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Lobbying in Finance Industry: Evidence from US Banking System

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Abstract: We examine the relationship between corporate lobbying, shareholder-based litigation outcomes, and firm value for financial firms. First, we show that political lobbying lowers the litigation likelihood for financial institutions. Secondly, lobbying firms experience a higher likelihood of having litigation dismissed, and the average settlement amount is significantly lower for lobbying institutions. In addition, shortly after a litigation announcement, lobbying firms experience significantly higher cumulative abnormal returns (CARs), compared to non-lobbying firms. Finally, we show that lobbying firms have higher long-run buy-and-hold abnormal stock returns (BHARs) following lobbying activities. Our results link financial institution lobbying activity with improved legal outcomes and increases in firm value, implying that lobbying may protect financial institutions from reduced firm value through the building of political capital and reducing litigation costs.

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Keywords: Corporate lobbying, corporate fraud, corporate governance.

JEL classification: G30; G32; G38; K41

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Abstract

We examine the relationship between corporate lobbying, shareholder-based litigation outcomes, and firm value for financial firms. First, we show that political lobbying lowers the litigation likelihood for financial institutions. Secondly, lobbying firms experience a higher likelihood of having litigation dismissed, and the average settlement amount is significantly lower for lobbying institutions. In addition, shortly after a litigation announcement, lobbying firms experience significantly higher cumulative abnormal returns (CARs), compared to non-lobbying firms. Finally, we show that lobbying firms have higher long-run buy-and-hold abnormal stock returns (BHARs) following lobbying activities. Our results link financial institution lobbying activity with improved legal outcomes and increases in firm value, implying that lobbying may protect financial institutions from reduced firm value through the building of political capital and reducing litigation costs.

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1. Introduction

In this paper, we focus on financial firm lobbying, which is a firm-level action meant to influence government officials or politicians in order to alter policy proposals in a manner that benefits the firm. Many corporations engage in political lobbying in order to build political capital and seek political gain from their lobbying expenditures, which may ultimately increase shareholder wealth (Goldman et al., 2009; Johnson and Mitton, 2003; Gupta and Swenson, 2003; Khwaja and Mian, 2005; Claessens, et al., 2008; Boubakri et al., 2012; Hill et al,. 2013; Faccio, 2006; Niessen and Ruenzi, 2009, Cooper et al., 2010; Blau et al., 2013; Kroszner and Stratmann, 1998; Stratmann, 1995; and Chen et al., 2014). For example, in 2012, both public and private organizations spent approximately $3.30 billion on lobbying efforts[1]. While individual donations are limited to $5,000 per candidate per election cycle, there is no restriction on the amount firms can spend on lobbying[2]. Therefore, firm lobbying expenditures can be substantially greater than individual campaign donations and have recently been measured in the billions of dollars for recent elections (Kerr et al., 2011, Hill et al., 2013).

The potential benefits of corporate lobbying on shareholder value are quantified in the literature (Mathur et al., 2013; Borghesi and Chang, 2012; among others). Additionally, Agrawal and Knoeber (2000) show that the impact of corporate lobbying is more pronounced in heavily regulated industries. In an extension of this line of literature, we focus on the financial industry and examine the potential benefit of corporate lobbying in terms of shareholder class action litigation outcomes. We utilize firm-level data on both corporate lobbying expenditures and collect a sample of 131 shareholder class action lawsuits for the largest 200 financial firms from 2000 to 2013. We examine the impact of corporate lobbying activities on litigation outcomes to determine whether the lobbying activities appear to alter the political and legal environment in favor of the firms. Then, we analyze the relationship between financial firm lobbying and firm value. Finally, we link firm lobbying activities, litigation outcomes, and firm value.

[1] http://www.opensecrets.org/lobby/
[2] http://www.fec.gov/pages/brochures/contriblimits.shtml

Using logistic and panel data estimation methodologies, our results show that financial firms that engage in lobbying activities face a lower likelihood of shareholder lawsuits and a lower number of total lawsuits. In addition, lobbying firm lawsuit outcomes are better than those of non-lobbying firms. Lawsuits filed against lobbying financial institutions are more likely to be dismissed, are settled for lower amounts, and are shorter in duration than those of non-lobbying firms, consistent with the benefits gained from corporate lobbying.

In addition, we examine the short-term effect of firm lobbying on firm value by conducting an event study surrounding litigation announcement days. We compute cumulative abnormal stock returns (CARs) around several event intervals and find that lobbying financial institutions have significantly higher event interval CARs. We also test the relationship between lobbying activities and long-term firm value by computing buy-and-hold abnormal stock returns (BHARs) for 12, 24, and 36 month holding periods following lobbying activities. Results show that lobbying activities are associated with higher long-term stock returns in the form of BHARs. Finally, we analyze the interaction of shareholder lawsuits and lobbying activity in order to more closely link increases in firm value with improved legal outcomes due to lobbying activities. Results show that shareholder lawsuits are associated with significant declines in BHARs; however, financial firms that are exposed to lawsuits, but are also lobbyists, experience no significant change in BHARs, consistent with the improved shareholder value attributed to the improved legal outcomes gained through lobbying.

For final investigation, we test the effect of lawsuit on corporate cash holding levels. Arena and Julio (2015) find that shareholder allegations increase the cash holding for future anticipated settlements. We test the similar hypothesis and find that lawsuits increase cash holding (including net cash holding) in our sample. However, our analysis show that lobbying financial institutions have no changes in their cash holding levels. This may be due to the fact that lobbying firms are not affected by settlement amounts resulting from shareholding allegations. To test the effect of

cash holding, we document that stock performance of lobbying firms are not influenced by the changes in cash holdings. In this case, our study shows that lobbying firm may benefit from the lower settlements amounts resulting from policy proposal changes.

Our work highlights the potential implications of, and benefits from, lobbying, where lobbying financial institutions face improved outcomes from class action lawsuits, due to increased political capital and influence. Our research is similar to Yu and Yu (2012) and Hill et al. (2013), who analyze the value of lobbying; however, our study is unique in analyzing the influence of corporate lobbying on lawsuit outcomes and firm performance in both the short and long-run. Departing from some other major empirical findings regarding the link between lobbying and firm performance, we conclude that lobbying can increase shareholder wealth for the financial industry by improving the firm's legal outcomes.

The paper proceeds as follows. Section 2 briefly discusses the literature on the benefits of corporate lobbying. The testing methodologies and hypotheses are outlined in Section 3. Section 4 describes the data. Section 5 examines the effect of lobbying activities on litigation likelihood and outcomes, while Section 6 examines the relationship between lobbying and firm value. Section 7 provides robustness, and Section 8 concludes.

2. Literature Review

Previous literature documents the substantial benefits of firm political involvement at both the CEO and firm levels. For example, empirical studies show that firms may experience higher excess returns when they sponsor bills in U.S. legislative bodies, due to the political capital gained through the lobbying process (Mathur et al., 2013; Borghesi and Chang, 2012).

Lobbying specifically targets the legislative acts that can influence firm performance. For instance, lobbying may provide tax policy benefits, which would ultimately change firm revenue, sales, and expenditures (Richter et al., 2009).

Similarly, lobbying may influence visa and trade policy (Kerr et al., 2011), prevent corporate fraud detection (Yu and Yu, 2012), provide greater success in securing bailout assistance, and influence political decisions (Duchin and Sosyura, 2012). Furthermore, the impact of lobbying may decrease taxes on firm repatriated earnings (Alexander et al., 2009), lower effective corporate tax rates (Richter et al.; 2009), and increase the likelihood to receive more TARP (Trouble Asset Relief Program) funds (Blau et al., 2013). All of these effects may result in increased cash flows, or reductions in risk, for the lobbying firm, which will increase the value of the firm.

Our study extends the literature pertaining to the impact of corporate lobbying on firm value in the face of shareholder-based lawsuits, because these lawsuits are more likely to be dismissed, or settled for lower amounts when the firm lobbies for favorable legislation, or gains some other form of political influence. Shareholder-based lawsuits or corporate fraud has been investigated at the firm level previously. Fraud may be related to CEO equity compensation (Burns and Kedia, 2006), or the firm having a lack of board independence (Agrawal and Chadha, 2005). While better monitoring is effective in detecting corporate fraud (Dyck et al., 2009), our study contributes to the literature by suggesting that lobbying may be another factor in corporate fraud detection and may influence the outcome of fraud investigations.

While lobbying is positively related to accounting measures of firm performance (Chen et al., 2014), it may also serve to increase the market value of the firm (Hill et al., 2013) and promote accounting conservatism (Kong et al., 2013). Furthermore, the impact of corporate lobbying is shown to be more pronounced for firms operating in heavily regulated industries (Agrawal and Knoeber, 2000). Firms are found to have doubled their lobbying expenditures between 1999 and 2006, once they recognized the effectiveness of lobbying (Blanes i Vidal et al., 2012). Subsequently, firms may increase their lobbying expenditure if the political geography shifts to an area that is not closely affiliated with the President (Antia et al., 2013).

The literature points to the benefit gained from the political actions achieved from firms spending their resources on lobbying efforts and accessing favor from the American political system (de Figueiredo and Richter, 2013). Hence, political spending may provide well- established access to politicians for firms (Kroszner and Stratmann, 1998). Political spending may lower the agency cost of free cash flow (Kim et al., 2013), yield better stock performance (Jayachandran, 2006); Fan, Wong, and Zhang, 2007; Aggarwal, Meschke, and Wang, 2009; Goldman et al., 2009; and Goldman et al., 2013), or elicit a positive market reaction when the supported candidate is elected (Cooper et al., 2010). We extend the literature along this line by examining the relationship between financial firm lobbying, improved shareholder lawsuit outcomes, and firm value.

3. Methodology

3.1 Litigation, Lobbying, and Firm Performance

Our main goal in this study is to determine whether financial firm corporate lobbying protects shareholder wealth by influencing the outcome of lawsuits. Securities class actions is common in U.S. market, and there have been many cases of firms being subjected to litigation involving: accounting irregularities; insider trading; broker-market manipulation; disclosure failure; broker practices; misrepresentation; and stock-price manipulation. Accordingly, we investigate whether lobbying financial institutions, which lobby bills in U.S. legislative bodies, are less likely to be involved in securities class actions, since they influence the legal and political environment through lobbying activities.

In examining the impact of lobbying in empirical models, several lobbying indicators are the main explanatory variables. We create three separate lobbying indicators. *Lobbydum* is a binary variable equal to one if firm lobbies at least one bill, zero otherwise. Our second variable is *Ln(LobbyExpense)*, and it is calculated as the total lobbying expenditure (log transformed) spent by a financial firm in a given

year. Our third variable is *Ln(TotalBills)*, which is the total number of bills sponsored (log transformed) by the lobbying financial firms.

We develop several hypotheses intended to uncover the relationship between lobbying and firm value in our empirical tests.

Hypotheses 1 (H.1): All other things equal, lobbying lowers the likelihood of being subjected to class action lawsuits (β_1<0).

We test H.1 in an empirical model of the form:

$$Lawsuit_{i,t+1} = \beta_0 + \beta_1 LobbyingIndicator_{i,t} + \sum_{s=2}^{n} \beta_s Control_{s,i,t} + \varepsilon_{i,t}, \qquad (1)$$

Where $Lawsuit_{i,t}$ is a binary variable equal to one if the firm i is facing a securities class litigation in following year, $t+1$. Lobbying indicators are a) whether firm is lobbyist, b) the total lobbying expenditure and, c) the total number of bills lobbied. Controls include firm-specific variables, such as firm size, financial leverage, asset tangibility, Tobin's Q, sales growth, Herfindahl Index, and firm age. We run logistic regressions and report that lobbyist firms are less likely to be subjected to litigation.

Hypothesis 2 (H.2): All other things equal, lobbying lowers the number of class action lawsuits (β_1<0).

We test H.2 in an empirical model of the form:

$$\ln(Lawsuit)_{i,t} = \beta_0 + \beta_1 LobbyingIndicator_{i,t} + \sum_{s=2}^{n} \beta_s Control_{s,i,t} + \varepsilon_{i,t}, \qquad (2)$$

where the dependent variable is log transformation of total number of class actions lawsuits for firm i in given year. We use same set of lobbying indicators and control variables to how lobbying efforts impacts the number of lawsuits against the firm.

Hypothesis 3 (H.3): All other things equal, lobbying influences litigation outcomes.

We test H.3 in an empirical model of the form:

$$CaseOutcome_{i,t} = \beta_0 + \beta_1 LobbyingIndicator_{i,t} + \sum_{s=2}^{n} \beta_s Control_{s,i,t} + \varepsilon_{i,t}, \qquad (3)$$

where the dependent variable *CaseOutcome* is associated with the outcome of the litigation. We hand collect data on 131 cases and report case outcome in two ways: a) *dismiss* is equal to one if the case is dismissed by court, and zero otherwise; and b) *settle* is equal to one if both parties agree to settle the case, zero otherwise. H.3 tests whether corporate lobbying influences case outcomes for financial firms. Since Yu and Yu (2012) document that lobbying benefits corporations by deferring further investigation by officials, we hypothesize that lobbying financial firms may also built political capital that would alter case results.

Hypothesis 4 (H.4): All other things equal, lobbying influences case characteristics.

We test H.4 in an empirical model of the form:

$$CaseCharacteristics_{i,t} = \beta_0 + \beta_1 LobbyingIndicator_{i,t} + \sum_{s=2}^{n} \beta_s Control_{s,i,t} + \varepsilon_{i,t}, \qquad (4)$$

where *CaseCharacteristics* are other case outcomes, measured as a) the total settlement amount (log transformed) and b) total duration (log transformed) of the litigation, measured by the difference between the announcement date and the closure date. H.4 investigates the effect of lobbying, not only on the likelihood of litigation, but also on other characteristics of cases.

Hypothesis 5 (H.5): All other things equal, securities class action lawsuit announcements effect firm performance in terms of Cumulative Abnormal Returns (CAR).

To measure the market reaction of a litigation announcement, we employ an event

study methodology, based on the Capital Asset Pricing Model (CAPM), where $R_{i,t}$ is the daily stock return for firm i, $r_{f,t}$ is the risk free return, and $R_{M,t}$ is the return of the CRSP Value Weight index).

$$R_{i,t} - r_{f,t} = \alpha_i + \beta_{i,M}\left(R_{M,t} - r_{f,t}\right) + \varepsilon_{i,t} \quad (5)$$

We utilize different event windows surrounding the litigation announcement dates, *CAR[-t, +t],* and the null hypothesis is that the cumulative litigation event cumulative abnormal return is equal to zero, $H_o: CAR = 0$. We compare cumulative abnormal returns for lobbying, compared to non-lobbying financial firms and report the differences as the impact of lobbying on the litigation announcement effect on firm value.

Hypothesis 6 (H.6): All other things equal, lobbying affects firm performance in terms of buy-and-hold abnormal returns (BHAR) (β_1>0).

We test H.6 in an empirical model of the form:

$$FirmPerformance_{\ i,t} = \beta_0 + \beta_1 LobbyingIndicator_{i,t} + \sum_{s=2}^{n} \beta_s Control_{s,i,t} + \varepsilon_{i,t}, \quad (6)$$

We measure firm performance in two ways. First, we identify the impact of shareholder litigation on firm performance. Then, we analyze whether lobbying improves firm value. We calculate the buy-and-hold abnormal returns (BHAR) for *t+12*, *t+24*, *t+36* months after the lobbying activity.

We conduct three sets of tests to measure the influence of lobbying on financial firm performance. First, we regress BHAR on firm-level lobbying indicators in order to show whether lobbying increases shareholder wealth. Then, we regress BHAR on an interaction term, multiplying lobbying by litigation, which is equal to one if a firm is both lobbying and is subject to shareholder litigation, zero otherwise. In this case, we discuss the effect of lobbying on performance when the firm is facing

simultaneous litigation. Our main interest is in the sign and magnitude of the interaction term. An insignificant coefficient of the interaction term indicates that lobbying firms that are also facing lawsuits have no difference in BHARs for up to three years. Lastly, we split our sample between lobbying and non-lobbying firms and measure the effect of lobbying, not only visually, but also statistically, testing two coefficients from two separate regressions. We estimate the model by running a fixed effect, panel regression[3].

3.2 Robustness Check

For a robustness check, we conduct propensity score matching to identify if lobbying firms have more dismissals, less settlements, lower settlement amounts, and faster litigation. To more convincingly link lobbying to case outcomes, we construct a matched sample of firms that differ by their lobbying status, but otherwise exhibit the same observable firm characteristics. For propensity score matching, we split our sample into two groups, a treatment group, which includes lobbying firms, and control group that includes non-lobbying firms.

4. Data Description

4.1 Firm Data

We utilize the COMPUSTAT database to identify the publicly traded financial firms used in our study. We gather our sample from the Fama-French 12 industry classification, Industry 11: Financial firms. In each year, we select the top 200 financial institutions, based on annual market capitalization at the end of each year from 2000 to 2013. We limit our empirical analyses to large companies, because they are able to lobby and are more incentivized to lobby in order to realize the benefit on their substantial lobbying expenditure. We find that 25 percent of the financial firms in our study is defined as a lobbying firms, while 2 percent of the excluded firms are considered lobbying from COMPUSTAT sample of financial

[3] Std. Errors are clustered for robustness check at firm level.

institutions. It is clear that lobbying is concentrated amongst the largest financial institutions, which have resources to influence legislative processes.

Our sample includes 200 unique firms for a total of 2,579 firm-year observations between 2000 and 2013. To measure firm performance, control variables are gathered from COMPUSTAT and the Center for Research Security Prices (CRSP) databases. Firm-specific controls include variables, such as firm size, financial leverage, asset tangibility, Tobin's Q, sales growth, Herfindahl Index, and firm age.

4.2 Event Study

We utilize the Center for Research Security Prices (CRSP) database and collect the daily stock returns for use in generating litigation announcement abnormal returns in our event study. In addition, the CRSP Value Weighted Market index is used as the benchmark market return for computing event abnormal returns in our event study. Finally, we utilize the CRSP monthly stock returns to compute buy-and-hold abnormal returns (BHARs) for *t+12*, *t+24* and *t+36* month post-litigation horizons to measure long run financial stock performance.

4.3 Litigation Data

We gather our security action lawsuit data from the Stanford Law School webpage. We hand collect 131 cases, their outcomes, conclusions, durations and settlement amounts[4].

4.4 Lobbying Information

We collect lobbying information from Congressional Bills Project database[5] to track the lobbied bills that are sponsored in both the U.S. Senate and House of Representatives.

[4] http://securities.stanford.edu/filings
[5] http://www.congressionalbills.org/

Table 1 shows the descriptive statistics for our sample at the lobbyist firm level. As shown in Panel A, over the 11-year span of our sample period, the average lobbying expenditure is more than 315,000 USD. In addition, 13 percent of the firms in our sample are defined as lobbyist, and the average firm lobbies 2.52 bills in either the U.S. House of Representatives, or Senate.

[Insert Table 1 here]

Panel B of Table 1 represents lawsuit characteristics at the firm level. On average, 4 percent of the firms in our sample are subject to shareholder class actions, while the dismissal and settlement ratios are both approximately 2 percent. On average, firms pay more than 800,000 USD for each case settlement, and the average duration of litigation in our sample is 26 days from announcement to conclusion. In addition, Figure 1 represents the number of class actions over the sample period of our data, and we observe the that the 2008 Financial Crises has a serious impact on shareholder lawsuits for financial firms, as the number of actions climbs to 36 cases in 2008.

[Insert Figure 1 here]

Finally, Panel C of Table 1 shows the firm characteristics of our sample. The average firm in our sample has total assets of approximately 1 billion USD, is 17.3 years old, has book leverage of approximately 30 percent, and a return on assets of 3 percent.

5. Lobbying and Shareholder Lawsuits

In Hypotheses H.1 to H.4, we examine relationship between corporate political lobbying and the likelihood and outcomes of shareholder litigation actions in order to quantify the potential benefits of corporate lobbying. We first examine the link between lobbying and legal outcomes by testing Hypothesis H.1 by estimating Equation (1) using a logistic estimation methodology; the results are presented in Table 2. The dependent variable in Equation (1), *Lawsuit*, is equal to one if a firm is subject to shareholder lawsuits, and zero otherwise.

[Insert Table 2 here]

Table 2 shows that lobbying financial firms are less likely to be subject shareholder allegations, as the coefficient *Lobbydum*, representing whether or not a firm actively lobbied, is negative and significant at the one percent level. Similarly, increases in total lobbying expenditures lowers the likelihood of shareholder litigation, as the coefficient *Ln(LobbyExpense)*, representing the dollar amount spent on corporate lobbying, is negative and significant at the one percent level. Finally, the coefficient *Ln(totalBills)*, which is the number of bills lobbied is negative and significant at the one percent level, indicating that firms that are more active in lobbying experience a lower likelihood of lawsuits. These findings are similar to Yu and Yu (2012) who find that lobbying firms are less likely to be caught in corporate scandals.

In addition to the lobbying activity variables, several important control variables are significant across the specifications of Equation (1). For example, the coefficient for the log of firm assets is positive and significant at the one percent level across the specifications of Table 2, indicating that larger financial firms are more likely to be sued – an intuitive result. In addition, there is some evidence (significance at the 10 percent level) that high-growth financial institutions, as measured by Tobin's Q, are more likely to be subject to litigation. In addition, a positive and significant coefficient for the Herfindahl Index indicates that financial institutions that exist in less competitive industries are more likely to be subject to shareholder lawsuits. Finally, a negative and significant coefficient for *BookLeaverage* implies that more highly leveraged financial institutions are less likely to be subject to shareholder litigation, a result that is consistent with prior research supporting leverage as a mechanism to control agency costs (Ang, et al.,2000; Harvey, et al., 2004; among others)

Next, we continue to examine the relationship between corporate lobbying and shareholder litigation by testing Hypothesis H.2 by estimating Equation (2); results

are presented in Table 3. The dependent variable in Table 3, *ln(Lawsuit)*, is the log transform of the number of lawsuits that a firm faces in a given year.

[Insert Table 3 here]

Consistent with the results reported in Table 2, we find that increases in lobbying activity lowers the number of shareholder class action lawsuits on average. We find that lobbying firms experience a lower number of lawsuits, and increases in lobbying spending similarly reduces the number of lawsuits in our data. In addition, the greater the number of bills lobbied by a financial institution, the lower the number of lawsuits. Finally, consistent with prior results, larger financial institutions tend to be subject to more frequent shareholder lawsuits, as *ln(Assets)* is positive and significant across specifications.

As a final analysis of the relationship between corporate lobbying activities and firm legal outcomes, we test Hypothesis H.4 by estimating Equation (4); results are presented in Tables 4 and 5. In Table 4, we focus on the relationship between lobbying and case outcomes and utilize two dependent variables. In specifications (1) – (3), the dependent variable is a dummy variable equal to one if the case is dismissed after initial hearings, and zero otherwise. In specifications (4) – (6), the dependent variable is a dummy variable equal to one if the case is settled, and zero otherwise.

[Insert Table 4 here]

Table 4, specifications (1) – (3) report that financial institutions which lobby, spend more on lobbying, and lobby a larger number of legislation, are more likely to have their cases dismissed; Increases in our lobbying indicators increases the likelihood that cases will be dismissed. In a related result, specifications (4) – (6) of Table 4 show that firms engaged in more active lobbying are less likely to settle shareholder lawsuits. Our results coincide with and provide evidence showing the potential benefits of lobbying, where the lobbying firms obtain more favorable legal outcomes,

which may reduce legal costs. Since firms spend excess amount on lobbying, an additional settlement amount is lowered by political connections, in terms of lobbying.

In Table 5, we examine the relationship between financial firm corporate lobbying and case characteristics. The dependent variable *Ln(Settle Amount)* in specifications (1) – (3) for Table 5 is the log transform of the dollar settlement amount of shareholder lawsuits, and the variable *ln(Duration)* is the log transform of the length of the trial, measured in days. Therefore, Table 5 estimates the impact of firm lobbying on case characteristics, such as the amount spent on legal settlements and the length of costly legal proceedings.

[Insert Table 5 here]

Specifications (1) – (3) report that, on average, lobbying lowers the expected legal settlement amount, as all three lobbying variables are negatively associated with legal settlement amount and are significant at the one percent level. This results implies that lobbying expenditures may be offset by the reduced settlements they provide, as well as other potential benefits.

Moreover, specifications (4) – (6) of Table 5 show that lobbying significantly reduces the total duration of the cases. The dependent variable *Ln(Duration)* is the total number of days between the announcement of litigation and the closure of the case. We find that financial firm lobbying reduces the number of days during litigation, where cases are solved at faster rates, thus potentially reducing uncertainty and litigation costs.

The results presented in Tables 2 – 5 show that financial firm corporate lobbying is associated with better legal outcomes in regards to shareholder class action lawsuits. Corporate lobbying activity is shown to reduce the likelihood of shareholder lawsuits, reduce the number of shareholder lawsuits, increase the likelihood that lawsuits will be dismissed, and reduce both the expected settlement amount and the duration of shareholder lawsuits. Our results may reveal that

lobbying may yield financial firms legal benefits, since the goal of lobbying is to change policy proposals that would benefit the firms.

6. Lobbying and Financial Firm Value

In the previous section, we show evidence supporting that financial firm corporate lobbying yields financial benefits to the firm in the form of decreased expected legal costs. However, lobbying firms spend upwards of millions of dollars on corporate lobbying, and it is unclear as to whether the legal benefits of lobbying offset their costs and result in improved shareholder value. Therefore, in this section, we investigate the important question as to whether the benefits of corporate political lobbying results in improved value for lobbying firms.

In our first analysis of the impact of financial firm lobbying activity on measures of shareholder wealth, we test Hypothesis H.5 by conducting an event study of the stock price reaction to the announcement of shareholder litigation for lobbying, compared to non-lobbying firms. We collect the announcement dates for the shareholder litigation announcements of 131 firms and employ a traditional event study methodology. We use the CRSP value weighted index and the CAPM to calculate firm cumulative abnormal returns (CARs) for the three-day period surround the event announcements. We divide the sample into firms that engage in lobbying and firms that do not and test for significant differences in the CARs. Results reporting the differences in litigation announcement CARs between lobbying and non-lobbying firms are presented in Table 6 for several event estimation windows.

[Insert Table 6 here]

Columns 3 and 5 of Table 6 show the estimated CARs over seven event windows surrounding litigation announcement days for lobbying firms and non-lobbying firms, respectively. The CARs are negative for all financial firms and all event windows, which is consistent with a negative reaction of investors to shareholder litigation and a loss in shareholder wealth, as expected. However, across all event

estimation windows, the CARs are higher (less negative) for lobbying firms. CARs are 0.9 percent higher for lobbying firms for the [0,+1] interval and 2.64 percent higher for the [-3,+3] interval surrounding the litigation announcement. Moreover, the differences in CARs between lobbying and non-lobbying firms are statistically significant at the one percent level for all event estimation windows. The results presented in Table 6 confirm the benefits of lobbying in the form of reduced litigation costs, and we link the benefits of lobbying to improved shareholder wealth surrounding litigation announcements.

In Figure 2, we extend the CAR estimation window to 40 days surrounding the litigation announcement and compare the CARs of lobbying and non-lobbying firms. The figure shows that the adverse effect on the CARs of litigation announcements is more profound for the sample of non-lobbying firms, especially for the period leading up to the announcement. In addition, the CAR of non-lobbyiing firms remains negative for up to 40 days following litigation announcements. On the other hand, the CAR of financial firms that engage in lobbying activity are actually positive. The results presented in Figure 2 support the idea that the legal benefits achieved through corporate lobbying lead to improvements in firm value.

[Insert Figure 2 here]

We also test whether corporate lobbying has a long-term effect on financial firm value by calculating buy-and-hold abnormal returns (BHARs) for the 12, 24, and 36 month periods following lobbying activity. We test Hypothesis H.6 by estimating Equation (6). The dependent variables are the BHARs, and results are presented in Table 7.

[Insert Table 7 here]

The results reported in Table 7 show that lobbying activities, measured by a lobbying dummy variable and the log transform of lobbying expenditures, have a positive impact on the BHARs of financial firms for up to a period of 36 months

after the lobbying activity. The results showing a longer-term positive impact of lobbying on financial firm stock returns are significant at the 1 percent level.

In a further analysis, we attempt to isolate the impact of lobbying and lawsuits on firm value. We estimate the impact of lobbying (*Lobbydum*), shareholder lawsuits (*Lawsuit*), and the interaction of lobbying firms involved in lawsuits (*Lobby*Lawsuit*) on the 12, 24, and 36 month BHARs of financial firms. Results are presented in Table 8.

[Insert Table 8 here]

The results presented in Table 8 show that lawsuits negatively impact the returns of financial firms, because *Lawsuit* is negative and significant at the 1 percent level, as expected. However, lobbying, all else equal, tends to increase shareholder wealth, as *Lobbydum* is positive and significant. However, the interaction term representing lobbying firms subject to litigation, *Lobby*Lawsuit,* is insignificant, which means that lobbying firms that are facing shareholder lawsuits do not suffer from reduced firm value. Similar to previous findings, the results imply that the benefits of corporate lobbying can offset the loss in firm value normally associated with shareholder lawsuits.

In a final analysis, we separate the sample of firms into lobbying firms and non-lobbying firms and then examine how lawsuits affect the 12, 24, and 36 month BHARs for financial firms. Results are presented in Table 9.

[Insert Table 9 here]

The results in Table 9 show that shareholder lawsuits reduce the BHARs of non-lobbying financial firms, and these results are significant at the 1 percent level. On the other hand, the *Lawsuit* coefficient is insignificant for lobbying firms. Our results imply a statistically significant difference between the change in firm value as the result of a lawsuit between lobbying and non-lobbying firm. Lobbying firm are less affected by lawsuits, which is consistent with our previous results showing the benefits of lobbying activities for financial firms.

To provide greater depth for our results, we test the effect of shareholder allegations on firms' cash holding level to understand the additional benefit of lobbying. Arena and Julio (2015) document that lawsuits increase firm cash holding for anticipated future settlements. Since lobbying may influence both case outcomes and settlement amounts, we expect that lobbying financial institutions may adjust their cash holding level as a respond to litigations.

[Insert Table 10 here]

In Table 10, we test the relation between lobbying and cash holding for our sample firms. In column (1), our dependent variable is cash holding measured by the book value of cash and short-term investments normalized by assets. In column (2), we measure net cash holding measured as the book value of cash and short-term investments divided by book value of assets less the book value of short-term investments. Our results are similar to Arena and Julio (2015) where lawsuit have a positive relationship with cash holding. However, interaction term of lobbying and lawsuit indicate that lobbying financial institutions do not exhibit any pattern in cash holdings once the firms are subjected to shareholder allegations. This may be due to the fact that a) lobbying changes policy proposals on behalf of firms' interests, or b) lobbying influence settlement amounts which influence cash holding sensitivity. In this case, lobbying firms may gain benefit from political spending which ultimately protects their financing decisions. Therefore, it is instructive to compare and contrast the changes in cash holding for firms to understand the influence of lobbying on case outcome.

[Insert Table 11 here]

In Table 11, we measure the relation between lobbying and marginal value of additional dollar of cash in our sample. We calculate ΔCash which is the changes in cash holding from year t and t-1. [6] We interact the changes in cash holding with lobbying interaction term to understand the effect of financing decision on firm

[6] Our results remain same when we calculate the changes in net cash holding.

performance. Our results from Table 11 shows that changes in cash holding levels have insignificant coefficient for lobbying firms. The insignificant interaction term represents that stock performance of lobbying firms are not affected by the changes in cash holdings. This may be due to the reason of lobbying influence on settlement amounts. In other words, lobbying activity may change the settlement amounts, hence, lobbying financial institutions do not suffer from reduced firm performance.

7. Robustness

As a robustness check of the results previously reported, we create a "treatment group" of lobbying firms and a "control group" of non-lobbying firms using a propensity score matching methodology. We then analyze the difference that the lobbying treatment has on legal outcomes of financial firms. Results are presented in Table 12.

Our propensity score matching results presented in Table 12 show that lobbying firms have a lower number of shareholder related lawsuits, have more cases dismissed, and face fewer settlements. In addition, lobbying firms pay significantly lower settlement amounts, and the average duration of shareholder-related legal actions is lower for lobbying firms, which may represent long-term benefits from corporate lobbying in the form of reduced legal risks and costs. The results of the propensity matching methodology are consistent with our previous results showing the reduced impact of shareholder lawsuits and increased firm value as the result of corporate lobbying for financial firms.

8. Conclusion

The topic of corporate political lobbying in the U.S. is an important issue that has grown in prominence due to changes in the U.S. political landscape, whereby corporate contributions have grown considerably into the billions of dollars in recent election cycles. In addition, the benefits received by corporations as a result of their increased political capital and influence has been documented in the literature. In fact, the literature reports potential increases in shareholder wealth achieved

through the use of political capital and corporate lobbying expenditures, and this is particularly true in larger, more highly concentrated industries, such as the financial services industry.

Accordingly, we examine the impact of corporate lobbying in the financial services industry as a mechanism for increasing firm value. Specifically, we look at shareholder class action litigation outcomes and determine whether or not lobbying firms are able to use political capital and influence to improve their expected legal outcomes in the context of these lawsuits. We collect firm-level data and information about 131 shareholder class action lawsuits for a sample of the 200 largest financial firms from 2000 to 2013. We then analyze the relationship between firm lobbying activities, lawsuit likelihood and outcomes, and shareholder value.

First, we utilize a logistic and panel data regression estimation methodology and show that financial firms that engage in lobbying activities are less likely to face shareholder lawsuits and face a lower total amount of shareholder-based lawsuits, compared to non-lobbying firms. In addition, lobbying activities appear to improve lawsuit outcomes as well. Increases in lobbying activities are shown to be significantly associated with a higher likelihood of lawsuit dismissal, lower settlement amounts, and shorter litigation periods, consistent with the benefits achieved through lobbying in the form of a more advantageous legal environment.

Then, we link financial firm corporate lobbying to improved short and long run firm value. We utilize and event study methodology using litigation announcement dates to compute cumulative abnormal stock returns (CARs) over several estimation intervals for lobbying and non-lobbying firms. Financial firms that engage in lobbying activities yield CARs that are significantly higher than non-lobbying firms. In addition, lobbying firms achieve positive returns for estimation intervals greater than 15 days, while non-lobbying firms yield negative CARs, consistent with increases in firm value associated with corporate lobbying. In terms of long run firm value, we compute buy-and-hold abnormal stock returns (BHARs) for 12, 24, and 36 month holding periods following lobbying activities. Results show that financial

firm corporate lobbying activities are associated with increases in lobbying firm BHARs, consistent with long-run benefits from corporate lobbying. Finally, we link corporate lobbying, litigation outcome, and firm value by analyzing the interaction of lobbying firms subject to litigation. Results show that litigation is associated with a significant reduction in BHAR; however, firms that are subject to litigation, but also engage in lobbying, see no change in BHAR, which is consistent with increases in long run firm value achieved due to improvements in the firm's legal environment brought about through the acquisition of political capital in the form of lobbying.

Our results add to the corporate finance literature on the short and long term benefits of corporate lobbying. We show that lobbying can add value, particularly in the context of highly regulated industries, such as the financial services industry. In addition, we show that corporate lobbying can benefit the firm through improvements in shareholder class action litigation outcomes brought about through political influence. The results have interesting implications for financial firm governance by showing the potential benefits of corporate lobbying, but also for regulators and policymakers concerned with the increasing influence of corporate interests in the U.S. political system.

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Table 1
Summary Statistics

	#N	Mean	Median	Std.Dev	Min	Max
Panel A. Lobby Characteristics						
Lobbydum	2,579	0.13	0.00	0.34	0.00	1.00
Lobby Expenses	2,579	315,177.60	0.00	1,086,885.00	0.00	10,200,000.00
Lobby Bill	2,579	2.52	0.00	11.52	0.00	232.00
Panel B. Litigation Characteristics						
Litigation	2,579	0.04	0.00	0.20	0.00	1.00
Dismiss	2,579	0.02	0.00	0.16	0.00	1.00
Settle	2,579	0.02	0.00	0.12	0.00	1.00
Settle Amount	2,579	826,466.40	0.00	11,500,000.00	0.00	375,000,000.00
Duration	2,579	26.17	0.00	226.91	0.00	3,666.00
Panel C. Firm Characteristics						
Ln(Assets)	2,579	9.21	9.09	1.93	0.18	14.99
Tobin's Q	2,579	1.40	1.10	1.09	0.61	16.79
BookLeverage	2,579	0.29	0.20	0.25	0.00	1.67
ROA	2,579	0.03	0.01	0.07	-1.74	0.89
HerfindahlIndex	2,579	0.05	0.03	0.04	0.02	0.53
SalesGrowth	2,579	0.18	0.00	1.98	-0.99	92.60
Ln(FirmAge)	2,579	2.85	2.89	0.70	0.00	4.14

Table 1 provides descriptive statistics of our sample (2000-2013), reporting the full sample summary statistics for measures of lobbying variables, and control variables. Panel A summarizes information of lobbying characteristics of firms used in this study. Panel B lists calculated summary statistics of litigation characteristics. Panel C lists calculated summary statistics of control variables.

Table 2
Lobbying and Likelihood of Shareholder Litigation

Dependent Variable			
Sample	$Lawsuit_{t+1}$		
	(1)	(2)	(3)
Lobbydum$_t$	-0.595		
	[0.001]***		
Ln(LobbyExpense)$_t$		-0.047	
		[0.001]***	
Ln(TotalBills)$_t$			-0.192
			[0.001]***
Ln(Assets)$_t$	0.907	0.923	0.910
	[0.001]***	[0.001]***	[0.001]***
Tobin's Q$_t$	0.305	0.307	0.304
	[0.062]*	[0.060]*	[0.063]*
BookLeverage$_t$	-1.178	-1.204	-1.191
	[0.001]***	[0.001]***	[0.001]***
ROA$_t$	5.465	5.609	5.625
	[0.388]	[0.376]	[0.371]
HerfindahlIndex$_t$	10.140	10.232	10.014
	[0.001]***	[0.001]***	[0.001]***
SalesGrowth$_t$	-0.072	-0.079	-0.071
	[0.571]	[0.548]	[0.577]
Ln(FirmAge)$_t$	-0.013	-0.024	-0.024
	[0.946]	[0.897]	[0.896]
Constant	-13.744	-13.890	-13.780
	[0.001]***	[0.001]***	[0.001]***
Year/Firm Fixed	YES	YES	YES
N	2,499	2,499	2,499
R^2	30%	30%	30%

Table 2 exhibits the relationship between lawsuit risk and lobbying characteristics between 2000 and 2013. The dependent variable lawsuit is binary variable and equal to one if firm is facing shareholder litigation, zero otherwise. Lobbydum is a binary variable and equal to one if firm lobbied at least one bill, zero otherwise. Ln(totalbills) are the log transformation of total bills sponsored. Ln(LobbyExpense) is the total lobbying expenses in given year. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 3
Lobbying and Total Number of Litigation

Dependent Variable			
Sample	$Ln(Lawsuit)_{t+1}$		
	(1)	(2)	(3)
Lobbydum$_t$	-0.033		
	[0.001]***		
Ln(LobbyExpense)$_t$		-0.003	
		[0.001]***	
Ln(TotalBills)$_t$			-0.001
			[0.001]***
Ln(Assets)$_t$	0.030	0.030	0.030
	[0.001]***	[0.001]***	[0.001]***
Tobin's Q$_t$	0.009	0.009	0.009
	[0.112]	[0.116]	[0.094]
BookLeverage$_t$	-0.029	-0.028	-0.029
	[0.484]	[0.486]	[0.484]
ROA$_t$	-0.060	-0.059	-0.062
	[0.407]	[0.411]	[0.391]
HerfindahlIndex$_t$	-0.142	-0.136	-0.167
	[0.467]	[0.485]	[0.391]
SalesGrowth$_t$	-0.001	-0.001	-0.001
	[0.464]	[0.471]	[0.486]
Ln(FirmAge)$_t$	-0.020	-0.020	-0.019
	[0.392]	[0.388]	[0.416]
Constant	-0.180	-0.180	-0.186
	[0.001]***	[0.001]***	[0.001]***
Year/Firm Fixed	YES	YES	YES
N	2,499	2,499	2,499
R^2	28%	30%	30%

Table 3 exhibits the relationship between total number of lawsuit and lobbying characteristics between 2000 and 2013. The dependent variable is the log transformation of total number of lobbying filed against the firms. Lobbydum is a binary variable and equal to one if firm lobbied at least one bill, zero otherwise. Ln(totalbills) are the log transformation of total bills sponsored. Ln(LobbyExpense) is the total lobbying expenses in given year. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 4
Lobbying and Litigation Outcome

Dependent Variable						
Sample	$Dismiss_{t+1}$			$Settle_{t+1}$		
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbydum$_t$	1.021			-0.329		
	[0.001]***			[0.001]***		
Ln(LobbyExpense)$_t$		0.066			-0.031	
		[0.001]***			[0.001]***	
Ln(TotalBills)$_t$			0.184			-0.184
			[0.001]***			[0.001]***
Ln(Assets)$_t$	0.737	0.736	0.681	0.238	0.350	0.681
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q$_t$	0.224	0.225	0.225	0.072	0.107	0.225
	[0.139]	[0.135]	[0.123]	[0.044]**	[0.064]*	[0.123]
BookLeverage$_t$	-1.291	-1.267	-1.107	-0.417	-0.604	-1.107
	[0.089]*	[0.094]*	[0.122]	[0.028]**	[0.044]**	[0.122]
ROA$_t$	5.637	5.635	5.257	1.818	2.683	5.257
	[0.361]	[0.358]	[0.384]	[0.116]	[0.170]	[0.384]
HerfindahlIndex$_t$	6.318	6.253	5.685	2.038	2.977	5.685
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
SalesGrowth$_t$	-0.483	-0.482	-0.432	-0.156	-0.229	-0.432
	[0.402]	[0.401]	[0.453]	[0.129]	[0.190]	[0.453]
Ln(FirmAge)$_t$	0.222	0.219	0.248	0.071	0.104	0.248
	[0.364]	[0.370]	[0.313]	[0.117]	[0.176]	[0.313]
Constant	-12.735	-12.726	-12.326	-4.108	-6.060	-12.326
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Year/Firm Fixed	YES	YES	YES	YES	YES	YES
N	2,499	2,499	2,499	2,499	2,499	2,499
R^2	30%	30%	30%	30%	30%	30%

Table 4 exhibits the relationship between lawsuit outcome and lobbying characteristics between 2000 and 2013. From column 1 to 3, dependent variable is a binary variable of dismiss equal to one if litigation is dismissed, zero otherwise. From column 4 to 6, dependent variable is a binary variable of settle and equal to one if the case is settled between parties, zero otherwise. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 5
Lobbying and Litigation Characteristics

Dependent Variable						
Sample	Ln(Settle Amount)$_{t+1}$			Ln(Duration)$_{t+1}$		
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbydum$_t$	-0.742 [0.001]***			-0.361 [0.001]***		
Ln(LobbyExpense)$_t$		-0.055 [0.001]***			-0.026 [0.001]***	
Ln(TotalBills)$_t$			-0.202 [0.001]***			-0.068 [0.001]***
Ln(Assets)$_t$	0.250 [0.001]***	0.247 [0.001]***	0.243 [0.001]***	0.259 [0.001]***	0.258 [0.001]***	0.258 [0.001]***
Tobin's Q$_t$	0.006 [0.858]	0.005 [0.868]	0.011 [0.727]	0.045 [0.098]*	0.045 [0.100]	0.048 [0.085]*
BookLeverage$_t$	-0.174 [0.001]***	-0.171 [0.001]***	-0.170 [0.001]***	-0.162 [0.001]***	-0.161 [0.001]***	-0.161 [0.001]***
ROA$_t$	-0.660 [0.194]	-0.657 [0.193]	-0.643 [0.201]	-0.561 [0.298]	-0.561 [0.302]	-0.563 [0.308]
HerfindahlIndex$_t$	0.343 [0.777]	0.366 [0.764]	0.101 [0.940]	-1.263 [0.402]	-1.265 [0.404]	-1.434 [0.383]
SalesGrowth$_t$	-0.004 [0.234]	-0.004 [0.296]	-0.004 [0.333]	-0.016 [0.001]***	-0.016 [0.001]***	-0.016 [0.001]***
Ln(FirmAge)$_t$	0.005 [0.980]	0.006 [0.977]	0.002 [0.994]	-0.257 [0.268]	-0.256 [0.272]	-0.255 [0.265]
Constant	-2.084 [0.001]***	-2.064 [0.001]***	-2.035 [0.001]***	-1.465 [0.001]***	-1.458 [0.001]***	-1.460 [0.001]***
Year/Firm Fixed	YES	YES	YES	YES	YES	YES
N	2,499	2,499	2,499	2,499	2,499	2,499
R^2	30%	30%	30%	30%	30%	30%

Table 5 exhibits the relationship total number of case outcome and lobbying characteristics between 2000 and 2013. From column 1 to 3, dependent variable is the log transformation of total number of dismissed cases. From column 4 to 6, dependent variable is the total number of settled cases. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 6

Event Study CARs

Days	#Lobby	CAR	#NonLobby	CAR	Diff	T-Test
[0,+1]	50	-0.61%	81	-1.51%	-0.90%	[-3.45]***
[0,+2]	50	-0.31%	81	-1.88%	-1.57%	[-2.95]***
[0,+3]	50	-0.74%	81	-2.07%	-1.33%	[-4.15]***
[-1,+1]	50	-0.38%	81	-1.78%	-1.40%	[-3.33]***
[-1,+2]	50	-0.43%	81	-1.45%	-1.02%	[-4.05]***
[-2,+2]	50	-0.85%	81	-2.31%	-1.46%	[-3.48]***
[-3,+3]	50	-0.56%	81	-3.20%	-2.64%	[-3.39]***

Table 6 reports market responses to shareholder litigation announcement effect of the lobbying and the non-lobbying sub-samples. #Lobby is the number of lobbyist firm in our sample who are subjected to litigation announcement. #NonLobby is the number of non-lobbying firm in our sample with litigation announcement. CAPM model is used to calculated CARs of event windows.

$$R_{i,t} - r_{f,t} = \alpha_i + \beta_{i,M}\left(R_{M,t} - r_{f,t}\right) + \varepsilon_{i,t}$$

Where $R_{i,t}$ is the actual return and $R_{M,t}$ is the return of a selected market index (CRSP value weight index).

Table 7
Lobbying and Firm Performance

Dependent Variable						
Sample	$BHAR_{t+1}$	$BHAR_{t+2}$	$BHAR_{t+3}$	$BHAR_{t+1}$	$BHAR_{t+2}$	$BHAR_{t+3}$
	(1)	(2)	(3)	(2)	(3)	(4)
Lobbydum$_t$	0.072	0.166	0.241			
	[0.001]***	[0.001]***	[0.001]***			
Ln(LobbyExpense)$_t$				0.005	0.012	0.018
				[0.001]***	[0.001]***	[0.001]***
Ln(Assets)$_t$	-0.023	-0.081	-0.125	-0.024	-0.083	-0.128
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Tobin's Q$_t$	0.027	0.016	-0.047	0.027	0.015	-0.048
	[0.194]	[0.483]	[0.070]**	[0.197]	[0.500]	[0.065]*
BookLeverage$_t$	0.041	0.006	0.030	0.041	0.006	0.029
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
ROA$_t$	0.471	-0.415	0.258	0.471	-0.421	0.249
	[0.129]	[0.206]	[0.638]	[0.130]	[0.202]	[0.651]
HerfindahlIndex$_t$	-0.285	0.062	-0.071	-0.286	0.049	-0.091
	[0.076]*	[0.811]	[0.854]	[0.075]*	[0.848]	[0.813]
SalesGrowth$_t$	-0.002	-0.001	0.002	-0.002	-0.001	0.002
	[0.109]	[0.499]	[0.728]	[0.109]	[0.502]	[0.727]
Ln(FirmAge)$_t$	-0.038	-0.068	-0.108	-0.038	-0.067	-0.106
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Constant	0.662	1.558	2.365	0.664	1.572	2.386
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Year/Firm Fixed	YES	YES	YES	YES	YES	YES
N	2,450	2,439	2,428	2,450	2,439	2,428
R^2	22%	30%	30%	22%	30%	30%

Table 7 exhibits the relationship between long term buy-and-hold abnormal returns and lobbying indicators between 2000 and 2013. We calculate buy-and-hold abnormal returns for +12, +24 and +36 months after lobbying activity. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 8
Lobbying, Litigation Firm Performance

Dependent Variable			
Sample	$BHAR_{t+1}$	$BHAR_{t+2}$	$BHAR_{t+3}$
	(1)	(2)	(3)
Lobbydum$_t$	0.066	0.157	0.237
	[0.001]***	[0.001]***	[0.001]***
*Lobby*Lawsuit*$_t$	0.046	0.079	0.026
	0.547	0.420	0.823
Lawsuit$_t$	-0.174	-0.150	-0.138
	[0.001]***	[0.001]***	[0.001]***
Ln(Assets)$_t$	-0.017	-0.076	-0.120
	[0.001]***	[0.001]***	[0.001]***
Tobin's Q$_t$	0.030	0.018	-0.045
	[0.156]	[0.426]	[0.088]*
BookLeverage$_t$	0.044	0.007	0.032
	[0.140]	[0.893]	[0.708]
ROA$_t$	0.467	-0.415	0.259
	[0.126]	[0.207]	[0.636]
HerfindahlIndex$_t$	-0.211	0.126	-0.015
	[0.182]	[0.638]	[0.970]
SalesGrowth$_t$	-0.003	-0.001	0.002
	[0.093]*	[0.461]	[0.742]
Ln(FirmAge)$_t$	-0.040	-0.070	-0.110
	[0.001]***	[0.001]***	[0.001]***
Constant	0.605	1.512	2.318
	[0.001]***	[0.001]***	[0.001]***
Year/Firm Fixed	YES	YES	YES
N	2,450	2,439	2,428
R^2	22%	30%	30%

Table 8 exhibits the relationship between long term buy-and-hold abnormal returns, lawsuits and lobbying indicators between 2000 and 2013. We calculate buy-and-hold abnormal returns for +12, +24 and +36 months after lobbying activity. An interaction variable of lawsuit variable multiplied by lawsuit variable is added to columns. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 9
Litigation and Stock Returns

Dependent Variable	Lobby			NonLobby		
Sample	$BHAR_{t+1}$	$BHAR_{t+2}$	$BHAR_{t+3}$	$BHAR_{t+1}$	$BHAR_{t+2}$	$BHAR_{t+3}$
	(1)	(2)	(3)	(1)	(2)	(3)
Lawsuit$_t$	-0.131	0.153	-0.129	-0.144	-0.190	-0.111
	[0.344]	[0.311]	[0.451]	[0.001]	[0.001]	[0.001]
CONTROLS	YES	YES	YES	YES	YES	YES

$BHAR_{t+1}$	LawsuitLobby=LawsuitNonLobby	chi(2):4.32	Prob>Chi2 : 0.01
$BHAR_{t+2}$	LawsuitLobby=LawsuitNonLobby	chi(2):5.22	Prob>Chi2 : 0.01
$BHAR_{t+3}$	LawsuitLobby=LawsuitNonLobby	chi(2):4.71	Prob>Chi2 : 0.01

Year/Firm Fixed	YES	YES	YES	YES	YES	YES
N	333	323	307	2,246	2,141	2,108
R^2	11%	9%	5%	22%	30%	30%

Table 9 exhibits the relationship between long term buy-and-hold abnormal returns and lawsuit risk between 2000 and 2013. We calculate buy-and-hold abnormal returns for +12, +24 and +36 months after lobbying activity. We test the coefficients from three different regressions and report the chi-square stats. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 10
Lobbying, Litigation and Cash Holding

Dependent Variable		
Sample	Cash Holding$_{t+1}$	Net Cash Holding$_{t+1}$
	(1)	(2)
Lobbydum$_t$	0.013	0.016
	[0.808]	[0.845]
*Lobby*Lawsuit$_t$*	0.006	0.008
	[0.339]	[0.460]
Lawsuit$_t$	0.036	0.052
	[0.012]**	[0.017]**
Ln(Assets)$_t$	0.009	0.011
	[0.032]**	[0.067]*
Tobin's Q$_t$	0.023	0.041
	[0.110]	[0.080]*
BookLeverage$_t$	-0.039	-0.054
	[0.043]*	[0.065]*
ROA$_t$	0.390	0.603
	[0.075]*	[0.092]*
HerfindahlIndex$_t$	0.398	0.543
	[0.047]**	[0.078]*
SalesGrowth$_t$	-0.002	-0.004
	[0.520]	[0.401]
Ln(FirmAge)$_t$	0.002	-0.002
	[0.758]	[0.853]
Constant	-0.064	-0.089
	[0.111]	[0.152]
Year/Firm Fixed	YES	YES
N	2,450	2,450
R^2	22%	30%

Table 10 exhibits the relationship between cash holding and lobbying between 2000 and 2013. In column (1), our dependent variable is cash holding measured by the book value of cash and short term investments normalized by assets. In column (2), our dependent variable is net cash holdings measured by book value of cash and short-term investments divided by book value of assets less the book value of cash and short-term investments. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 11
Lobbying, Cash Holding and Stock Performance

Dependent Variable			
Sample	$BHAR_{t+1}$	$BHAR_{t+2}$	$BHAR_{t+3}$
	(1)	(2)	(3)
Lobbydum$_t$	0.103	0.160	0.158
	[0.001]***	[0.001]***	[0.010]**
*Lobby*ΔCashHolding*$_t$	-0.277	-0.202	0.095
	[0.142]	[0.494]	[0.833]
ΔCashHolding$_t$	0.207	0.537	0.688
	[0.107]	[0.001]***	[0.026]**
Ln(Assets)$_t$	-0.015	-0.042	-0.063
	[0.001]***	[0.001]***	[0.001]***
Tobin's Q$_t$	-0.012	-0.051	-0.070
	[0.788]	[0.441]	[0.508]
BookLeverage$_t$	0.073	0.061	0.094
	[0.014]**	[0.299]	[0.291]
ROA$_t$	2.494	2.274	3.136
	[0.001]***	[0.016]**	[0.001]***
HerfindahlIndex$_t$	-0.518	-0.404	-0.167
	[0.001]***	[0.197]	[0.749]
SalesGrowth$_t$	0.016	0.062	0.008
	[0.253]	[0.011]**	[0.780]
Ln(FirmAge)$_t$	-0.040	-0.050	-0.076
	[0.001]***	[0.001]***	[0.017]**
Constant	0.683	1.104	1.548
	[0.001]***	[0.001]***	[0.001]***
Year/Firm Fixed	YES	YES	YES
N	2,450	2,439	2,428
R^2	22%	30%	30%

Table 11 exhibits the relationship between long term buy-and-hold abnormal returns, lawsuits and cash sensitivity between 2000 and 2013. We calculate buy-and-hold abnormal returns for +12, +24 and +36 months after lobbying activity. An interaction variable of lawsuit variable multiplied by change in cash holding is added to columns. Other control variables are calculated from COMPUSTAT. Std. Errors are clustered at firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 12
Propensity Matching

	#N	Treatment Lobby	#N	Control NonLobby	Diff	T-Stat
Lawsuit	274	0.011	1,473	0.082	-0.071	[-6.15]***
Dismiss	274	0.081	1,473	0.032	0.049	[3.78]***
Settle	274	0.023	1,473	0.051	-0.028	[-5.21]***
Settle Amount	274	952,372.26	1,473	4,356,411.77	-3,404,039.51	[-4.35]***
Duration	274	108.01	1,473	225.23	-117.22	[-3.68]***

Table 12 is propensity score matching test between treatment group (lobbying firms) and control group (non-lobbying firms). Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Figure 1

Number of Shareholder Litigation by Years

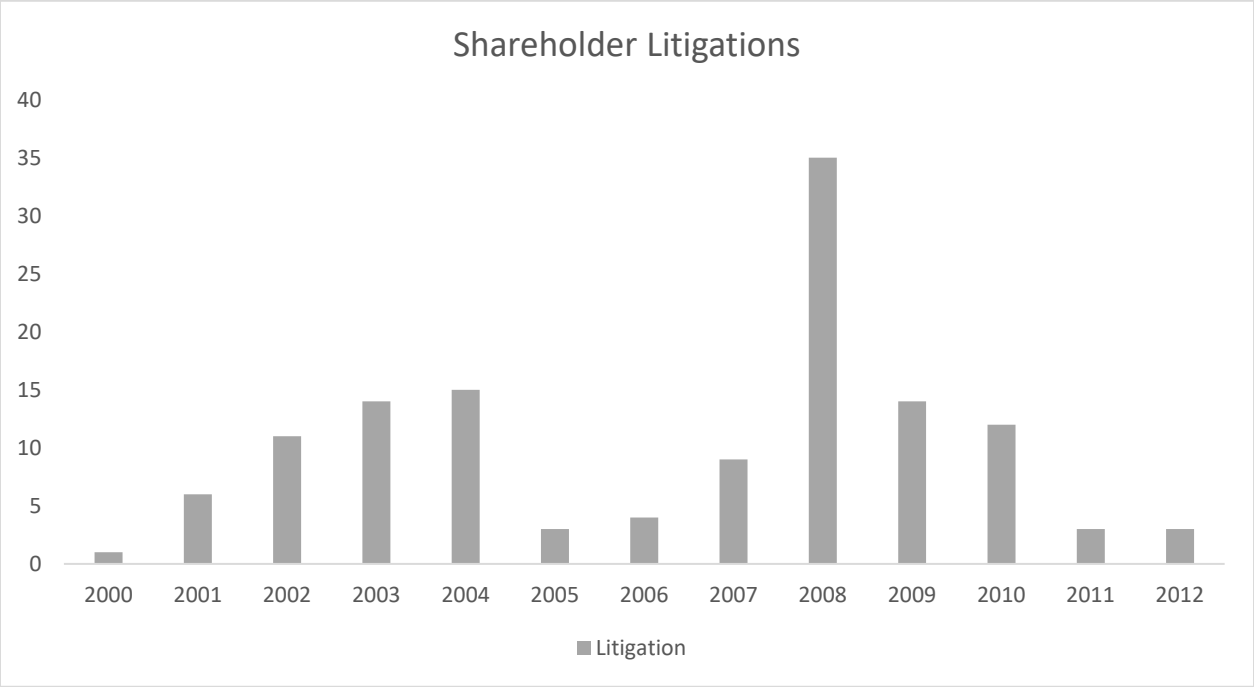

Figure 2

Cumulative Abnormal Returns: Litigation Announcement by SEC