The Role of Corporate Political Strategies in M&As

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Abstract

In line with the view that politics can complicate M&A deals, we show that 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. We also find that target firms with political connections command a higher takeover premium from bidders lacking political expertise. This is consistent with the notion that target's connections not easily replicable by the bidder can render target firms' portfolios of real options more valuable. Overall, our findings suggest that corporate political strategies can be regarded as intangible-like assets, which affect takeover deals.

JEL classification: G34, G1, H1

Keywords: PAC contributions; lobbying activities; mergers and acquisitions; bid probability; time to resolution; takeover premium

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1. Introduction

[…] 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, Hill, Kelly, Lockhart, and Van Ness, 2013) 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 political connections in the corporate world, there is still very limited evidence of their effects on firm behavior.[1] Our aim is to shed light on the way corporate political strategies, as a means of political connections, affect firm

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[1] The scant evidence linking political connections and takeovers, which implies that politics may complicate M&A deals, 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.

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? Finally, do they have an impact on the size of takeover premium offered?

In this study, we contend that corporate political strategies may possess some of the properties of intangible assets, like the difficulty in assessing their true value due to lack of physical substance and the ability to affect firm valuation. It follows that political connections can affect different aspects of M&A deals. In particular, target firms' political connections can complicate deals by affecting the probability of receiving a bid and, conditional on a bid, the time to resolution of the deal. We argue that this effect can have two drivers. First, the intangible-like nature of target firm's connections would make their true value-impact on the merged firm hard to assess from the bidder's perspective. Second, there have been many cases where politicians have shown a propensity to interfere with corporate takeovers, especially in cases of deals involving firms they are connected to politicians. Based on the above we expect that, *ceteris paribus*, firms with high amounts of PAC contributions and/or lobbying expenditures should be less likely to receive a bid. Additionally, we predict that target firms with political connections should be associated with longer time to resolution of the takeover deal.[2]

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[2] An alternative hypothesis to this empirical issue is based on the counter-argument that, due to fact that most connections are known from public disclosure, they should not be considered as factors that can further complicate deals and therefore firms with political connections should not be related with a higher probability to receive a bid and shorter time to resolution.

We also hypothesize that, in addition to affecting the probability of receiving a bid and deal completion time, target political connections can have an impact on the size of the takeover premium. There is recent evidence that politically connected firms possess more value-relevant real options than non-connected firms (Kim, Kim, Pantzalis, and Park, 2015).[3] In addition, corporate political participation over the past few decades can be viewed as the result of a path-dependent learning process (see Drutman, 2011) wherein as firms gain more experience they expand the scope of their political activities beyond an initial focus on risk management to creating future growth opportunities by influencing political outcomes (e.g., legislative action). Thus, in the context of takeovers, target firms' political strategies can also enhance growth opportunities of the merged firm by facilitating real options as potential drivers of competitive advantages, and therefore should have takeover premium implications. Moreover, the takeover premium should be more pronounced when the target firm's political strategies provide connections that acquirers cannot easily establish on their own. Specifically, we hypothesize that the premium paid for a politically active target firm will be higher if the bidder does not pursue the kind of political strategies that the target firm does.

Based on the above we expect that, *ceteris paribus*, target firms with high amounts of PAC contributions (or intensive lobbying) should be associated with a higher takeover premium when the acquiring firm is not making PAC contributions (or does not engage in any lobbying activities). Conversely, if target firms' corporate political strategies are easy to

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[3] Specifically, Kim, Kim, Pantzalis, and Park (2015) follow Grullon, Lyandres and Zhdanov (2012) to devise a test that is based on the premise that, given the asymmetric profile of options' payoffs, the value of the option strictly increases in the volatility of the underlying asset. Thus, if a connected firm's real options portfolio contains more real options than that of a non-connected firm, then the value of the connected firm should increase (decrease) more than the value of the non-connected firm when volatility increases (decreases). Kim, Kim, Pantzalis, and Park (2015) show that, indeed, the stock returns of connected firms increase (decrease) more than those of non-connected firms when their stock return volatility increases (decreases).

replicate by bidding firms, then they should not command higher premiums in takeover deals.

To identify political connections through contributions to PACs, we begin with the four political contribution measures of Cooper, Gulen, and Ovtchinnikov (2010) plus a measure of the total contributions by a firm in a year. Nevertheless, to establish a stronger link between political contributions and M&A outcomes, we focus on political contributions to members of the specific congressional committee that oversee the industry the contributing firm operates in. In fact, these are the politicians who can introduce bills that will act favorably for firms they get support from.[4] This allows us to provide a more direct evidence of the effects of political contribution strategies for merger outcomes.[5]

We find strong support for the view that corporate political strategies are intangible-like assets that have a profound impact on M&A transactions. Using a sample of US listed firms over the period 1992-2012, we provide robust evidence of a significantly negative relation between political contributions and the propensity of receiving a takeover bid. In economic terms, being politically connected reduces the probability of receiving a takeover bid by 64.45%. 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.[6] Consistent with political connections representing a hard-to-value intangible-like

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[4] 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?...].

[5] In a robustness analysis, we also use the political contribution variables of Cooper, Gulen, and Ovtchinnikov (2010). The results remain unchanged.

[6] We perform two tests to alleviate endogeneity concerns. First, we use a conditional logit estimation (Bena and Li, 2014) where we estimate the likelihood for each firm relative to a matched group of firms by firm and industry characteristics. Second, we also conduct analysis on a quasi-natural experiment associated with the

asset that can complicate deals, we also provide clear evidence that political contributions delay the M&A process increasing the time to resolution. This effect is economically significant as well: we estimate that a one standard deviation increase in a firm's PAC contributions to politicians in excess of what firms of similar size typically contribute, leads, on average, to about 6.14 days extension in time to resolution. Moreover, we find a significantly positive association between political contributions and target firm takeover premium. This effect is completely reversed when the bidder already has corporate political strategies in place that are similar to those of the target firm. This finding is consistent with the notion that target firms' connections established via PAC contributions can act as facilitators of valuable real options for which the bidder is willing to pay a higher premium, provided that the bidder lacks the managerial flexibility emanating from political connections. Finally, we find similar results when we examine target firms that engage into lobbying, an alternative corporate political strategy.

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 more likely to place bids and does not overpay for takeovers. 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, it lends support to the viewpoint that corporate political strategies have intangible assets-like properties, with implications on the takeover process

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introduction of the Bipartisan Campaign Reform Act. We also exploit the Abramoff's scandal as an exogenous shock on lobbying expenditures.

and firm valuation that in turn affect the receipt of a bid, time to resolution, and takeover premium received. Our results support the view of PAC contributions-based and lobbying-based connections as real options whose value relevance is exacerbated in the absence of similar corporate political strategies pursued by the bidder. Finally, our study utilizes the paradigm of the market for corporate control to assess valuation implications of political connections regarding the value added by being active as well as the complexity in the process of valuing firms with political connections.

Our paper is related to several prior studies. Fisman (2001), Faccio (2006), and Faccio, Masulis, and McConnell (2006) present explicit relations between political connectedness and firm value. 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) examine the impact of corporate political contributions on the cross-section of stock returns. We investigate their effects on several outcomes in a corporate event setting. Finally, Hill, Kelly, Lockhart, and Van Ness (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 2 develops our hypotheses. Section 3 describes our sample, the measures of political contributions, and the variables used in the empirical analysis. Section 4 examines the effects of political contributions on the probability of takeover bids, time to resolution, and takeover premium. Moreover, it examines the impact of lobbying on takeover outcomes. The effects of bidder's corporate political strategies on M&A outcomes are presented in section 5. Finally, section 6 concludes the paper.

2.   Hypotheses development

Corporate political strategies can be regarded as having properties similar to those of intangible assets. In particular, they do not possess the observable physical substance of, say, property, plant and equipment; furthermore, firms with corporate political strategies seem to share some characteristics with traditional intangibles-heavy firms in terms of the information asymmetry properties common to proprietary knowledge-based intangibles such as R&D.[7] Moreover, political connections have been shown to increase firm-specific performance heterogeneity and accentuate the value-relevance of firms' portfolio of real options (Kim, Kim, Pantzalis, and Park, 2015).[8] Thus, it seems that political connections

[7] For instance, Kim, Kim, Pantzalis, and Park (2015) provide evidence that corporate political strategies are positively associated with firm's idiosyncratic risk (i.e., a standard measure of information asymmetry).

[8] Chun, Kim, and Morck (2011) show that firm heterogeneity, reflected in firm-specific volatility, rises as new general purpose technologies (GPT) propagate across firms and industries at different speeds with firms that are successful adopters accumulating quasi-rents and outperforming unsuccessful adopters, as in Schumpeter's (1912) creative destruction. Kim, Kim, Pantzalis, and Park (2015) argue that the propagation of corporate political strategies, although lacking the long-run productivity and industry-wide growth enhancement properties of GPTs, can also be – much like GPTs – associated with uncertain productivity gains and costs, depending on whether or not firms are able to use such strategies efficiently. The extraordinary growth of corporate lobbying and other forms of corporate political participation over the past few decades can be viewed as the result of a path-dependent learning process (see Drutman, 2011). Companies may initially be reluctant to become politically active, but once they start doing so they can gain more confidence in their ability to not just protect themselves from government actions but also expand their growth opportunities in business environments increasingly affected by political uncertainty. Firms that become more adept at dealing with political uncertainty recognize that political participation has the potential to influence outcomes and thereby generate value. Kim, Kim, Pantzalis, and Park (2015) show empirically that politically connected firms possess more value-relevant real options than non-connected firms and that this effect is rooted in the fact that

can enhance managerial flexibility, which in turn allows real options to emerge as potential drivers of competitive advantages. Consequently, corporate political strategies can be critical to a firm's growth opportunities, long-term success or failure and thus potentially have a large impact on firm valuation. As a result, connections' are also of importance in the setting of M&As where target firms that are politically active may be viewed as in possession of an intangible-like asset that may be hard to transfer and assign a value to. Essentially, political ties can on average be beneficial for target firms, but their continued effective utilization by the merged firm is by no means certain, but rather a function of various factors that can affect the status of current target management in the new firm and the make-up of the new firm's corporate political strategy.

We argue that political connections play a crucial role in the takeover process. For example, PAC contributions-based connections 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. 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. 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. [9],[10]

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connected firms are in a better position to exploit the extra managerial flexibility that comes with being connected.

[9] 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 DirecTV 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

Additionally, as suggested by Dinc and 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.[11] 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.

Lobbying, an alternative corporate political strategy, has also been shown to be beneficial for firms (e.g., see Hill, Kelly, Lockhart, and Van Ness, 2013).[12] In contrast to PAC contributions though, lobbying expenses are not subject to strict limits and are channelled to politicians through intermediaries (lobbying by outside law firms) or through "in house" entities (corporate lobbying divisions/departments).[13] From the perspective of a

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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….].

[10] 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.

[11] 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 87.69% of all deals), implying that economic nationalism is just one possible motivation behind political intervention and cannot solely explain our findings.

[12] A recent example involves lobbying firms facing increased likelihood of receiving stimulus funds when in distress (Adelino and Dinc, 2014).

[13] 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),

bidder, lobbying – just like PAC contributions – 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. Thus, we posit that lobbying can also be regarded as an intangible-like asset which can potentially complicate the assessment of target firm value reducing bid probability and delaying deal completion. In addition, target firms' lobbying activities may be attractive to potential bidders lacking the type of ties with politicians provided by lobbying, which would justify a higher takeover premium.

In sum, we argue that in the takeover process, target firm connectedness is an intangible-like asset whose value-impact on the new corporate entity that could emerge from the takeover can be hard to assess by 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 threatening them with the loss of contracts, as well as with the potential of new tariffs and regulations. Therefore, we predict that *politically connected firms through PAC contributions and lobbying activities should be less likely to receive a bid.* Additionally, conditional on bid receipt, *target firm PAC contributions and lobbying should be associated with longer time to resolution of the takeover deal.*

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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).

Under an alternative hypothesis, it could be argued that, given the public's awareness about contributions to PACs and lobbying expenditures, these political connections are not intangible-like assets that are hard to evaluate from a bidder's perspective and an efficient market should be able to price their value in a relatively easy manner. Thus, *firms with PAC contributions should not have a lower probability of receiving a bid.* Moreover, conditional on bid receipt, *PAC contributions and lobbying should not be associated with longer time to resolution of the takeover deal.*

In addition, as discussed before, political connections are formed over time as firms slowly learn to manage their corporate political strategies. Both PAC contributions-based and lobbying–based connections can be regarded as strategies that are outcomes of path-dependent learning processes (Drutman, 2011) that can facilitate future growth opportunities, by providing firms with the kind of managerial flexibility that makes real options more valuable. Whether in the context of M&A deals the above effect would translate into a higher premium offered for the target depends on the bidder's ability and need to successfully integrate these strategies in the merged firm. On the one hand, if target firm political connections are based on political expertise that is difficult for the bidding firm to independently replicate after the M&A deal, it is likely that bidders would offer a higher premium. Therefore, we hypothesize that *target firms' PACs contributions- and lobbying-based political connections can be regarded as facilitators of valuable growth options that cannot be easily exploited without such connections and therefore should command a higher premium by bidding firms.*

On the other hand, if target firm corporate political strategies are based on know-how about political involvement that the bidder already has, then they could easily be replicated by the acquiring firm after the M&A deal. Therefore, the additional hypothesis in this case is that *target firms' PACs contributions and lobbying-based political connections that can*

be easily replicated by the acquiring firm should not be associated with a higher takeover premium.

3. Data, measures of political contributions and variable definitions

3.1. 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 2010. 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, 2011 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.[14] To be included in the acquisition sample, the bidder must seek to purchase more than 50% of the target firm's equity.[15] These steps produce an acquisition sample of 4,396 deals, which overlaps with the COMPUSTAT/CRSP sample.

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[14] Our results are qualitatively similar when using domestic acquisitions only.
[15] If the firm receives multiple bids during a given year, the first deal is considered in our analysis.

We devise measures of corporate political strategies based on corporate contributions to US political campaigns. Following Cooper, Gulen, and Ovtchinnikov (2010), we extract the corporate contributions data from the Federal Election Commission (FEC) summary files on political contributions to House and Senate election campaigns. General elections are held every two years in the United States and thus new party alignment for each state emerges from each election.[16] 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 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 include 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

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[16] Political contributions were not allowed to be funded from the corporate treasury, but only through PACs to which firm directors, employees, and their families could 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). 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".

and political alignment for 109,648 firm-year observations (4,396 target firm-years and 105,252 non-target firm-year observations). Appendix A provides a detailed description of how all variables are constructed and the sources of information used.

3.2. Measures of political contributions

We construct five measures of corporate political contributions for politicians who serve on committees that oversee the industries contributing firms operate in:[17] 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.

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

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. Candidate *j* is an elected member of a committee that oversees the firm's industry.

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.

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

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

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[17] We have also repeated the tests found in this paper using the exact Cooper, Gulen, and Ovtchinnikov's (2010) measures of political contributions, which are based on a broader definition of connections that considers any PAC-based link between corporations and politicians as opposed to our measure that is restricted to corporate ties to politicians serving on committees that oversee the industries contributing firms operate in. The results we obtained from the broader measures are qualitatively similar to the ones reported here and are available from the authors upon request.

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.

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

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 is elected.

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

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

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.

$$PI_{it}^{contributions\_raw} = \sum_{j=1}^{J} Contribution_{jt,t-5}, \tag{5}$$

where *Contribution$_{jt,t-5}$* is the contributed money to candidate *j* over the years *t*-5 to *t*. Table 1 shows that firms in our sample support, on average, about 1 candidate 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 27.06 candidate-months. For the ability index, home candidates provide the firm with the total support of 0.11 (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,

0.75 candidate-committee-rank units. Finally, the mean of the total political contributions made by the firms in our sample is \$849. Appendix B presents the mean values of 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 ***

Additionally, we observe that firms that are engaged in political contributions tend to be particularly large. In fact, the average *market value* of assets for firms that make (do not make) political contributions is \$14.1bn (\$1.41bn). [18] To ensure that our political contribution variables are independent of firm size, we use size-orthogonal measures in the regressions analysis. For instance, $PI^{candidates}$ is the residual value from the yearly regression of Ln($PI^{candidates\_raw}$+1) on Ln(*market value*+1). We apply this procedure for all other political contribution variables.[19]

3.3. 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 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 A. To proxy for firm size we use the *market value* of firm's assets. Firms with lower, on average, market capitalization, are more likely to receive a bid (Palepu, 1986; Ambrose and Megginson,

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[18] The difference is statistically significant at the 1% level.
[19] Our results are generally consistent when using the raw measures of political contributions.

1992). Additionally, Alexandridis, Fuller, Terhaar, and Travlos (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, Hirshleifer, Richardson and Teoh (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) 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.

3.4. Summary statistics

Table 1, Panel B shows that our sample firms have a mean market value of $1.95 billion. The mean for the book-to-market ratio is less than one, implying that the average firm in our sample has high growth opportunities.[20] Mean firm debt and cash reserves account for 20% and 18%, respectively, of the total assets, and average cash flows represent the 24% 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.

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 (5.64% of the total). Further, only 5.32% of the takeover bids involve a competing bidder, whereas US bidders account for the lion share of the overall takeover activity (87.69%). The average relative size is 0.32 and the mean time to resolution is 132 days. Finally, over our sample period, the average takeover premium paid is approximately 46%.

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[20] Alternatively, a book-to-market value that is significantly lower than one can indicate overvaluation (Dong, Hirshleifer, Richardson, and Teoh, 2006).

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 contribution 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 ***

4. Empirical findings

4.1. Probability of receiving a bid

We start our empirical tests by examining whether political connections can affect the probability 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 105,054 firm-year observations involving non-politically connected firms, 4,310 (4.10%) involve firms that received a bid. The probability decreases to 1.87% (86/4,594) for those firms that are politically connected, which represents a 54.37% (i.e., (1.87% − 4.10%)/4.10%) 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 64.45%. 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 ***

4.2. 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, industry and state fixed effects whose coefficients are suppressed for the sake of brevity. 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). 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 in our sample. Overall, the results shown in Table 4 are consistent with the notion that ties with politicians established via PAC donations, much like hard-to-value intangible assets do, can affect takeovers, ultimately deterring takeover bids.[21]

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

4.3. Endogeneity

4.3.1. Conditional logit estimation

The relation uncovered in the previous section could potentially be affected by endogeneity issues. 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.[22] For each target, five pseudo target firms from the same Fama-French 49 industry are matched by market value, B/M, and one-year previous stock return using a propensity score-matching method. In the conditional logit regression, the control variables at firm and industry level are the same as the ones used in Table 4.[23] The models also include a fixed effect for each target and its matching firms, i.e., a deal fixed effect.

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[21] 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.

[22] 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 Greene, 2004).

[23] 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.

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 the 1% level.[24] Thus, PAC donations reduce the probability of receiving a bid even after performing a conditional logit analysis.

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

4.3.2. Quasi-natural experiment: The Bipartisan Campaign Reform Act (BCRA)

A major regulatory change that could potentially have 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. Although BCRA increased the contribution limits for individuals giving "hard money" to federal candidates and political parties through PAC contributions, the 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.

Assuming that the Bipartisan Campaign Reform Act of 2002 was successful in reducing the role of soft money in political campaigns, and to the extent that in our tests the impact of PAC contributions prior to BCRA was amplified by unobservable associated soft money flows to politicians, we expect to observe a decrease in the effect of PAC donations post-BCRA. Therefore, we interpret the BCRA as an exogenous negative 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. Table 6 presents the results. We

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

find that firm contributions to PACs are negatively associated with the probability of receiving a bid at the 1% significance level for all five PAC contribution measures. Further, the effect of political contributions on the takeover process decreased after the introduction of the BCRA, while the interaction coefficients of treated PAC contributions variables with post-BCRA period are all positive and significant at better than the 5% significance level; this is consistent with the view that in the absence of soft money the role of political contributions as an intangible-type asset which can affect takeovers, ultimately deterring takeover bids, has diminished.

Overall, the results of this analysis of an exogenous shock on firms' political strategies provide further support for the notion that the hard-to-value intangible-like nature of target firms' political contributions can complicate M&As and thereby discourage potential bidders to place a bid.

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

4.4. Time to resolution

In previous sections we showed 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. On the contrary, the alternative view of connections as assets that are not hard to value predicts that target firm connections should not be associated with a longer time to resolution. We test these two competing hypotheses and report the results in Table 7.

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 contribution variables would constitute further evidence in favor of the view that PAC contributions-based political connections in the context of takeovers can often act as an intangible-like asset that 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 four out of five specifications, the coefficients on the *PI* variables are positive and significantly different from zero at better than the 5% significance level. The estimates are also economically meaningful. Specifically, a one standard deviation increase in the residual PAC contribution (i.e., *PI^contributions*) from no contribution is associated with 6.14 days extension in time to resolution (=1.7807*3.4487) indicating that target firms with PAC contributions are related with longer bid duration. This finding is economically meaningful since it is based on size-orthogonal measures, i.e. it captures the effect relative to other firms of similar size.[25] We repeat the analysis for the completed bids sub-sample (not

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[25] Results (not tabulated here) using the raw values of contribution show that the extension in time to resolution becomes 31 days (=3.6063*Ln(1+5,031)).

reported for brevity). The coefficients on the political contribution variables remain positive and statistically significant at conventional levels.[26]

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 a hard-to-value intangible-like asset.

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

4.5. Do bidders pay a takeover premium for political expertise?

The results from the tests presented in the previous sections suggest that political connectedness, much like an intangible asset, should complicate the takeover process. In this section, we examine the effect of target firm's PACs contributions on takeover premium.

We argue that the proliferation of corporate political strategies across industries over the past few decades can also be associated – much like general purpose technologies (see Chun, Kim, and Morck, 2011) – with uncertain productivity gains and costs, depending on whether or not firms are able to use such strategies efficiently. Thus, corporate political strategies may add to firm heterogeneity within (and probably across) industries and thus can have a role in the "creative destruction" that industries experience (Schumpeter, 1912). In line with this view, Kim, Kim, Pantzalis, and Park (2015) find that firms with connections have on average more idiosyncratic risk and more valuable real options. In addition, since corporate political participation seems to follow a path-dependent learning process (Drutman, 2011), firms that initially may have viewed corporate political strategies

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

as a mere means to manage political risk, eventually become more adept at dealing with political uncertainty by using connections to influence outcomes, thereby generating valuable growth opportunities (i.e., value). If this is indeed the case, then the added managerial flexibility from political connections should render the portfolio of target firms' real options more valuable, and should be reflected in higher takeover premium, especially in cases where the bidder does not have much political expertise. In contrast, we posit that from the perspective of a bidder, whose corporate political strategy mirrors that of a potential target firm, there should be no additional benefits associated with the acquisition of the target firm's connections. Therefore, the takeover premium should not be affected by the target firm's connections.

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 4 weeks prior to the acquisition announcement divided by the latter.[27] Values beyond the range of [0, 2] are winsorized, following Officer (2003). We incorporate the same control variables as in previous analysis. We create a dummy variable (*bidder's PI indicator)* that takes the value of one if the *bidder's PI* is greater than 0, and zero otherwise. This variable essentially captures the instances where the target and bidder political strategies are quite similar. We then interact the *bidder's PI indicator* with the *PI* variables to see whether target firm political connections' effect on takeover premium tends to be reduced when the bidding firm has the ability to independently implement similar political strategies.

Table 8 presents the results. We find that in the absence of bidder political expertise all political contribution variables have positive coefficients that are significant at conventional levels in four out of five cases (i.e., $PI^{candidates}$, $PI^{strength}$, PI^{power}, and $PI^{contributions}$,

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[27] For robustness reasons, we have also used the 1-week premium as our dependent variable. Our results are similar.

with the exception of $PI^{ability}$). This result is in line with the notion that the value of the real options portfolio associated with the managerial flexibility provided by corporate political strategies is, on average, large enough to warrant a significant takeover premium. However, consistent with our expectation, all of the estimated coefficients on the interacted terms in Table 8 are negative and their magnitude is almost identical with the corresponding *PI* variables; moreover, the same four out of five corresponding interaction terms' coefficients are statistically significant at conventional levels. This result is in line with our expectations and consistent with the view that bidders with political expertise that mirrors that of the target do not pay a higher premium for target firm's political strategies. Finally, we find that average connected bidders do not overpay when they place a bid, as *bidder's PI indicator* is statistically insignificant at conventional levels in all five models.

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

4.6. 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 managers often make use of lobbying channels to get benefits for their firms from politicians (Hill, Kelly, Lockhart, and Van Ness, 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, Kelly, Lockhart, and Van Ness (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.

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In Table 9 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.[28] Panels A through C provide some univariate evidence. On average, firms in our sample incur $62,835 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. Interestingly, we find that firms that become takeover targets spend, on average, $49,879 on lobbying expenditures, whereas non-target firms spend, on average, $63,362. 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 9, we find that among 60,052 firm-year observations involving non-lobbying firms 2,403 (4%) involve firms that received a bid. The probability decreases to 3.21% (257/8,016) for those firms that lobby, which represents a 19.88% ((3.21% − 4.00%)/4.00%) 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 23.46%.

Panel D of Table 9 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 with coefficients that are statistically significant at the 1% level. Thus, this evidence is consistent with the notion that target firm lobbying activities can complicate deals effectively acting as a restraint

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[28] In the regressions, *lobbying expenditures* is the firm size-orthogonal measure.

against a takeover. Moreover, the result from the regression shown in column (3) of Panel D indicates that target lobbying expenditures, just like PAC contributions, have an impact on takeover premium. Specifically, the results show that a target firm with lobbying activities warrants a higher premium, except for the cases when the bidder is also actively lobbying. These findings are in line with the PAC-based connections results obtained in Table 8, and support the notion that bidders with political expertise are less likely to pay a higher premium for target firms with similar corporate political strategies.

In sum, the evidence in Table 9 highlights the similarities between target firms' lobbying and PAC contributions in terms of their impact on the takeover process and valuation effects.

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

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 (the results of this analysis are not reported for the sake of brevity but are available from the authors upon request). 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).[29] Firms that lobby are considered treated, while firms without lobbying activities represent the control group in

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[29] 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.

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.

5.   Bidder's corporate political strategies

We have argued and provided empirical evidence 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. [30] 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. Recall that we have already shown in Table 8 that an average connected bidder does not overpay when placing a takeover bid (in fact, bidders pay a lower premium when they have the ability to independently implement similar to the target firm political strategies). Alternatively, the mere existence of political connections would increase the uncertainty about bidding firm value thereby complicating the takeover process.

Table 10, columns (1) and (2), 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

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[30] 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/).

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). We repeat the analysis for lobbying expenditures in columns (3) and (4) and find similar results.

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

6. Conclusions

In this paper we argue that corporate political strategies can be regarded as hard-to-value 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 and, if so, they are involved in a longer period of negotiations from the announcement until the time to resolution of the deal. Additionally, we find that target firms with PAC contributions-based political connections command a higher takeover premium from bidders that do not pursue similar political strategies, consistent with the notion that such connections render target firms' portfolios of real options more valuable. In contrast, we do not find a similar premium effect if bidders already possess similar political expertise with the prospective target, indicating that political connections are not valuable from the perspective of an acquiring firm that has the ability to easily replicate them "in house." We confirm all PAC contributions-based findings using an alternative target firm political strategy, namely, lobbying.

Our findings have important implications for academics, practitioners and policy makers. 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. Our results 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 in terms of attracting a high premium from firms lacking political experience. 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.

This table provides descriptive statistics for the sample of 109,648 firm-year observations over the period, 1992 to 2011. Refer to Appendix A for detailed variable descriptions.

	N	Mean	Std. Dev.	Minimum	Median	Maximum
			Panel A: Political contributions			
$PI_{candidates\_raw}$	109,648	0.8244	4.8736	0.0000	0.0000	35.0000
$PI_{strength\_raw}$	109,648	27.0609	172	0.0000	0.0000	1,267
$PI_{ability\_raw}$	109,648	0.1096	0.6988	0.0000	0.0000	5.0988
PI_{power_raw}	109,648	0.7452	4.6533	0.0000	0.0000	33.7860
$PI_{contributions\_raw}$	109,648	849	5,031	0.0000	0.0000	36,120
$PI_{candidates}$	109,648	0.0000	0.5344	-0.7664	-0.0791	3.5749
$PI_{strength}$	109,648	0.0000	1.0923	-1.4902	-0.1618	6.8934
$PI_{ability}$	109,648	0.0000	0.2502	-0.2637	-0.0341	1.8501
PI_{power}	109,648	0.0000	0.5099	-0.7915	-0.0626	3.5512
$PI_{contributions}$	109,648	0.0000	1.7807	-2.6117	-0.2855	10.4371
			Panel B: Firm characteristics			
Market value	109,648	1,950	6,101	0.7673	186	43,616
Equity value	109,648	1,323	4,011	0.3250	130	27,305
B/M	109,648	0.7143	0.7134	0.0186	0.5290	4.7282
Leverage	109,648	0.2011	0.1936	0.0000	0.1572	0.9848
Cash flows	109,648	0.2381	34.6687	-690	0.0560	6,569
Cash reserves	109,648	0.1829	0.2450	-0.5317	0.0802	7.9991
Sales growth	109,648	0.2743	0.9458	-0.9860	0.0925	7.5347
Net loss	109,648	0.3295	0.4700	0.0000	0.0000	1.0000
			Panel C: Bid characteristics			
Diversifying deal	4,396	0.3399	0.4737	0.0000	0.0000	1.0000
Stock payment	4,396	0.3806	0.4856	0.0000	0.0000	1.0000
Tender offer	4,395	0.1836	0.3872	0.0000	0.0000	1.0000
Hostile deal	4,395	0.0564	0.2308	0.0000	0.0000	1.0000
Competing deal	4,396	0.0532	0.2245	0.0000	0.0000	1.0000
US bidder	4,396	0.8769	0.3286	0.0000	1.0000	1.0000
Relative deal size	3,634	0.3222	0.4402	0.0010	0.1550	2.5501
Time to resolution	4,308	132	86.2929	5.0000	114	505
Takeover premium	4,028	0.4587	0.3767	0.0000	0.3669	2.0000
			Panel D: M&A market characteristics			
Industry M&A liquidity	109,510	0.0548	0.1256	0.0000	0.0108	0.8799
Herfindahl index	109,510	0.1713	0.1522	0.0142	0.1208	1.0000

Table 2

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

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 A for detailed variable descriptions. *** and ** indicate significance at the 1% and 5% levels, respectively.

	(1) Targets	(2) No targets	(2) – (1)
N	4,396	105,252	
Panel A: Political contributions			
$PI_{candidates\_raw}$	0.3965	0.8422	0.4457***
$PI_{strength\_raw}$	13.1963	27.6400	14.4437***
$PI_{ability\_raw}$	0.0582	0.1117	0.0535***
PI_{power_raw}	0.3567	0.7615	0.4048***
$PI_{contributions\_raw}$	412	867	455***
Panel B: Firm characteristics			
Market value	1,506	1,968	462***
Equity value	980	1,338	358***
B/M	0.6842	0.7156	0.0314***
Leverage	0.1905	0.2015	0.0110***
Cash flows	0.0095	0.2476	0.2381**
Cash reserves	0.1826	0.1829	0.0002
Sales growth	0.2791	0.2741	-0.0049
Net loss	0.3069	0.3304	0.0235***

Table 3

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

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 the value of 1 if the firm presents non-zero values in any of the political contribution variables ($PI^{candidates\_raw}$, $PI^{strength\_raw}$, $PI^{ability\_raw}$, PI^{power_raw}, and $PI^{contributions\_raw}$) and 0 otherwise. Refer to Appendix A for detailed variable descriptions.

Panel A: Univariate test of receiving a bid		
	(1) Firms with political connections	(2) Firms with no political connections
Target	86	4,310
No target	4,508	100,744
Total	4,594	105,054
Probability of receiving a bid	1.87%	4.10%
% change [(1)-(2)]/(2)	-54.37%	
Panel B: Multivariate test of receiving a bid		
	(1) Firms with political connections	(2) Firms with no political connections
Probability of receiving a bid	1.23%	3.46%
% change [(1)-(2)]/(2)	-64.45%	

Table 4

Probability of receiving a bid.

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. Political contribution variables are the firm size-orthogonal measures. Refer to Appendix A for detailed variable descriptions. Year, industry, and state fixed effects, whose coefficients are suppressed, are based on calendar year dummies, Fama-French 49 industry classification dummies, and state 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.

	Dependent variable = *Receiving a bid*				
	(1)	(2)	(3)	(4)	(5)
$PI_{candidates}$	-0.1406***				
	(-7.42)				
$PI_{strength}$		-0.0673***			
		(-7.39)			
$PI_{ability}$			-0.2189***		
			(-5.75)		
PI_{power}				-0.1294***	
				(-6.79)	
$PI_{contributions}$					-0.0449***
					(-8.31)
Market value	0.0144***	0.0144***	0.0155***	0.0149***	0.0141***
	(3.59)	(3.62)	(3.94)	(3.77)	(3.54)
B/M	0.0299***	0.0296***	0.0282***	0.0291***	0.0299***
	(2.74)	(2.72)	(2.59)	(2.67)	(2.74)
Leverage	-0.0199	-0.0204	-0.0180	-0.0190	-0.0207
	(-0.45)	(-0.46)	(-0.41)	(-0.43)	(-0.47)
Cash flows	-0.0005**	-0.0005**	-0.0005**	-0.0005**	-0.0005**
	(-2.11)	(-2.12)	(-2.08)	(-2.09)	(-2.11)
Cash reserves	-0.0238	-0.0254	-0.0261	-0.0263	-0.0263
	(-0.65)	(-0.69)	(-0.73)	(-0.72)	(-0.72)
Sales growth	-0.0215***	-0.0214***	-0.0206***	-0.0211***	-0.0217***
	(-2.76)	(-2.75)	(-2.65)	(-2.71)	(-2.77)
Net loss	-0.0151	-0.0152	-0.0163	-0.0165	-0.0151
	(-0.84)	(-0.85)	(-0.91)	(-0.92)	(-0.84)
Industry M&A liquidity	0.6558***	0.6557***	0.6566***	0.6578***	0.6559***
	(13.75)	(13.75)	(13.77)	(13.80)	(13.75)
Herfindahl index	-0.3043***	-0.3040***	-0.3056***	-0.3023***	-0.3042***
	(-4.52)	(-4.52)	(-4.55)	(-4.50)	(-4.52)
Constant	-2.7990***	-2.7993***	-2.8144***	-2.8021***	-2.7978***
	(-8.00)	(-8.00)	(-8.04)	(-8.00)	(-8.01)
Year-fixed	Yes	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes	Yes
N	109,510	109,510	109,510	109,510	109,510
Pseudo R-squared	0.0433	0.0432	0.0425	0.0429	0.0436

Table 5

Probability of receiving a bid: A matching-firm approach.

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. Political contribution variables are the firm size-orthogonal measures. The control variables are the same as the ones used in Table 4. Refer to Appendix A for detailed variable descriptions. We also include a fixed effect for each bidder and its control target firms, i.e., a deal fixed effect. 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.

	Dependent variable = *Receiving a bid*				
	(1)	(2)	(3)	(4)	(5)
$PI_{candidates}$	-0.4055***				
	(-7.48)				
$PI_{strength}$		-0.2015***			
		(-7.61)			
$PI_{ability}$			-0.4842***		
			(-5.52)		
PI_{power}				-0.3801***	
				(-7.03)	
$PI_{contributions}$					-0.1436***
					(-8.52)
Control variables	Yes	Yes	Yes	Yes	Yes
Deal-fixed	Yes	Yes	Yes	Yes	Yes
N	23,834	23,834	23,834	23,834	23,834
Pseudo R-squared	0.0538	0.0538	0.0509	0.0528	0.0552

Table 6

Difference-in-difference test with Bipartisan Campaign Reform Act (BCRA).

This table reports the difference-in-difference test results. The dependent variable, *Target*, is an indicator that takes the value of 1 if a bid is made for the firm and 0 otherwise. *Treat (PI)* = a dummy variable that takes the value of 1 if the PI^{raw} is greater than 0, where PI^{raw} = one of the five political contribution variables: 1) $PI^{candidates\_raw}$, 2) $PI^{strength\_raw}$, 3) $PI^{ability\_raw}$, 4) PI^{power_raw}, and 5) $PI^{contributions\_raw}$. *Bipartisan* = a dummy variable that takes the value of 1 for the 5-year period (2003-2007) after the Bipartisan Campaign Reform Act became effective in 2002, and 0 for the 5-year period (1997-2001) before the BCRA became effective. The control variables are the same as the ones used in Table 4. Refer to Appendix A for detailed variable descriptions. Year, industry, and state fixed effects, whose coefficients are suppressed, are based on calendar year dummies, Fama-French 49 industry classification dummies, and state 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.

	(1)	(2)	(3)	(4)	(5)
Treat (PI^{candidates})	-0.0419***				
	(-7.69)				
Treat (PI^{strength})		-0.0441***			
		(-7.81)			
Treat (PI^{ability})			-0.0433***		
			(-7.04)		
Treat (PI^{power})				-0.0439***	
				(-7.63)	
Treat (PI^{contributions})					-0.0419***
					(-7.69)
Bipartisan	-0.0200***	-0.0199***	-0.0199***	-0.0197***	-0.0200***
	(-5.11)	(-5.08)	(-5.08)	(-5.05)	(-5.11)
Treat (PI^{candidates}) * Bipartisan	0.0141**				
	(2.20)				
Treat (PI^{strength}) * Bipartisan		0.0133**			
		(2.05)			
Treat (PI^{ability}) * Bipartisan			0.0208***		
			(2.64)		
Treat (PI^{power}) * Bipartisan				0.0191***	
				(2.72)	
Treat (PI^{contributions}) * Bipartisan					0.0141**
					(2.20)
Constant	-0.0207	-0.0204	-0.0136	-0.0176	-0.0207
	(-0.46)	(-0.45)	(-0.30)	(-0.39)	(-0.46)
Control variables	Yes	Yes	Yes	Yes	Yes
Year-fixed	Yes	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes	Yes
N	59,112	59,112	59,112	59,113	59,113
Pseudo R-squared	0.0153	0.0153	0.0150	0.0151	0.0153

Table 7

Time to resolution.

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. Political contribution variables are the firm size-orthogonal measures. Refer to Appendix A for detailed variable descriptions. Year, industry, and state fixed effects, whose coefficients are suppressed, are based on calendar year dummies, Fama-French 49 industry classification dummies, and state 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.

	Dependent variable = *Time to resolution*				
	(1)	(2)	(3)	(4)	(5)
$PI^{candidates}$	11.4351**				
	(2.37)				
$PI^{strength}$		6.5057***			
		(2.79)			
$PI^{ability}$			23.8079**		
			(2.46)		
PI^{power}				6.9682	
				(1.35)	
$PI^{contributions}$					3.4487**
					(2.34)
Market value	4.8479***	4.9039***	4.6905***	4.6598***	4.8754***
	(5.33)	(5.40)	(5.26)	(5.13)	(5.35)
B/M	2.5118	2.4658	2.4929	2.7085	2.5753
	(1.14)	(1.12)	(1.13)	(1.23)	(1.17)
Leverage	1.1288	1.2270	0.9795	1.0272	1.2554
	(0.14)	(0.15)	(0.12)	(0.13)	(0.16)
Cash flows	0.2037	0.2049	0.1837	0.1980	0.2138
	(0.21)	(0.21)	(0.19)	(0.20)	(0.22)
Cash reserves	-37.4382***	-37.3677***	-37.5993***	-37.0538***	-37.1887***
	(-5.56)	(-5.54)	(-5.58)	(-5.50)	(-5.53)
Sales growth	-1.4786	-1.4606	-1.5005	-1.5537	-1.4850
	(-1.04)	(-1.03)	(-1.06)	(-1.09)	(-1.05)
Net loss	8.6475***	8.6080***	8.6012***	8.7764***	8.7155***
	(2.90)	(2.89)	(2.88)	(2.94)	(2.92)
Diversifying deal	-1.5131	-1.4893	-1.4828	-1.5548	-1.5390
	(-0.61)	(-0.60)	(-0.60)	(-0.63)	(-0.62)
Stock payment	8.8578***	8.8489***	8.8920***	9.0158***	8.8503***
	(3.02)	(3.02)	(3.03)	(3.07)	(3.01)
Tender offer	-37.2031***	-37.2269***	-37.3422***	-37.2561***	-37.1768***
	(-11.76)	(-11.76)	(-11.82)	(-11.77)	(-11.75)
Hostile deal	-7.6191	-7.4256	-6.8757	-7.5537	-7.9050
	(-0.82)	(-0.80)	(-0.75)	(-0.82)	(-0.85)
Competing deal	16.4763*	16.3085*	16.6224*	16.4086*	16.2713*
	(1.87)	(1.85)	(1.89)	(1.85)	(1.84)
US bidder	0.0399	-0.0060	0.0288	0.0206	-0.0011
	(0.01)	(-0.00)	(0.01)	(0.01)	(-0.00)
Industry M&A liquidity	19.9815**	20.1129**	20.1485**	19.5520**	19.8552**
	(2.27)	(2.28)	(2.30)	(2.22)	(2.25)
Herfindahl index	-21.8395*	-21.8775*	-22.0855*	-22.2408*	-21.9896*
	(-1.92)	(-1.93)	(-1.95)	(-1.96)	(-1.94)
Constant	182.1221***	181.4720***	185.1665***	184.1694***	181.7153***
	(2.97)	(2.96)	(3.02)	(3.00)	(2.96)
Year-fixed	Yes	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes	Yes
N	4,171	4,171	4,171	4,171	4,171
R-squared	0.3161	0.3169	0.3163	0.3146	0.3161

Table 8

Takeover Premium.

This table reports the estimated coefficients of the regressions of takeover premium. The dependent variable, *Takeover premium*, is computed as the difference between the offer price and the target's stock price 4 weeks before the acquisition announcement divided by the latter. Target firms' political contribution variables are the firm size-orthogonal measures. *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 contribution variables. The control variables are the same as the ones used in Table 7. Refer to Appendix A for detailed variable descriptions. Industry and state fixed effects, whose coefficients are suppressed, are based on Fama-French 49 industry classification dummies and state 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.

	Dependent variable = *Takeover premium*				
	(1)	(2)	(3)	(4)	(5)
$PI^{candidates}$	0.0528**				
	(2.09)				
$PI^{strength}$		0.0252**			
		(2.06)			
$PI^{ability}$			0.0422		
			(1.11)		
PI^{power}				0.0859***	
				(3.30)	
$PI^{contributions}$					0.0163**
					(2.37)
Bidder's $PI^{candidates}$ *indicator*	0.0163				
	(0.91)				
Bidder's $PI^{strength}$ *indicator*		0.0221			
		(1.19)			
Bidder's $PI^{ability}$ *indicator*			0.0224		
			(1.09)		
Bidder's PI^{power} *indicator*				0.0194	
				(0.99)	
Bidder's $PI^{contributions}$ *indicator*					0.0160
					(0.90)
$PI^{candidates}$ * *Bidder's* $PI^{candidates}$ *indicator*	-0.0506*				
	(-1.83)				
$PI^{strength}$ * *Bidder's* $PI^{strength}$ *indicator*		-0.0225*			
		(-1.66)			
$PI^{ability}$ * *Bidder's* $PI^{ability}$ *indicator*			-0.0304		
			(-0.67)		
PI^{power} * *Bidder's* PI^{power} *indicator*				-0.0867***	
				(-2.97)	
$PI^{contributions}$ * *Bidder's* $PI^{contributions}$ *indicator*					-0.0163**
					(-2.07)
Constant	0.6021*	0.5983*	0.5934*	0.6021*	0.6020*
	(1.91)	(1.90)	(1.89)	(1.91)	(1.91)
Control variables	Yes	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes	Yes
N	3,297	3,297	3,297	3,297	3,297
R-squared	0.1242	0.1243	0.1233	0.1256	0.1244

Table 9

Lobbying expenditures and M&A transactions.

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 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 control 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 the firm size-orthogonal measure. *Bidder's lobbying indicator* = a dummy variable that takes the value of 1 if the bidder's lobbying expenditures are greater than 0. The control variables in column (1) are the same as the ones used in Tables 4, while the control variables in columns (2) and (3) are the same as the ones used in Table 7. Refer to Appendix A for detailed variable descriptions. Year, industry, and state fixed effects, whose coefficients are suppressed, are based on calendar year dummies, Fama-French 49 industry classification dummies, and state 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.

Panel A: Descriptive statistics of lobbying expenditures						
	N	Mean	Std. Dev.	Minimum	Median	Maximum
Lobbying expenditures^{raw}	68,068	$62,835	$283,290	$0	$0	$1,910,000
Lobbying expenditures	68,068	0.0000	3.6610	-6.3850	-0.9348	15.9087

Panel B: Comparisons of target lobbying expenditures		
(1) Targets	(2) No targets	(2) – (1)
$49,879	$63,362	$13,483***

Panel C.1: Univariate test of receiving a bid		
	(1) Firms with lobbying expenditures	(2) Firms with no lobbying expenditures
Target	257	2,403
No target	7,759	57,649
Total	8,016	60,052
Probability of receiving a bid	3.21%	4.00%
% change [(1)-(2)]/(2)]	-19.88%	

Panel C.2: Multivariate test of receiving a bid		
	(1) Firms with lobbying expenditures	(2) Firms with no lobbying expenditures
Probability of receiving a bid	2.61%	3.41%
% change [(1)-(2)]/(2)]	-23.46%	

Panel D: Regression analysis			
	Dependent variable = *Receiving a bid*	Dependent variable = *Time to Resolution*	Dependent variable = *Takeover premium*
	(1)	(2)	(4)
Lobbying expenditures	-0.0101***	1.5864***	0.0075**
	(-3.74)	(2.90)	(2.53)
Bidder's lobbying indicator			0.0012
			(0.06)
*Lobbying expenditures * Bidder's lobbying indicator*			-0.0084**
			(-2.05)
Constant	-2.3947***	106.0039*	0.2957
	(-4.91)	(1.81)	(1.64)
Control variables	Yes	Yes	Yes
Year-fixed	Yes	Yes	No
Industry-fixed	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes
N	67,957	2,524	2,422
Pseudo R-squared (R-squared)	0.0415	(0.3389)	(0.1471)

Table 10

Bidder's analysis.

This table provides the main regressions for bidding firms. Regressions (1) and (3) are the probit models to estimate the probability of placing a bid. Regressions (2) and (4) are used to estimate the time to resolution. *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 contribution variables. *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 A for detailed variable descriptions. Year, industry, and state fixed effects, whose coefficients are suppressed, are based on calendar year dummies, Fama-French 49 industry classification dummies, and state 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.

	Political contributions		Lobbying expenditures	
	Dependent variable = *Placing a bid*	Dependent variable = *Time to Resolution*	Dependent variable = *Placing a bid*	Dependent variable = *Time to Resolution*
	(1)	(2)	(4)	(5)
Bidder's PI indicator	0.1407***	11.3127*		
	(3.43)	(1.92)		
Bidder's lobbying indicator			0.0949***	10.6623**
			(2.96)	(2.07)
Bidder's market value	0.2197***	-1.1416	0.2224***	-2.8643**
	(33.99)	(-1.09)	(28.56)	(-2.33)
Bidder's B/M	-0.0183	0.3541	0.0011	-2.8268
	(-0.90)	(0.09)	(0.05)	(-0.70)
Bidder's leverage	-0.2618***	14.0344	-0.3171***	5.6458
	(-4.45)	(1.31)	(-4.33)	(0.45)
Bidder's cash flows	-0.0011***	-0.1694	-0.0013***	-1.0475
	(-3.25)	(-0.08)	(-3.00)	(-0.63)
Bidder's cash reserves	-0.0484	-12.2073**	-0.0577*	-8.0644*
	(-1.40)	(-2.57)	(-1.71)	(-1.74)
Bidder's sales growth	0.0173*	-1.4314	-0.0047	-0.2262
	(1.93)	(-0.79)	(-0.39)	(-0.11)
Bidder's net loss	-0.0689***	10.8943**	-0.0832***	1.6836
	(-2.84)	(2.30)	(-2.81)	(0.32)
Diversifying deal		-8.8168***		-8.4863**
		(-2.66)		(-2.03)
Stock payment		7.7455**		10.8376**
		(2.19)		(2.47)
Tender offer		-37.6682***		-36.9849***
		(-9.15)		(-7.59)
Hostile deal		-3.2361		13.1208
		(-0.30)		(0.88)
Competing deal		19.1440***		15.8357**
		(3.80)		(2.40)
Industry M&A liquidity	0.6274***	36.7305***	0.5616***	52.3121***
	(9.20)	(2.78)	(6.53)	(2.90)
Herfindahl index	-0.3476***	-15.7754	-0.2784**	-11.0604
	(-3.73)	(-1.33)	(-2.49)	(-0.85)
Constant	-6.6312***	185.9198***	-6.0600***	227.6219**
	(-14.15)	(2.66)	(-18.17)	(2.09)
Year-fixed	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes
N	111,114	3,109	73,005	1,934
R-squared (Pseudo R-squared)	(0.1446)	0.2546	(0.1478)	0.2826

Appendix A

Variable definitions.

Panel A: Political contributions and lobbying expenditures variables

$PI^{candidates\_raw}$

The number of candidates supported by the firm. $PI_{it}^{candidates\_raw} = \sum_{j=1}^{J} Candidate_{jt,t-5}$, 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, as in Cooper, Gulen, and Ovtchinnikov (2010). Candidate j is a member of a committee that oversees the firm's industry. The data are collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections.

$PI^{candidates}$

The orthogonal measure of $PI^{candidates\_raw}$, which is the residual value from the yearly regression of Ln($PI^{candidates\_raw}$+1) on Ln(*market value*+1).

$PI^{strength\_raw}$

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. $PI_{it}^{strength\_raw} = \sum_{j=1}^{J} Candidate_{jt,t-5} \times I_{jt} \times \frac{Vote_{jt}^{cand}}{Vote_{jt}^{opp}} \times Length_{jt,t-5}$, 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, as in Cooper, Gulen, and Ovtchinnikov (2010). Candidate j is a member of a committee that oversees the firm's industry. The data are collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections.

$PI^{strength}$

The orthogonal measure of $PI^{strength\_raw}$, which is the residual value from the yearly regression of Ln($PI^{strength\_raw}$+1) on Ln(*market value*+1).

$PI^{ability\_raw}$

The ability of the politicians to help the firm. It is measured by the home state of the firm and the candidate. $PI_{it}^{ability\_raw} = \sum_{j=1}^{J} Candidate_{jt,t-5}^{home} \times I_{jt} \times \frac{Vote_{jt}^{cand}}{Vote_{jt}^{opp}}$, 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, as in Cooper, Gulen, and Ovtchinnikov (2010). Candidate j is a member of a committee that oversees the firm's industry. The data are collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections.

$PI^{ability}$

The orthogonal measure of $PI^{ability\_raw}$, which is the residual value from the yearly regression of Ln($PI^{ability\_raw}$+1) on Ln(*market value*+1).

PI^{power_raw}

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

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

Committee $Committee\ rank_{mt}^{cand}$ 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, as in Cooper, Gulen, and Ovtchinnikov (2010) for details. Candidate j is a member of a committee that oversees the firm's industry. The data are collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections. PI^{power} = the orthogonal measure of PI^{power_raw}, which is the residual value from the yearly regression of Ln(PI^{power_raw}+1) on Ln(*market value*+1).

Appendix A

Variable definitions (*Cont'd*).

Panel A: Political contributions and lobbying expenditures variables (*Cont'd*)	
PI^{power}	The orthogonal measure of PI^{power_raw}, which is the residual value from the yearly regression of Ln(PI^{power_raw}+1) on Ln(*market value*+1).
$PI^{contributions\_raw}$	The total amount of contributions made by the firm. $PI_{it}^{contributions\_raw} = \sum_{j=1}^{J} Contribution_{jt,t-5}$, where $Contribution_{jt,t-5}$ is the contributed money to candidate j over the years t-5 to t. Candidate j is a member of a committee that oversees the firm's industry. The data are collected from the Federal Election Commission (FEC) summary files on political contributions to House and Senate elections.
$PI^{contributions}$	The orthogonal measure of $PI^{contributions\_raw}$, which is the residual value from the yearly regression of Ln($PI^{contributions\_raw}$+1) on Ln(*market value*+1).
Lobbying expenditures ^{raw}	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.
Lobbying expenditures	The orthogonal measure of *Lobbying expenditures* ^{raw}, which is the residual value from the yearly regression of Ln(*Lobbying expenditures* ^{raw}+1) on Ln(*market value*+1).
Panel B: Dependent Variables	
Receiving a bid	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.
Time to resolution	The number of days between the acquisition announcement and resolution (completion or withdrawal) both as reported by Thomson Financial SDC
Takeover premium	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 4 weeks before the acquisition announcement divided by the latter.
Panel C: Firm characteristics	
Market value	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.
Equity value	Market value of equity at the fiscal year-end from COMPUSTAT.
B/M	Book value of equity divided by market value of equity at the fiscal year-end from COMPUSTAT.
Leverage	Total debt (long-term debt + debt in current liabilities) divided by total assets at the fiscal year-end from COMPUSTAT.
Cash flows	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.
Cash reserves	Cash and short-term investments divided by total assets at the fiscal year-end from COMPUSTAT.
Sales growth	Current fiscal year sales minus sales in the previous fiscal year divided by sales in the previous fiscal year from COMPUSTAT.
Net loss	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.

Appendix A

Variable definitions (*Cont'd*).

Panel D: Bid characteristics	
Diversifying deal	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.
Stock payment	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.
Tender offer	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.
Hostile deal	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.
Competing deal	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.
US bidder	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.
Panel E: M&A market characteristics	
Industry M&A liquidity	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.
Herfindahl index	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.

Appendix B

Political contributions and lobbying expenditures by industry.

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

Code	Fama-French 49 industries	$PI^{candidates}$	$PI^{strength}$	$PI^{ability}$	PI^{power}	$PI^{contributions}$	Lobbying expenditures
1	Agriculture	0.9913	24.1996	0.1186	0.9751	1,011	63,918
2	Food products	0.4586	20.1052	0.0119	0.8823	662	92,826
3	Candy and soda	0.5306	18.1773	0.0000	0.9340	892	54,574
4	Beer and liquor	2.6474	167	0.1039	4.6219	3,615	360,354
5	Tobacco products	5.7733	313	0.5534	10.3320	8,633	1,042,032
6	Recreation	0.0000	0.0000	0.0000	0.0000	0.0000	16,081
7	Entertainment	0.0000	0.0000	0.0000	0.0000	0.0000	21,141
8	Printing and publishing	0.0000	0.0000	0.0000	0.0000	0.0000	44,119
9	Consumer goods	0.0000	0.0000	0.0000	0.0000	0.0000	59,296
10	Apparel	0.0000	0.0000	0.0000	0.0000	0.0000	7,332
11	Healthcare	0.1880	4.9225	0.0140	0.3426	338	57,019
12	Medical equipment	0.2281	7.1216	0.0132	0.4437	268	45,583
13	Pharmaceutical products	0.6242	26.3281	0.0117	0.8473	730	115,121
14	Chemicals	0.0000	0.0000	0.0000	0.0000	0.0000	110,173
15	Rubber and plastic products	0.0000	0.0000	0.0000	0.0000	0.0000	13,911
16	Textiles	0.0000	0.0000	0.0000	0.0000	0.0000	24,255
17	Construction materials	0.5566	16.8918	0.1015	0.3635	539	28,407
18	Construction	0.4807	14.0447	0.0989	0.4791	534	25,757
19	Steel works	0.0000	0.0000	0.0000	0.0000	0.0000	57,884
20	Fabricated products	0.0000	0.0000	0.0000	0.0000	0.0000	375
21	Machinery	0.0000	0.0000	0.0000	0.0000	0.0000	46,899
22	Electrical equipment	0.0000	0.0000	0.0000	0.0000	0.0000	37,717
23	Automobiles and trucks	2.0293	69.2442	0.3072	1.6512	1,965	109,620
24	Aircraft	5.7553	194	0.2412	4.8584	5,757	451,248
25	Shipbuilding and railroad equipment	3.3441	98.4639	0.5535	2.6592	3,863	159,825
26	Defense	7.3777	232	0.4795	5.9745	7,562	375,880
27	Precious metals	0.7588	28.1329	0.1031	1.0552	691	55,433
28	Non-metallic and industrial metal mining	3.3576	129	0.4967	2.5162	3,479	87,275
29	Coal	4.5531	78.9906	0.4636	3.4544	5,087	245,431
30	Petroleum and natural gas	2.2937	80.1972	0.2790	1.8709	2,293	88,865
31	Utilities	7.3629	260	1.1316	5.8908	6,841	263,978
32	Communication	0.0000	0.0000	0.0000	0.0000	0.0000	103,782
33	Personal services	0.0000	0.0000	0.0000	0.0000	0.0000	31,414
34	Business services	0.0000	0.0000	0.0000	0.0000	0.0000	26,545
35	Computers	0.0000	0.0000	0.0000	0.0000	0.0000	77,285
36	Computer software	0.0000	0.0000	0.0000	0.0000	0.0000	41,117
37	Electronic equipment	0.0000	0.0000	0.0000	0.0000	0.0000	59,304
38	Measuring and control equipment	0.0000	0.0000	0.0000	0.0000	0.0000	14,269
39	Business supplies	0.0000	0.0000	0.0000	0.0000	0.0000	118,096
40	Shipping containers	0.8065	9.7913	0.0664	0.1999	489	18,995
41	Transportation	4.1434	138	0.5215	3.4121	4,166	137,799
42	Wholesale	0.3709	11.7430	0.0672	0.2735	413	19,031
43	Retail	1.0969	28.9783	0.1535	0.9924	1,116	47,922
44	Restaurants, hotels, and motels	0.4902	10.9491	0.0441	0.6612	721	19,176
45	Banking	0.9295	27.3607	0.1575	0.7314	973	22,125
46	Insurance	2.4855	74.0460	0.3953	2.6398	2,694	115,887
47	Real estate	0.0142	0.1967	0.0085	0.0427	31.7536	15,151
48	Financial trading	0.8893	23.3221	0.0902	0.8444	944	53,101
49	All others	0.0000	0.0000	0.0000	0.0000	0.0000	34,599
Total		0.8244	27.0609	0.1096	0.7452	849	62,835