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 find that firms contributing to political action committees or involved in lobbying are less likely to be acquired and their takeover process is lengthier. As we empirically show, this can be explained by the fact that politicians have motives to interfere with the takeover process due to career concerns, in terms of getting re-elected and raising funds for future campaigns. We also document that politically connected target firms command higher takeover premiums from bidders lacking political expertise, consistent with the notion that the market regards target firms' connections, not easily replicable by bidders, as means to enhance growth opportunities of the merged firm.

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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 and the political connections they provide are associated with firms' investment decisions. Taking into account the fact that mergers and acquisitions (M&As) are among the most important and economically meaningful corporate investments (Harford and Li, 2007), we choose the takeover market setting for an empirical examination of two different corporate political strategies, contributions to political action campaigns (PACs) and lobbying. A plethora of prior studies has established that, on the one hand, political connections can increase firm value (see, for instance, Akey, 2015; Claessens et al., 2008; Cooper et al., 2010; Faccio, 2006; Hill et al., 2013), be a useful tool used for managing political risk (e.g., Kim et al., 2016), lead to lower cost of bank loans (Houston et al., 2014), and allow firms to obtain procurement contracts from the government (Brogaard et al., 2015; Goldman et al., 2013). 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, Chaney et al., 2011; Firth et al., 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.

In spite of the research in the area that spans finance and political sciences and the increasing awareness about the prominence of political connections in the corporate world, there is still limited evidence of their impact on particular aspects of the takeover process and outcomes, and how the market for corporate control assesses valuation implications of political

connections.[1] Holburn and Vanden Bergh (2008) provide a theoretical argument that firms which face heavy regulation are more likely to target political strategies which influence regulatory action. We conjecture that mergers are a highly regulated process that can be influenced by politicians. There is some limited, early evidence (Coate et al., 1990) that the two primary merger regulators (i.e., the FTC and the Department of Justice Antitrust Division) make decisions based on political concerns. [2] However, there is a lot more evidence, both academic (Karpoff and Malatesta, 1989; Mallette and Spagnola, 1994; Udawatta, 2016)[3] and anecdotal,[4] that political interference with proposed mergers of local target firms can either result in, or coincide with, a challenge by the State Attorney General's (SAG) office. We hypothesize that politicians' ability to either directly, or indirectly influence SAG offices and antitrust agencies to

[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 et al. (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.

[2] More recently, Ferris, Houston, and Javakhadze (2016) suggest political connections and legal challenges allow firms to overcome regulatory hurdles. However, their evidence is based on acquiring firms.

[3] According to Mallette and Spagnola (1994), legislators often enact takeover laws to limit the adverse effects of merger and acquisition activity on the economies of their states. Karpoff and Malatesta (1989) examined 40 antitakeover bills passed by various state legislatures and showed that almost seventy-five percent were introduced on behalf of at least one large firm headquartered in the state. Udawatta (2016) describes State Attorney General's offices can urge Congress to pass laws that affect mergers, as in the case of Connecticut Attorney General Richard Blumenthal did, when he urged Congress to ban tax-inversion mergers on June 25, 2002.

[4] For example, take the case of the Fairview Health Services, the Twin Cities' second-largest hospital and clinic group, which was targeted in a takeover attempt launched by South Dakota-based Sanford Health. The proposed Fairview-Sanford merger could transfer control of the University of Minnesota Medical Center, a major research and teaching hospital, to an out-of-state company with no history in Minneapolis area health care. On April 19, 2013, the Nonprofit Quarterly (see "The Merger That Might Have Been: Sanford Health and Fairview Health Services", by Michael Wyand) describes how public suspicion and politicians intent on slowing, if not stopping, the merger, led to Sanford Health's decision to cease merger discussions. Indeed, several Minnesota state legislators introduced a bill (HF 1755, see https://www.revisor.mn.gov/bills/bill.php?b=house&f=HF1755&ssn=0&y=2013) to slow or stop the merger. In the Fairview-Sanford proposed merger, powerful community and/or business leaders recruited politicians in voicing concerns with proposed mergers. Star Tribune, on April 4, 2013, states that University of Minnesota General Counsel, Mark Rotenberg had raised local concerns against the proposed merger and also indicated that he had very strong support from Gov. Mark Dayton. Not surprisingly, the proposed merger met a challenge by the State Attorney General's office that eventually resulted in Sanford pulling out of the deal. (see, "Minn. AG to investigate Sanford's proposed takeover of Fairview. Attorney General Lori Swanson raises concerns, plans hearings over possible joining of two health care giants", by Tony Kennedy and Jeremy Olson, Star Tribune staff writers, April 4, 2013).

investigate potential bids is particularly pertinent in the case of target firms with strong ties to local politicians. Given that politicians' careers are more tightly intertwined with local firms and constituencies they draw support from, we surmise that they will be more likely to show interest in, or possibly interfere with, proposed takeovers involving such firms. Our aim is to shed light on 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 being taken over? 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?

We acknowledge the fact that firms rarely disclose the involvement of politicians in an M&A transaction and generally would avoid stating whether ties to politicians are established with the goal of obtaining a specific M&A outcome. Nevertheless, there is ample anecdotal evidence that politicians often display a propensity to get engaged in corporate takeovers involving constituent firms.[5] In this study, we contend and provide evidence of a mutually beneficial relationship between politicians and firms: on the one hand, politicians' incentives may provide motivation to interfere in an M&A process that involves firms they are connected to; on the other hand, corporations may wish to use political connections to serve their own interests (i.e., deter from acquisition bids in our case).

[5] BBC news, on May 26, 2014, reported that "*US drugs giant Pfizer has withdrawn its £55 a share, £69bn takeover bid for UK pharmaceutical firm AstraZeneca…Following the AstraZeneca board's rejection of the proposal, Pfizer announces that it does not intend to make an offer... AstraZeneca had fiercely resisted the bid, backed by some politicians.*" Another characteristic example of political intervention for deterring an M&A deal is presented in The Economist, June 1, 2013: "*...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?...*".

There are several motivations for politicians to interfere with the takeover market. First, politicians have incentives to continue receiving contributions and donations from corporations, which could be used to pursue their goals. For instance, 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. Second, some politicians may be interested in a career in the industry (see, for example, Faccio (2006) for some evidence of former politicians serving in the boards of directors of listed corporations). Therefore, keeping a relationship with firms via contributions and donations might be useful toward this direction. Third, politicians connected to target firms are concerned about whether they would continue to receive contributions and support by the new merged company once the takeover is completed. Finally, politicians may be concerned about losing corporate support from their region if they appear to encourage deals wherein distant acquirers absorb local firms they are connected with. Most importantly, such M&A deals could also seriously diminish the politicians' reputation if they would imply the loss of local workforce and potential voter support. Indeed, in that case they could also lose contributions from individuals who donate to politicians that could assist firms in industries important for their district (Ovtchinnikov and Pantaleoni, 2012).

In line with the above arguments, and in support of the notion that politicians have an incentive to interfere with corporate takeovers, in our empirical analysis we initially establish the existence of a strong link between politicians' ties to firms active in the takeover market and both their chances of getting re-elected, as well as their ability to raise large sums of money in the future. On the one hand, politicians with ties to takeover targets face lower probability of re-election. Additionally, having ties to target firms of failed takeover attempts seems to improve

politicians' fortunes: future cash contributions from corporate PACs increase when politicians are connected to target firms that survived takeover bids. On the other hand, politicians with ties to acquirers generally enjoy better prospects of re-election and can raise significantly larger amounts of money in the future, especially when they are connected to bidders involved in completed deals. We also show that employment in the district decreases following takeovers of public firms located in the same district, further reducing the re-election chances of local politicians. Thus, our evidence implies that politicians' career concerns can motivate them to interfere in the M&A activities of the firms they are connected to.

Corporations, in turn, may also try to exploit the connected politicians' concern about the loss of support from their constituents.[6] For example, corporations wishing to deter their competitors from pursuing takeover strategies may need politicians' assistance in the form of invoking regulatory hurdles. In this respect, and as mentioned before, 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 launch a formal legal challenge. Thus, based on the above we contend that politicians' and corporations' interests in the takeover market can affect different aspects of M&A deals. In particular, target firms' political connections can complicate deals by influencing the probability of completing a bid and the time to completion of the deal.

We expect that, *ceteris paribus*, firms with PAC contributions and/or lobbying expenditures are less likely to be taken over. Additionally, we predict that target firms with political connections are associated with longer time to completion of the takeover deal. Finally, it should be noted that our hypothesis is based on the premise that it is not the dollar amount

[6] In general, corporations have a tendency to use their connections with politicians in order to affect implemented rules. For instance, Hochberg et al. (2009) find that corporate insiders and business groups lobbied against strict implementation of the Sarbanes-Oxley Act of 2002.

spent on corporate political strategies *per se* that is important and should drive any association, but the implied ties with politicians which affect takeover outcomes. Prior studies (e.g. Bombardini and Trebbi, 2008; Milyo et al., 2000; Ovtchinnikov et al., 2014) have argued that the true cost of firms' political activities is higher than what is publicly observable. Our study is the first to highlight that political strategies can be important in several facets of the takeover market.

We also hypothesize that, in addition to affecting the probability of being taken over and deal completion time, target political connections can have an impact on the size of the takeover premium. Corporate political participation over the past few decades can be viewed as the result of a path-dependent learning process (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 enhance growth opportunities of the merged firm and should offer a valuable competitive advantage to the firm that possesses them, which should translate into a higher takeover premium. Additionally, the ties between target firms and politicians may not only complicate the takeover process but are also likely to increase the bargaining power of target firm's management and allow it to negotiate a higher takeover premium. Finally, 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 similar political strategies with the target firm.[7]

[7] One could argue that a bidder could simply emulate the target firm's PAC contributions in order to obtain the benefit of its corporate political strategies without needing to pay the cost of buying an entire firm via an acquisition. However, this argument is fundamentally flawed for two reasons. First of all, the ties to politicians developed through corporate political strategies are established gradually and become effective after a long time, so this is not

Based on the above we expect, *ceteris paribus*, a positive relation between target firms' PAC contributions (or lobbying) and 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 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 et al. (2010) plus a measure of the total contributions by a firm over the last five years. 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 oversees the industry in which the contributing firm operates. In fact, these are the politicians who are better positioned to introduce bills that can benefit firms they get support from. This allows us to provide a more direct evidence of the effects of political contribution strategies on merger outcomes.[8]

We find strong support for the view that corporate political strategies have a profound impact on M&A transactions. Using a sample of US listed firms over the period 1992-2011, we provide robust evidence of a significantly negative association between political contributions and the probability of a firm being acquired. In economic terms, being politically connected reduces the probability of being acquired from 3.52% to 1.28%, i.e., a 63.56% decrease. Our results remain robust when controlling for potential endogeneity bias.[9] Consistent with political

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an easy process for the bidder to emulate. Second, the target firm's corporate political strategy is just one of the target firm's assets the bidder is likely to be interested in, yet it may also have an impact on all other assets when the bidder evaluates the synergies from the deal.

[8] In a robustness analysis, we also use the political contribution variables of Cooper et al. (2010). The results remain unchanged.

[9] We perform three 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 consider the issue under the two-stage model setting. We use both the two-stage instrumental variable (IV) and Heckman's (1979) selection models. Third, we also conduct a difference-in-

connections complicating deals, we also provide clear evidence that political contributions delay the M&A process increasing the time to completion. Moreover, we find a significantly positive relation 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 growth opportunities for which the bidder is willing to pay a higher premium, provided that the bidder lacks the expertise 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 bidding 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 makes two important contributions to the literature. First, it shows that ties to the takeover market can have important implications for politicians' careers and for employment at district level. This finding suggests that politicians' incentives to interfere in a takeover may provide a mechanism that can affect takeover outcomes. Second, it provides novel empirical evidence that corporate political activism affects investments and particularly mergers and acquisitions – perhaps the most important corporate investment. Specifically, it lends support to the viewpoint that contributions to PACs and lobbying have implications for the takeover process and firm valuation that in turn affect the completion of a bid, time to completion, and

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difference analysis using the Bipartisan Campaign Reform Act of 2002 as an exogenous shock on political contributions. We also exploit the Abramoff's scandal of 2006 as an exogenous shock on lobbying expenditures.

takeover premium received. This evidence complements Holburn and Vanden Bergh (2014), who investigate how utilities use nonmarket strategies to protect shareholder rents created during M&As from dissipation by stringent merger approval conditions. While Holburn and Vanden Bergh (2014) focus on how merging firms use campaign contributions to influence the decisions of the public utility commissions once the merger is already on the table, we investigate whether firms' PACs and lobbying-based connections can serve as deterrents to being bought. Finally, the paper offers implications for campaign finance policies, which can be indeed seen as an effective indirect antitakeover tool.

Our paper is also related to several other prior studies. Fisman (2001), Faccio (2006), and Faccio et al. (2006) present explicit relations between political connectedness and firm value. We report evidence of the relation between political connections and M&A investments. Ansolabehere et al. (2004), Goldman et al. (2009), Jayachandran (2006), and Roberts (1990) 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 a firm being taken over, time to completion, 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 contributing to politicians and lobbying is likely to facilitate firms' access to politicians who can influence even domestic takeover attempts. Further, Cooper et al. (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. Ovtchinnikov et al. (2014) suggest that firms use their connections to gather political intelligence which allows them to reduce political

uncertainty and boost their innovation efforts. Specifically, political connected firms can successfully time their innovation strategies in anticipation of future legislative strategies. The ability to innovate and to steer innovation along a safer path of less uncertain future legislation is compatible with our argument that political connections can allow firms to overcome some regulatory hurdles or to deter competitors to pursue certain strategies. Hill et al. (2013) provide evidence of the determinants and effects of corporate lobbying, while Adelino and Dinc (2014) show how financial health affects a firm's lobbying. We examine the relation between lobbying activities and M&As. Finally, a study that is closer to ours, is the one by Ferris, Houston, and Javakhadze (2016), which examines the effect of political connections on M&As from the *bidder's* side. They show that bidders with political connections – via the appointment of former politicians and regulators to boards of directors or management teams – are more likely to: acquire target firms, pay higher premiums, and create value; however, they do not consider the impact of target firm political connections and their interrelation with those of the bidders.

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 completion, 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

Political connections play a crucial role in the takeover process, in which politicians' interests can interact with those of firms involved in takeovers. 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, De Soto, 1989; Stigler, 1971). 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, whereas firms rarely disclose the involvement of politicians in an M&A transaction, 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. [10]

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, unless this company decides to sell itself. In this way, politicians may preserve their corporate clientele.

[10] 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 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….].

[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.

Career considerations could also play a role in the way connected politicians may behave. The value of a good relationship with contributing firms may be particularly high for politicians that are considering to either start a carrier in the industry or return to their previous employer. Ovtchinnikov and Pantaleoni (2012) also find that politicians lose contributions from individuals when local companies are lost. This could give an incentive for the politicians to avoid that firms from their districts fall prey of acquirers, especially if this could lead to a reputational loss for their district and/or a relocation of the workforce.

Lobbying, an alternative corporate political strategy, has also been shown to be beneficial for firms (e.g., see Hill et al., 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 bidder, target firms' lobbying activities may be attractive to potential bidders lacking these types of ties, which would justify a high takeover premium.

In sum, we argue that in the takeover process, target firm connectedness complicates the takeover process. In particular, we predict that *politically connected firms through PAC contributions and lobbying activities are less likely to be taken over.* Additionally, conditional on bid receipt, *target firm PAC contributions and lobbying are associated with longer time to completion of the takeover deal.*

[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), 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).

In addition, as discussed above, 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 can facilitate future growth opportunities, by influencing political outcomes (e.g., legislative action), thus offering a competitive advantage to the firm who possesses them. Whether in the context of M&A deals the above effect would translate into a higher takeover premium offered for the target firm depends on the bidder's ability and need to successfully integrate these strategies in the merged firm. On the one hand, if target firm's 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 takeover premium. Therefore, we hypothesize that *target firms' PACs contributions and lobbying-based political connections are associated with a higher takeover premium by bidding firms, when bidders do not have similar political connections.*

On the other hand, if target firm's 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 alternative hypothesis in this case is that *target firms' PACs contributions and lobbying-based political connections that can be easily replicated by the acquiring firm are not 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 (3,761 completed deals), which overlaps with the COMPUSTAT/CRSP sample.

We devise measures of corporate political strategies based on corporate contributions to US political campaigns at federal level. Following Cooper et al. (2010), we extract the corporate contributions data from the Federal Election Commission (FEC) summary files on political contributions to House and Senate election campaigns. 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 manually collect detailed information on party affiliation and control from

[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.
[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 et al., 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

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 manually 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. Data have been recorded since 1998, and therefore our corporate lobbying expenditures are available from 1998, which are used to test the effects on M&As starting from 1999.

Finally, we create the final sample that contains the complete set of information on COMPUSTAT/CRSP variables, acquisitions, political contributions, and lobbying expenditures for 109,648 firm-year observations (3,761 target firm-year observations and 105,887 non-target firm-year observations). Appendix A provides a detailed description of how all variables are constructed and the sources of information used.

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".

3.2. Measures of political contributions

We construct measures of corporate political contributions for politicians who serve on committees that oversee the industries contributing firms operate in.[17] We present a mapping between committees and the 49 Fama-French industries in Appendix B. This mapping shows that while some committees are general (e.g., Committee on Budget), others are specific to certain industries. This allows us to capture the connections that are more valuable to the firm. We employ five measures: the four measures introduced by Cooper et al. (2010) plus the total amount of contributions. They are:

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

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

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.

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

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

[17] We have also repeated the tests conducted in this paper using the exact Cooper et al. (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.

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

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

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

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

where $Committee\ rank_{mt}^{cand}$ is the reciprocal of candidate *j*'s rank on committee *m* (the smaller the more 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.

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

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

Panel A.1 of Table 1 shows that firms in our sample support, on average, about 1 candidate over any given 5-year period. This evidence is in line with the view that corporations need time to build relationships with politicians. 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 any given year in our sample is $849. The average values are substantially smaller than those typically reported in other studies due to the fact that our sample includes non-contributing firms. In addition, we employ a more narrowly defined measure of political connections requiring that the connected candidate is an elected member of a committee that oversees the firm's industry.

Panel A.2 reports the mean values for the sample that contains contributors only (i.e., firms with non-zero PAC contribution values). Naturally, the mean values in this subsample are much larger and similar to the ones in Cooper et al. (2010). For instance, the mean $PI^{contributions\_raw}$ is $64,698 with a maximum value that is over $2 million.[18] Nonetheless, it should be noted that, irrespective of the dollar amount of contributions to politicians, we do not argue that it is the amount of political contributions *per se* that affects merger outcomes, but the strength of the underlying connections to powerful politicians. As also noted in Ovtchinnikov et al. (2014) the true extent of corporate political activism is much higher than what is observable to an econometrician; *PI* variables serve as signals that encompass firms' ties to politicians, which in turn, have an effect on takeover outcomes.

Appendix C 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.

[18] The mean values for $PI^{candidates\_raw}$, $PI^{strength\_raw}$, $PI^{ability\_raw}$, PI^{power_raw}, and $PI^{contributions\_raw}$ in Cooper et al. (2010) are 68.2, 1,188.0, 6.0, 253.0, and 64,694 respectively.

*** 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 political contributions is $14.1bn, which is about 10 times larger than firms that do not make any contributions ($1.42bn).[19] 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.[20]

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, ROA*), industry characteristics (*industry M&A liquidity*, *Herfindahl index, merger wave*), 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, 1992). Additionally, Alexandridis et al. (2013) provide evidence of a negative relation between target firm size and takeover premium. Palepu (1986) suggests a positive association between *b/m* and takeover probability. Dong et al. (2006) show that highly-valued target firms receive lower bid premium. Palepu (1986) also finds a negative relation between *leverage* and takeover bids. Moreover, Stulz (1988) argues that higher target firm leverage results in greater takeover premium offered. *Cash*

[19] The difference in the average market value of assets between these two groups is statistically significant at the 1% level.

[20] Our results are generally consistent when using the raw measures of political contributions.

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 being acquired is not straightforward. On the one hand, cash reserves may decrease the probability 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 (negative) association between *net loss* (ROA) and the probability to be acquired 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. We also control for merger waves using the indicator created by Harford (2005). 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) document 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.[21] 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. Finally, the average ROA is negligible (0.55%), while the median is 4.91%.

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%). Regarding the method of payment, about 30% of the deals are paid for with cash. Additionally, approximately 31.25% of the deals take place during a merger wave. The average relative size is 0.32 and the mean time to completion is 134 days. Finally, over our sample period, the average takeover premium paid is approximately 46%.

In Table 2 we perform univariate analysis by comparing political contributions and firm characteristics for two groups of firms: firms whose deal was completed and those that their deal was not completed. The comparisons allow us to draw some useful initial inferences. In

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

particular, in Panel A, we find that the mean values of all five political contribution variables are significantly higher in the cases of firms whose deal was not completed than in the cases of those firms that were acquired. This is a first indication that political contributions complicate takeover attempts making them relatively harder to get completed.

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

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

4. Empirical findings

4.1. Why do politicians care about M&A deals involving connected firms?

The above hypothesized effects of corporate political connections on takeover deals can be easily motivated in a world where politicians' careers are affected by M&A outcomes. Given that politicians are often primarily concerned about prolonging their careers, a link between takeover outcomes and political connections can be based on the premise that politicians' chance of getting re-elected and their ability to raise funds from PAC donations is affected by the nature of their connections to target firms and acquirers in recent takeover deals. M&As may also impact politicians' reputation if job losses in their jurisdiction follow the acquisition of a local firm.

To test this conjecture, we set up a politician-level dataset that includes all politicians serving in Congress during the years covering our empirical investigation period (i.e., 1992-2011). This dataset comprises of 8,263 politician-year observations with information on

politicians' personal characteristics as well as on the extent of their connections to firms involved in takeover deals in that year.

We regress politician's re-election (Panel A) and future PAC contributions (Panel B) on variables describing connections to target and acquiring firms along with other characteristics. In Panel A of Table 3 we estimate a probit model, in which the dependent variable (*Re-election*) takes the value of one if the politician is re-elected in the following election after the takeover and zero otherwise. Our key variables are as follows: *Total PAC contributions* are the total amount of PAC contributions in the year of the merger deal. *# of connected target firms (acquirers)* is the number of target firms (acquirers) that are connected to a particular politician via PAC contribution. *Total size of connected target firms (acquirers)* is the sum of total assets of connected target firms (acquirers). We then also explore models where the aforementioned count and size-based connection variables are split into those pertaining to completed and failed deals.

We include a number of control variables that can potentially have an impact on a politician's possibility to get re-elected; first, we include a host of indicator variables denoting the politician's chamber (*Senator*, takes the value of one if the politician is a Senator and the value of zero if the politician is a House member), party (*Democrat*), and alignment with the Presidential party (*Aligned*). Then we include the politician's age (*Age*) and an ideology measure (*Ideology distance*) computed as the ratio of the ideology distance from the opposite party's average ideology score to the ideology distance from the own party's average ideology score.[22] We also include state-level control variables such as *Corruption* (measured as the number of

[22] This measure is derived from DW-nominate legislator scores (McCarty et al., 1997) that can be downloaded from http://voteview.com/dwnl.htm.

public figures' convictions divided by the state population in millions) and *PAI*, a state-level political alignment index developed by Kim et al. (2012).

We find in column (1) that the number of ties to target firms is negatively related to a politician's re-election, while the number of ties to acquirers is positively affecting re-election. When we account for the total size (measured by the sum of total assets) of the target firms or acquirers connected to a politician (column (2)), we find consistent results.

In the following two models, we split the connection variables into those pertaining to firms involved in completed takeover deals and those involved in failed deals. Interestingly, the results shown in columns (3) and (4) indicate that connections to target firms involved in completed deals are especially harmful for politicians' re-election. The absolute value of the coefficient of the *# of connected target firms with completed deal* (-1.6820) is more than six times as large as that of the *# of connected target firms with failed deal* (-0.2562), and the difference is statistically significant at the 1% level. Thus, these results imply that politicians connected to target firms may have an incentive to obstruct takeover deals in order to minimize the damage to their possibility of getting re-elected. The results in columns (3) and (4) also show that for politicians with connections to acquirers the effect is opposite; it is the failed deals that can lead them to not being re-elected in the following elections. This evidence sheds light on the different motivations that politicians may have when the firms they are connected to play the role of a bidder versus the role of a target firm in a takeover process. It also implies that these different motivations can cause politicians to interfere in takeovers and cause such transactions to become more complicated and more difficult to complete.

In Panel B, we test whether having ties to firms (targets and acquirers) involved in takeovers in year *t* affects the amount of PAC contributions a politician can attract in the

following year, i.e., *t+1*. The results in columns (1) and (2) show that both connections to target firms and to acquirers are positively associated with future PAC contributions. When we re-estimate the models using the split variables that account for the success or failure of the deals (see columns (3) and (4)), we observe that future PAC contributions are maximized when politicians' connections to target firms involve failed deals, whereas the opposite is true for politicians' connections to acquirers.

Overall, the results in Table 3 suggest that politicians with ties to firms involved in takeovers have an incentive to interfere with the process. Moreover, the incentives of politicians connected to target firms are diametrically opposite from those connected to acquirers. On the one hand, politicians with connections to target firms seem to benefit from undermining the deals because that increases their chances to win upcoming elections and to raise the amount of PAC contributions in the future. On the other hand, politicians connected to bidders can improve their chances of getting re-elected and increase the amount of money they can raise via PACs in the future if the takeover is completed. Thus, given the opposite incentives described above we expect that political connections can affect takeover outcomes.

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

To further reinforce our conjecture that politicians have incentives to interfere in the M&A process, we examine whether employment in their district drops following the acquisition of district firms. If this is the case, local politicians' chances of re-election would be severely damaged because higher unemployment could translate into an unhappy constituency.

We perform the analysis in Table 4. We run OLS (Ordinary Least Squares) regressions in which the dependent variable, *employment change*, is defined as the percentage change in the total number of employees in the politician's district between year *y* and year *y+1*. We have

three main variables of interest: i) total size of acquired firms in the politician's district in year *y*; ii) total sales of acquired firms in the politician's district in year *y*; and iii) total number of employees of acquired firms in the politician's district in year *y*. In our model we control for other politician-specific and location-specific factors that could potentially affect *employment change*. These are: *Democrat*, an indicator variable taking the value of one (zero) if the district's politician is a democrat (republican); *Aligned*, an indicator variable that takes the value of one if the district's politician belongs to the same party as the President, and 0 otherwise; *State corruption*, the number of convictions divided by state population in millions. We also include year and state fixed effects. All our main variables of interest carry a negative coefficient at the 1% significance level, which suggests that acquisitions of firms located in a district lead to an increase in district-level unemployment. Since higher unemployment is likely to decrease local incumbent politicians' chances of getting re-elected, this result implies that politicians may have personal incentives to interfere in the M&A process and boost their reputation as job saviours by creating shields against unwanted takeovers of firms in their constituencies.

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

4.2. Probability of being acquired

Having established that politicians have incentives to interfere with the takeover, we start our empirical tests by examining whether corporate political connections can affect the probability of a firm being acquired. 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 5, we find that among 105,054 firm-year observations involving non-politically connected firms, 3,702 (3.52%) firm-year observations involve firms that were acquired. The probability decreases to 1.28% (59/4,594) for those firms that are politically connected, which represents almost a two-thirds (i.e., 63.56%=(1.28%–3.52%)/3.52%) decrease in the probability of being taken over relative to non-politically connected firms. Therefore, the effect of political connections in reducing the probability of being acquired seems to be economically significant.

Panel B shows the effect of political contributions on the probability of a firm being taken over accounting for control variables that will be used in the multivariate analysis below (i.e., *market value, b/m, leverage, cash flows, cash reserves, ROA, sales growth, net loss, industry M&A liquidity, merger wave* and the *Herfindahl index*). We find that political contributions lead to a decrease in the probability of being acquired by 71.59%. 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 5 About Here ***

4.3. Probability of being acquired: probit analysis

We now examine the relation between the probability of being acquired 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 prior literature has shown to affect acquisition investments. Table 6 reports the results. We run pooled probit regressions where the dependent variable takes the value of one

if the firm was taken over 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.[23]

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 being taken over. From the control variables, *B/M*, *ROA*, *merger wave* and the *industry M&A liquidity* exhibit a positive relation with the probability of being acquired, while *cash flows* and *Herfindahl index* have a negative association with the takeover completion, 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 6 are consistent with the notion that target firms' ties with politicians established via PAC donations can complicate takeovers, ultimately reducing the probability of being acquired.

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

4.4. Endogeneity

Below we provide three tests to mitigate the potentially endogenous nature of the relationship between a firm's political connections and the probability of getting acquired. We use a conditional logit estimation to reduce the concern that our results are determined by omitted variables. We employ a two-stage instrumental variable approach where firms'

[23] We obtain similar results when we split the sample into hostile and friendly deals. We also re-run the analysis for subsamples based on firms' size. While results are stronger for larger firms, the main findings hold also for the subsample of smaller firms.

geographic dispersion across US states is used as instrumental variable to test reverse causality. A Heckman selection model is used to address self-selection. Finally, we also use the introduction of the Bipartisan Campaign Reform Act (BCRA) as a shock on political contributions.

4.4.1. Conditional logit estimation

To alleviate the concern that the association between political connections and takeover probability is driven by omitted variables, we run a conditional logit regression using cross-sectional data as of the fiscal year end before the bid announcement (Bena and Li, 2014).[24] 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.[25] In the conditional logit regression, the control variables at firm and industry level are the same as the ones used in Table 6.[26] The models also include a fixed effect for each target and its matching firms, i.e., a deal fixed effect. Consistent with our findings in Table 6, the regression results shown in Table 7 confirm that all *PI* variables are negative and statistically significant at the 1% level.[27] Thus, PAC donations reduce the probability of acquisition completion even after performing a conditional logit analysis.

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

[24] As suggested by Puri et al. (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).
[25] We also employ all control variables to obtain the five closest matched firms. We re-test Table 7 using these new matching firms and obtain qualitatively similar results. The table is available from the authors upon request.
[26] We also run the model without the two industry-level variables. Results are qualitatively similar to those reported in Table 7 and available from the authors upon request.
[27] Note that in this analysis the signs of market value and sales growth are consistent to the prior literature.

4.4.2. Two-stage instrumental variable and Heckman selection models

Next, we consider the reverse casuality and self-selection issues in a two-stage model setting. In the first-stage, we estimate the *PI indicator*, which 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.[28] We use firms' geographic dispersion across U.S. states as an instrumental variable. We measure firm's geographic diversification based on the number of economically relevant states, developed by Garcia and Norli (2012).[29] Since the degree of geographic diversification is highly correlated with firm size, we take the residual value from the regression of the number of states on Ln(*total sales*+1).[30] The rationale for choosing this variable as an instrument is based on the idea that a firm whose operations are geographically dispersed is more likely to contribute to PACs supporting campaigns of politicians not only from its home (i.e., headquarter) state but also from the different states the firm is active. However, it is not clear whether geographic dispersion necessarily drives M&A outcomes. Accordingly, the second-stage model uses the fitted value of *PI indicator* to estimate the probability of being taken over (*Acquired*).

In addition, we use the Heckman's (1979) selection model where we include the inverse of Mill's ratio (calculated from the first-stage model) to control for sample-selection bias. The model accounts for the possibility that firm characteristics, which cause firms' decision to become politically active by making PAC contributions, can affect the probability of target firms being acquired.

[28] We also separately test with the indicators of individual PI variables and find similar results.

[29] Garcia and Norli (2012) measure the degree of corporate geographic diversification by counting state names from annual reports filed with the SEC on Form 10-K over the period 1994 to 2008. We thank the authors for kindly sharing their data.

[30] We employ total sales and not total assets because the industry's Herfindahl Index, which is commonly measured based on sales, is one of the most crucial determinants according to the Federal Trade Commission and the Department of Justice Antitrust Division. Therefore, it is more appropriate to use the residual value from the regression of the number of states on Ln(total sales+1). We thank an anonymous referee for this suggestion.

The results of the two-stage model regressions are reported in Table 8. We find that both the two-stage instrumental variable (IV) and Heckman selection models yield a significant negative relationship between political connections and getting acquired. As expected, in the first stage of the two-stage IV model, corporate geographic dispersion is positively associated with the *PI indicator* at the 1% significance level. The coefficient of our main variable of interest (the instrumented *PI indicator*) in the second stage remains significantly negative. The Heckman selection model also generates a negative and significant coefficient on the *PI indicator* in the second-stage model. Moreover, the coefficient of the inverse Mill's ratio is positive and significant, indicating that the characteristics that make firms choose to become politically active by making PAC contributions are also positively associated with the likelihood of becoming a takeover target and getting acquired. Overall, these findings confirm the negative relation between target firms' political connections via PAC contributions and the probability of being acquired after controlling for potential endogeneity bias.

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

4.4.3. Difference-in-difference test with 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 the strength of political connections proxied by PAC contributions.

We perform a difference-in-difference analysis for the probability of being taken over 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 9 presents the results with the OLS estimates. We find that firm contributions to PACs are negatively associated with the probability of being acquired 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 given the finding that the interaction coefficients of treated PAC contributions variables with post-BCRA period are all positive and significant at better than the 5% significance level.

Overall, the results of this analysis of an exogenous shock on firms' political strategies provide further support for the notion that target firms' political connections can complicate M&As and thereby reduce the probability of a target firm being acquired.

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

4.5. Time to completion

In previous sections we showed that political connections decrease the likelihood of receiving a takeover bid. We now investigate whether they can complicate the process once the

offer arrives. We therefore test whether target firms' PAC contributions are also associated with a delay in the M&A process from the announcement until the completion of the deal. In our setting this is of particular interest given that as shown in Table 3 politicians with ties to takeover targets would rather prefer that the deal fails. We thus predict a positive relation between target firms' political connectedness and the time to completion of the deal. We test this hypothesis and report the results in Table 10.

We run OLS regressions with standard errors adjusted for heteroskedasticity and firm clustering. In Panel A, the dependent variable is *time to completion*, which measures the number of calendar days between the announcement date and the completion date as reported by Thomson Financial SDC Mergers and Acquisitions Database.[31] A positive coefficient on the political contribution variables would constitute further evidence in favor of the view that PAC contributions-based political connections can complicate the takeover process. In addition to the previously used control variables, we also add *US bidder*, which is an indicator variable taking the value of one for bids made by US firms, and zero otherwise. We expect that it takes less time for US bidders to buy domestic target firms.

In all five specifications, the coefficients on the *PI* variables are positive and significantly different from zero at better than the 5% significance level. Economically, a one standard deviation increase in the residual PAC contribution (i.e., $PI^{contributions}$) from no contribution is associated with 7.76 days extension in time to completion (=4.3597*1.7807) indicating that deals involving target firms with PAC contributions take longer to complete. 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.

[31] Our results are unchanged if we use the logarithmic transformation of time to completion as the dependent variable.

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

Political connections should be more valuable especially when the firm is at risk of receiving a takeover offer from an unwanted suitor. Relying on the takeover index of Cain, McKeon and Solomon (2016),[32] we re-run the analysis on the subsample of firms with a higher probability to receive a hostile bid. In untabulated analysis, we find a significantly more positive relation between target connectedness via PACs and time to completion in all regressions, in support of our prediction. Finally, since we expect that it will take more time for foreign bidders to complete the acquisitions, we examine the impact of political contributions on the time to completion in cross-border acquisitions. In unreported regressions, we find a pattern similar to Table 10 (i.e., deals involving connected targets and foreign bidders take even longer to complete), though the significance weakens with only one regression being statistically significant at the 1% level. Nevertheless, it is worth noting that approximately only 13% of our sample includes foreign bidders, which reduces substantially the power of our tests.

In sum, our results thus far reflect the view that politically-connected firms are not only less likely to be acquired, but are also associated with a lengthier takeover process. We interpret this collective evidence as in support of the idea that target firms' political connections can complicate the takeover process.

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

The results from the tests presented in the previous sections suggest that political connectedness should complicate the takeover process. In this section, we examine the effect of target firms' PAC contributions on takeover premiums.

[32] Data are available on Stephen McKeon's webpage (http://pages.uoregon.edu/smckeon/).

Given the prior evidence that bonds to politicians complicate the takeover process, they are also likely to increase the bargaining power of target firm's management and allow it to negotiate a higher takeover premium. Additionally, since corporate political participation seems to follow a path-dependent learning process (Drutman, 2011), firms that initially may have viewed corporate political strategies as a mere means to manage political risk, eventually become more adept at 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 add value to the target firm, and should be reflected in a higher takeover premium, especially in cases where the bidder does not have much political expertise. This argument also implies that bidders whose corporate political strategy mirrors that of a potential target firm should see 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 these hypotheses 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.[33] Values beyond the range of (0, 2) are winsorized (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 firm 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.

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

Table 11 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. This result is in line with the notion that political connections are likely to increase the bargaining power of target firm's management and enable it to negotiate a higher takeover premium. It is also in line with the view that the value of growth opportunities associated with the managerial flexibility provided by corporate political strategies is, on average, large enough to warrant a significant takeover premium. However, consistent with the view that bidders with political expertise mirroring the one of the target do not pay a higher premium for target firm's political strategies, all of the estimated coefficients on the interacted terms in Table 11 are negative and significant, with a magnitude that is almost identical with the corresponding *PI* variables. Finally, *bidder's PI indicator* is statistically insignificant at conventional levels in four out of five models.

In untabulated regressions, we test whether the premium is positively related to political contributions in the subset of bids made by foreign acquirers. We find that the results continue to hold in all but one regressions as there is a significantly positive relation between PACs and takeover premiums. Additionally, adding the G-index (Gompers, Ishii, and Metrick, 2003) as a control variable to capture antitakeover provisions does not alter our results.

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

4.7. Target firm lobbying activities and M&A deals

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 et al., 2013;

Adelino and Dinc, 2014). Approximately 15% of firms pursue both political contributions and lobbying strategies at some point during the sample period of Hill et al. (2013). Concerning to the magnitude of expenditures, lobbying costs are proven to be substantially larger than contributions. While there is a legal limit in contributions offered to politicians per election, lobbying expenditures are not limited and can be funded from the corporate treasury. Milyo et al. (2000) show that lobbying expenditures are 20 to 60 times more than the amount spent on contributions.

In Table 12 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.[34] 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.[35] Panel B compares average lobbying expenditures of firms that were acquired with those firms that were not acquired. Interestingly, we find that firms that were acquired spend, on average, $44,700 on lobbying expenditures, whereas non-acquired firms spend, on average, $63,464. This finding is also confirmed when we examine lobbying firms only. This indicates that more intensive lobbying, on average, is associated with lower probability of a firm being taken over, which is in line with the concept that target firm's political strategies complicate the takeover process.

In Panel C.1 of Table 12, we find that among 60,052 firm-year observations involving non-lobbying firms, 2,070 (3.45%) firm-year observations involve firms that were acquired. The probability decreases to 2.64% (212/8,016) for those firms that lobby, which represents a 23.28% ((2.64% – 3.45%)/3.45%) decrease in the probability of being taken over. Panel C.2 shows the

[34] In the regressions, *lobbying expenditures* is the firm size-orthogonal measure.
[35] The average spending on lobbying for the subsample that only includes firms that lobby increases to $1.18 million.

effect of lobbying activity after accounting for control variables. We find that lobbying is associated with a decrease in probability of being taken over relative to firms that do not lobby by 24.64%.

Panel D of Table 12 shows the results of multivariate regression tests. In line with the evidence based on political connectedness measured by PAC contributions, the result in column (1) indicates that target firms' lobbying expenditures are significantly associated with lower probability of target firms being acquired with a coefficient that is statistically significant at the 1% level. In the following columns (2) to (6), we deal with the endogeneity issue. Column (2) reports the result using a matching-firm approach as was previously done for PAC contributions in Table 7. Columns (3) and (4) report the two-stage instrumental variable model regressions, while column (5) presents the results of the Heckman selection model. We find that the main variables of interest show consistent patterns.

Column (6) reports the difference-in-difference test result. Similarly to the Bipartisan Campaign Reform Act 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 (see also, Borisov et al., 2016). 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 OLS analysis for the probability of being acquired in the five years pre- (2001-2005) and post- (2007-2011) Abramoff's scandal.[36] Firms

[36] We have also i) included year 2006 in the post period (i.e., 2006 to 2010) and ii) dropped year fixed effects. The results are consistent.

that lobby are considered treated, while firms without lobbying activities represent the control group in the analysis. We find that the effect of lobbying expenditures on the takeover process decreases after the Abramoff's scandal. The interaction coefficient of treated lobbying variable with post-Abramoff's period is positive and significant, in line with target firm's 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.

Column (7) shows that firm's lobbying activity is also positively related to time to completion. Thus, this evidence is consistent with the notion that target firm's lobbying activities can complicate deals effectively acting as a restraint against a takeover. Moreover, the result from the regression shown in column (8) indicates that target firm's 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 11, and reinforce 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 12 highlights the similarities between target firms' lobbying and PAC contributions in terms of their impact on the takeover process and premium effects.

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

5. Bidder's corporate political strategies

We have argued and provided empirical evidence that target firms' connections with politicians can complicate and delay the completion of takeover deals. An interesting related research question concerns the M&A importance of political connections of bidding firms.[37] As previously shown in Table 3, politicians connected to bidders would prefer that takeover attempts end up in success because completed deals involving connected acquiring firms boost their chances for re-election and increase the amount of PAC contributions they receive in the future. Thus, in this case although political interference can still delay the deal completion, it is plausible that political connections can raise the probability for bidders to acquire a target firm. Recall that we have already shown in Table 11 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).

Table 13 presents the results for PAC contributions and lobbying expenditures. In columns (1) and (3), we find that bidders with political connections are more likely to complete a deal, consistent with the view that politicians with ties to the bidder may help them complete the deal in order to reap the future benefits in terms of improved chances for re-election and more financial support. As shown in columns (2) and (4), time to completion does not decrease. Indeed, the coefficient for the bidder's lobbying expenditure is positive and significant, which implies that politicians' interference with the process 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).

*** Please Insert Table 13 About Here ***

[37] 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).

6. Conclusions

In this paper we argue that corporate political strategies can affect M&As. In our empirical investigation we first show that politicians suffer losses in terms of ability to raise funds in the future, chances of getting re-elected, and reputation (based on implied capability to protect jobs in their district) when a connected firm is acquired. Having established the fact that politicians have an interest to avoid takeovers of connected firms, we then provide evidence that firms contributing to politicians are actually less likely to be taken over and they are involved in a longer period of negotiations from the announcement until the time to completion 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' growth opportunities more valuable, and that bonds to politicians complicate the takeover process, thus increasing the bargaining power of target firm's management and allowing it to negotiate a higher takeover premium. 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 corporate political strategies. Our results also imply that firms following such political strategies can indirectly use them like an antitakeover tool to protect themselves from being acquired, while at the same time they benefit their shareholders in

terms of attracting a relatively higher premium from firms lacking political experience. Finally, our evidence can trigger a lot of follow-up research questions and discussions regarding 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 allow for the pricing of 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.

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 et al. (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 et al. (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 et al. (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 more 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 et al. (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).
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 – *(continued)*

Variable definitions.

	Panel A: Political contributions and lobbying expenditures variables - *Continued*
$PI^{contributions\_raw}$	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
Acquired	A dummy variable that takes the value of 1 if the firm is acquired and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database.
Time to completion	The number of days between the acquisition announcement and completion date 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.
ROA	The ratio of operating income to 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.
Geographic diversification	The residual value from the regression of the number of states on Ln(*total sales*+1), where the number of states are counted from annual reports filed with the SEC on Form 10-K, as developed by Garcia and Norli (2012).

Appendix A – *(continued)*

Variable definitions.

Panel D: Bid characteristics	
Horizontal deal	A dummy variable that takes the value of 1 if the target and bidder firms operate in the same Fama-French 49 industry and 0 otherwise. The variable is created using data from Thomson Financial SDC Mergers and Acquisitions Database.
Cash payment	A dummy variable that takes the value of 1 for the deal in which consideration is 100% cash 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.
Merger wave	A dummy variable that takes the value of 1 if the date of announcement occurs during a merger wave period following Harford (2005).
Panel F: Politician characteristics	
Re-election	It takes the value of 1 if the politician is re-elected in the following election and 0 otherwise.
# of Connected target firms (acquirers)	The number of connected target firms (acquirers). Connections between politicians and target firms (acquirers) are determined by political action committee (PAC) contributions.
# of Connected target firms (acquirers) with completed deal	The number of connected target firms (acquirers) whose deal is completed. Connections between politicians and target firms (acquirers) are determined by political action committee (PAC) contributions.
# of Connected target firms (acquirers) with failed deal	The number of connected target firms (acquirers) whose deal is failed. Connections between politicians and target firms (acquirers) are determined by political action committee (PAC) contributions.
Total size of connected target firms (acquirers)	The sum of total assets of connected target firms (acquirers). Connections between politicians and target firms (acquirers) are determined by political action committee (PAC) contributions.
Total size of connected target firms (acquirers) with completed deal	The sum of total assets of connected target firms (acquirers) whose deal is completed. Connections between politicians and target firms (acquirers) are determined by political action committee (PAC) contributions.
Total size of connected target firms (acquirers) with failed deal	The sum of total assets of connected target firms (acquirers) whose deal is failed. Connections between politicians and target firms (acquirers) are determined by political action committee (PAC) contributions.
Senator	An indicator that takes a value of 1 for a Senator and 0 for a House Representative.

Appendix A – *(continued)*

Variable definitions.

Panel F: Politician characteristics - *Continued*	
Democrat	An indicator that takes a value of 1 for a Democratic politician and 0 for a Republican politician.
Aligned	An indicator that takes a value of 1 if the politician is in the same party as the President, and 0 otherwise.
Ideology distance	The ratio of the ideology distance from the opposite party average to the ideology distance from the own party average.
Age	Politician's age.
# of connected firms	The number of firms connected to the politician via PAC contribution.
State corruption	The number of conviction divided by state population in millions.
State population	The population of the state.
PAI	The state-level political alignment index as in Kim et al. (2012). It is constructed by giving equal weight to the portions of each of the state's delegations in the two chambers of Congress that are aligned with the President's party and to the President's party control of state politics. $PAI_j = ¼S_j + ¼R_j + ¼G_j + ¼[½\, S_j^{state} + ½\, R_j^{state}]$, where S_j = the fraction of the state's two senators in Washington that belong to the President's party. R_j = the percentage of the state's house representatives in Washington that belong to the President's party. G_j = a dummy variable equal to one if the governor belongs to the same party as the President, and zero otherwise. S_j^{state} = a dummy variable equal to one if the percent of members of the state senate belonging to the President's party is greater than 50%, and zero otherwise. R_j^{state} = a dummy variable equal to one if the percent of representatives in the state house belonging to the President's party is greater than 50%, and zero otherwise.

Appendix B

Mapping Congress committees to Fama-French 49 industry classification.

This table presents a mapping between congress committees and the 49 Fama-French industries.

	Fama-French 49 Industry Classification									
Panel A: Senate Committees										
Committee on Agriculture	1									
Committee on Appropriations										
Committee on Armed Services	26									
Committee on Banking, Housing and Urban Affairs	45	46	47	48	17	18				
Committee on Budget										
Committee on Commerce, Science and Transportation	25	40	41	42	43	23	24			
Committee on Energy and Natural Resources	27	28	29	30	31					
Committee on Environment and Public Works										
Committee on Finance										
Committee on Foreign Relations										
Committee on Governmental Affairs										
Committee on Judiciary										
Committee on Health, Education, and Labor	11	12	13	2	3	4	5			
Committee on Rules and Administration										
Committee on Small Business	43	44								
Committee on Veterans										
Committee on Aeronautics and Space Science	24									
Committee Post Office and Civil Service										
Committee on District of Columbia										
Panel B: House Committees										
Committee on Agriculture	1									
Committee on Appropriations										
Committee on Armed Services	26									
Committee on Banking	45	46	47	48						
Committee on Budget										
Committee on Government Reform										
Committee on Education										
Committee on Commerce	25	40	41	42	43	27	28	29	30	31
Committee on International Relations										
Committee on Government Reform										
Committee on House Administration										
Committee on Resources	25	40	41	42	43	27	28	29	30	31
Committee on Judiciary										
Committee on Merchant Marine and Fisheries	25									
Committee on Post Office and Civil Service										
Committee on Transportation and Infrastructure	41	23	24	25	17	18				
Committee on Rules										
Committee on Science										
Committee on Small Business	43	44								
Committee on Standards										
Committee on Veterans										
Committee on Ways and Means										
Committee on Un-American Activities										

Appendix C

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

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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 1991 to 2010 (Panels A and B) and 1992 to 2011 (Panels C and D). Refer to Appendix A for detailed variable descriptions.

	N	Mean	Std. Dev.	Minimum	Median	Maximum
Panel A.1: 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 A.2: Political contributions (Contributors only)						
$PI^{candidates\_raw}$	7,424	94.9964	109	1.0000	51.5000	698
$PI^{strength\_raw}$	6,643	2,741	4,316	14.5175	1008	40,207
$PI^{ability\_raw}$	5,847	9.1879	6.0931	0.0220	7.9602	64.0839
PI^{power_raw}	6,615	394	374	2.3587	258	2,062
$PI^{contributions\_raw}$	7,371	64,698	127,607	30.0000	21,600	2,077,800
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
ROA	106,676	0.0055	0.2005	-0.7268	0.0491	0.3964
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
Geographic diversification	92,190	0.1386	6.5354	-8.4960	-1.4818	30.4661

Table 1 – *(continued)*

Descriptive statistics.

	N	Mean	Std. Dev.	Minimum	Median	Maximum
Panel C: Bid characteristics						
Horizontal deal	4,396	0.6558	0.4752	0.0000	0.0000	1.0000
Cash payment	4,396	0.3041	0.4601	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 completion	3,761	134	80.9827	20.0000	118	481
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
Merger wave	109,648	0.3125	0.4635	0.0000	0.0000	1.0000

Table 2

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

This table compares the mean values of the variables for the sub-samples of acquired firms and firms that are not acquired. Refer to Appendix A for detailed variable descriptions. *** and ** indicate significance at the 1% and 5% levels, respectively.

	(1) Acquired firms	(2) Non-acquired firms	(2) – (1)
N	3,761	105,887	
Panel A.1: Political contributions			
$PI^{candidates\_raw}$	0.3260	0.8421	0.5161***
$PI^{strength\_raw}$	11.5629	27.6114	16.0485***
$PI^{ability\_raw}$	0.0522	0.1116	0.0594***
PI^{power_raw}	0.2753	0.7619	0.4866***
$PI^{contributions\_raw}$	329	867	538***
Panel A.2: Political contributions (Contributors only)			
$PI^{candidates\_raw}$	78.2889	95.5185	17.2297***
$PI^{strength\_raw}$	2080	2762	683***
$PI^{ability\_raw}$	9.4690	9.1794	-0.2896
PI^{power_raw}	343	396	52.6347**
$PI^{contributions\_raw}$	45,527	65,294	19,767***
Panel B: Firm characteristics			
Market value	1,476	1,966	491***
Equity value	953	1,336	383***
B/M	0.6772	0.7157	0.0385***
Leverage	0.1874	0.2016	0.0142***
Cash flows	-0.00003	0.2465	0.2466**
Cash reserves	0.1871	0.1827	-0.0044
ROA	0.0084	0.0054	-0.0029
Sales growth	0.2795	0.2741	-0.0053
Net loss	0.3026	0.3304	0.0278***

Table 3

Politicians' chance for re-election and ability to attract PAC contributions after merger deals.

Panel A reports the estimated coefficients of the probit model in which the dependent variable, *Re-election*, takes the value of 1 if the politician is re-elected in the following election and 0 otherwise. *# of Connected targets (acquirers)* = the number of connected target firms (acquirers). *# of Connected targets (acquirers) with completed deal* = the number of connected target firms (acquirers) whose deal is completed. *# of Connected targets (acquirers) with failed deal* = the number of connected target firms (acquirers) whose deal is failed. *Total size of connected target firms (acquirers)* = the sum of total assets of connected target firms (acquirers). *Total size of connected targets (acquirers) with completed deal* = the sum of total assets of connected target firms (acquirers) whose deal is completed. *Total size of connected target firms (acquirers) with failed deal* = the sum of total assets of connected target firms (acquirers) whose deal is failed. Connections between politicians and target firms (acquirers) are determined by political action committee (PAC) contributions. *Senator* = 1 for a Senator and 0 for a House Representative. *Democrat* = 1 for a Democratic politician and 0 for a Republican politician. *Aligned* = 1 if the politician is in the same party as the President, and 0 otherwise. *Ideology distance* = the ratio of the ideology distance from the opposite party average to the ideology distance from the own party average. *Age* = politician's age. *Total PAC contributions* = the total amount of PAC contributions in the year of the merger deal. *# of connected firms* = the number of firms connected to the politician via PAC contribution. *State corruption* = the number of conviction divided by state population in millions. *PAI* = the state-level political alignment index as in Kim et al. (2012). The variables *# of connected target firms (acquirers)*, *# of connected target firms (acquirers) with completed deal*, *# of connected target firms (acquirers) with failed deal*, *Total size of connected target firms (acquirers)*, *Total size of connected target firms (acquirers) with completed deal*, *Total size of connected target firms (acquirers) with failed deal*, age, law, total PAC contributions, and # of connected firms are transformed by adding one and taking the natural log. Panel B reports the estimated coefficients of the OLS model in which the dependent variable, *Total PAC contributions in the following year*, is the log-transformed total amount of PAC contributions in the next year of the merger deal. The *z*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and politician clustering. ***, **, and * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 3 – *(continued)*

Politicians' chance for re-election and ability to attract PAC contributions after merger deals.

Panel A: Probability of getting re-elected after merger deals				
	Dependent variable = *Re-election*			
	All deals		Completed vs. Failed deals	
	(1)	(2)	(3)	(4)
# of Connected target firms	-1.0108***			
	(-18.68)			
# of Connected acquirers	0.2193***			
	(7.37)			
Total size of connected target firms		-0.0385***		
		(-16.42)		
Total size of connected acquirers		0.0068***		
		(2.92)		
# of Connected target firms with completed deal			-1.6820***	
			(-21.03)	
# of Connected target firms with failed deal			-0.2562***	
			(-3.37)	
# of Connected acquirers with completed deal			0.2812***	
			(9.11)	
# of Connected acquirers with failed deal			-0.1972***	
			(-4.14)	
Total size of connected target firms with completed deal				-0.0611***
				(-20.51)
Total size of connected target firms with failed deal				-0.0101***
				(-3.37)
Total size of connected acquirers with completed deal				0.0063***
				(2.66)
Total size of connected acquirers with failed deal				-0.0096***
				(-4.26)
Senator	0.2289***	0.1794***	0.2923***	0.2278***
	(3.33)	(2.73)	(3.89)	(3.21)
Democrat	-0.1329***	-0.1534***	-0.1210**	-0.1408***
	(-2.84)	(-3.34)	(-2.46)	(-2.90)
Aligned	-0.0724	-0.0617	-0.0953*	-0.0762
	(-1.27)	(-1.09)	(-1.67)	(-1.34)
Ideology distance	-0.0606**	-0.0616**	-0.0669**	-0.0582*
	(-2.01)	(-2.10)	(-2.14)	(-1.92)
Age	-0.8651***	-0.8979***	-0.8757***	-0.9909***
	(-5.92)	(-6.26)	(-5.70)	(-6.41)
Total PAC contributions	-0.3869***	-0.3600***	-0.4038***	-0.3569***
	(-10.23)	(-10.32)	(-10.00)	(-9.85)
# of connected firms	0.4984***	0.5256***	0.5303***	0.5748***
	(25.07)	(26.50)	(25.74)	(26.84)
State corruption	-0.0057	-0.0046	-0.0111	-0.0071
	(-0.51)	(-0.41)	(-0.95)	(-0.61)
PAI	-0.2389**	-0.2428**	-0.2243*	-0.2276**
	(-2.05)	(-2.11)	(-1.91)	(-1.96)
Constant	7.6747***	7.6276***	7.8211***	7.9238***
	(10.63)	(10.88)	(10.29)	(10.57)
N	7,525	7,525	7,525	7,525
Pseudo R-squared	0.2530	0.2353	0.2987	0.2853

Table 3 – *(continued)*

Politicians' chance for re-election and ability to attract PAC contributions after merger deals.

Panel B: Politicians' ability to attract PAC contributions after merger deals				
	Dependent variable = *Total PAC contributions in the following year*			
	All deals		Completed vs. Failed deals	
	(1)	(2)	(3)	(4)
# of Connected target firms	0.0967***			
	(5.75)			
# of Connected acquirers	0.5946***			
	(29.57)			
Total size of connected target firms		0.0123***		
		(13.15)		
Total size of connected acquirers		0.0395***		
		(17.81)		
# of Connected target firms with completed deal			0.0007	
			(0.03)	
# of Connected target firms with failed deal			0.1288***	
			(6.07)	
# of Connected acquirers with completed deal			0.5626***	
			(27.14)	
# of Connected acquirers with failed deal			0.1483***	
			(9.07)	
Total size of connected target firms with completed deal				0.0049***
				(3.98)
Total size of connected target firms with failed deal				0.0108***
				(11.02)
Total size of connected acquirers with completed deal				0.0373***
				(16.99)
Total size of connected acquirers with failed deal				0.0108***
				(11.68)
Senator	0.0304	0.0830**	0.0195	0.0749**
	(0.91)	(2.33)	(0.58)	(2.18)
Democrat	-0.0308	-0.0864***	-0.0278	-0.0703***
	(-1.24)	(-3.28)	(-1.12)	(-2.72)
Aligned	0.0142	0.0153	0.0101	0.0069
	(0.70)	(0.73)	(0.50)	(0.33)
Ideology distance	-0.0213	-0.0163	-0.0204	-0.0196
	(-1.26)	(-0.96)	(-1.22)	(-1.19)
Age	0.1572**	0.0253	0.1615**	0.0399
	(2.26)	(0.34)	(2.32)	(0.55)
Total PAC contributions	0.2612***	0.3038***	0.2606***	0.2966***
	(13.41)	(15.89)	(13.25)	(15.41)
# of connected firms	0.2210***	0.3249***	0.2247***	0.3053***
	(14.01)	(17.10)	(14.25)	(16.80)
State corruption	0.0093*	0.0083	0.0094*	0.0089*
	(1.87)	(1.59)	(1.89)	(1.72)
PAI	0.1123***	0.0766*	0.1111***	0.0752*
	(2.87)	(1.86)	(2.84)	(1.86)
Constant	5.4411***	5.2895***	5.4753***	5.3669***
	(17.63)	(15.65)	(17.74)	(16.33)
N	7,415	7,415	7,415	7,415
Pseudo R-squared	0.5812	0.5262	0.5801	0.5360

Table 4

Employment change in the politician's district.

This table reports the estimated coefficients of OLS regressions in which the dependent variable, *Employment change*, is calculated as the percentage change in the total number of employees in the politician's district between year *y* and year *y*+1. *Total size (sales, # of employees) of acquired firms in the politician's district* = total size (sales, number of employees) of acquired firms in the politician's district in year *y*. *Democrat* = 1 if the district's politician is Democratic and 0 otherwise. *Aligned* = 1 if the district's politician is in the same party as the President, and 0 otherwise. *State corruption* = the number of convictions divided by state population in millions. The variables *Total size (sales, # of employees) of acquired firms in the politician's district*, and state population are transformed by adding one and taking the natural log. Year and state-district fixed effects, whose coefficients are suppressed, are based on calendar year dummies and state-district dummies, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and state-district clustering. *** indicates significance at the 1% level.

	Dependent variable = *Employment change*		
	(1)	(2)	(3)
Total size of acquired firms in the politician's district	-0.0059***		
	(-2.94)		
Total sales of acquired firms in the politician's district		-0.0048***	
		(-3.06)	
Total # of employees of acquired firms in the politician's district			-0.0095***
			(-3.22)
Democrat	-0.0164	-0.0164	-0.0162
	(-1.46)	(-1.47)	(-1.48)
Aligned	-0.0047	-0.0046	-0.0046
	(-0.64)	(-0.62)	(-0.62)
State corruption	0.0007	0.0008	0.0008
	(0.29)	(0.31)	(0.31)
State population	0.0186***	0.0161***	0.0180***
	(3.93)	(3.19)	(3.74)
Constant	0.0002	-0.0903***	-0.0997***
	(0.00)	(-2.71)	(-2.85)
Year-fixed	Yes	Yes	Yes
State-district-fixed	Yes	Yes	Yes
N	4,404	4,404	4,404
Pseudo R-squared	0.1339	0.1336	0.1351

Table 5

Comparisons of the probability of being acquired between politically connected and non-connected firms.

This table compares the probability of being acquired between politically connected and non-connected firms. In panel A, we compare the probability in a univariate test. In panel B, we use the probit model that regresses on the political connection dummy and other controlling variables used in Table 6, 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 being acquired		
	(1) Firms with political connections	(2) Firms with no political connections
Acquired	59	3,702
Not acquired	4,535	101,352
Total	4,594	105,054
Probability of being acquired	1.28%	3.52%
% change [(1)-(2)]/(2)]	-63.56%	
Panel B: Multivariate test of being acquired		
	(1) Firms with political connections	(2) Firms with no political connections
Probability of being acquired	0.77%	2.71%
% change [(1)-(2)]/(2)]	-71.59%	

Table 6

Probability of being acquired.

This table reports the estimated coefficients of the probit model. The dependent variable, *Acquired*, is an indicator that takes the value of 1 if the firm is acquired 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 *z*-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 = *Acquired*				
	(1)	(2)	(3)	(4)	(5)
$PI^{candidates}$	-0.1643***				
	(-7.16)				
$PI^{strength}$		-0.0771***			
		(-7.05)			
$PI^{ability}$			-0.2399***		
			(-5.31)		
PI^{power}				-0.1413***	
				(-6.54)	
$PI^{contributions}$					-0.0518***
					(-8.10)
Market value	0.0132***	0.0135***	0.0152***	0.0147***	0.0130***
	(2.97)	(3.05)	(3.52)	(3.36)	(2.94)
B/M	0.0325***	0.0322***	0.0306**	0.0317***	0.0327***
	(2.74)	(2.71)	(2.58)	(2.67)	(2.75)
Leverage	0.0461	0.0458	0.0473	0.0470	0.0453
	(0.99)	(0.99)	(1.02)	(1.01)	(0.98)
Cash flows	-0.0005**	-0.0005**	-0.0005**	-0.0005**	-0.0005**
	(-2.27)	(-2.28)	(-2.23)	(-2.25)	(-2.27)
Cash reserves	0.0440	0.0423	0.0394	0.0412	0.0408
	(1.20)	(1.16)	(1.11)	(1.13)	(1.12)
ROA	0.1409**	0.1424***	0.1456***	0.1462***	0.1402**
	(2.56)	(2.59)	(2.65)	(2.66)	(2.55)
Sales growth	-0.0214***	-0.0213***	-0.0203**	-0.0210**	-0.0216***
	(-2.60)	(-2.59)	(-2.48)	(-2.55)	(-2.62)
Net loss	0.0198	0.0200	0.0196	0.0197	0.0196
	(0.87)	(0.88)	(0.86)	(0.86)	(0.86)
Industry M&A liquidity	1.0065***	1.0071***	1.0064***	1.0122***	1.0068***
	(7.71)	(7.71)	(7.71)	(7.75)	(7.71)
Herfindahl index	-0.7661**	-0.7613**	-0.7706**	-0.7598**	-0.7688**
	(-2.23)	(-2.22)	(-2.25)	(-2.22)	(-2.24)
Merger wave	0.0687***	0.0687***	0.0685***	0.0688***	0.0686***
	(2.95)	(2.95)	(2.94)	(2.95)	(2.94)
Year-fixed	Yes	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes	Yes
N	106,545	106,545	106,545	106,545	106,545
χ^2	1093.64	1092.46	1079.57	1093.28	1108.04
[Prob> χ^2]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]

Table 7

Probability of being acquired: 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, *Acquired*, is an indicator that takes the value of 1 if the firm is acquired and 0 otherwise. Political contribution variables are the firm size-orthogonal measures. The control variables are the same as the ones used in Table 6. 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 *z*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. *** indicates significance at the 1% level.

	Dependent variable = *Acquired*				
	(1)	(2)	(3)	(4)	(5)
$PI^{candidates}$	-0.4776***				
	(-5.90)				
$PI^{strength}$		-0.2331***			
		(-5.88)			
$PI^{ability}$			-0.5649***		
			(-4.34)		
PI^{power}				-0.3917***	
				(-5.41)	
$PI^{contributions}$					-0.1655***
					(-6.72)
Control variables	Yes	Yes	Yes	Yes	Yes
Deal-fixed	Yes	Yes	Yes	Yes	Yes
N	17,693	17,693	17,693	17,693	17,693
χ^2	312.98	311.90	296.58	305.42	321.67
[Prob> χ^2]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]

Table 8

Two-stage instrumental variable and Heckman selection models.

Columns (1) and (2) report the estimated coefficients of the two-stage model regression. In the first-stage, a probit model estimates *PI indicator*, which 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. *Geographic diversification* is measured based on the number of economically relevant states, developed by Garcia and Norli (2012). We take the residual value from the regression of the number of states on Ln(*total sales*+1). The second-stage model uses the fitted value of *PI indicator* to estimate *Acquired*, an indicator that takes the value of 1 if the firm is acquired and 0 otherwise. Column (3) reports the estimated coefficients of the Heckman selection model. The control variables are the same as the ones used in Table 6. Refer to Appendix A for detailed variable descriptions. Year fixed effects, whose coefficients are suppressed, are based on calendar year dummies. All variables are winsorized at the 1st and 99th percentiles. The *z*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. *** indicates significance at the 1% level.

	Two-stage model		Heckman selection
Dependent variable =	*PI indicator*	*Acquired*	*Acquired*
	(1)	(2)	(3)
PI indicator			-0.5632***
			(-8.54)
Instrumented PI indicator		-2.9140***	
		(-3.58)	
Geographic diversification	0.0122***		
	(4.98)		
Inverse Mills ratio			4.2150***
			(3.22)
Control variables	Yes	Yes	Yes
Year-fixed	Yes	Yes	Yes
N	84,079	84,079	84,079
χ^2	1092.68	511.08	580.59
[Prob> χ^2]	[0.000]	[0.000]	[0.000]

Table 9

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

This table reports the difference-in-difference test results. The dependent variable, *Acquired*, is an indicator that takes the value of 1 if the firm is acquired 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 6. 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 ($PI^{candidates}$)	-0.0382***				
	(-9.56)				
Treat ($PI^{strength}$)		-0.0407***			
		(-10.52)			
Treat ($PI^{ability}$)			-0.0379***		
			(-9.22)		
Treat (PI^{power})				-0.0372***	
				(-8.41)	
Treat ($PI^{contributions}$)					-0.0382***
					(-9.56)
Bipartisan	-0.0074**	-0.0073**	-0.0072**	-0.0070*	-0.0074**
	(-2.04)	(-2.02)	(-2.00)	(-1.94)	(-2.04)
*Treat ($PI^{candidates}$) * Bipartisan*	0.0149***				
	(3.02)				
*Treat ($PI^{strength}$) * Bipartisan*		0.0159***			
		(3.28)			
*Treat ($PI^{ability}$) * Bipartisan*			0.0207***		
			(3.42)		
*Treat (PI^{power}) * Bipartisan*				0.0158***	
				(2.81)	
*Treat ($PI^{contributions}$) * Bipartisan*					0.0149***
					(3.02)
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	57,612	57,612	57,612	57,612	57,612
R-squared	0.0108	0.0108	0.0104	0.0105	0.0108

Table 10

Time to completion.

This table reports the estimated coefficients of the regressions of time to completion. The dependent variable, *Time to completion*, is computed as the number of days from the acquisition announcement to completion date. 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 completion*				
	(1)	(2)	(3)	(4)	(5)
$PI^{candidates}$	12.1201**				
	(2.18)				
$PI^{strength}$		5.2742**			
		(1.99)			
$PI^{ability}$			22.6988**		
			(2.02)		
PI^{power}				10.3433*	
				(1.87)	
$PI^{contributions}$					4.3597***
					(2.64)
Market value	5.3563***	5.2809***	5.1382***	5.1871***	5.4885***
	(5.52)	(5.47)	(5.45)	(5.43)	(5.66)
B/M	5.1407**	5.1626**	5.1550**	5.1966**	5.1370**
	(2.43)	(2.44)	(2.44)	(2.45)	(2.43)
Leverage	-11.3793	-11.4064	-11.6793	-11.4476	-11.0603
	(-1.40)	(-1.40)	(-1.44)	(-1.41)	(-1.36)
Cash flows	1.6271	1.6031	1.5842	1.6494	1.6631
	(1.59)	(1.57)	(1.55)	(1.60)	(1.62)
Cash reserves	-37.6278***	-37.4398***	-37.7756***	-37.4029***	-37.3380***
	(-5.56)	(-5.53)	(-5.57)	(-5.53)	(-5.53)
ROA	-20.8643**	-20.9083**	-20.8015**	-21.0621**	-20.9048**
	(-2.29)	(-2.29)	(-2.28)	(-2.31)	(-2.29)
Sales growth	-0.9831	-1.0067	-1.0051	-0.9984	-0.9678
	(-0.68)	(-0.70)	(-0.70)	(-0.69)	(-0.67)
Net loss	5.3992	5.3792	5.3873	5.5091	5.4310
	(1.57)	(1.56)	(1.56)	(1.60)	(1.58)
Horizontal deal	0.5121	0.5035	0.4693	0.5224	0.5132
	(0.21)	(0.21)	(0.19)	(0.21)	(0.21)
Cash payment	-18.0759***	-18.0727***	-17.9728***	-18.1990***	-18.0842***
	(-6.01)	(-6.00)	(-5.97)	(-6.05)	(-6.01)
Tender offer	-42.5399***	-42.6199***	-42.6901***	-42.5348***	-42.4391***
	(-13.86)	(-13.88)	(-13.90)	(-13.86)	(-13.81)
Hostile deal	63.4500***	63.4922***	63.8573***	62.8407***	62.9710***
	(3.91)	(3.91)	(3.94)	(3.85)	(3.86)
Competing deal	39.3982***	39.3391***	40.7382***	38.2334***	38.2400***
	(2.83)	(2.83)	(2.94)	(2.73)	(2.72)
US bidder	-3.1593	-3.1710	-3.0980	-3.1649	-3.1898
	(-0.95)	(-0.95)	(-0.93)	(-0.95)	(-0.96)
Industry M&A liquidity	18.3687	18.2288	19.2023	18.2507	18.0119
	(0.88)	(0.87)	(0.92)	(0.88)	(0.86)
Herfindahl index	61.0180	58.7845	60.3164	62.5673	62.3325
	(1.22)	(1.18)	(1.21)	(1.25)	(1.24)
Merger wave	-0.7285	-0.7124	-0.8472	-0.7785	-0.5699
	(-0.22)	(-0.22)	(-0.26)	(-0.24)	(-0.17)
Year-fixed	Yes	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes	Yes
N	3,200	3,200	3,200	3,200	3,200
R-squared	0.3430	0.3426	0.3427	0.3424	0.3440

Table 11

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 10. 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)
$PI^{candidates}$	0.0677***				
	(2.70)				
$PI^{strength}$		0.0336***			
		(2.73)			
$PI^{ability}$			0.0905**		
			(2.18)		
PI^{power}				0.0854***	
				(3.31)	
$PI^{contributions}$					0.0208***
					(2.96)
Bidder's $PI^{candidates}$ *indicator*	0.0305				
	(1.39)				
Bidder's $PI^{strength}$ *indicator*		0.0401*			
		(1.74)			
Bidder's $PI^{ability}$ *indicator*			0.0404		
			(1.51)		
Bidder's PI^{power} *indicator*				0.0330	
				(1.42)	
Bidder's $PI^{contributions}$ *indicator*					0.0301
					(1.37)
$PI^{candidates}$ * *Bidder's* $PI^{candidates}$ *indicator*	-0.0612**				
	(-2.19)				
$PI^{strength}$ * *Bidder's* $PI^{strength}$ *indicator*		-0.0275**			
		(-2.00)			
$PI^{ability}$ * *Bidder's* $PI^{ability}$ *indicator*			-0.0850*		
			(-1.71)		
PI^{power} * *Bidder's* PI^{power} *indicator*				-0.0760***	
				(-2.64)	
$PI^{contributions}$ * *Bidder's* $PI^{contributions}$ *indicator*					-0.0195**
					(-2.38)
Control variables	Yes	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes	Yes
N	2,855	2,855	2,855	2,855	2,855
R-squared	0.1309	0.1312	0.1299	0.1316	0.1311

Table 12

Lobbying expenditures and M&A deals.

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 were acquired and firms that were not acquired. Panel C compares the probability of being acquired. In panel C.1, we compare the probability in a univariate test. In panel C.2, we use the probit model that regresses the probability of being acquired on the lobbying expenditures dummy and other control variables used in Table 6, 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, column (1) is the probit model to estimate the probability of being *Acquired*, an indicator that takes the value of 1 if the firm is acquired and 0 otherwise. Column (2) reports the result using a matching-firm approach. 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. Columns (3) and (4) report the estimated coefficients of the two-stage model regressions. In the first-stage, a probit model estimates *lobbying indicator*, which takes the value of 1 if a firm's lobbying expenditures are greater than 0. *Geographic diversification* is measured based on the number of economically relevant states, developed by Garcia and Norli (2012). We take the residual value from the regression of the number of states on Ln(*total sales*+1). The second-stage model uses the fitted value of *lobbying indicator* to estimate *Acquired*. Column (5) reports the estimated coefficients of the Heckman selection model. Column (6) reports the difference-in-difference test result. *Abramoff* = a dummy variable that takes the value of 1 for the 5-year period (2007-2011) after the Abramoff's scandal in 2006, and 0 for the 5-year period (2001-2005) before the scandal. Column (7) is used to estimate the results for the time to completion. Column (8) estimates the results for the takeover premium. *Acquired* is an indicator that takes the value of 1 if the firm is acquired and 0 otherwise. *Time to completion* is computed as the number of days from the acquisition announcement to completion date. *Takeover premium* is computed as the difference between the offer price and the target firm's stock price 4 weeks prior to the acquisition announcement divided by the latter. 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 columns (1) to (6) are the same as the ones used in Table 6, while the control variables in columns (7) and (8) are the same as the ones used in Table 10. 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 *z*-statistics and *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and firm clustering. ***, ** and * indicate significance at the 1%, 5% and 10% levels, respectively.

Table 12 – *(continued)*

Lobbying expenditures and M&A deals.

Panel A: Descriptive statistics of lobbying expenditures						
	N	Mean	Std. Dev.	Minimum	Median	Maximum
All sample						
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
Lobbying firms only						
Lobbying expenditures^{raw}	8,016	$1,180,573	$11,472,450	$2,000	$200,000	$994,597,000

Panel B: Comparisons of lobbying expenditures		
(1) Targets	(2) No targets	(2) – (1)
	All sample	
$44,700	$63,464	$18,764***
	Lobbying firms only	
$696,313	$1,193,728	$497,415***

Panel C.1: Univariate test of being acquired		
	(1) Firms with lobbying expenditures	(2) Firms with no lobbying expenditures
Acquired	212	2,070
Not Acquired	7,804	57,982
Total	8,016	60,052
Probability of being acquired	2.64%	3.45%
% change [(1)-(2)]/(2)]	-23.28%	

Panel C.2: Multivariate test of being acquired		
	(1) Firms with lobbying expenditures	(2) Firms with no lobbying expenditures
Probability of being acquired	2.08%	2.76%
% change [(1)-(2)]/(2)]	-24.64%	

Table 12 – *(continued)*

Lobbying expenditures and M&A deals.

Panel D: Regression analysis								
		Matching-firm	Two-stage model		Heckman selection	Difference-in-difference		
Dependent variable =	*Acquired*	*Acquired*	*Lobbing indicator*	*Acquired*	*Acquired*	*Acquired*	*Time to completion*	*Takeover premium*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Lobbying expenditures	-0.0106***	-0.0255**					1.0644**	0.0074**
	(-3.70)	(-2.56)					(2.00)	(2.43)
Lobbying indicator					-0.1519***	-0.0108***		
					(-4.07)	(-3.72)		
Instrumented lobbying indicator				-2.0373***				
				(-3.20)				
Bidder's lobbying indicator								-0.0007
								(-0.03)
*Lob. expend. * Bid. lob. indicator*								-0.0077*
								(-1.84)
Abramoff						-0.0153***		
						(-4.72)		
*Lobbying indicator * Abramoff*						0.0071*		
						(1.84)		
Geographic diversification			0.0086***					
			(4.32)					
Inverse Mills ratio					3.1992***			
					(3.06)			
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year-fixed	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Industry-fixed	Yes	No	No	No	No	Yes	Yes	Yes
State-fixed	Yes	No	No	No	No	Yes	Yes	Yes
Deal-fixed	No	Yes	No	No	No	No	No	No
N	67,128	11,069	59,062	59,062	59,062	49,590	2,069	2,247
Pseudo R-squared (R-squared)	0.0381	0.0632	0.2224	0.0234	0.0244	(0.0092)	(0.3890)	(0.1522)

Table 13

Bidder's analysis.

This table provides the main regressions for bidding firms. Regressions (1) and (3) are the probit models to estimate the results for the probability of acquiring a target firm. Regressions (2) and (4) are used to estimate the results for the time to completion. *Acquiring* is an indicator that takes the value of 1 if the firm acquires a target firm and 0 otherwise. *Time to completion* is computed as the number of days from the acquisition announcement to completion date. *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 *z*-statistics and *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 =	Political contributions		Lobbying expenditures	
	Acquiring	*Time to completion*	*Acquiring*	*Time to completion*
	(1)	(2)	(3)	(4)
Bidder's PI indicator	0.1235***	7.5866		
	(2.73)	(1.34)		
Bidder's lobbying indicator			0.1174***	11.6254**
			(3.38)	(2.30)
Bidder's market value	0.2298***	-2.0347*	0.2372***	-3.7564***
	(32.21)	(-1.86)	(27.17)	(-2.86)
Bidder's B/M	-0.0069	-2.0325	0.0218	-3.8291
	(-0.31)	(-0.51)	(0.91)	(-0.82)
Bidder's leverage	-0.3047***	5.6266	-0.3632***	6.0719
	(-4.84)	(0.52)	(-4.51)	(0.47)
Bidder's cash flows	-0.0010***	0.8863	-0.0012***	-1.0435
	(-2.98)	(0.38)	(-2.78)	(-0.54)
Bidder's cash reserves	-0.0716*	-14.4691***	-0.0757*	-7.7423*
	(-1.96)	(-3.24)	(-1.90)	(-1.82)
Bidder's ROA	-0.1400*	-16.1869	-0.1967**	7.4349
	(-1.67)	(-0.94)	(-1.98)	(0.38)
Bidder's sales growth	0.0137	-2.6243	-0.0038	-2.0563
	(1.40)	(-1.41)	(-0.30)	(-0.91)
Bidder's net loss	-0.0927***	5.2652	-0.1213***	1.2758
	(-3.06)	(0.94)	(-3.20)	(0.20)
Horizontal deal		7.3896**		6.3463
		(2.30)		(1.52)
Cash payment		-20.1450***		-22.7929***
		(-5.51)		(-5.50)
Tender offer		-41.0855***		-40.5856***
		(-10.20)		(-8.77)
Hostile deal		75.4880***		117.2936***
		(3.46)		(3.57)
Competing deal		13.9924**		5.8187
		(2.45)		(0.88)
Industry M&A liquidity	1.4469***	88.5031**	0.9281***	89.6791**
	(5.81)	(2.56)	(2.90)	(2.22)
Herfindahl index	-0.1989	95.9377	-1.2755	127.3727
	(-0.42)	(1.49)	(-1.53)	(0.88)
Merger wave	0.0016	-1.6139	0.0417	0.6163
	(0.06)	(-0.40)	(1.17)	(0.12)
Year-fixed	Yes	Yes	Yes	Yes
Industry-fixed	Yes	Yes	Yes	Yes
State-fixed	Yes	Yes	Yes	Yes
N	108,015	2,545	67,808	1,609
Pseudo R-squared (R-squared)	0.1546	(0.3328)	0.1631	(0.3725)