrives and do they have an impact on the size of takeover premium offered? Finally, does the impact of target firm connections on takeover premiums vary with firm location on the political map?

Corporate political strategies can be regarded as having properties similar to those of intangible assets, albeit, with their own distinct characteristics. On the one hand, just like intangible assets, political connections do not possess the observable physical substance and easily quantifiable value of, say, property, plant and equipment. Yet, they can be critical to a firm's growth opportunities, long-term success or failure and thus potentially have a large impact on firm valuation. Consequently, connections' value implications are also of importance in the setting of M&As where target firms that make political contributions may be viewed as in possession of an intangible-like asset that is hard to transfer and assign a value to. On the other hand, given the public's awareness about most corporate political ties, firms with political connections do not necessarily share the same characteristics with traditional intangibles-heavy firms in terms of the information asymmetry properties common to proprietary knowledge-based intangibles such as R&D. In fact, it has been shown that political connections are associated with larger firm size (Cooper, Gulen, and Ovtchinnikov 2010), longer firm age (Antia, Kim, and Pantzalis 2013) and can be viewed as a means to manage policy risk (Kim, Pantzalis, and Park 2012).

Given their considerably different nature, we examine PAC donations and lobbying separately. We contend that political connections created via contributions play a crucial role in the takeover process. Particularly, they can be used by firms to exert direct influence that is aimed at either enabling a preferred merger deal or providing protection against unwanted takeovers.² Firms often contribute money in order to gain better access to politicians (Kroszner and Stratmann 1998) and politically connected firms are likely to enjoy regulatory benefits (see, for example, Stigler 1971; De Soto 1989). In this respect, it is not uncommon for companies to direct their PAC contributions toward leading politicians who serve on committees that oversee the industries they operate in. These politicians can steer their respective committees toward introducing bills that will act favorably for firms they get support from.³ For example, there is both academic (see Holburn and Vanden Bergh, 2004, 2008) and anecdotal evidence that politicians tied to target firms may influence the antitrust agencies to investigate particular aspects of a transaction and encourage them to make a formal legal challenge.^{4, 5} Additionally, as suggested by Dinc and

² There is plenty of anecdotal evidence for involvement of politicians in protecting firms from unwanted takeovers. For instance, BBC news, on May 26, 2014, reported that “US drugs giant Pfizer has withdrawn its £55 a share, £69bn takeover bid for UK pharmaceutical firm AstraZeneca...Following the AstraZeneca board's rejection of the proposal, Pfizer announces that it does not intend to make an offer... AstraZeneca had fiercely resisted the bid, backed by some politicians”, (<http://www.bbc.co.uk/news/business-27572986>).

³ A characteristic example of political intervention for deterring an M&A deal is presented in The Economist, June 1, 2013, <http://www.economist.com/news/business/21578687-chinese-buyer-americas-biggest-pork-producer-pigs-will-fly>: [...American politicians decide whether to approve the sale for \$4.7 billion (\$7.1 billion including debt) announced on May 29th of Smithfield Foods, the world's largest pork producer, to Shuanghui International, a giant Chinese meat company.... So, will America's politicians do likewise [as done by Chinese government for a sale of a large share of Shuanghui to an investor group including Goldman Sachs] with the acquisition of Smithfield? Or will they end up scuppering the deal, as happened with CNOOC's bid for Unocal, an oil company, in 2005, and the attempt to buy the operator of several American ports by Dubai Ports World in 2006?...].

⁴ From OpenSecrets.org, May 14, 2014, <http://www.opensecrets.org/news/2014/05/big-telecom-proposed-mergers-will-test-companies-relationships-in-washington/>: “But this week brought market-moving news of another potential industry merger – this time a \$50 billion deal between DirectTV and AT&T that would create one of the few companies that might be able to match Comcast's Washington influence. *The question is whether the companies have enough friends in Washington to clear the regulatory hurdles that both deals face*”. If we accept that firms can intervene with their political connections in clearing the regulatory hurdles, then under the same rationale it is plausible to claim that firms use their political connections to put obstacles in a deal. In fact, “AT&T [that is the target firm in the above deal] is responsible for more campaign cash than any organization in the entire Communications/Electronics sector. So far in this cycle, the telecom giant has handed out more than \$1.9 million in campaign contributions....”.

Erel (2013), in some cases, politicians themselves might have an incentive to discourage bidding attempts for reasons of economic nationalism. Nevertheless, even from the politicians' side, if economic nationalism is not the only underlying motivation behind political intervention in the takeover process, it is also highly likely for them to be particularly interested in takeover activities by firms they are connected to.⁶ In particular, politicians may have an incentive to deter the bid for a firm they are connected with, if they are uncertain about the bidding firm's commitment and whether bidders will continue their support and future contributions to them after the takeover. In this respect, reflecting the importance of contributions for politicians, Snyder (1990) shows that the amount of contributions sourcing from special interest groups is positively associated with the probability of a legislator winning an election.

In the takeover process, target firm connectedness that relies on the management's ties to politicians is an intangible-like asset that can be hard to transfer to the acquirer. This effect may complicate the takeover process either by outright dissuading some bidders or by lengthening the time until the resolution of a deal. For example, the mere existence of such ties between the political establishment and target firms relies heavily on connections to secure federal and state government contracts that may be sufficient to deter potential bidders from launching an unsolicited takeover. Further, firms can use their connections to influence politicians to put pressure on bidders to relent from their intention to bid, by

⁵ Regulatory agencies are supposed to make policy without influence by legislative and executive branches of the government. Nevertheless, regulatory agencies seem often to account for political preferences because of fear that staying too far from these may increase the risk of non-reappointment in the future. For example, take the case of Exelon's proposed merger with Public Service Enterprise Group, which was shot down in 2006 by the New Jersey Board of Public Utilities (BPU) spurred by a New Jersey Assembly resolution opposing the deal and sponsored by more than half of its members.

⁶ We need to stress at this point that our results on the effects of corporate political strategies in M&As are identical in domestic acquisitions as well (that, in any case, represent the vast majority in our sample accounting for 87.53% of all deals), implying that economic nationalism is just one possible motivation behind political intervention and cannot solely explain our findings.

threatening them with the loss of contracts, as well as with the potential of new tariffs and regulations.

In addition, if ties built through PAC contributions made by the target firm have the intangible-like effect of a source of growth opportunities, they could add to the value of the merged firm and therefore they should be associated with a higher takeover premium.⁷ Additionally, the bonds to politicians, which complicate the takeover process, are likely to increase the bargaining power of target firm's management and allow it to negotiate a higher premium.

Based on the above we expect that, *ceteris paribus*, firms with high amounts of PAC contributions should be less likely to receive a bid. Further, we predict that target firms with political connections should be associated with longer time to resolution of the takeover deal and a higher takeover premium.

Just like PAC contributions, lobbying has also been shown to be beneficial for firms (e.g., see Hill et al. 2013). A recent example involves lobbying firms facing increased likelihood of receiving stimulus funds when in distress (Adelino and Dinc 2014). In contrast to PAC contributions though, lobbying expenses are not subject to strict limits and are channeled to politicians through intermediaries (lobbying by outside law firms) or through "in house" entities (corporate lobbying divisions/departments).⁸ The purpose of corporate lobbying is to influence decisions made by politicians, government officials and regulatory

⁷ Past studies have shown that firms with more intangible assets are related with a higher takeover premium (see for instance, Lys and Yehuda 2013).

⁸ Lobbyists, meet with politicians and their appointees to further the interests of the companies they represent. The past 30 years have seen a significant expansion of corporate lobbying activity. According to Drutman (2011), politically active organizations in 2009 spent \$3.47 billion on direct lobbying expenses. Controlling for inflation, this amount was seven times the estimated lobbying expenses in 1983. About 70 percent of this money was spent on behalf of the businesses. In a recent article in *The Economist*, it is stated that "...lobbyists... are former congressmen, congressional staffers or members of the executive branch. Lobbyists in turn donate to or organize donations for congressmen." (Source: *The Economist*: November 8, 2014).

agencies, often on a bill-by-bill basis.⁹ From the perspective of a bidder, lobbying by a target firm may need to be re-evaluated in terms of both the strategic importance for the firm and the value it can generate in the future. However, in contrast to ties with politicians established via a long history of PAC donations, lobbying effort as a corporate political strategy asset can be easily replicated, modified or even suspended by the merged firm at a very low additional cost. Thus, we posit that although lobbying by a target firm can complicate the assessment of target firm value reducing bid probability and delaying deal completion, it cannot provide the ties with politicians, which would justify a higher takeover premium.

We find strong support for our hypotheses. Using a sample of US listed firms over the period 1992-2012, we provide robust evidence of a significantly negative relation between political contributions – measured by the four proxies proposed by Cooper, Gulen, and Ovtchinnikov (2010) plus a measure of the total contributions by a firm in a year – and the propensity of receiving a takeover bid. In economic terms, being politically connected reduces the probability of receiving a takeover bid by 24%. This finding is in line with political contributions capturing part of firm’s intangible assets. Our results remain robust when controlling for potential endogeneity bias. We perform several tests to alleviate endogeneity concerns. First, we account for the possibility that unobservable firm characteristics may affect our results using a conditional logit estimation (Dyck, Morse, and Zingales 2010; Bena and Li 2014). Second, we use the strengthening of pre-existing connections when the politician becomes chair of a congressional committee as an *exogenous* shock on the value of the political connection. Finally, we employ an instrumental variables’

⁹ For instance, the business combination antitakeover statutes were passed in the late 1980s aiming to protect firms from unwanted takeovers. Delaware and other important corporate law jurisdictions enacted these statutes to inhibit hostile leveraged corporate takeovers and protect target firms’ incumbent management.

(IV) approach and use the number of congressional districts in the state where corporate headquarters are located as an instrument for political contributions.¹⁰

Consistent with political connections representing an intangible-like asset, we also provide clear evidence that political contributions delay the M&A process increasing the time to resolution. Moreover, we report a significantly positive association between political contributions and takeover premium. These effects are economically significant as well: we estimate that a one standard deviation increase in a firm's contributions to politicians leads, on average, to about 21 days extension in time to resolution and a 5.95% higher takeover premium *ceteris paribus*. In economic terms, the latter translates into a \$58.13 million shareholder value enhancement for a mean-sized target firm conditional on receiving a bid.

We also find that target firms that lobby exhibit a lower probability of receiving a bid. Additionally, we report a positive relation between lobbying expenditures and time to resolution, in support of our arguments that political connections make the implications of the takeover harder to assess. We do not find, however, that lobbying by the target firm raises the takeover premium, which is consistent to the view that lobbying by the target firm is an easily replicable corporate political strategy for which the average bidder is not willing to pay a premium.

Further, we examine whether target firm's proximity to political power, measured by the political alignment index (PAI) of Kim, Pantzalis, and Park (2012), affects the relation between corporate political strategies and takeover premium. Kim, Pantzalis, and Park (2012) advocate the importance of political geography; particularly, the ability of local politicians to influence policy-making is largely dependent on the strength of their party's

¹⁰ We also conduct analysis on quasi-natural experiments associated with the introduction of the Bipartisan Campaign Reform Act and the Abramoff's scandal in Appendix 3.

control of the political decision-making channels linking federal and state governments. We argue that access to political power amplifies the value of political connections' intangibles asset increasing firms' bargaining power. Additionally, as shown in Bradley, Pantzalis, and Yuan (2014) firms with political connections are less exposed to policy risk associated with proximity to political power (i.e., high PAI). Therefore, takeover premium should be higher in the case of target firms located in high PAI areas of the political map. Our results provide support for this notion; we find that target firms in high PAI locations of the political map that contribute to politicians receive a significantly higher takeover premium. Once again however, and consistent with our previous results highlighting the fundamental differences between distinct types of corporate political strategies, this effect is not significant for lobbying target firms.

In the last part of our empirical analysis we take a look at the importance of corporate political strategies on M&A activity from the bidding firms' perspective. We find that the average connected firm (either through PAC contributions or through lobbying) is both more likely to place bids and does not overpay for target firms. These results are consistent with the view that political connections facilitate bidder's activity in the M&A arena.

This study has important contributions to both the M&As and political connections literature. First, it provides evidence regarding the explicit effect of different types of corporate political strategies in mergers and acquisitions – perhaps the most important corporate investment. Second, very importantly, it lends support to the viewpoint that political connections established via PAC donations have intangible assets-like properties, with implications on the takeover process and firm valuation that in turn affect the receipt of a bid, time to resolution, and takeover premium received. This perspective of corporate political strategies as intangible-like assets contributes to an emerging literature on economic nationalism as it helps provide another explanation for political interventions in

takeover attempts. Third, we show that target firms' lobbying activities are also important in acquisition investments. Finally, the study sheds light on the importance of political geography in takeover process; in particular, we reveal evidence that the political environment affects takeover premium through its interaction with target firms' corporate political strategies in place.

Our study is related to the work of Roberts (1990), Fisman (2001), Ansolabehere, Snyder, and Ueda (2004), Jayachandran (2006), Faccio (2006), Faccio, Masulis, and McConnell (2006), Goldman, Rocholl, and So (2009), Claessens, Feijen, and Laeven (2008), Cooper, Gulen, and Ovtchinnikov (2010), Kim, Pantzalis, and Park (2012), Hill et al. (2013), Dinc and Erel (2013) and Adelino and Dinc (2014). Fisman (2001), Faccio (2006) and Faccio et al. (2006) present explicit relations between political connectedness and firm value. Claessens, Feijen, and Laeven (2008) show that access to bank finance is an important channel through which political connections operate. We report evidence of the relation between political connections and M&As. Roberts (1990), Ansolabehere, Snyder and Ueda (2004), Jayachandran (2006) and Goldman, Rocholl, and So (2009) document an association between political contributions and change in firm value by conducting political event-based studies. We show that political contributions determine the probability of receiving a bid, time to resolution, and takeover premium in M&As. Dinc and Erel (2013) examine European Union target firms and show that politicians have several tools in deterring a bid when this comes from a foreign bidder preferring the companies to remain domestically owned. We use a sample of US target firms and show that firms contributing to politicians and lobbying hold an intangible-like asset that is the vehicle which facilitates their access to political intervention in influencing even domestic takeover attempts. Further, Cooper, Gulen, and Ovtchinnikov (2010) and Kim, Pantzalis, and Park (2012) examine the impact of corporate political contributions and political geography, respectively, on the cross-section

of stock returns. We investigate their effects on several outcomes in a corporate event setting. Finally, Hill et al. (2013) provide evidence of the determinants and effects of corporate lobbying, while Adelino and Dinc (2014) show how financial health affects a firm's lobbying. We examine the relation between lobbying activities and M&As.

The remainder of the paper is organized as follows. Section 1 describes our sample, the measures of political contributions and lobbying expenditures, and the variables used in the empirical analysis. Section 2 examines the effect of political contributions on the probability of takeover bids, time to resolution, and takeover premium. Moreover, it examines the effect of lobbying on takeover outcomes. Section 3 investigates whether political geography matters in the relation between political contributions and takeover premium. The effect of bidder's corporate political strategies on M&A outcomes is presented in section 4. Finally, section 5 concludes the paper.

1. Data, Measures of Political Contributions and Variable Definitions

1.1 Data sources and sample selection

Our sample consists of all NYSE, AMEX, and NASDAQ firms jointly listed on the COMPUSTAT annual industrial files and the Center for Research in Security Prices (CRSP) files for the period 1991 to 2011. We collect data on stock prices, outstanding shares, and stock returns from CRSP. From COMPUSTAT, we obtain annual data on accounting and financial variables, as well as the locations of firms' headquarters. We assign firms to geographic locations based on headquarter or home office address information. Since COMPUSTAT provides only the latest address information without showing historical changes of firm location, we use the detailed address information from Compact Disclosure to account for address changes. We then require a firm to have financial and accounting data on CRSP and COMPUSTAT.

We collect a sample of acquisitions announced between January 1, 1992 and December 31, 2012 from the Thomson Financial SDC Mergers and Acquisitions Database. We include both successful and unsuccessful acquisitions of US publicly listed target firms with a deal value above US\$ 1 million. The bidder is a listed US or foreign firm.¹¹ To be included in the acquisition sample, the bidder must seek to purchase more than 50% of the target firm's equity.¹² These steps produce an acquisition sample of 4,499 deals, which overlaps with the COMPUSTAT/CRSP sample.

We devise measures of corporate political strategies based on corporate contributions to US political campaigns. Following Cooper et al. (2010), we extract the corporate contributions data from the Federal Election Commission (FEC) summary files on political contributions to House and Senate election campaigns. We examine how the effects of political contributions condition on political environment and construct the political alignment index introduced in Kim, Pantzalis, and Park (2012). General elections are held every two years in the United States and thus new party alignment for each state emerges from each election. We collect detailed information on party affiliation and control from different volumes of *"Taylor's Encyclopedia of Government Officials: Federal and State"* and *"State Elective Officials and the Legislatures"*. We gather state and county-level vote information from the US Census Bureau (<http://www.census.gov>) and Dave Leip's Atlas of US Presidential Elections (<http://uselectionatlas.org>).

We collect corporate lobbying expenditures from the lobbying database of the United States Senate (<http://www.senate.gov>) and the OpenSecrets (<http://www.opensecrets.org>) website of the Center for Responsive Politics (CRP), which tracks the influence of money on US politics and how that money affects policy and citizens' lives. After the passage of the

¹¹ Our results are qualitatively similar when using domestic acquisitions only.

¹² If the firm receives multiple bids during a given year, the first deal is considered for the bid receipt, time to resolution and premium analysis.

Lobbying Disclosure Act of 1995, the Secretary of the Senate and the Clerk of the House of Representatives are required to disclose lobbying-related information, verify its accuracy, and compile lobbying data. Data includes filing dates for lobbying activities, lobbying amounts, registrant’s name and address, client’s name and address and industry classification related to a bill in which a firm’s lobbying activity is involved.

Finally, we create the final sample that contains the complete set of information on COMPUSTAT/CRSP variables, acquisitions, political contributions, lobbying expenditures and political alignment for 113,573 firm-year observations (4,499 target firm-years and 109,074 non-target firm-year observations). Appendix 1 provides a detailed description of how all variables are constructed and the sources of information used.

1.2 Political contributions and lobbying expenditures

We construct five measures of corporate political contributions: the four measures introduced by Cooper, Gulen, and Ovtchinnikov (2010) plus the total amount of contributions. They are:

- 1) The “political index” (PI) for the number of candidates supported by the firm.

$$PI_{it}^{candidates} = \sum_{j=1}^J Candidate_{jt,t-5}, \quad (1)$$

where $Candidate_{jt,t-5}$ is an indicator variable equal to one if the firm has contributed money to candidate j over the years $t-5$ to t , and zero otherwise.

- 2) The strength of the relations between candidates and the contributing firm. It is measured by the total length of relations between the firm and the candidates.

$$PI_{it}^{strength} = \sum_{j=1}^J Candidate_{jt,t-5} \times I_{jt} \times \frac{Vote_{jt}^{cand}}{Vote_{jt}^{opp}} \times Length_{jt,t-5}, \quad (2)$$

where I_{jt} is an indicator variable equal to one if candidate j is in office at time t and zero otherwise, $Vote_{jt}^{cand}$ is the number of votes that candidate j 's party holds in office at time t , $Vote_{jt}^{opp}$ is the number of votes that candidate j 's opposing party holds in office at time t , and $Length_{jt,t-5}$ is the number of months that firm i has maintained an uninterrupted relation with candidate j until time t .

3) The ability of the politicians to help the firm. It is measured by the home state of the firm and the candidate.

$$PI_{it}^{ability} = \sum_{j=1}^J Candidate_{jt,t-5}^{home} \times I_{jt} \times \frac{Vote_{jt}^{cand}}{Vote_{jt}^{opp}}, \quad (3)$$

where $Candidate_{jt,t-5}^{home}$ is an indicator variable equal to 1 if candidate j is running for office from the state in which firm i is headquartered and 0 otherwise.

4) The power of the candidates supported by the firm. It is measured by the candidate's committee ranking.

$$PI_{it}^{power} = \sum_{j=1}^J Candidate_{jt,t-5} \times I_{jt} \times \frac{Vote_{jt}^{cand}}{Vote_{jt}^{opp}} \times \left[\sum_{m=1}^M \frac{Committee\ rank_{mt}^{cand}}{Median\ committee\ rank_{mt}} \right], \quad (4)$$

where $Committee\ rank_{mt}^{cand}$ is the reciprocal of candidate j 's rank on committee m (the smaller the important), and $Median\ committee\ rank_{mt}$ is the median number of members on a given committee m of which candidate j is a member.

5) The total amount of contributions made by the firm.

$$PI_{it}^{contributions} = \sum_{j=1}^J Contribution_{jt,t-5}, \quad (5)$$

where $Contribution_{jt,t-5}$ is the contributed money to candidate j over the years $t-5$ to t .¹³

¹³ Among the five PI variables, three ($PI^{strength}$, $PI^{ability}$, and PI^{power}) variables that require vote records and politician characteristics are computed up to year 2008 due to data availability. The other two variables ($PI^{candidates}$ and $PI^{contributions}$) are collected for the entire sample period.

Political contributions are not allowed to be funded from the corporate treasury, but only through PACs to which firm directors, employees, and their families can support candidates for elections up to a maximum of \$10,000 per candidate per election cycle (\$5,000 contributed during a primary election and \$5,000 contributed during a general election) (Cooper, Gulen, and Ovtchinnikov 2010).¹⁴ Table 1 shows that firms in our sample support, on average, about 5 candidates over any given 5-year period. The average of the strength index suggests that the total length of relations between the firm and the candidates is 98.85 candidate-months. For the ability index, home candidates provide the firm with the total support of 0.46 (measured by the candidate’s party votes relative to the ones of the opposition party). For the power index in which candidates are weighted by the sum of their committee rankings, firms have, on average, 20.17 candidate-committee-rank units.¹⁵ Finally, the mean of the total political contributions made by the firms in our sample is \$2,186. Appendix 2 presents the political contributions (and lobbying) variables by industry based on the Fama-French 49 industry classification codes. It is apparent that corporate political strategies are relatively more pronounced in some industries, such as defense and tobacco, which calls for controlling for industry fixed effects in our main analysis.

*** Please Insert Table 1 About Here ***

1.3 Variables

In our empirical analysis, we control for firm characteristics (*market value, b/m, leverage, cash flow, cash reserves, sales growth, net loss*), industry characteristics (*industry*

¹⁴ This limit changed in 2010 with a Supreme Court ruling that gave rise to the creation of “Super PACs”. These PACs are supposed to not be directly linked to candidates and to deal with political issues instead. Super PACs can raise unlimited amounts of money from notionally independent groups of any kind, such as individuals, businesses or unions. Our study uses primarily data prior to the emergence of “Super PACs”.

¹⁵ Note that the mean values for $PI^{candidates}$, $PI^{strength}$, $PI^{ability}$, PI^{power} are 68.2, 1,188.0, 6.0, and 253.0, respectively, similar to Cooper, Gulen, and Ovtchinnikov (2010), when using the sample of their study.

M&A liquidity, Herfindahl index), and deal characteristics (*diversifying deal, stock payment, tender offer, hostile deal, and competing deal*). As mentioned before, detailed descriptions of all variables' definitions can be found in Appendix 1. To proxy for firm size we use the *market value*. Firms with lower, on average, market capitalization, are more likely to receive a bid (Palepu 1986; Ambrose and Megginson 1992). Additionally, Alexandridis et al. (2013) provide evidence of a negative relation between target firm size and takeover premium. Palepu (1986) suggests a positive association between *b/m* and takeover probability. Dong et al. (2006) show that highly-valued target firms receive lower bid premium. Palepu (1986) also finds a negative relation between *leverage* and takeover bids. Moreover, Stulz (1988) argues that higher target firm leverage results in greater takeover premium offered. *Cash flows* proxy for management efficiency. According to Palepu (1986), management efficiency is negatively associated with the probability to receive a bid. Lehn and Poulsen (1989) document a positive relation between cash flows and takeover premium. The relation between *cash reserves* and the probability of receiving a bid is not straightforward. On the one hand, cash reserves may decrease the probability of a firm to receive a bid because they might be used by the firm to defend against the bid; on the other hand, cash may attract the attention of some bidders who might want, by acquiring the target firm, to also add cash reserves into their firms' balance sheets. Palepu (1986) predicts a positive relation between firm *sales growth* and the probability to receive a bid. We expect a positive association between *net loss* and the probability to receive a bid as firms that perform poorly are usually the most likely candidates to receive a bid and also bidders often prefer to acquire firms with net losses for fiscal reasons (i.e., to lower their taxable income).

To account for the liquidity of corporate assets within an industry, we include in our analysis the *industry M&A liquidity* variable as in Uysal (2011) and Harford and Uysal (2014). Uysal (2011) and Harford and Uysal (2014) show a positive association between industry M&A liquidity and likelihood of an acquisition. Industry concentration might also influence the propensity of firms to conduct acquisitions as firms in highly concentrated industries have fewer competitors that can serve as targets reducing the number of within-industry acquisitions. Uysal (2011) and Harford and Uysal (2014) use the *Herfindahl index* to control for this effect and find a negative association with acquisition probability. Prior literature has documented that typically *diversifying* M&As are associated with lower takeover premium (Officer 2003). Huang and Walkling (1987) and Savor and Lu (2009) report that takeover premium in *cash*-financed acquisitions is larger than the one paid in share-for-share transactions. Schwert (2000) finds that *tender offers* and *hostile deals* have a positive relation with the premium offered. Finally, Rossi and Volpin (2004) show a positive association between *competing bids* and takeover premium.

1.4 Summary statistics

Table 1, Panel B shows that our sample firms have a mean market value of \$2 billion. The mean for the book-to-market ratio is less than one, implying that the average firm in our sample has ample growth opportunities.¹⁶ Mean firm debt and cash reserves account for 20% and 18%, respectively, of the total assets, and average cash flows represent the 23% of the market value of equity. The mean sales growth is 27%, while 33% of the firms experienced a net loss at the fiscal year-end.

¹⁶ Alternatively, a book-to-market value that is significantly lower than one can indicate overvaluation (Dong et al. 2006).

With regards to deal characteristics, diversifying and stock deals account on average for 34% and 38%, respectively, of all bids. Tender offers represent almost one fifth of the overall takeover activity, while there are relatively few hostile deals (5.58% of the total). Further, only 5.20% of the takeover bids involve a competing bidder, whereas US bidders account for the lion share of the overall takeover activity (87.53%). Bidders generate an 8.92% market-adjusted buy-and-hold return over the period starting 205 days to 6 days prior to the announcement of the deal. The average relative size is 0.32 and the mean time to resolution is 132 days. Finally, over our sample period, the average premium paid is just above 40%.

In Table 2 we perform univariate analysis by comparing political contributions and firm characteristics for two groups of firms: firms that did not receive a bid and those that received a bid (target firms). The comparisons allow us to draw some useful initial inferences. In particular, in Panel A, we find that the mean values of all five political contributions' variables are significantly higher in the cases of firms that did not receive a bid than in the cases of those firms that became takeover targets. This is a first indication that political contributions complicate takeover attempts making them relatively harder.

Panel B shows the differences for firm characteristics. Firms that did not receive a bid are larger and have higher book-to-market, leverage, and cash flows and are more likely to experience a net loss, than firms that received a bid.

*** Please Insert Table 2 About Here ***

2. Empirical Findings

2.1 Probability of receiving a bid

We start our empirical tests by examining whether political connections can affect the probabilities of receiving a bid. Firms are regarded as politically connected if they present

non-zero values in any of the political contribution variables (i.e., $PI^{candidates}$, $PI^{strength}$, $PI^{ability}$, PI^{power} , and $PI^{contributions}$).

In Panel A of Table 3, we find that among 105,894 firm-year observations involving non-politically connected firms, 4,223 (3.99%) involve firms that received a bid. The probability decreases to 3.59% (276/7,679) for those firms that are politically connected, which represents a 10.95% (i.e., $(3.59\% - 3.99\%)/3.99\%$) decrease in the probability of receiving a bid. Therefore, the effect of political connections in reducing the probability of receiving a bid seems to be economically significant.

Panel B shows the effect of political contributions on the probability of receiving a takeover bid accounting for control variables that will be used in the multivariate analysis below (i.e., *market value*, *b/m*, *leverage*, *cash flows*, *cash reserves*, *net loss*, *industry M&A liquidity* and the *Herfindahl index*). We find that political contributions lead to a decrease in the probability of receiving a bid by 24.45%. After having shown some preliminary evidence confirming our hypothesis that politically connected (target) firms experience a different treatment in takeover bids, we proceed to conduct multivariate analysis in the next sections.

*** Please Insert Table 3 About Here ***

2.2 Probability of receiving a bid: probit analysis

We now examine the relation between the probability of receiving a bid and political connections measured by the different variables constructed using the PAC contributions' information. The analysis is conducted in a multivariate framework by controlling for various characteristics, which have been found in the prior literature to be related with the propensity of takeover bids. Table 4 reports the results. We run pooled probit regressions where the dependent variable takes the value of one if a bid is made for the firm and zero

otherwise. We lag all independent variables, including the five measures of political contributions. All regressions also control for year and industry fixed effects whose coefficients are suppressed for the sake of brevity.¹⁷ Moreover, we use heteroskedasticity-robust standard errors, clustered at firm level.

Our main variables of interest are in order $PI^{candidates}$, $PI^{strength}$, $PI^{ability}$, PI^{power} , and $PI^{contributions}$ in specifications (1) through (5), respectively. We find that the coefficients on all PI variables are negative and statistically significant at the 1% level. This finding indicates that contributions to PACs decrease the probability of a firm receiving a takeover bid. From the control variables, b/m and the *industry M&A liquidity* exhibit a positive relation with the probability of receiving a takeover bid, while *cash flows* and *Herfindahl index* have a negative association with the takeover bid propensity, with coefficients which are significantly different from zero at better than 5% level, in line with the existing M&A literature. *Market value* and *sales growth* only do not carry the predicted sign.¹⁸ Overall, the results shown in Table 4 are consistent with the notion that ties with politicians established via PAC donations, much like intangible assets do, can affect takeovers, ultimately deterring takeover bids.¹⁹

*** Please Insert Table 4 About Here ***

2.3 Endogeneity

2.3.1 Controlling for unobservable firm characteristics

¹⁷ We also performed regressions with state fixed effects and our results remain unchanged.

¹⁸ Additionally, to correct for any potential size effect on our PI variables, we also used versions of these variables that are orthogonal to size. These orthogonal PI variables were obtained as the residuals from the regressions of PI variables on firm size. Our results using these orthogonal measures are qualitatively similar (not reported for the sake of brevity).

¹⁹ We have also run a probit analysis for deal completion (not reported for space purposes but available upon request) and found that PI variables still carry a negative coefficient remaining strongly statistically significant, which suggests that political connections via PAC contributions also reduce the probability that a takeover bid will get completed.

The relation uncovered in the previous section could potentially be driven by some unobservable firm characteristics. Nevertheless, as suggested by Puri, Rocholl, and Steffen (2011), non-linear models like probit suffer from an incidental parameters problem: both the firm fixed effects and, more importantly, the coefficients of the other control variables cannot be consistently estimated in panels with thousands of firms and a small number of years (see also Neyman and Scott 1948; Greene 2004). Following recent literature (Dyck, Morse, and Zingales 2010; Bena and Li 2014), we use a conditional logit estimation to control for the unobserved characteristics that may affect our results. Conditional logit estimates the likelihood for each firm relative to a matched group and thereby controls for firm fixed effects semi-parametrically (Hellmann, Lindsey, and Puri 2008).

Following the recent study by Bena and Li (2014), we run a conditional logit regression using cross-sectional data as of the fiscal year end before the bid announcement. For each target, five pseudo target firms are matched by the Fama-French 49 industries, market value, B/M, and one-year previous stock return. The control variables at firm and industry level are the same as the ones used in Table 4.²⁰ The models also include a fixed effect for each bidder and its control target firms, i.e., a deal fixed effect. Consistent with our findings in Table 4, the regression results shown in Table 5 confirm that all *PI* variables are negative and statistically significant at conventional levels.²¹ Thus, PAC donations reduce the probability of receiving a bid after controlling for unobservable firm characteristics.

*** Please Insert Table 5 About Here ***

2.3.2 Exogenous measure of political contributions

²⁰ We also run the model without the two industry-level variables. Results are qualitatively similar to those reported in Table 5 and available from the authors upon request.

²¹ Note that in this analysis the signs of market value and sales growth are consistent to the prior literature.

As an alternative way to deal with potential endogeneity issues we create an *exogenous* measure of political contributions. We label this variable as *strengthening of pre-existing connections*, which is a dummy that takes the value of one if a firm had made any PAC contribution over the previous Congress period to a candidate who then became a new chair in any Senate or House of Representatives committee in the next Congress, and zero otherwise. For example, if a firm made contributions in years 2007 and/or 2008 (i.e., during the term of the 110th United States Congress) to a politician who became a new chair in the 111th Congress, the firm gets a value of one for the years 2009 and 2010. Hence, this variable captures an exogenously determined (i.e., based on the election results and the shape/balance of the new Congress) change to the nature of a pre-existing political connection (i.e., one established through contributions in the prior Congress). The rationale behind the use of the *strengthening of pre-existing connections* variable is that if the politician happens to become chair of a congressional committee, his/her status and influence increases exogenously, thus making the effects of pre-existing ties to firms more powerful. Further, our definition for this variable does not involve overlapped periods across any Congress terms: we look at the contributions made during the previous Congress term to assign a value for the current term. For instance, if during every Congress a firm keeps making contributions to politicians that eventually become new chairs of congressional committees, it will get the value of one for the entire period.

Table 6 presents the results of this analysis. Our exogenous measure of political contributions, *strengthening of pre-existing connections*, is negative and strongly statistically significant at the 1% level, which reinforces our previous findings that political connections deter potential takeover bids. Additionally, the results of this analysis provide further robust evidence that our findings hold after accounting for potential endogeneity bias.

*** Please Insert Table 6 About Here ***

2.3.3 Instrumental variables' approach

Finally, in this section, we perform an instrumental variables' approach to further alleviate concerns that the relation between political contributions and probability of receiving a bid could suffer from potential endogeneity bias. For instance, firms that fear to lose their independence because of unwanted takeover offers may spend more in political contributions to discourage potential suitors. Additionally, the amount of political contributions made might be correlated with certain observed or unobserved firm characteristics that are also related to the propensity of receiving a bid.

To address this concern, we adopt an instrumental variables' (IV) approach and use the number of congressional districts in the state where corporate headquarters are located as an instrument for political contributions. While the number of congressional districts in the home state is more likely not to be associated with firm's probability to receive a bid, it is expected to be related with firm's political connectedness because it essentially represents the supply of potential political connections. In particular, we argue that firms from states with more districts may be discouraged from establishing political connections due to the high costs associated with building effective connections. In other words, in the presence of many politicians, if firms want to build strong political connections, they would need to cultivate a larger number of local politicians and thus incur higher costs.

The results of this analysis are presented in Table 7. In the first stage of our IV model, we regress the political contributions variables on the number of congressional districts and other control variables. In the second stage, the instrumented political contributions variables are included to estimate the probability of receiving a bid. In all first-stage regressions, our instrument (*districts*) is negative and strongly significant. The

coefficients for our main variables of interest (the *instrumented PIs*) are also negative and significant, in line with the results shown in previous tables. Overall, these findings confirm the negative relation between political contributions and takeover offers after controlling for potential endogeneity bias.

*** Please Insert Table 7 About Here ***

Finally, we also conducted analysis by introducing exogenous shocks to the nature of political connectedness: the passing of the Bipartisan Campaign Reform Act, which affected PAC contributions, and the Abramoff's scandal which affected lobbying effectiveness. The results of these quasi-natural experiments, not shown for the sake of brevity, are described in Appendix 3. In sum, they are in line with political connections reducing the probability of acquisition bids.

2.4 Time to resolution

In previous sections we established that political contributions decrease the likelihood of receiving a takeover bid. We now investigate whether political contributions complicate the process when the offer arrives. We therefore test whether PAC contributions are also associated with a delay in the M&A process from the announcement until the resolution of the deal, i.e., the completion or withdrawal of interested parties from the deal. In our setting this is of particular interest given that firms with significant political connections are in position to influence politicians into supporting state law provisions that effectively delay takeover attempts; therefore, in the cross-section of takeovers, bids for target firms with stronger political connections should, on average, be characterized by a longer time to resolution of the deal. We thus predict a positive relation between target firms' political connectedness and the time to resolution of the deal. We test this hypothesis and report the results in Table 8.

We run OLS regressions with standard errors adjusted for heteroskedasticity and firm clustering. In Panel A, the dependent variable is *time to resolution*, which measures the number of calendar days between the announcement and the resolution (completion or withdrawal) dates as reported by Thomson Financial SDC Mergers and Acquisitions Database. A positive coefficient on the political contributions variables would constitute further evidence in favor of the view that political connections in the context of takeovers can often act as an intangible-like asset that cannot be easily transferred from a target firm to a bidder and is hard to value. In addition to the previously used control variables, we also add *US bidder*, which is an indicator variable taking the value of one for bids made by US firms, and zero otherwise. We expect that it takes less time for US bidders to buy domestic target firms.

In all specifications, the coefficients on the *PI* variables are positive and significantly different from zero at the 1% significance level. The estimates are also economically meaningful. Specifically, a one standard deviation increase in the PAC contribution (i.e., $PI^{contributions}$) from no contribution is associated with 21 days extension in time to resolution ($=\ln(10,954+1)*2.2711$) indicating that target firms with PAC contributions are related with longer bid duration. We repeat the analysis for the completed bids sub-sample (not reported for brevity). The coefficients on the political contributions variables remain positive and strongly significant at the 1% significance level.²²

In sum, our results thus far reflect the view that well-politically-connected firms are not only less likely to be targeted for takeovers but also, if targeted, they are related with a lengthier takeover process. We interpret this collective evidence as in support of the idea that political connections can be regarded as an intangible-like asset.

²² Our results are unchanged if we use the logarithmic transformation of time to resolution (and time to completion) as the dependent variable.

*** Please Insert Table 8 About Here ***

2.5 Takeover premium

The results from the tests presented in the previous sections imply that political connectedness, much like an intangible asset, should complicate the takeover process and/or enhance target firms' reluctance to accept a takeover bid. Additionally, political connections as an intangible asset add to the value of the target firm. Putting both together, we therefore expect that deals involving target firms that contribute to PACs should on average be related with a higher takeover premium. We test this hypothesis by running regressions where the dependent variable is the difference between the offer price and the target firm's stock price 1 week prior to the acquisition announcement divided by the latter.²³ Values beyond the range of [0, 2] are winsorized following Officer (2003). We incorporate the same control variables as in previous analysis.

Table 9 presents the results. As predicted, we find that all political contributions variables (i.e., $PI_{candidates}$, $PI_{strength}$, $PI_{ability}$, PI_{power} , and $PI_{contributions}$) are positively related with takeover premium at better than 5% significance level in specifications (1) through (5) respectively. The magnitude of the coefficients suggests an economically sizeable effect. For example, take the $PI_{contributions}$ model. A one standard deviation increase from zero (i.e., no contribution) increases the premium by 5.95% ($=\ln(10,954+1)*0.0064$). In economic terms, this translates into a \$58.13 million shareholder value enhancement for a mean-sized target firm (\$977 million as reported in Table 2) conditional on receiving a bid.

*** Please Insert Table 9 About Here ***

²³ For robustness reasons, we have also used the 4-week premium and our results are, in general, qualitatively similar.

Finally, in a series of unreported tests based on an instrumental variables' (IV) approach we alleviate concerns that the takeover premium received by firms is conditional on the probability of receiving a bid and thus cannot be examined independently.²⁴ In the first stage of our IV model, we regress the political contributions variables on two instruments and other control variables. In the second stage, the instrumented political contributions variables are included to estimate the relation with takeover premium. We use the following two instruments: i) the geographic location (i.e., state) of the target firm's headquarters relative to other firms in the industry. Specifically, this variable represents the proportion of the same Fama-French 49-industry firms in the firm's home state; and ii) the geographic location of the target firm's headquarters relative to the largest US Metropolitan Statistical Areas (MSAs). This variable is the natural logarithm of (1 + number of 99 largest cities within 200 miles from target firm's location).²⁵ Both instruments are likely to be related with the probability of receiving a bid, but not necessarily with the takeover premium offered. In all first-stage regressions, both instruments carry a positive and statistically significant coefficient at conventional levels. In the second stage regressions, the coefficients for our main variables of interest (the *instrumented PIs*) are also positive and statistically significant at conventional significance levels, in line with the results shown in Table 9. Therefore, the positive relation between contributions to PACs and takeover premium stands after controlling for the probability of receiving a bid.

2.6 Target firm lobbying activities and M&A transactions

We now turn our attention to an alternative corporate political strategy, namely lobbying. Lobbying activities play an important role in shaping corporate policy agenda as

²⁴ The results of these tests are not reported for the sake of brevity, but are available from the authors upon request.

²⁵ The list of 99 cities is changed every 10 years by Census.

managers often make use of lobbying channels to get benefits for their firms from politicians (Hill et al. 2013; Adelino and Dinc 2014). Approximately 15% of firms pursue both political contributions and lobbying strategies at some point during the sample period of Hill et al. (2013). Concerning to the magnitude of expenditures, lobbying costs are proven to be substantially larger than contributions. While there is a legal limit in contributions offered to politicians per election, lobbying expenditures are not limited and can be funded from the corporate treasury. Milyo, Primo, and Groseclose (2000) show that lobbying expenditures are 20 to 60 times more than the amount spent on contributions. In fact, lobbying is a substantially different corporate political strategy than PAC donations. Nevertheless, as suggested by prior evidence and by our own tests thus far, PAC donations can be viewed as reflective of a firm's overall political ideology or preference and indicative of the existence of ties between firm management and politicians.²⁶ In contrast, lobbying is performed by lawyers hired by firms to influence policy agendas and legislator activity. Thus, lobbying aims at shaping the firm's (and industry's) future growth opportunities one bill at a time, rather than the more subtle influence exerted by connections that are reflected in PAC donations and are established via a long history.

In Table 10 we repeat most of the previously shown tests after replacing the PI variables with *lobbying expenditures*, a variable formed by taking the natural logarithm of one plus the dollar amount of the target firm's annual lobbying expenditures. Panels A through C provide some univariate evidence. On average, firms in our sample incur \$64,447 in lobbying expenditures as shown in Panel A. Panel B compares average lobbying expenditures of firms that become targets of a takeover bid with those of non-target firms.

²⁶ Cooper, Gulen, and Ovtchinnikov (2010) in their study of PACs and stock returns concluded that "firms participate in the political system not from the standpoint of consuming a patriotic consumption good, as discussed in Ansolabehere, de Figueiredo, and Snyder (2003), but rather from the standpoint of creating positive net present value investments."

Interestingly, we find that firms that become takeover targets spend, on average, \$50,343 on lobbying expenditures, whereas non-target firms spend, on average, \$65,010. This indicates that more intensive lobbying, on average, is associated with lower probability of receiving a takeover bid, which is in line with the concept that firm's political strategies can discourage potential takeovers.

In Panel C.1 of Table 10, we find that among 63,371 firm-year observations involving non-lobbying firms 2,489 (3.93%) involve firms that received a bid. The probability decreases to 3.18% (274/8,622) for those firms that lobby, which represents a 23.59% $((3.18\% - 3.93\%)/3.93\%)$ decrease in the probability of receiving a bid. Panel C.2 shows the effect of lobbying activity of receiving a takeover bid after accounting for control variables. We find that lobbying is associated with a decrease in probability of receiving a bid relative to firms that do not lobby by 26.97%.

Panel D of Table 10 shows the results of multivariate regression tests. In line with the evidence based on political connectedness measured by PAC contributions, the results in columns (1) and (2) indicate that lobbying expenditures are significantly associated with lower probability of receiving a bid and longer time to resolution. Thus, this evidence is consistent with the notion that target firm lobbying activities can complicate deals effectively acting as a restraint against a takeover. However, the result from the regression shown in column (3) of Panel D indicates that lobbying expenditures do not have an impact on takeover premium. Thus, in contrast to PAC contributions, lobbying cannot be regarded as a hard to transfer type of political strategy for which bidders are willing to pay more.

In sum, the evidence in Table 10 highlights the similarities and differences between target firms' lobbying and PAC contributions in terms of their impact on the takeover process and valuation effects.

*** Please Insert Table 10 About Here ***

3. Does the Political Environment Matter?

Next, we examine whether political connectedness (measured by PAC contributions and lobbying) can have an impact on takeover premium after taking into account the importance of political geography, and specifically the target firm's proximity to political power. We develop a measure of political alignment with the President's administration at the state level inspired by Kim, Pantzalis, and Park (2012). This measure accounts for the degree of Presidential party control of a particular state's political institutions (governor mansion and state legislatures) and for the percentage of the state's representatives in the Congress (the state's representatives in Senate and House) that belong to the President's party. The rationale for using a political alignment measure is that it captures local politicians' influences on policy agenda setting, legislative activity and new policy implementation. In its main form, this proxy for proximity to political power is constructed by giving equal weight to the portions of each of the state's delegations in the two chambers of Congress that are aligned with the President's party and to the President's party control of state politics.

$$\textit{Political alignment}_j = \frac{1}{4}S_j + \frac{1}{4}R_j + \frac{1}{4}G_j + \frac{1}{4}[\frac{1}{2}S_j^{\textit{state}} + \frac{1}{2}R_j^{\textit{state}}], \quad (6)$$

where S_j = the fraction of the state's two senators in Washington that belong to the President's party. R_j = the percentage of the state's house representatives in Washington that belong to the President's party. G_j = a dummy variable equal to one if the governor belongs to the same party as the President, and zero otherwise. $S_j^{\textit{state}}$ = a dummy variable equal to one if the percentage of members of the state senate belonging to the President's party is greater than 50%, and zero otherwise. $R_j^{\textit{state}}$ = a dummy variable equal to one if the

percentage of representatives in the state house belonging to the President’s party is greater than 50%, and zero otherwise. The mean political alignment index is 0.48, similar to the one of Kim, Pantzalis, and Park (2012).²⁷

In Table 11 we perform regressions where the dependent variable is the 1-week takeover premium. The models include year, industry and state fixed effects. The list of the independent variables incorporates the same control variables as in Table 9 and the *high political alignment*, which is a dummy variable that takes the value of one if political alignment is higher than the median in the year, and zero otherwise. We also include interactions of the *high political alignment* variable with the political connectedness variables (i.e., the *PI variables* and *lobbying expenditures*). Interestingly, we find that political contributions variables lose their statistical significance at conventional levels, while the *high political alignment* is also insignificant at conventional significance levels in all specifications. However, the interactions of *high political alignment* with the political contributions variables are all positively associated with the takeover premium, with coefficients which are statistically significant at better than 5% significance level in all specifications. This result indicates that the effect of target firm’s political connectedness in terms of PAC contributions on takeover premium is strong only when the target firm’s location in the political map renders such connections valuable, i.e. when the target firm is located in a high *PAI* state, an area with high levels of political power concentration. We label this as a “complementary effect”. In this case, firms exploit the connections stemming from contributions, which had already been paid and therefore represent a sunk cost. In fact, our results show that the takeover premium paid by bidders is even higher for target firms contributing money to not just any politicians, but to the right ones, i.e. those with access to political power who are thus more useful to the target firm and, ultimately, the

²⁷ See Panel E of Table 1.

combined new entity. Additionally, this evidence is in line with the view that the connections built through PAC contributions can be regarded as intangible-like assets that add to the value of the firm increasing its management's bargaining power. Furthermore, firms with political connections are less exposed to policy risk associated with proximity to political power, which would motivate bidders to offer a higher takeover premium. Finally, it is notable that lobbying does not have a significant effect on the takeover premium even after conditioning on political geography. Once again, this result highlights the fact that PAC contributions and lobbying are quite different components of a firm's corporate political strategy.²⁸

*** Please Insert Table 11 About Here ***

4. Bidder's Corporate Political Strategies

We have argued that firms' connections with politicians, much like intangibles, can complicate and delay the resolution of takeover bids. An interesting related research question concerns the M&A importance of political connections of bidding firms.²⁹ In this case, it is plausible that political connections could make a takeover easier implying higher probability for bidders to place a bid and shorter time to resolution. Alternatively, the mere existence of political connections would increase the uncertainty about bidding firm value thereby complicating the takeover process. Additionally, bidders that are politically connected may not be likely to offer a high takeover premium, which could, in turn, translate into non-shareholders' wealth destruction.

²⁸ We also examine the effect on takeover premium received by firms conditional on the probability of receiving a bid by conducting an IV approach with the same instruments to the ones used in Table 9. Our results remain unchanged.

²⁹ Comcast has registered about 76 lobbyists, spread across 24 firms, to work on its pending \$45 billion purchase of Time Warner Cable, according to first quarter 2014 filings with the Senate Office of Public Records (Time.com: April 29, 2014, <http://time.com/79569/comcast-has-about-76-lobbyists-working-washington-on-cable-merger-this-is-why/>).

Table 12, Panel A, presents the results for PAC contributions. We find that bidders with political contributions are more likely to place a bid, consistent with the notion that politically connected firms adopt a more aggressive takeover strategy. Nevertheless, it takes longer for the resolution of the bid, which implies that the intangible-like characteristics of political connections can complicate and delay takeover transactions from either side of the deal (i.e., both from the target firm –as shown in our previous results– and from the bidder). Furthermore, we find that bidders with political connections do not overpay for target firms, and therefore do not destroy their shareholders’ wealth on average. Panel B repeats the analysis for lobbying expenditures and we find similar results.

*** Please Insert Table 12 About Here ***

5. Conclusions

In this paper we argue that corporate political strategies can be regarded valuable intangible-like assets which affect takeovers. In our empirical investigation we provide evidence that firms contributing to politicians are less likely to receive a bid, they are involved in a longer period of negotiations from the announcement until the time to resolution of the deal, and they receive a higher takeover premium. This premium effect translates into a \$58.13 million shareholder value enhancement for a mean-sized target firm conditional on receiving a bid.

We also provide evidence that, apart from hard money contributions, lobbying expenditures have also a similar impact deterring takeover bids and increasing the time to resolution, without affecting, however, the takeover premium offered, as lobbying can be replicated or modified at a relatively low cost in the future by the combined firm. Finally, we highlight that political geography is also an essential term in the equation of corporate

takeovers, as we show that the impact of political contributions on takeover premium is concentrated among firms with high proximity to political power.

Our findings have several important implications. In particular, our results highlight the significance of the takeover market setting as a mechanism to examine the valuation implications of hard to value, intangible type assets, such as corporate political connections. They also imply that firms holding such hard-to-value assets can indirectly use them like an antitakeover tool to protect them from being acquired by short-term oriented raiders, while at the same time they benefit their shareholders. Additionally, the findings from the analysis that considers political geography imply that in order for PAC contributions to have an impact on takeover premium, it is essential that firms do not just contribute money to any politicians, but contribute funds to the ones who have access to political power. Finally, our evidence can trigger a lot of follow-up research questions and discussions regarding other rather unexplored questions related to firms that are connected with politicians. For instance, do corporate political strategies have an impact on other corporate decisions? If so, what is the mechanism through which they are exploited? And can other corporate events – for instance, IPOs – allow for the pricing of intangible type assets such as political connections? We hope future research will shed light on these and other questions related to the impact of corporate political strategies in the corporate world.

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Table 1
Descriptive statistics

| | N | Mean | Std. Dev. | Minimum | Median | Maximum |
|--|---------|---------|-----------|---------|--------|---------|
| Panel A: Political contributions | | | | | | |
| <i>PI</i> _{candidates} | 113,573 | 4.6785 | 22.2688 | 0.0000 | 0.0000 | 145 |
| <i>PI</i> _{strength} | 102,353 | 98.8534 | 501 | 0.0000 | 0.0000 | 3,411 |
| <i>PI</i> _{ability} | 102,353 | 0.4577 | 1.9872 | 0.0000 | 0.0000 | 11.6154 |
| <i>PI</i> _{power} | 102,353 | 20.1734 | 95.5731 | 0.0000 | 0.0000 | 615 |
| <i>PI</i> _{contributions} | 113,573 | 2,186 | 10,954 | 0.0000 | 0.0000 | 74,000 |
| Panel B: Firm characteristics | | | | | | |
| <i>Market value</i> | 113,573 | 2,000 | 6,186 | 0.7673 | 191 | 43,616 |
| <i>Equity value</i> | 113,573 | 1,358 | 4,071 | 0.3250 | 134 | 27,305 |
| <i>B/M</i> | 113,573 | 0.7189 | 0.7162 | 0.0186 | 0.5318 | 4.7282 |
| <i>Leverage</i> | 113,573 | 0.2003 | 0.1933 | 0.0000 | 0.1563 | 0.9848 |
| <i>Cash flows</i> | 113,573 | 0.2341 | 34.0916 | -690 | 0.0563 | 6,569 |
| <i>Cash reserves</i> | 113,573 | 0.1836 | 0.2482 | -0.5317 | 0.0812 | 7.9991 |
| <i>Sales growth</i> | 113,573 | 0.2720 | 0.9415 | -0.9860 | 0.0920 | 7.5347 |
| <i>Net loss</i> | 113,573 | 0.3279 | 0.4695 | 0.0000 | 0.0000 | 1.0000 |
| Panel C: Bid characteristics | | | | | | |
| <i>Diversifying deal</i> | 4,499 | 0.3410 | 0.4741 | 0.0000 | 0.0000 | 1.0000 |
| <i>Stock payment</i> | 4,499 | 0.3752 | 0.4842 | 0.0000 | 0.0000 | 1.0000 |
| <i>Tender offer</i> | 4,498 | 0.1854 | 0.3887 | 0.0000 | 0.0000 | 1.0000 |
| <i>Hostile deal</i> | 4,498 | 0.0558 | 0.2296 | 0.0000 | 0.0000 | 1.0000 |
| <i>Competing deal</i> | 4,499 | 0.0520 | 0.2221 | 0.0000 | 0.0000 | 1.0000 |
| <i>US bidder</i> | 4,499 | 0.8753 | 0.3304 | 0.0000 | 1.0000 | 1.0000 |
| <i>Relative deal size</i> | 3,721 | 0.3202 | 0.4382 | 0.0010 | 0.1548 | 2.5501 |
| <i>Time to resolution</i> | 4,403 | 132 | 85.9670 | 5.0000 | 114 | 505 |
| <i>Premium</i> | 4,126 | 0.4057 | 0.3448 | 0.0000 | 0.3285 | 2.0000 |
| Panel D: M&A market characteristics | | | | | | |
| <i>Industry M&A liquidity</i> | 113,435 | 0.0538 | 0.1243 | 0.0000 | 0.0104 | 0.8799 |
| <i>Herfindahl Index</i> | 113,435 | 0.1721 | 0.1528 | 0.0142 | 0.1208 | 1.0000 |
| Panel E: State-level political alignment | | | | | | |
| <i>Political alignment</i> | 1,050 | 0.4836 | 0.2660 | 0.0000 | 0.5000 | 1.0000 |

This table provides descriptive statistics for the sample of 113,573 firm-year observations over the period, 1992 to 2012. Refer to Appendix 1 for detailed variable descriptions.

Table 2
Comparisons of political contributions and firm characteristics between target and non-target firms

| | (1) Targets | (2) No targets | (2) – (1) |
|------------------------------------|-------------|----------------|-----------|
| N | 4,499 | 109,074 | |
| Panel A: Political contributions | | | |
| <i>PI</i> _{candidates} | 3.8969 | 4.7107 | 0.8139*** |
| <i>PI</i> _{strength} | 86.7171 | 99.3714 | 12.6543* |
| <i>PI</i> _{ability} | 0.3983 | 0.4602 | 0.0619** |
| <i>PI</i> _{power} | 17.9198 | 20.2696 | 2.3498* |
| <i>PI</i> _{contributions} | 1,856 | 2,199 | 343** |
| Panel B: Firm characteristics | | | |
| <i>Market value</i> | 1,500 | 2,020 | 520*** |
| <i>Equity value</i> | 977 | 1,374 | 397*** |
| <i>B/M</i> | 0.6887 | 0.7202 | 0.0315*** |
| <i>Leverage</i> | 0.1900 | 0.2007 | 0.0108*** |
| <i>Cash flows</i> | 0.0076 | 0.2435 | 0.2358** |
| <i>Cash reserves</i> | 0.1832 | 0.1836 | 0.0004 |
| <i>Sales growth</i> | 0.2780 | 0.2718 | 0.0062 |
| <i>Net loss</i> | 0.3078 | 0.3287 | 0.0209*** |

This table compares the mean values of the variables for the sub-samples of firms that received a takeover bid and firms that did not receive a bid. Refer to Appendix 1 for detailed variable descriptions. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 3
Comparisons of the probability of receiving a bid between politically connected and non-connected firms

| Panel A: Univariate test of receiving a bid | | | |
|---|---|--|----------------------------|
| | (1) Firms with political connections | (2) Firms with no political connections | % change [(1)-(2)]/(2)] |
| Target | 276 | 4,223 | |
| No target | 7,403 | 101,671 | |
| Total | 7,679 | 105,894 | |
| Probability of receiving a bid | 3.59% | 3.99% | -10.95% |

| Panel B: Multivariate test of receiving a bid | | | |
|---|---|--|----------------------------|
| | (1) Firms with political connections | (2) Firms with no political connections | % change [(1)-(2)]/(2)] |
| Probability of receiving a bid | 2.74% | 3.41% | -24.45% |

This table compares the probability of receiving a bid between politically connected and non-connected firms. In panel A, we compare the probability in the univariate test. In panel B, we use the probit model that regresses on the political connection dummy and other controlling variables used in Table 4, where the political connection dummy is an indicator that takes 1 if the firm presents non-zero values in any of the political contributions variables ($PI^{candidates}$, $PI^{strength}$, $PI^{ability}$, PI^{power} , and $PI^{contributions}$) and 0 otherwise. Refer to Appendix 1 for detailed variable descriptions.

Table 4
Probability of receiving a bid

| | Dependent variable = <i>Receiving a bid</i> | | | | |
|------------------------------------|---|------------------------|------------------------|------------------------|------------------------|
| | (1) | (2) | (3) | (4) | (5) |
| <i>PJ</i> _{candidates} | -0.0274*** (-3.36) | | | | |
| <i>PJ</i> _{strength} | | -0.0171*** (-3.46) | | | |
| <i>PJ</i> _{ability} | | | -0.0583*** (-3.52) | | |
| <i>PJ</i> _{power} | | | | -0.0209*** (-3.35) | |
| <i>PJ</i> _{contributions} | | | | | -0.0107*** (-3.25) |
| <i>Market value</i> | 0.0216*** (5.34) | 0.0218*** (5.21) | 0.0215*** (5.19) | 0.0216*** (5.17) | 0.0213*** (5.28) |
| <i>B/M</i> | 0.0243** (2.27) | 0.0272** (2.40) | 0.0270** (2.38) | 0.0272** (2.39) | 0.0241** (2.25) |
| <i>Leverage</i> | -0.0214 (-0.49) | -0.0268 (-0.60) | -0.0280 (-0.62) | -0.0266 (-0.59) | -0.0213 (-0.49) |
| <i>Cash flows</i> | -0.0005** (-2.23) | -0.0005** (-2.17) | -0.0005** (-2.17) | -0.0005** (-2.17) | -0.0005** (-2.23) |
| <i>Cash reserves</i> | -0.0170 (-0.51) | -0.0134 (-0.39) | -0.0141 (-0.42) | -0.0134 (-0.40) | -0.0182 (-0.55) |
| <i>Sales growth</i> | -0.0188** (-2.47) | -0.0190** (-2.42) | -0.0189** (-2.41) | -0.0189** (-2.41) | -0.0187** (-2.45) |
| <i>Net loss</i> | -0.0080 (-0.46) | -0.0188 (-1.01) | -0.0186 (-1.00) | -0.0189 (-1.02) | -0.0083 (-0.47) |
| <i>Industry M&A liquidity</i> | 0.6535*** (13.83) | 0.6612*** (13.74) | 0.6607*** (13.73) | 0.6612*** (13.74) | 0.6537*** (13.83) |
| <i>Herfindahl index</i> | -0.2816*** (-4.30) | -0.3076*** (-4.38) | -0.3086*** (-4.39) | -0.3077*** (-4.38) | -0.2824*** (-4.31) |
| <i>Constant</i> | -2.6587*** (-14.23) | -2.6568*** (-13.64) | -2.6495*** (-13.64) | -2.6532*** (-13.63) | -2.6526*** (-14.21) |
| Year-fixed | Yes | Yes | Yes | Yes | Yes |
| Industry-fixed | Yes | Yes | Yes | Yes | Yes |
| N | 113,435 | 102,223 | 102,223 | 102,223 | 113,435 |
| Pseudo R-squared | 0.0386 | 0.0399 | 0.0400 | 0.0399 | 0.0385 |

This table reports the estimated coefficients of the probit model. The dependent variable, *Receiving a bid*, is an indicator that takes the value of 1 if a bid is made for the firm and 0 otherwise. Refer to Appendix 1 for detailed variable descriptions. Year and industry fixed effects, whose coefficients are suppressed, are based on calendar year and Fama-French 49 industry classification dummies, respectively. All variables are winsorized at the 1st and 99th percentiles. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. *** and ** indicate significance at the 1% and 5% levels, respectively.

Table 5
Probability of receiving a bid: A matching-firm approach

| | Dependent variable = <i>Receiving a bid</i> | | | | |
|-----------------------------------|---|---------------------|----------------------|---------------------|----------------------|
| | (1) | (2) | (3) | (4) | (5) |
| <i>P</i> _{candidates} | -0.0449* (-1.87) | | | | |
| <i>P</i> _{strength} | | -0.0280* (-1.94) | | | |
| <i>P</i> _{ability} | | | -0.1075** (-2.28) | | |
| <i>P</i> _{power} | | | | -0.0340* (-1.85) | |
| <i>P</i> _{contributions} | | | | | -0.0194** (-2.04) |
| Control variables | Yes | Yes | Yes | Yes | Yes |
| N | 25,734 | 23,847 | 23,847 | 23,847 | 25,734 |
| Pseudo R-squared | 0.0513 | 0.0481 | 0.0483 | 0.0481 | 0.0514 |

This table reports the estimated coefficients of the conditional logit regression. For each target, five pseudo target firms are matched by the Fama-French 49 industries, market value, B/M, and 1-year previous stock return. The dependent variable, *Receiving a bid*, is an indicator that takes the value of 1 if a bid is made for the firm and 0 otherwise. The control variables are the same as the ones used in Table 4. Refer to Appendix 1 for detailed variable descriptions. All variables are winsorized at the 1st and 99th percentiles. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. **, and * indicate significance at the 5% and 10% levels, respectively.

Table 6
Exogenous measure of political contributions

| | Dependent variable = <i>Receiving a bid</i> |
|--|--|
| <i>Strengthening of pre-existing connections</i> | -0.0956*** (-2.67) |
| <i>Constant</i> | -2.6410*** (-14.12) |
| Control variables | Yes |
| Year-fixed | Yes |
| Industry-fixed | Yes |
| N | 113,435 |
| Pseudo R-squared | 0.0384 |

This table reports the results using an exogenous measure of political contributions. The probit model is used to estimate the probability of receiving a bid. *Strengthening of pre-existing connections* = A dummy variable that takes the value of 1 if a firm had made any PAC contribution in the previous Congress period to a candidate who became a new chair in any Senate or House of Representatives committee and 0 otherwise. The control variables are the same as the ones used in Table 4. Refer to Appendix 1 for detailed variable descriptions. Year and industry fixed effects, whose coefficients are suppressed, are based on calendar year and Fama-French 49 industry classification dummies, respectively. All variables are winsorized at the 1st and 99th percentiles. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. *** indicates significance at the 1% level.

Table 7
Instrumental variables' analysis

| | Dependent variable = $PI^{candidates}$ | Dependent variable = $Receiving\ a\ bid$ | Dependent variable = $PI^{strength}$ | Dependent variable = $Receiving\ a\ bid$ | Dependent variable = $PI^{ability}$ | Dependent variable = $Receiving\ a\ bid$ | Dependent variable = PI^{power} | Dependent variable = $Receiving\ a\ bid$ | Dependent variable = $PI^{contributions}$ | Dependent variable = $Receiving\ a\ bid$ |
|---|--|--|--------------------------------------|--|-------------------------------------|--|-----------------------------------|--|---|--|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| <i>Instrumented $PI^{candidates}$</i> | | -0.4834** (-2.14) | | | | | | | | |
| <i>Instrumented $PI^{strength}$</i> | | | | -0.2860** (-2.05) | | | | | | |
| <i>Instrumented $PI^{ability}$</i> | | | | | | -1.1968** (-2.20) | | | | |
| <i>Instrumented PI^{power}</i> | | | | | | | | -0.3638** (-2.05) | | |
| <i>Instrumented $PI^{contributions}$</i> | | | | | | | | | | -0.1764** (-2.12) |
| <i>Districts</i> | -0.0376*** (-3.23) | | -0.0620*** (-3.18) | | -0.0138** (-2.50) | | -0.0486*** (-3.17) | | -0.1048*** (-3.63) | |
| <i>Constant</i> | -3.3305*** (-17.37) | -3.9869*** (-7.04) | -5.5878*** (-17.39) | -3.9654*** (-6.82) | -1.5345*** (-17.47) | -4.0472*** (-8.28) | -4.3990*** (-17.22) | -3.9628*** (-6.85) | -7.9123*** (-17.46) | -3.8186*** (-7.30) |
| Control variables | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Year-fixed | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Industry-fixed | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| N | 113,435 | | 102,223 | | 102,223 | | 102,223 | | 113,435 | |
| Wald Chi-squared | 1,739 | | 1,708 | | 2,049 | | 1,719 | | 1,658 | |
| [p-value] | [0.0000] | | [0.0000] | | [0.0000] | | [0.0000] | | [0.0000] | |

This table reports the coefficients of the two-stage estimation setting. The first-stage model regresses the political contribution variables on the number of congressional districts and other controlling variables. In the second stage, the instrumented political contributions variables are included to estimate the probability of receiving a bid.

$$PI = \gamma_0 + \gamma_1 Districts + \gamma \sum_{n=1}^7 Target\ characteristics + \gamma \sum_{n=1}^2 M\ \&\ A\ market + \gamma \sum year + \gamma \sum industry + \varepsilon$$

$$Target = \tau_0 + \tau_1 + Instrumented\ PI + \tau \sum_{n=1}^7 Target\ characteristics + \tau \sum_{n=1}^2 M\ \&\ A\ market + \tau \sum year + \tau \sum industry + \varepsilon$$

PI = one of the five political contributions variables: 1) $PI^{candidates}$, 2) $PI^{strength}$, 3) $PI^{ability}$, 4) PI^{power} , and 5) $PI^{contributions}$. The control variables are the same as the ones used in Table 4. Refer to Appendix 1 for detailed variable descriptions. Year and industry fixed effects, whose coefficients are suppressed, are based on calendar year and Fama-French 49 industry classification dummies, respectively. All variables are winsorized at the 1st and 99th percentiles. The t -statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. *** and ** indicate significance at the 1% and 5% levels, respectively.

Table 8
Time to resolution

| | Dependent variable = <i>Time to resolution</i> | | | | |
|------------------------------------|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | (1) | (2) | (3) | (4) | (5) |
| <i>PI</i> _{candidates} | 5.8986*** (3.17) | | | | |
| <i>PI</i> _{strength} | | 3.1845*** (2.91) | | | |
| <i>PI</i> _{ability} | | | 10.2742*** (2.98) | | |
| <i>PI</i> _{power} | | | | 3.9654*** (2.91) | |
| <i>PI</i> _{contributions} | | | | | 2.2711*** (3.22) |
| <i>Market value</i> | 3.0130*** (3.30) | 2.8817*** (3.08) | 3.0127*** (3.27) | 2.8986*** (3.10) | 3.0893*** (3.40) |
| <i>B/M</i> | 2.7974 (1.28) | 1.8012 (0.84) | 1.9814 (0.92) | 1.8001 (0.84) | 2.8439 (1.30) |
| <i>Leverage</i> | 3.1877 (0.41) | 4.4306 (0.54) | 4.6072 (0.56) | 4.4892 (0.55) | 3.0518 (0.39) |
| <i>Cash flows</i> | 0.2062 (0.20) | -0.1394 (-0.15) | -0.1447 (-0.16) | -0.1432 (-0.16) | 0.2012 (0.20) |
| <i>Cash reserves</i> | -35.0571*** (-5.48) | -32.8207*** (-4.90) | -32.8294*** (-4.90) | -32.7783*** (-4.89) | -35.0382*** (-5.49) |
| <i>Sales growth</i> | -1.5715 (-1.14) | -1.4946 (-1.03) | -1.5372 (-1.06) | -1.5024 (-1.04) | -1.6098 (-1.17) |
| <i>Net loss</i> | 7.2077** (2.48) | 7.8731*** (2.59) | 7.7800** (2.56) | 7.8729*** (2.59) | 7.3368** (2.52) |
| <i>Diversifying deal</i> | -2.2492 (-0.94) | -2.1909 (-0.88) | -1.9936 (-0.80) | -2.2001 (-0.89) | -2.2536 (-0.94) |
| <i>Stock payment</i> | 9.1444*** (3.16) | 8.4082*** (2.83) | 8.3393*** (2.81) | 8.4356*** (2.84) | 9.1170*** (3.15) |
| <i>Tender offer</i> | -36.5821*** (-11.90) | -38.1760*** (-11.79) | -38.2274*** (-11.81) | -38.1415*** (-11.78) | -36.5934*** (-11.89) |
| <i>Hostile deal</i> | -7.9041 (-0.88) | -8.5586 (-0.91) | -8.6820 (-0.92) | -8.6204 (-0.91) | -7.8720 (-0.88) |
| <i>Competing deal</i> | 18.5773** (2.10) | 19.2692** (2.11) | 19.9709** (2.20) | 19.2942** (2.11) | 18.8030** (2.12) |
| <i>US bidder</i> | -0.6738 (-0.19) | -0.6074 (-0.17) | -0.5557 (-0.15) | -0.5828 (-0.16) | -0.6207 (-0.18) |
| <i>Industry M&A liquidity</i> | 20.8304** (2.41) | 20.3234** (2.31) | 20.6504** (2.34) | 20.3633** (2.31) | 20.7806** (2.40) |
| <i>Herfindahl index</i> | -27.2230** (-2.46) | -28.2097** (-2.43) | -27.8947** (-2.39) | -28.1538** (-2.42) | -27.1029** (-2.45) |
| <i>Constant</i> | 153.7660*** (2.74) | 176.7074*** (3.14) | 174.1420*** (3.10) | 176.2883*** (3.13) | 152.1254*** (2.72) |
| Year-fixed | Yes | Yes | Yes | Yes | Yes |
| Industry-fixed | Yes | Yes | Yes | Yes | Yes |
| N | 4,266 | 3,984 | 3,984 | 3,984 | 4,266 |
| R-squared | 0.3043 | 0.3121 | 0.3118 | 0.3120 | 0.3041 |

This table reports the estimated coefficients of the regressions of time to resolution. The dependent variable, *Time to resolution*, is computed as the number of days from the acquisition announcement to resolution. Refer to Appendix 1 for detailed variable descriptions. Year and industry fixed effects, whose coefficients are suppressed, are based on calendar year and Fama-French 49 industry classification dummies, respectively. All variables are winsorized at the 1st and 99th percentiles. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. *** and ** indicate significance at the 1% and 5% levels, respectively.

Table 9
Takeover premium

| | Dependent variable = <i>Premium</i> | | | | |
|------------------------------------|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | (1) | (2) | (3) | (4) | (5) |
| <i>PI</i> _{candidates} | 0.0146*** (2.83) | | | | |
| <i>PI</i> _{strength} | | 0.0082*** (2.64) | | | |
| <i>PI</i> _{ability} | | | 0.0272*** (2.65) | | |
| <i>PI</i> _{power} | | | | 0.0094** (2.42) | |
| <i>PI</i> _{contributions} | | | | | 0.0064*** (3.15) |
| <i>Market value</i> | -0.0338*** (-7.50) | -0.0333*** (-7.20) | -0.0330*** (-7.18) | -0.0330*** (-7.13) | -0.0340*** (-7.61) |
| <i>B/M</i> | 0.0720*** (4.19) | 0.0714*** (3.84) | 0.0718*** (3.86) | 0.0716*** (3.85) | 0.0718*** (4.18) |
| <i>Leverage</i> | 0.1226*** (3.28) | 0.1304*** (3.35) | 0.1309*** (3.37) | 0.1304*** (3.35) | 0.1228*** (3.28) |
| <i>Cash flows</i> | 0.0077 (0.38) | 0.0089 (0.42) | 0.0089 (0.42) | 0.0088 (0.42) | 0.0077 (0.38) |
| <i>Cash reserves</i> | 0.0536 (1.46) | 0.0653* (1.72) | 0.0651* (1.72) | 0.0654* (1.72) | 0.0536 (1.46) |
| <i>Sales growth</i> | 0.0118 (1.31) | 0.0079 (0.93) | 0.0077 (0.92) | 0.0077 (0.92) | 0.0119 (1.32) |
| <i>Net loss</i> | 0.0485*** (3.13) | 0.0520*** (3.24) | 0.0518*** (3.23) | 0.0522*** (3.24) | 0.0486*** (3.15) |
| <i>Diversifying deal</i> | 0.0189 (1.57) | 0.0181 (1.45) | 0.0186 (1.49) | 0.0181 (1.45) | 0.0189 (1.56) |
| <i>Stock payment</i> | -0.0070 (-0.55) | -0.0043 (-0.33) | -0.0045 (-0.34) | -0.0042 (-0.32) | -0.0071 (-0.55) |
| <i>Tender offer</i> | 0.0347** (2.18) | 0.0442*** (2.62) | 0.0442*** (2.62) | 0.0443*** (2.62) | 0.0348** (2.19) |
| <i>Hostile deal</i> | 0.0583*** (2.72) | 0.0665*** (3.00) | 0.0662*** (2.99) | 0.0663*** (2.99) | 0.0584*** (2.73) |
| <i>Competing deal</i> | 0.0476 (1.38) | 0.0502 (1.52) | 0.0520 (1.58) | 0.0503 (1.53) | 0.0481 (1.39) |
| <i>US bidder</i> | -0.0228 (-1.29) | -0.0275 (-1.46) | -0.0273 (-1.45) | -0.0275 (-1.46) | -0.0226 (-1.28) |
| <i>Industry M&A liquidity</i> | 0.0897** (2.27) | 0.0975** (2.43) | 0.0981** (2.44) | 0.0977** (2.43) | 0.0894** (2.27) |
| <i>Herfindahl index</i> | 0.0161 (0.32) | 0.0160 (0.31) | 0.0170 (0.33) | 0.0161 (0.31) | 0.0166 (0.33) |
| <i>Constant</i> | 1.1637*** (3.61) | 1.1498*** (3.56) | 1.1437*** (3.54) | 1.1440*** (3.54) | 1.1673*** (3.62) |
| Year-fixed | Yes | Yes | Yes | Yes | Yes |
| Industry-fixed | Yes | Yes | Yes | Yes | Yes |
| N | 4,000 | 3,721 | 3,721 | 3,721 | 4,000 |
| R-squared | 0.1231 | 0.1275 | 0.1274 | 0.1273 | 0.1234 |

This table reports the estimated coefficients of the regressions of takeover premium. The dependent variable, *Premium*, is computed as the difference between the offer price and the target's stock price 1 week before the acquisition announcement divided by the latter. Refer to Appendix 1 for detailed variable descriptions. Year and industry fixed effects, whose coefficients are suppressed, are based on calendar year and Fama-French 49 industry classification dummies, respectively. All variables are winsorized at the 1st and 99th percentiles. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 10
Lobbying expenditures and M&A transactions

| Panel A: Descriptive statistics of lobbying expenditures | | | | | |
|--|----------|-----------|---------|--------|-------------|
| N | Mean | Std. Dev. | Minimum | Median | Maximum |
| 71,993 | \$64,447 | \$287,161 | \$0 | \$0 | \$1,910,000 |

| Panel B: Comparisons of target lobbying expenditures | | |
|--|----------------|-------------|
| (1) Targets | (2) No targets | (2) – (1) |
| \$50,343 | \$65,010 | \$14,667*** |

| Panel C.1: Univariate test of receiving a bid | | | |
|---|----------------------------------|-------------------------------------|---------------|
| | (1) | (2) | % change |
| | Firms with lobbying expenditures | Firms with no lobbying expenditures | [(1)-(2)]/(2) |
| Target | 274 | 2,489 | |
| No target | 8,348 | 60,882 | |
| Total | 8,622 | 63,371 | |
| Probability of receiving a bid | 3.18% | 3.93% | -23.59% |

| Panel C.2: Multivariate test of receiving a bid | | | |
|---|----------------------------------|-------------------------------------|---------------|
| | (1) | (2) | % change |
| | Firms with lobbying expenditures | Firms with no lobbying expenditures | [(1)-(2)]/(2) |
| Probability of receiving a bid | 2.67% | 3.39% | -26.97% |

| Panel D: Regression analysis | | | |
|------------------------------|------------------------|---------------------------|----------------------|
| | Dependent variable = | Dependent variable = | Dependent variable = |
| | <i>Receiving a bid</i> | <i>Time to Resolution</i> | <i>Premium</i> |
| | (1) | (2) | (3) |
| <i>Lobbying expenditures</i> | -0.0088*** (-3.37) | 1.5099*** (2.91) | 0.0021 (1.13) |
| <i>Constant</i> | -2.2225*** (-9.55) | 105.0869* (1.95) | 1.0168*** (3.75) |
| Control variables | Yes | Yes | Yes |
| Year-fixed | Yes | Yes | Yes |
| Industry-fixed | Yes | Yes | Yes |
| N | 71,921 | 2,619 | 2,517 |
| Pseudo R-squared (R-squared) | 0.0375 | (0.3193) | (0.1536) |

Panel A provides descriptive statistics of lobbying expenditures, while Panel B compares the mean values of lobbying expenditures for the sub-samples of firms that received a takeover bid and firms that did not receive a bid. Panel C compares the probability of receiving a bid. In panel C.1, we compare the probability in the univariate test. In panel C.2, we use the probit model that regresses on the lobbying expenditures dummy and other controlling variables used in Table 4, where the lobbying expenditures dummy is an indicator that takes the value of 1 if the firm presents any lobbying expenditures and 0 otherwise. In Panel D, the first regression is the probit model to estimate the probability of receiving a bid. The second regression is used to estimate the time to resolution. The third model estimates takeover premium. In the regressions, *lobbying expenditures* is a variable transformed by adding one and taking the natural log of the dollar amount of the lobbying expenditures. The control variables in column (1) are the same as the ones used in Table 4, while the control variables in columns (2) and (3) are the same as the ones used in Tables 8 and 9, respectively. Refer to Appendix 1 for detailed variable descriptions. Year and industry fixed effects, whose coefficients are suppressed, are based on calendar year and Fama-French 49 industry classification dummies, respectively. All variables are winsorized at the 1st and 99th percentiles. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. *** and * indicate significance at the 1% and 10% levels, respectively.

Table 11
Political alignment and takeover premium

| | Dependent variable = <i>Premium</i> | | | | | |
|--|-------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <i>PI</i> _{candidates} | 0.0019 (0.28) | | | | | |
| <i>PI</i> _{strength} | | 0.00001 (0.003) | | | | |
| <i>PI</i> _{ability} | | | 0.0066 (0.49) | | | |
| <i>PI</i> _{power} | | | | -0.0009 (-0.19) | | |
| <i>PI</i> _{contributions} | | | | | 0.0009 (0.35) | |
| <i>Lobbying expenditures</i> | | | | | | 0.0010 (0.47) |
| <i>High political alignment</i> | 0.0029 (0.24) | 0.0078 (0.63) | 0.0096 (0.78) | 0.0079 (0.64) | 0.0023 (0.20) | 0.0078 (0.51) |
| <i>High political alignment</i> * <i>PI</i> _{candidates} | 0.0244*** (2.86) | | | | | |
| <i>High political alignment</i> * <i>PI</i> _{strength} | | 0.0163*** (3.20) | | | | |
| <i>High political alignment</i> * <i>PI</i> _{ability} | | | 0.0379** (2.27) | | | |
| <i>High political alignment</i> * <i>PI</i> _{power} | | | | 0.0203*** (3.20) | | |
| <i>High political alignment</i> * <i>PI</i> _{contributions} | | | | | 0.0106*** (3.08) | |
| <i>High political alignment</i> * <i>Lobbying expenditures</i> | | | | | | 0.0015 (0.47) |
| <i>Constant</i> | 1.1378*** (3.48) | 1.1245*** (3.44) | 1.1112*** (3.40) | 1.1176*** (3.42) | 1.1436*** (3.50) | 0.9311*** (3.57) |
| Control variables | Yes | Yes | Yes | Yes | Yes | Yes |
| Year-fixed | Yes | Yes | Yes | Yes | Yes | Yes |
| Industry-fixed | Yes | Yes | Yes | Yes | Yes | Yes |
| State-fixed | Yes | Yes | Yes | Yes | Yes | Yes |
| N | 4,000 | 3,721 | 3,721 | 3,721 | 4,000 | 2,517 |
| R-squared | 0.1346 | 0.1409 | 0.1400 | 0.1407 | 0.1351 | 0.1692 |

This table reports the estimated coefficients of the regressions of takeover premium. The dependent variable, *Premium*, is computed as the difference between the offer price and the target's stock price 1 week before the acquisition announcement divided by the latter. The control variables are the same as the ones used in Table 9. Refer to Appendix 1 for detailed variable descriptions. Year, industry and state fixed effects, whose coefficients are suppressed, are based on calendar year, Fama-French 49 industry classification, and States dummies, respectively. All variables are winsorized at the 1st and 99th percentiles. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and bidder clustering. *** and ** indicate significance at the 1% and 5% levels, respectively.

Table 12
Bidder's analysis

| Panel A: Political contributions | | | | |
|-----------------------------------|--|--|--|---|
| | Dependent variable = <i>Placing a bid</i> | Dependent variable = <i>Time to Resolution</i> | Dependent variable = <i>Premium</i> | Dependent variable = <i>Bidder's CAR (-2,+2)</i> |
| | (1) | (2) | (3) | (4) |
| <i>Bidder's PI indicator</i> | 0.1286*** (3.81) | 10.1194** (2.20) | 0.0046 (0.26) | -0.0003 (-0.07) |
| <i>Bidder's market value</i> | 0.2168*** (34.52) | -0.5370 (-0.48) | -0.0177*** (-3.17) | -0.0036*** (-2.86) |
| <i>Bidder's B/M</i> | -0.0272 (-1.36) | -0.8962 (-0.22) | 0.0523* (1.68) | 0.0150** (2.15) |
| <i>Bidder's leverage</i> | -0.2661*** (-4.55) | 14.6290 (1.40) | -0.0429 (-0.88) | 0.0209* (1.75) |
| <i>Bidder's cash flows</i> | -0.0012*** (-3.33) | 1.0009 (0.27) | 0.0214 (0.56) | -0.0203*** (-3.68) |
| <i>Bidder's cash reserves</i> | -0.0405 (-1.26) | -12.3729*** (-2.81) | 0.0065 (0.27) | -0.0066 (-1.19) |
| <i>Bidder's sales growth</i> | 0.0171* (1.93) | -1.1479 (-0.55) | -0.0087 (-0.77) | -0.0046 (-1.52) |
| <i>Bidder's net loss</i> | -0.0653*** (-2.72) | 11.0008** (2.18) | 0.0386 (1.60) | -0.0165*** (-2.80) |
| <i>Bidder's run up</i> | | -7.8111*** (-2.74) | 0.0152 (0.85) | -0.0244*** (-5.12) |
| <i>Diversifying deal</i> | | -8.3328** (-2.51) | 0.0462*** (2.99) | -0.0016 (-0.46) |
| <i>Stock payment</i> | | 7.7912** (2.15) | -0.0350** (-2.21) | -0.0084** (-2.22) |
| <i>Tender offer</i> | | -35.5004*** (-8.57) | 0.0280 (1.42) | 0.0221*** (5.23) |
| <i>Hostile deal</i> | | -9.1365 (-0.83) | 0.0824*** (3.30) | 0.0015 (0.25) |
| <i>Competing deal</i> | | 21.4746*** (4.00) | -0.0177 (-0.82) | 0.0126** (2.46) |
| <i>Relative deal size</i> | | 14.4231*** (3.44) | -0.0831*** (-4.85) | -0.0212*** (-3.48) |
| <i>Industry M&A liquidity</i> | 0.6252*** (9.23) | 27.9890** (2.13) | 0.0064 (0.11) | 0.0027 (0.17) |
| <i>Herfindahl index</i> | -0.3265*** (-3.54) | -19.4079* (-1.65) | 0.0430 (0.79) | 0.0232* (1.92) |
| <i>Constant</i> | -6.7683*** (-27.95) | 180.0233*** (2.58) | 0.6068*** (4.12) | 0.0805** (2.46) |
| Year-fixed | Yes | Yes | Yes | Yes |
| Industry-fixed | Yes | Yes | Yes | Yes |
| N | 115,193 | 3,094 | 2,878 | 2,914 |
| Pseudo R-squared (R-squared) | 0.1419 | (0.2419) | (0.0884) | (0.1147) |

Table 12 (Cont'd)
Bidder's analysis

| Panel B: Lobbying expenditures | | | | |
|------------------------------------|--|--|--|---|
| | Dependent variable = <i>Placing a bid</i> | Dependent variable = <i>Time to Resolution</i> | Dependent variable = <i>Premium</i> | Dependent variable = <i>Bidder's CAR (-2,+2)</i> |
| | (1) | (2) | (3) | (4) |
| <i>Bidder's lobbying indicator</i> | 0.0890*** (2.78) | 12.3682** (2.42) | 0.0106 (0.47) | 0.0065 (1.29) |
| <i>Bidder's market value</i> | 0.2232*** (28.61) | -1.8368 (-1.38) | -0.0243*** (-3.35) | -0.0049*** (-3.07) |
| <i>Bidder's B/M</i> | -0.0002 (-0.01) | -3.3793 (-0.74) | 0.0191 (0.59) | 0.0142 (1.61) |
| <i>Bidder's leverage</i> | -0.3176*** (-4.34) | 5.0711 (0.41) | -0.0335 (-0.50) | 0.0293* (1.89) |
| <i>Bidder's cash flows</i> | -0.0013*** (-3.04) | 1.5861 (0.40) | 0.0249 (0.67) | -0.0207*** (-3.76) |
| <i>Bidder's cash reserves</i> | -0.0366 (-1.12) | -8.3700* (-1.84) | 0.0102 (0.39) | -0.0068 (-1.30) |
| <i>Bidder's sales growth</i> | -0.0047 (-0.39) | 0.0872 (0.04) | -0.0036 (-0.19) | -0.0037 (-0.69) |
| <i>Bidder's net loss</i> | -0.0816*** (-2.75) | 1.0005 (0.18) | 0.0354 (1.09) | -0.0164** (-2.15) |
| <i>Bidder's run up</i> | | -4.8209 (-1.55) | 0.0088 (0.43) | -0.0250*** (-4.47) |
| <i>Diversifying deal</i> | | -7.0844* (-1.69) | 0.0351* (1.80) | -0.0031 (-0.70) |
| <i>Stock payment</i> | | 8.8402** (1.97) | -0.0442** (-2.10) | -0.0039 (-0.75) |
| <i>Tender offer</i> | | -36.1553*** (-7.23) | 0.0375 (1.44) | 0.0255*** (4.57) |
| <i>Hostile deal</i> | | 6.2252 (0.41) | 0.0509 (1.53) | 0.0094 (1.11) |
| <i>Competing deal</i> | | 16.6802*** (2.62) | -0.0230 (-0.75) | 0.0171** (2.39) |
| <i>Relative deal size</i> | | 19.7025*** (3.40) | -0.1023*** (-4.24) | -0.0291*** (-3.36) |
| <i>Industry M&A liquidity</i> | 0.5568*** (6.47) | 43.3249** (2.56) | -0.0407 (-0.51) | 0.0152 (0.73) |
| <i>Herfindahl index</i> | -0.2787** (-2.49) | -12.9116 (-1.05) | 0.0672 (0.98) | 0.0367** (2.29) |
| <i>Constant</i> | -6.4863*** (-23.02) | 199.6187** (1.98) | 0.8953*** (5.14) | 0.0937** (2.43) |
| Year-fixed | Yes | Yes | Yes | Yes |
| Industry-fixed | Yes | Yes | Yes | Yes |
| N | 73,094 | 1,875 | 1,801 | 1,768 |
| Pseudo R-squared (R-squared) | 0.1448 | (0.2636) | (0.1083) | (0.1381) |

This table provides the main regressions for bidding firms. In Panel A, *Bidder's PI indicator* = a dummy variable that takes the value of one if the bidder's *PI* is greater than 0, and zero otherwise, where *PI* = one of the five political contributions variables. The first regression is the probit models to estimate the probability of placing a bid. The second regression is used to estimate the time to resolution. The third model estimates takeover premium. The fourth model presents the results for bidder's announcement returns (5-day CARs). In Panel B, *Bidder's lobbying indicator* = a dummy variable that takes the value of 1 if the bidder's lobbying expenditures are greater than 0. Refer to Appendix 1 for detailed variable descriptions. Year and industry fixed effects, whose coefficients are suppressed, are based on calendar year and Fama-French 49 industry classification dummies, respectively. All variables are winsorized at the 1st and 99th percentiles. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Appendix 1: Variable definitions

Panel A: Political contributions

| | |
|------------------------------|--|
| $PI^{candidates}$ | <p>The number of candidates supported by the firm. $PI_{it}^{candidates} = \sum_{j=1}^J Candidate_{jt,t-5}$, where $Candidate_{jt,t-5}$ is an indicator variable equal to one if the firm has contributed money to candidate j over the years $t-5$ to t and zero otherwise. Refer to Cooper et al. (2010) for details. The data is collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections. In the regressions, it is transformed by adding one and taking the natural log.</p> |
| $PI^{strength}$ | <p>The strength of the relations between candidates and the contributing firm. It is measured by the total length of relations between the firm and the candidates.</p> $PI_{it}^{strength} = \sum_{j=1}^J Candidate_{jt,t-5} \times I_{jt} \times \frac{Vote_{jt}^{cand}}{Vote_{jt}^{opp}} \times Length_{jt,t-5}$ <p>where I_{jt} is an indicator variable equal to one if candidate j is in office at time t and zero otherwise, $Vote_{jt}^{cand}$ is the number of votes that candidate j's party holds in office at time t, $Vote_{jt}^{opp}$ is the number of votes that candidate j's opposing party holds in office at time t, and $Length_{jt,t-5}$ is the number of months that firm i has maintained an uninterrupted relation with candidate j until time t. Refer to Cooper et al. (2010) for details. The data is collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections. In the regressions, it is transformed by adding one and taking the natural log.</p> |
| $PI^{ability}$ | <p>The ability of the politicians to help the firm. It is measured by the home state of the firm and the candidate. $PI_{it}^{ability} = \sum_{j=1}^J Candidate_{jt,t-5}^{home} \times I_{jt} \times \frac{Vote_{jt}^{cand}}{Vote_{jt}^{opp}}$, where $Candidate_{jt,t-5}^{home}$ is an indicator variable equal to 1 if candidate j is running for office from the state in which firm i is headquartered and 0 otherwise. Refer to Cooper et al. (2010) for details. The data is collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections. In the regressions, it is transformed by adding one and taking the natural log.</p> |
| PI^{power} | <p>The power of the candidates supported by the firm. It is measured by the candidate's committee ranking.</p> $PI_{it}^{power} = \sum_{j=1}^J Candidate_{jt,t-5} \times I_{jt} \times \frac{Vote_{jt}^{cand}}{Vote_{jt}^{opp}} \times \left[\sum_{m=1}^M \frac{Committee\ rank_{mt}^{cand}}{Median\ committee\ rank_{mt}} \right]$ <p>where $Committee\ rank_{mt}^{cand}$ is the reciprocal of candidate j's rank on committee m (the smaller the important), and $Median\ committee\ rank_{mt}$ is the median number of members on a given committee m of which candidate j is a member. Refer to Cooper et al. (2010) for details. The data is collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections. In the regressions, it is transformed by adding one and taking the natural log.</p> |
| $PI^{contributions}$ | <p>The total amount of contributions made by the firm. $PI_{it}^{contributions} = \sum_{j=1}^J Contribution_{jt,t-5}$, where $Contribution_{jt,t-5}$ is the contributed money to candidate j over the years $t-5$ to t. The data is collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections. In the regressions, it is transformed by adding one and taking the natural log.</p> |
| <i>Lobbying expenditures</i> | <p>Total value of lobbying expenditures. The lobbying information is collected from the lobbying database of the United States Senate (http://www.senate.gov) and the OpenSecrets website (http://www.opensecrets.org) of the Center for Responsive Politics (CRP). In the regressions, it is transformed by adding one and taking the natural log.</p> |

Appendix 1: Variable definitions (*Cont'd*)

| Panel A: Political contributions (<i>Cont'd</i>) | |
|--|--|
| <i>Strengthening of pre-existing connections</i> | A dummy variable that takes the value of 1 if a firm had made any PAC contribution in the previous Congress period to a candidate who became a new chair in any Senate or House of Representatives committee and 0 otherwise. |
| Panel B: Dependent Variables | |
| <i>Receiving a bid</i> | A dummy variable that takes the value of 1 if a bid is made for the firm and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database. |
| <i>Time to resolution</i> | The number of days between the acquisition announcement and resolution (completion or withdrawal) both as reported by Thomson Financial SDC |
| <i>Premium</i> | Takeover premium from Thomson Financial SDC Mergers and Acquisitions Database, which is computed as the difference between the offer price and the target's stock price 1 week before the acquisition announcement divided by the latter. |
| <i>CAR (-2,+2)</i> | Cumulative abnormal return of the firm's stock in the 5-day event window (-2, +2) where 0 is the announcement day. The returns are calculated using the market model with the market model parameters estimated over the period starting 240 days and ending 41 days prior to the announcement. The CRSP value-weighted index return is the market return. |
| Panel C: Firm characteristics | |
| <i>Market value</i> | Market value of equity plus total debt (long-term debt + debt in current liabilities) at the fiscal year-end from COMPUSTAT. In the regressions, it is transformed by adding one and taking the natural log. |
| <i>Equity value</i> | Market value of equity at the fiscal year-end from COMPUSTAT. |
| <i>B/M</i> | Book value of equity divided by market value of equity at the fiscal year-end from COMPUSTAT. |
| <i>Leverage</i> | Total debt (long-term debt + debt in current liabilities) divided by total assets at the fiscal year-end from COMPUSTAT. |
| <i>Cash flows</i> | Cash flows (income before extraordinary items + depreciation and amortization – preferred stock dividends – common stock dividends) divided by the market value of equity at the fiscal year-end from COMPUSTAT. |
| <i>Cash reserves</i> | Cash and short-term investments divided by total assets at the fiscal year-end from COMPUSTAT. |
| <i>Sales growth</i> | Current fiscal year sales minus sales in the previous fiscal year divided by sales in the previous fiscal year from COMPUSTAT. |
| <i>Net loss</i> | A dummy variable that takes the value of 1 if net income is negative and 0 otherwise. The variable is created at the fiscal year-end from COMPUSTAT. |
| <i>Run up</i> | Market-adjusted buy-and-hold return over the period starting 205 days to 6 days prior to the announcement date of the deal from CRSP. |

Appendix 1: Variable definitions (Cont'd)

| Panel D: Bid characteristics | |
|--|---|
| <i>Diversifying deal</i> | A dummy variable that takes the value of 1 if the target firm operates in a different 2-digit SIC industry to the one of the bidder and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database. |
| <i>Stock payment</i> | A dummy variable that takes the value of 1 for the deal in which consideration is 100% stock and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database. |
| <i>Tender offer</i> | A dummy variable that takes the value of 1 for tender offers and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database. |
| <i>Hostile deal</i> | A dummy variable that takes the value of 1 for deals defined as hostile or unsolicited and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database. |
| <i>Competing deal</i> | A dummy variable that takes the value of 1 for deals that there is a competing bidder and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database. |
| <i>US bidder</i> | A dummy variable that takes the value of 1 for deals in which the bidder is a US firm and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database. |
| <i>Relative deal size</i> | The ratio of transaction value to bidder market value one month prior to the announcement date of the deal. |
| Panel E: M&A market characteristics | |
| <i>Industry M&A liquidity</i> | Sum of acquisitions values for each year and three-digit SIC code divided by the total assets of COMPUSTAT firms in the same three-digit SIC and year from COMPUSTAT. |
| <i>Herfindahl index</i> | Sum of squares of the market shares of all firms sharing the same three-digit SIC, where market share is defined as sales of the firm to the aggregated sales of the industry. |
| Panel F: State-level political alignment | |
| <i>Political alignment</i> | The state-level political alignment index, computed by $Political\ alignment_j = \frac{1}{4}S_j + \frac{1}{4}R_j + \frac{1}{4}G_j + \frac{1}{4}[\frac{1}{2}S_j^{state} + \frac{1}{2}R_j^{state}]$, S_j = the fraction of the state's two senators in Washington that belong to the President's party. R_j = the percentage of the state's house representatives in Washington that belong to the President's party. G_j = a dummy variable equal to one if the governor belongs to the same party as the President, and zero otherwise. S_j^{state} = a dummy variable equal to one if the percent of members of the state senate belonging to the President's party is greater than 50%, and zero otherwise. R_j^{state} = a dummy variable equal to one if the percent of representatives in the state house belonging to the President's party is greater than 50%, and zero otherwise. The information on party affiliation and control is extracted from different volumes of "Taylor's Encyclopedia of Government Officials: Federal and State" and "State Elective Officials and the Legislatures." |

Appendix 2: Political contributions and lobbying expenditures by industry

| Code | Fama-French 49 industries | $PI_{candidates}$ | $PI_{strength}$ | $PI_{ability}$ | PI_{power} | $PI_{contributions}$ | Lobbying expenditures |
|-------|--|-------------------|-----------------|----------------|--------------|----------------------|-----------------------|
| 1 | Agriculture | 1.4274 | 32.3059 | 0.1942 | 10.2744 | 964 | 61,070 |
| 2 | Food products | 10.3763 | 216 | 0.8217 | 42.0184 | 4,545 | 98,810 |
| 3 | Candy and soda | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 50,647 |
| 4 | Beer and liquor | 9.4752 | 208 | 0.6523 | 33.6757 | 4,634 | 376,327 |
| 5 | Tobacco products | 64.1538 | 1332 | 4.1824 | 245 | 32,840 | 997,050 |
| 6 | Recreation | 0.3527 | 9.1046 | 0.1034 | 2.4648 | 259 | 16,881 |
| 7 | Entertainment | 3.1042 | 49.8987 | 0.3057 | 13.7014 | 2,068 | 22,723 |
| 8 | Printing and publishing | 1.6815 | 31.5211 | 0.3523 | 7.6870 | 545 | 45,958 |
| 9 | Consumer goods | 5.5170 | 105 | 0.6023 | 21.3289 | 2,220 | 60,175 |
| 10 | Apparel | 1.1030 | 21.9843 | 0.1288 | 5.4844 | 373 | 7,825 |
| 11 | Healthcare | 3.9860 | 61.5759 | 0.2749 | 17.1084 | 2,275 | 62,503 |
| 12 | Medical equipment | 1.9201 | 39.0684 | 0.2350 | 9.5954 | 963 | 47,259 |
| 13 | Pharmaceutical products | 4.7898 | 107 | 0.3867 | 19.8974 | 2,362 | 117,204 |
| 14 | Chemicals | 6.9199 | 142 | 0.7233 | 31.1980 | 3,063 | 110,722 |
| 15 | Rubber and plastic products | 1.5304 | 26.3955 | 0.2126 | 7.4304 | 541 | 13,625 |
| 16 | Textiles | 1.1636 | 28.4022 | 0.2922 | 8.0929 | 475 | 26,816 |
| 17 | Construction materials | 3.6588 | 71.2929 | 0.4060 | 16.1480 | 1,590 | 29,329 |
| 18 | Construction | 2.8408 | 64.2864 | 0.2934 | 13.0314 | 1,319 | 25,371 |
| 19 | Steel works | 7.0937 | 171 | 0.9172 | 34.9325 | 2,601 | 59,042 |
| 20 | Fabricated products | 0.2842 | 6.0864 | 0.0672 | 2.3729 | 66.2568 | 361 |
| 21 | Machinery | 2.9102 | 54.7463 | 0.2754 | 10.8543 | 1244 | 48,748 |
| 22 | Electrical equipment | 1.9271 | 33.8524 | 0.3087 | 7.4471 | 808 | 37,488 |
| 23 | Automobiles and trucks | 7.0666 | 159 | 0.8138 | 31.2949 | 3627 | 110,766 |
| 24 | Aircraft | 33.9293 | 771 | 2.2795 | 134 | 16,711 | 455,022 |
| 25 | Shipbuilding and railroad equipment | 17.7744 | 488 | 2.4409 | 86.7797 | 9,861 | 150,698 |
| 26 | Defense | 33.3571 | 824 | 2.5318 | 157 | 17,156 | 382,256 |
| 27 | Precious metals | 4.5534 | 79.7590 | 0.7819 | 23.0660 | 1,796 | 57,908 |
| 28 | Non-metallic and industrial metal mining | 8.8938 | 230 | 1.0265 | 48.6373 | 4,079 | 83,584 |
| 29 | Coal | 29.9235 | 731 | 2.6137 | 151 | 17,385 | 270,957 |
| 30 | Petroleum and natural gas | 6.6872 | 146 | 0.5704 | 27.2385 | 2,851 | 90,734 |
| 31 | Utilities | 19.3918 | 437 | 2.4785 | 87.2952 | 8,846 | 265,537 |
| 32 | Communication | 8.9648 | 201 | 0.6764 | 39.8468 | 4,404 | 105,968 |
| 33 | Personal services | 1.1849 | 21.8185 | 0.0919 | 5.9805 | 675 | 34,326 |
| 34 | Business services | 2.3903 | 50.6053 | 0.2643 | 11.8208 | 1,065 | 27,349 |
| 35 | Computers | 3.0022 | 59.6409 | 0.2753 | 13.8337 | 1,535 | 79,339 |
| 36 | Computer software | 1.3410 | 28.0416 | 0.1194 | 6.5977 | 718 | 42,153 |
| 37 | Electronic equipment | 3.2521 | 69.4002 | 0.2697 | 13.1448 | 1,502 | 60,016 |
| 38 | Measuring and control equipment | 0.2919 | 4.7546 | 0.0363 | 1.4500 | 73.8380 | 14,618 |
| 39 | Business supplies | 12.0087 | 231 | 0.6995 | 43.6503 | 4,745 | 120,886 |
| 40 | Shipping containers | 1.3633 | 19.1454 | 0.3818 | 6.1876 | 568 | 18,788 |
| 41 | Transportation | 11.7653 | 253 | 0.9932 | 49.7540 | 5,373 | 138,488 |
| 42 | Wholesale | 2.4145 | 50.6160 | 0.2933 | 10.3854 | 1,117 | 19,507 |
| 43 | Retail | 4.0508 | 66.3032 | 0.3664 | 15.4893 | 1,794 | 50,793 |
| 44 | Restaurants, hotels, and motels | 4.1744 | 61.1224 | 0.2691 | 12.8914 | 1,782 | 20,374 |
| 45 | Banking | 3.3774 | 74.8636 | 0.4476 | 15.2101 | 1,615 | 22,563 |
| 46 | Insurance | 10.4449 | 213 | 0.8914 | 43.7220 | 5,102 | 121,217 |
| 47 | Real estate | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 15,174 |
| 48 | Financial trading | 3.1277 | 64.3332 | 0.2257 | 12.8119 | 1,420 | 54,286 |
| 49 | All others | 2.6612 | 61.4144 | 0.1651 | 11.5233 | 1,260 | 35,757 |
| Total | | 4.6785 | 98.8534 | 0.4577 | 20.1734 | 2,186 | 64,447 |

This table presents the political contributions and lobbying variables by Fama-French 49 industry classification codes. Refer to Appendix 1 for detailed variable descriptions.

Appendix 3: Quasi-natural experiments

The Bipartisan Campaign Reform Act (BCRA)

A major regulatory change that could potentially have indirectly affected corporate political strategies took place in 2002. The Bipartisan Campaign Reform Act (BCRA) was enacted on March 27 and took effect on November 6, after the 2002 election. A primary feature of the law was the introduction of restrictions on the use of “soft money”, i.e., money raised outside the limits and prohibitions of federal campaign finance law. In fact, the 2002 Act generally bans raising of soft money by national parties and federal candidates or officials and restricts soft money spending by state parties on what the Act defines as “federal election activities” (Cantor and Whitaker 2004).

Assuming that the Bipartisan Campaign Reform Act of 2002 was successful in reducing soft money contributions, we expect to observe an increase in reliance on PAC donations post-BCRA. That is, in the absence of soft money contributions as a tool of political networking, firms may have shifted to alternatives (i.e., PAC donations) because the Bipartisan Campaign Reform Act prohibits soft money donations made by corporate treasuries directly to the parties but does not ban or prevent corporations from using PAC contributions. Therefore, we interpret the BCRA as an exogenous positive shock on political contributions.

We perform a difference-in-difference analysis for the probability to receive a bid in the five years pre (1997-2001) and post (2003-2007) the introduction of BCRA in 2002. Firms that use PAC contributions are considered treated, while firms without PAC contributions represent the control group in the analysis. In an unreported analysis, we find that the effect of political contributions on the takeover process increased after the introduction of the BCRA. In fact, the interaction coefficients of treated PAC contributions variables with post-BCRA period are all negative and significant, consistent with the role of political contributions as an intangible-type asset which cannot be transferred easily to potential buyers.

Overall, the results of this analysis of an exogenous shock on firms’ political strategies indicate that BCRA, while it eliminated soft money contributions, led to an increase in the importance of political contributions in M&As.

The Abramoff's scandal

Similarly to the Bipartisan Campaign Reform Act used as a quasi-natural experiment in the case of contributions to PACs, we introduce the Abramoff's scandal as an exogenous shock to the ability of firms to lobby policy makers. Jack Abramoff, on behalf of his lobbying firm, gave gifts to politicians in exchange for support on legislation that favored his firm's clients. Following the Abramoff's scandal, corporate lobbying has been scrutinized intensely and the influence of lobbyists has arguably been reduced.

Given that the guilty plea was front page news on January 4, 2006 in all major national newspapers, we conduct a difference-in-difference analysis for the probability to receive a bid in the five years pre (2000-2005) and post (2006-2011).³⁰ Firms that lobby are considered treated, while firms without lobbying activities represent the control group in the analysis. We find that the effect of lobbying expenditures on the takeover process decreases after the Abramoff's scandal. The interaction coefficient of treated lobbying variable with post-Abramoff's period is positive and significant at 5% level, in line with lobbying activities complicating deals and effectively deterring takeover bids. The Abramoff variable itself is significantly negative at 1% level. In sum, the results of the exogenous shock introduced by the Abramoff's scandal reinforce our findings for the impact of lobbying expenditures in takeovers.

The test results for the Bipartisan Campaign Reform Act and Abramoff's Scandal are not shown for the sake of brevity but are available from the authors upon request.

³⁰ We have also i) eliminated year 2006 from the post period (i.e., 2007 to 2012) and ii) dropped year fixed effects. The results are consistent.