

**Friends in the Right Places:
The Effect of Political Connections on Corporate Merger Activity**

by

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Abstract

This study examines how the appointment of former politicians and regulators to boards of directors or management teams influences corporate acquisition activity and performance. We find that bidders with these political connections are more likely to acquire targets and avoid regulatory delay or denial. Connected bidders make more bids and bid on larger targets. The announcement period returns show that investors recognize that bids by politically connected acquirers are more likely to create firm value. Connected acquirers also enjoy superior post-merger financial and accounting performance.

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1. Introduction

In the United States there is a substantial interaction between the parties to a merger and the corresponding regulatory agencies. Publicly traded firms that have finalized merger agreements must clear each potential deal with several governmental organizations, including the Federal Trade Commission, the Antitrust Division of the Department of Justice, and the various states' Attorneys General. These government agencies determine whether the merger harms competition or creates significant barriers to entry. If they do, the reviewing agencies can then take regulatory action that can delay or prevent the deal.

To navigate this review process and achieve more favorable results, firms sometimes hire former politicians or regulators to serve on their boards of senior management team. Former politicians or regulators possess unique knowledge of the regulations and practices of the various regulatory agencies that review the merger. This knowledge can help the firm avoid litigation (Brezis, Paroush, and Weiss 2003). These individuals often maintain relationships with current regulators or politicians which can be helpful in gaining access and the opportunity to directly lobby. In the extreme, such relationships might influence the outcome of a regulatory review.

The goal of this study is to determine whether such appointments to the board of directors or management team benefit bidders during the merger process. To answer this question we examine whether politically connected bidders are more likely to acquire targets while simultaneously avoiding regulatory action. Then we compare the number and size of bids made between politically connected and non-connected firms. Next we investigate whether the market

recognizes the benefits associated with bidder political connections through an analysis of the merger announcement period returns. Finally, we test whether the long-term post-merger performance of politically connected acquirers exceeds that of non-connected bidders.

Our empirical findings show that political connections matter. We discover that politically connected bidders are more likely to acquire targets than non-politically connected bidders. The targets of connected firms are also larger than the targets of non-connected acquirers. This result persists even after we control for prior acquisition activity.

These firms are also less likely to face regulatory action from either the FTC or Department of Justice Antitrust Division than non-politically connected bidders. Investors also appear to recognize greater value in the targets of politically connected acquirers. We examine the announcement period returns of both politically connected and non-connected bidders and find that politically connected acquirers have less negative abnormal returns around the bid announcements than non-connected acquirers. This result supports our hypothesis that bidders possessing greater regulatory knowledge or strong relationships with current government officials are able to acquire more valuable targets than bidders which do not. When we examine the investor response during the merger review period, we find investors respond more positively to events that resolve uncertainty for non-politically connected acquirers. This result suggests investors are less unsure of the outcome of regulatory action taken against politically connected bidders.

Finally, we determine that connected firms enjoy superior post-merger financial and accounting performance. Consistent with the premise that politically connected acquirers employ their knowledge and networks to select valuable acquisitions, we find these firms have cumulative abnormal returns of 8.82% over the five years after the acquisition. Non-politically

connected acquirers have cumulative abnormal returns of -11.01% over the five years after merger completion. We find that while the industry-adjusted return on assets decreases for both politically connected and non-connected acquirers after merger completion, the decrease is much larger for non-politically connected acquirers.

This work is the first to examine the effect that corporate political connections have on merger activity and performance in the United States. Our results show that both bidders and targets benefit by hiring a connected individual prior to a merger bid. Our study provides new insight for the value associated with the appointment of politically connected individuals to corporate positions reported earlier by Faccio (2006) and Goldman, Rocholl, and So (2009).

2. Regulation of the Merger Process in the United States

In the United States, the two primary agencies overseeing merger activity are the Federal Trade Commission (FTC) and the Antitrust Division of the Department of Justice. Under the Hart-Scott-Rodino Act, merging parties are required to provide pre-merger notification to these agencies and the Assistant Attorney General.² The decision to prevent a proposed merger is based on criteria such as the combined market share of the proposed merged entity, the availability of substitute products, and the ability of competitors to procure component products post-merger. If the overseeing agency determines the deal does not limit market competition, it will either waive the merger waiting period or allow the waiting period to expire. After the waiting period expires, the firms can merge.

² Merging parties which do not meet the thresholds listed by the Federal Trade Commission are not required to complete premerger notification. An updated list of the thresholds can be found here:

<http://www.ftc.gov/system/files/attachments/current-2014-thresholds/140123clayton7afm.pdf>

One or more State Attorneys General can file injunctions to block a proposed merger. State Attorneys General are often involved in joint investigations with the Federal Trade Commission or the Department of Justice.

If a regulatory agency has additional concerns about the effect of a proposed deal upon consumers, it can make a second request for information. From 1997 to 2013, between 2.1% and 4.5% of all transactions reviewed annually by the FTC received a second request.³ The Department of Justice requested additional information from approximately 2.0% to 4.1% of merger parties annually over 1998 to 2005.⁴ The information necessary to address regulatory concerns in the second request can often run into the millions of pages and the majority of merger parties who face second requests typically experience future regulatory action that delays or denies the merger.

When a regulatory agency determines a proposed merger limits competition, prevents new firms from entering the market, or allows the merged firm to raise prices, the regulatory agency has various options.⁵ In recent years, approximately half of the Department of Justice challenges against transactions have been filed in a U.S. district court. The vast majority of these complaints are resolved through settlements. When the Department of Justice does not file a complaint in court, the merger parties abandon the transaction, restructure the transaction, or agree to a consent order to change their conduct. Challenges by the Federal Trade Commission most often result in accepted consent orders which prevent merger parties from undertaking specific actions. In recent years, less than 30% of the challenges by the FTC resulted in transactions being abandoned or restructured.⁶

³ The FTC maintains records on the annual percentage of transactions which face second requests for information here: <https://www.ftc.gov/policy/reports/policy-reports/annual-competition-reports>

⁴ <https://www.ftc.gov/sites/default/files/attachments/merger-review/mergerreviewprocess.pdf>

⁵ Since 1996, the Federal Trade Commission has filed at least 319 cases against proposed acquisitions. The Department of Justice has filed several hundred cases over the same period. A large percentage of injunctions are filed against publicly traded U.S. firms.

⁶ See the FTC reports on actions for 2012 and 2013: <https://www.ftc.gov/system/files/documents/reports/36th-report-fy2013/140521hsrreport.pdf> and https://www.ftc.gov/sites/default/files/documents/reports_annual/35th-report-fy2012/130430hsrreport_0.pdf

3. The Benefits of Political Connections During the Merger Process

The appointment of former regulators or politicians provides two chief advantages during this merger review process. First, these individuals might have insider information concerning the merger process or the practices of the reviewing agencies. The knowledge possessed by former government officials could help management structure a merger that avoids a second request or other adverse regulatory action. Their knowledge might also prove valuable should the regulatory agencies decide to alter or block the transaction. Second, former government officials might offer a firm the ability to network with current regulators or politicians who can influence the regulatory outcome. The following sections elaborate on these advantages associated with the hiring of politically connected directors.

3.1 Information Advantage of Former Government Officials

Former members of regulatory agencies that oversee the merger process might have non-public information concerning the specific factors that are most likely to trigger a second request. Appointing former regulators or politicians to their boards/management team can help firms construct a merger proposal that will pass regulatory scrutiny.

Knowledge of the regulatory process can prove valuable even if a regulatory agency makes a second request for information or challenges the transaction. Both the Department of Justice and FTC negotiate with representatives of the merger parties to narrow the demand for documents during the second request (Egge and Cruise 2014). Firms that employ former regulators or politicians often enjoy a negotiating advantage during this process. During negotiations, an acquirer that possesses greater knowledge of agency practices due to strategic board recruitment can better select tactics that will ultimately produce a successful outcome.

3.2 Networking Benefits of Former Government Officials

Current government officials might not always have the incentive to act in the public's best interest. Merging firms can provide future industry positions, campaign contributions, and other benefits to regulators or politicians. In exchange, regulators or politicians offer support for the merger, even if it is not advantageous to the public.

The prospect of future industry employment can cause regulators to alter their behavior in favor of prospective employers when enforcing regulations. For instance, Cornaggia et al (2013) find that credit analysts provide more favorable ratings to the firms they eventually work for after leaving their job as a ratings analyst. Thus the possibility of future employment might influence how regulators or politicians behave during a regulatory proceeding.

Campaign contributions also impact the voting behavior of politicians (Salamon and Siegfried, 1977; Monardi and Glantz, 1998; Stratmann, 2002; Hillman, Keim, and Schuler, 2004). Stratmann (2002) finds the roll call voting of politicians regarding financial services regulations is positively correlated with changes in campaign contributions. Monardi and Glantz (1998) examine the impact that campaign contributions of tobacco companies have on the voting behavior of politicians. Their findings indicate that campaign contributions lead politicians to vote more favorably on laws impacting the tobacco industry. In aggregate, the prior literature indicates that campaign contributions and other lobbying activity lead politicians to more favorably review the industries they are assigned to regulate.

One of the most common and effective ways firms convince current government officials to collaborate is by hiring former officials with whom current government officials continue to maintain relationships (Goldman et al. 2009; Boubakri, Guedhami, Mishra, and Saffar 2012). Regulators and politicians are likely to be influenced by individuals whom they are connected.

Merger parties frequently hire former members of the regulatory agencies who maintain relationships with high-ranking current members of the agencies. A strong relationship with current FTC Commissioners, division staff and Section Chiefs of the Department of Justice, or Deputy Assistant Attorneys General might conceivably influence the regulatory outcome, but the ability to network with current politicians is arguably more important than networking with current regulators.

Firms that effectively network with current politicians typically receive two types of public action in support of the merger. First, current politicians can sign letters of support endorsing the proposed transaction.⁷ Letters of support are provided during the comment period and suggest to regulatory agencies that the public is amenable to the transaction. Second, the House and Senate Judiciary Committees can hold hearings on proposed mergers. Public hearings can influence public support for a proposed merger, which can be conveyed to the regulatory agencies during the waiting/comment period of the review process.

4. Hypotheses Regarding Mergers and Corporate-Political Relations

The decision to take regulatory action against a proposed merger is made by a commission that reviews the products each firm produces, its patents, its major suppliers and buyers, and perhaps most importantly, the current and projected post-merger concentration. Consequently, the knowledge and connections that former government officials can provide to acquirers is highly valuable in this process.

Because of the close interaction between regulators and the merger parties during the review process, acquirers can often gauge whether regulatory authorities are most likely to take

⁷ During Comcast's acquisition of NBC Universal, approximately 113 congressmen, senators, and state representatives signed letters of support for the transaction: <https://www.fcc.gov/transaction/comcast-nbcu-cgo>

action against an acquisition. Recent cases like Comcast's abandonment of its bid for Time Warner Cable and Applied Materials' abandonment of its bid for Tokyo Electron indicate that acquirers will abandon bids when regulators indicate future negative action is likely. The ability to pursue a deal which avoids adverse regulatory decisions are more likely with politically connected bidders. Consequently, we hypothesize:

Hypothesis 1a: Bids by politically connected acquirers are more likely to close than those of non-politically connected acquirers

Regulatory authorities can decide to approve a merger, deny it, or delay it through the demand for more information. With political connections, acquirers are more capable of designing a deal that passes regulatory scrutiny. Therefore, we hypothesize:

Hypothesis 1b: Bids by politically connected acquirers are less likely to face regulatory delay or denial than those of non-politically connected acquirers

When news of a bid is announced, the response of investors should reflect the added value provided by the target. Prior studies find share prices of acquirers fall around the announcement of a bid. But if a politically connected acquirer is better able to pursue value enhancing targets due to relaxed regulatory oversight, then the market response to their merger announcement should be more positive. Consequently, we hypothesize:

Hypothesis 2: Cumulative abnormal returns around bid announcements are more positive for politically connected bidders

The likelihood of regulatory denial or delay should be the greatest for the bids of large merger targets because of their potential to intensify market concentration. Acquirers that are politically connected, however, might be better able to acquire larger targets due to their greater navigate the review process and to influence regulators. Therefore, we hypothesize that:

Hypothesis 3: Politically connected acquirers pursue larger targets than non-politically connected acquirers.

If politically connected acquirers are less likely to suffer adverse regulatory action by the Federal Trade Commission or the Department of Justice, then these firms have greater latitude in selecting acquisition targets. That is, their overall merger activity is less likely to be scrutinized. Therefore, we expect firms which are politically connected to be more active in the merger market. Consequently, we hypothesize:

Hypothesis 4: Politically connected acquirers make more bids than non-politically connected acquirers.

It might be that politically connected acquirers have a greater ability to pursue targets because they enjoy more relaxed regulatory oversight. This can allow them to pursue competition limiting, market concentrating, or supply constraining acquisitions. Therefore we argue that:

Hypothesis 5: The long-term post-merger financial (accounting) performance of politically connected acquirers is superior to the long-term post-merger financial performance of non-politically connected acquirers

5. Sample Construction and the Measurement of Political Connectivity

5.1 Sample Construction and Data Measurement

We use the CRSP and Compustat databases to obtain data on returns and financial statements. Our sample period extends from 1997 to 2013. We begin our sample in 1997 because that year the Securities and Exchange Commission's EDGAR database began recording a majority of the proxy statements issued by firms. To construct our sample we employ five filters:

- 1) Both the acquirer and target are U.S. public companies
- 2) Target and acquirer are included on the CRSP and Compustat databases
- 2) The deal must be listed on the SDC database

- 3) The deal must be larger than \$1 million
- 4) The acquirer owned less than 50% of the outstanding shares of the target six months prior to the bid announcement

5.2. Identifying Regulatory Action

The Federal Trade Commission and the Antitrust Division of the Department of Justice provide information on enforcement actions around mergers.⁸ We hand-collect data from both of these websites. The FTC or Department of Justice reports regulatory action against seventy-four of the deals in our sample. Approximately 80% of the actions result in a divestment of assets by one or both parties. Approximately 16.2% of cases result in a prohibition on the merger parties from engaging in certain activities.

5.3. Measuring Political Connections

Using data from individual firm proxy statements, we construct three indicator variables to measure political connectivity. All measures are binary variables, equaling one if the bidder is politically connected and zero otherwise. Our first measure, POL1, indicates whether the bidder has a former politician or industry regulator on its board or management team. Our second measure of political connectivity (POL2), indicates whether a bidder employs former politician, regulator, or former general or admiral. In our last measure of political connectivity, POL3, we define a bidder as connected if the firm has a former politician, regulator, general/admiral, or non-counsel lawyer on the board or management team and zero otherwise. We include lawyers because of their numerous interactions with Department of Justice officials.

⁸ This is the FTC database for merger cases filed against merging firms:

<http://www.ftc.gov/bc/caselist/merger/index.shtml>

The DOJ database which records the mergers which the DOJ has filed briefs against:

<http://www.justice.gov/atr/cases/index.html#page=page-1>

6. Descriptive and Comparative Sample Characteristics

6.1 Univariate Sample Statistics

In Panel A of Table 1, we examine the frequency and type of merger bids made by publicly traded U.S. firms. We separate our sample into connected and non-politically connected firms based on connections at the time of its first bid. We observe that politically connected bidders make more bids than non-connected acquirers. The 1,095 unique public bidders in our sample make a total of 1,797 public bids.

When we separate the sample based on our first measure of political connections (POL1), we find that politically connected acquirers make an average of 2.59 public merger bids. Non-politically connected bidders make an average of only 1.95 bids for public targets. The difference between these values is statistically significant. When we use POL2 and POL3 as our measures of political connection, the results are qualitatively identical.

Politically connected firms also undertake more acquisitions than non-connected firms. We define acquisitions as offers provided by the SDC database where the Date Effective is not missing and the acquirer owns 100% of the equity of the target at the end of the transaction. Politically connected acquirers (minimum one acquisition) make an average of 2.71 acquisitions of public targets while non-connected acquirers make an average of 2.05 public acquisitions during the sample period. This difference is also statistically significant.

Next we examine whether the type of merger differs between politically connected and non-connected firms. We define horizontal mergers as those in which the acquirer and target share the same primary 4-digit SIC code. We find that, in general, politically connected acquirers do not make more horizontal bids. But politically connected serial bidders, however, appear more likely than non-connected acquirers to make more horizontal bids.

To identify whether a merger is vertical, we follow Fan and Goyal (2006) and Acemoglu, Johnson, and Mitton (2007) and use the industry commodity flow information from the Use 2002 Table of Benchmark Input-Output Accounts for the US Economy compiled by the BEA.⁹ As in Acemoglu et al. (2006), we calculate a vertical relatedness coefficient which represents the value of inputs required to produce one dollar's worth of outputs. We identify the top 5% of industry pairs as vertically integrated. Politically connected acquirers make more vertical bids and acquisitions during our sample period than non-politically connected acquirers. Vertical bids make up 10.49% of the number of offers by connected bidders, but only 8.93% of those made by non-connected bidders. These results are statistically significant.

In Panel B of Table 1, we test for time-series patterns in the bidding behavior of connected and non-connected firms. We find that the proportion of bids made by connected firms increases during election years, particularly presidential elections. This finding suggests that politically connected bidders recognize that a change in presidential administrations can produce future business opportunities for the firm.

6.2 Industry Patterns

We show the number of bids made by connected and non-connected bidders across industries in Panel A of Table 2. We assign industries based on each acquirer's one-digit SIC Code. The proportion of politically connected to non-politically connected bidders is higher than average in the utilities, manufacturing, financial, and service industries. Our finding is consistent

⁹ The link is: http://www.bea.gov/industry/io_benchmark.htm. We select the file labeled '2002 Standard Make and Use Tables at the detailed level'. To calculate the flow between industries, we take $\frac{1}{2}(A_{ij} + A_{ji})$ which is the flow in both directions between two NAICS codes. We download a conversion chart from the Census to convert NAICS industries back into SIC codes from: <https://www.census.gov/eos/www/naics/concordances/concordances.html>. The original file has many I/O codes that do not correspond to NAICS codes, so we manually identify the NAICS code these codes correspond to by using a file provided by the federal government and an examination of the description of each NAICS code.

with Hillman (2005) and Goldman et al. (2009). The knowledge and connections of former politicians and regulators are likely to be more valuable for firms that operate in the heavily regulated environments of public utilities and financial services.

6.3 Comparative Statistics Based on Political Connectivity

In Table 3 we compare firm characteristics between connected and non-connected acquirers. All accounting variables are winsorized at the 5% and 95% levels. From the tests of means in Panel A, we observe that connected acquirers are larger, have more sales, less cash on hand, and are more profitable than non-connected acquirers. These results are consistent with the findings of Goldman et al. (2009). From our test of medians, we find that connected bidders also have higher leverage and market-to-book ratios.

In Panel B we examine the impact that hiring a former politician or regulator has on a future acquirer's performance. We perform a series of difference-in-difference tests. These tests allow us to examine the effect that an increase in the political connections has on a firm relative to a control group (Card and Krueger 1994). We start by identifying the year that the politically connected firm hires a non-general counsel lawyer or former politician, regulator, or flag officer. We use the broadest measure of political connections, POL3, because this provides us with the largest matched sample. Robustness tests in which we use POL1 or POL2 yield similar, though weaker results, due in part to the small sample size. We require the hiring date to be no earlier than 1997. We further eliminate observations in which there are already former politicians or regulators on the firm's board or management team to identify the effect of a firm transitioning from non-connected to connected. We then match these remaining observations to observations of non-regulated future bidders based on industry classification, year, and closest total assets.

We examine the change in each of the characteristics from the year prior to the hiring of these connected individuals to the year following the hiring.

Our difference-in-difference tests show firms that appoint former politicians or regulators to the board or management team experience a much larger change in total sales than the control sample based on both the test of means and medians. We also find that while there is a slight decrease in the median leverage ratio of control firms, firms that hire former politicians or regulators significantly increase their leverage. These findings suggest that the hiring of former politicians and other connected individuals influence important aspects of corporate decision making.

7. Empirical Results

7.1 Political Connections and Acquisition Success

Managers that intend to acquire merger targets to reduce competition face the risk of regulatory denial. A manager can decrease the likelihood of regulatory delay or disapproval by avoiding acquisitions that create barriers to entry or limit industry competition. Firms which enjoy political connections, however, probably have less need to consider these factors when assessing merger targets.

Because managers who make acquisitions that are likely to be denied or delayed have an incentive to hire a former politician or regulator, there is a potentially endogenous relation between hiring a former politician and merger litigation. We control for this potential endogeneity between the appointment of connected individuals and the likelihood of merger litigation by using the total Political Action Committee (PAC) contributions made by each acquirer's industry during the election cycle as an instrumented variable for political connections in our multivariate analysis. Industries that are heavily regulated and interact more often with

government agencies make larger total PAC contributions. Our results from Table 2 indicate that regulated acquirers more often hire former government officials. Therefore, the PAC contributions made by each industry act as a proxy for the political connectedness of firms in that industry. The PAC contribution measure is uncorrelated with the likelihood of litigation since the industry-level PAC contributions are unrelated to the criteria used by the FTC or the Department of Justice to bring suit. This allows us to use industry-level PAC contributions as an instrumented variable for firm-level political connections.

Our data on PAC contributions is provided by the Federal Election Commission and collected by the Center for Responsive Politics. The vast majority of industries used by the Center for Responsive Politics (CRP) directly correspond to a 2-digit SIC code and can be matched by name. The remaining industries provided by the CRP are matched based on the subcategories associated with the industry using a best guess procedure. We match each acquirer to the total PAC contributions made by its primary industry based on two-digit SIC code during the two-year election cycle. We then perform our two-stage least squares regression analysis.

We present our analysis in Panel A. In Models 1-5 we report the results from the first stage and in Models 6-10 we provide the results of the second stage. In the first stage, we regress our primary measure of political connections, POL1, on industry-election cycle PAC contributions and a set of control variables. In the second stage, we regress an indicator variable for incomplete mergers on our instrumental variable and control variables. The dependent variable, *Incomplete Merger*, equals one if the acquirer does not manage to acquire 100% of the target's equity.

Our results show that acquisitions attempts by politically connected acquirers are less likely to be incomplete. As expected, the instrumental variable, industry-level PAC

contributions, is positively correlated with the firm-specific political connections. This instrumental variable is negatively correlated to the incomplete merger variable in the second stage. The result indicates politically connected acquirers are more likely to successfully acquire targets. These results are robust to the elimination of unsolicited and contested bids from the sample.¹⁰

In Panel B, we examine the relationship between regulatory action and political connections. In Models 1-5, we present the results from the first stage of the 2SLS regressions. We regress POL1 on industry-level PAC contributions and find a positive relationship. In Models 6-10, we present the results from the second stage regression. Our dependent variable in these regressions, Regulatory Action, equals one if the acquisition attempt faces resistance by one of the regulatory agencies during the merger review process and zero otherwise. We find a negative relation between instrumented PAC contributions and regulatory action during the merger review process.

7.2 Announcement Period Effects

In Table 5, we examine the investor response to the announcement of merger bids. Panel A presents the cumulative abnormal returns around the bid announcements. We find that the CARs around bid announcements made by politically connected acquirers are less negative than those made by non-politically connected acquirers. The average three day (-1, +1) return around the bids by politically connected acquirers is -1.1% compared to -1.9% for non-connected acquirers. Tests of the difference in medians yield quantitatively similar results. These differences are statistically significant.

¹⁰ We also use propensity matching scores to examine the likelihood of politically and non-politically connected acquirers to complete acquisitions. Our results are quantitatively similar to those in Panel A.

When we examine the returns around the announcements of diversifying and non-diversifying acquisitions in Panels B and C, we find the negative response, -1.5%, to horizontal acquisition attempts by non-connected acquirers is more than double the -0.6% response to bids by politically connected acquirers. In Panel D, we find that even when politically connected acquirers make diversifying bids, investors respond less negatively to the news. In the three days around the announcement (-1, +1), shares of politically connected acquirers fall by -0.9% compared to a decline of -1.8% for non-connected acquirers.

In the multivariate analysis presented in Panel E, we regress the value-weighted cumulative abnormal return upon our measures of political connections, control variables, and year and industry (2-digit SIC code) fixed effects. We find a positive relationship between cumulative abnormal returns and political connections.

In Table 6, we examine the relationship between political connections and the cost of regulatory uncertainty. In Panel A, we examine the abnormal returns around the early termination date (if it exists) of the merger review period. In Panel B, we examine the reaction around the resolution of cases against acquirers. Finally, in Panel C, we examine the investor reaction to the resolution of cases against merger parties in a multivariate setting.

The Federal Trade Commission and the Department of Justice generally have thirty days¹¹ to decide whether or not to approve a potential deal. If the merger review period is terminated early, the resolution of uncertainty increases the merger parties' share prices. Investors should be less certain whether a non-connected firm will face regulatory action.

We present our empirical findings concerning the merger review period in Panel A of Table 6. We find the share price response to early termination announcements is more positive

¹¹ If other agencies are involved in the review process, the merger review period can be extended.

for non-connected acquirers. During the (-5, +5) window surrounding the resolution of uncertainty, we find cumulative abnormal returns of -0.7% for politically connected acquirers, compared with 0.9% for non-connected acquirers. The positive reaction around the early termination date of non-politically connected acquisitions indicates there is greater uncertainty concerning these acquisitions during the merger review process.

In Panel B, we examine the cumulative abnormal returns of connected and non-connected acquirers around the resolution of merger litigation. If investors are less uncertain as to the outcome of litigation against politically connected acquirers, then the price response to the resolution of merger litigation should be lower for these acquirers. We find that the three-day value-weighted abnormal return around the resolution of merger litigation is 1.09% for non-connected firms, but -0.56% for connected firms. The result is significant at the 5% level. This result is robust to different return windows, the use of raw and equal-weighted returns, and more inclusive measures (POL2 and POL3) of political connections.

In Panel C, we examine the relation between an acquirer's political connections and the abnormal return around the resolution of merger litigation in a multivariate framework. We regress cumulative abnormal returns on POL1 and a series of control variables. We find a significant and negative relationship between our political connections variables and cumulative abnormal returns. The results from this panel confirm the results from Panels A and B. Investors are less uncertain as to the outcome of the merger review process when acquirers maintain political connections.

The results from Tables 5, 6, and 7 show that politically connected acquirers are more likely to complete an acquisition and are less likely to face regulatory action from U.S. merger regulators. When these firms face litigation, investors anticipate that the cost of such litigation is

lower for these firms. These results imply that managers of connected firms should be more willing to make bids for merger targets that might attract regulatory attention or disapproval. The mergers of connected bidders should also be larger than those of non-connected bidders.

7.3 Acquisition Activity and Target Size of Politically Connected Acquirers

In this section we examine the general nature of acquisition activity by politically connected acquirers. Specifically, we examine the number of bids made by connected firms as well as the size of the target. We anticipate that both are positively related to the political connectivity of the firm.

In Panel A of Table 7, we regress the number of bids and acquisitions each firm makes on various measures of bidder/acquirer political connections, control variables, and year and industry fixed effects. In models 1, 2, and 3, we find a positive relation between the political connections of the bidding firm and the number of bids the firm makes. We also discover that acquirers in regulated industries make fewer bids than those in non-regulated industries. In Models 4, 5, and 6, we examine the number of acquisitions of public targets made by the sample acquirers. We find that connected firms make more public acquisitions than non-connected firms.

In Panel B of Table 7, we repeat our analysis using Tobit regression since the number of bids is truncated at zero. Consistent with our results in Panel A, politically connected acquirers make more bids and acquisitions during the sample period.

We perform difference-in-difference tests in Panel C to address potential endogeneity between the size of the acquirer and the acquirer's ability to attract politically connected individuals. We use the matched sample described in Panel B of Table 3 for our analysis. The results in column two of Panel C represent the difference in the number of bids during the period

after the hiring of the connected individual and the number of bids during the period before the hiring of the connected individual. In column three we examine the change in the number of bids made by the control firms over the same period. Firms that hire connected individuals make 0.54 more public bids in the three years after the appointment than the three years prior to the appointment. Firms that hire a connected individual make 0.49 more total bids in the three years after the appointment than in the three years prior to the appointment. The control firms increase the number of bids and acquisitions by 0.04 and 0.02 over the same period. We report the p-value for the difference in the differences in column four. Our results are significant at least at the 5% level for each of the difference-in-difference tests. Our results suggest that firms which hire former politicians increase the number of bids they make for both public and private targets, even after controlling for past acquisition activity and firm characteristics.

We perform additional difference-in-difference tests in Panel D. We measure the difference in the number of acquisitions as the number of acquisitions made from year t to year $t+3$ minus the number of acquisitions from year $t-3$ to year $t-1$. Connected firms have larger increases in the number of acquisitions than non-connected firms. The increase in the number of acquisitions is significant at the 1% in every test we perform.

Next we examine the relation between the political connections and target size. In Models 1, 2, and 3 of Table 8, we measure size as the total sales of the acquirer. We find a positive relation between an acquirer's political connections and sales revenue. In Models 4, 5, and 6, our dependent variable is the market capitalization of the target. We find a positive relation between market capitalization and acquirer political connections. Finally in Models 7, 8, and 9, we find a positive relation between the target's total assets and the political connections of

the acquirer. The relationship is significant at the 10% level for all regressions when we define political connections according to POL1.

The results in Tables 7 and 8 indicate that politically connected acquirers make larger and more frequent merger bids/acquisitions. These findings imply that acquirers with politically connected directors exploit their insider knowledge of the regulatory process and network contacts by pursuing more mergers and bidding on larger targets.

7.5 Post-Merger Performance of Politically Connected Firms

In this section we test our fifth hypothesis and seek to determine if acquirers with political connections purchase targets that provide them with long-term value. To calculate long-term abnormal returns, we follow Dimson and Marsh (1986), Lakonishok and Vermaelen (1990), and Agrawal, Jaffe, and Mandelker (1992).

In Table 9, we examine the post-merger financial performance of the acquirers most likely to benefit from political connections. We examine the long-term abnormal returns of firms which make horizontal or vertical acquisition during the first five years following the merger. We focus on the abnormal returns after non-diversifying acquisitions because the knowledge former government officials provide is most valuable when structuring horizontal or vertical acquisitions. These mergers are most likely to be opposed because they contain the possibility of greater industry or market concentration.

Our results in Panel A of Table 9 show that, consistent with Agrawal et al. (1992), non-politically connected acquirers exhibit cumulative abnormal returns of -11.01% over the five years after the month in which the merger becomes effective. Amongst the politically connected

acquirers, the cumulative abnormal returns are 8.82% over the five year period. These results are most robust for the strongest political connections and weaken when we consider the wider, but more diluted measures of political connections (i.e., POL2, POL3).

We regress cumulative abnormal returns on POL1, control variables, and year and industry fixed effects in Panel B. While we find no significant relationship over the first year, the relationship becomes significant when we consider the cumulative abnormal returns over longer time horizons. The positive relationship between POL1 and the dependent variables indicate politically connected acquirers have abnormal returns superior to those of non-connected acquirers. In robustness tests, we show the relationship exists, particularly over longer time horizons, when we use other measures of political connections and annual abnormal returns.

We examine the post-merger accounting performance of our acquirer sample in Table 10. In Panel A, we report the mean industry-adjusted ROA and change in industry-adjusted ROA for politically connected and non-connected acquirers. In Panel B, we regress the industry-adjusted ROA on POL1, control variables, and year and industry fixed effects. As in Table 9, we report the results for only the non-diversifying acquirers since these firms should benefit the most from political connections.

Politically connected acquirers are more profitable than non-connected acquirers both before and after the acquisition. In the year after the acquisition, politically connected acquirers have industry-adjusted ROA of 5.38% compared to 0.27% for non-connected acquirers. This relationship is quantitatively similar amongst the diversifying acquisitions. When we examine the change in industry-adjusted ROA, we find politically connected acquirers have smaller decreases in industry-adjusted ROA than non-politically connected acquirers. This difference

attenuates as we use POL2 or POL3, again suggesting firms that hire former government officials with the most valuable knowledge are able to avoid value-destroying mergers.

Our results in Panel B support the univariates in Panel A. The coefficient on POL1 indicates a positive and significant relationship between the change in industry-adjusted ROA and political connections. With the exception of model 2, this result is significant at the 1% level. The relationship is robust to different time periods and POL2 and POL3 as well. Our results are quantitatively similar for diversifying acquisitions.

6. Conclusion

The goal of this study is to examine how corporate political connections effect the merger process in the United States. We examine the effect that the addition of a connected individual to the management team/board of directors has on our sample firms. We hypothesize that connected acquirers are better able navigate the regulatory barriers constructed by federal agencies overseeing the merger process. As a result, connected acquirers are likely to make more bids, pursue larger targets and enjoy superior post-merger performance.

Our results are consistent with these predictions. We find connected firms make more bids and acquisitions than non-politically connected firms, even after accounting for the number of prior bids. The increase in the number of bids and completed acquisitions increases after the appointment of former government officials to the board or management team. These bids/acquisitions are also larger than those of non-connected firms. Investors also respond more positively to the bid announcements made by politically connected acquirers, suggesting that they expect the firm to obtain greater value from the acquisition.

We also explore whether acquisitions by connected firms provide superior post-merger financial and accounting performance. We observe that connected acquirers exhibit positive five year abnormal returns whereas non-connected acquirers exhibit cumulative abnormal returns of 11.01% over the same period. The industry-adjusted return on assets of politically connected acquirers is also higher than the ROA of non-connected acquirers. We further determine that the decrease in industry-adjusted ROA in the years after the acquisition is more negative for non-connected acquirers. These results support the theory that firms which hire former government officials are more effective at using regulatory knowledge and interactions with regulators to structure merger bids which pass the review process and also provide the acquirer greater value than the acquisitions of non-connected firms.

We conclude that political connections are valuable for acquirers and effect their experience in the regulatory review process. Firms that hire politically connected directors or managers are advantaged during the merger review process. These firms outperform those not similarly connected.

Although these results indicate the importance of political connections, it is less clear what mechanism leads to these results. Former government officials potentially provide regulatory knowledge, lobbying abilities, and stronger ties between merger parties and regulators. While our expectation is that our results are driven by the superior knowledge of acquirers, future work will be needed to disentangle which mechanism is the most valuable.

It is unclear whether our results hold for acquisitions outside the United States. Connected acquirers in countries with weaker institutions are less likely to face antitrust litigation and could have stronger post-merger performance. Managers in these countries, however, might appoint a connected individual to the board instead of an individual who could

effectively monitor the manager. This connected firm would then have more freedom to acquire low-value targets and might suffer poorer post-merger performance than non-connected acquirers.

Finally, this analysis should change how we think about governance. Firms that hire a former regulator as an independent director instead of an independent director with management experience do not appear to suffer negative consequences as a result of their acquisitions. Future discussion of optimal board design should consider the value that political connections add to the firm.

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Table 1: The Nature of Merger Activity

Panel A provides descriptive statistics regarding the number and nature of acquisitions made by our sample firm. Panel B contains a time-series of acquisitions by the acquirer's level of political connections. PC indicates politically connected firms. NPC indicates non-politically connected firms. Firms that are politically connected according to the first political connectedness measure (POL1) have at least one member of the board of directors or a manager who is a former politician or regulator. POL2 equals one if the firm has a former politician, regulator, or member of the military on their board or management team and equals zero otherwise. POL3 equals one if the firm has a former politician, regulator, member of the military, or non-general counsel lawyer on their board or management team and equals zero otherwise. Regulated firms are defined as firms with SIC codes 4000-4999 or 6000-6999. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

Panel A: Nature of Public Acquirers

	Measure of Political Connection								
	POL1			POL2			POL3		
	PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value
Average Number of Public Bids	2.587	1.953	<0.001***	2.555	1.953	<0.001***	2.465	1.825	<0.001***
Average Number of Public Acquisitions	2.714	2.054	<0.001***	2.686	2.054	<0.001***	2.602	1.911	<0.001***
Percentage of Failed Bids (public) Per Target During Sample Period	0.116	0.140	0.154	0.118	0.139	0.193	0.119	0.146	0.093*
% of Horizontal Bids	40.56%	40.78%	0.942	40.21%	40.88%	0.813	39.03%	41.88%	0.227
% of Horizontal Acquisitions	40.74%	40.93%	0.951	40.06%	41.11%	0.732	39.42%	41.87%	0.335
Number of Horizontal Bids (Min = 1)	1.420	1.321	0.313	1.419	1.320	0.300	1.411	1.295	0.117
Number of Horizontal Acquisitions (Min = 1)	1.388	1.310	0.430	1.394	1.307	0.370	1.393	1.281	0.138
Percentage of Vertical Bids (5%)	10.49%	8.93%	0.296	10.55%	8.86%	0.254	9.62%	9.27%	0.801
Percentage of Vertical Acquisitions (5%)	10.95%	9.50%	0.375	11.07%	9.40%	0.301	10.21%	9.75%	0.760
Number of Vertical Bids (Min = 1)	1.796	1.231	0.025**	1.754	1.236	0.031**	1.561	1.261	0.092*
Number of Vertical Acquisitions (Min = 1)	1.765	1.203	0.029**	1.722	1.208	0.036**	1.547	1.231	0.092*
Percentage of Acquisitions by Regulated Acquirers	31.15%	28.81%	0.308	30.08%	29.35%	0.746	37.03%	21.17%	<0.001***
Percentage of bids going to politically connected targets	23.87%	16.70%	0.004***	26.38%	17.94%	0.001***	45.53%	37.32%	0.006***
Percentage of acquisitions that are politically connected targets	24.22%	15.71%	0.001***	26.77%	17.00%	<0.001***	44.96%	36.90%	0.011**
Total Number of Public Bids	614	1183		639	1158		956	841	

Panel B: Annual Number of Observations by Announcement Year

Measure of PC	POL1			POL2			POL3			
	PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value	
1997	50	101	0.775	53	98	0.902	84	67	0.532	
1998	51	123	0.155	55	119	0.252	88	86	0.465	
1999	75	119	0.163	77	117	0.203	105	89	0.785	
2000	50	115	0.272	51	114	0.190	77	88	0.078*	
2001	44	105	0.213	45	104	0.154	74	75	0.367	
2002	19	59	0.062*	21	57	0.103	45	33	0.416	
2003	24	64	0.162	26	62	0.227	45	43	0.691	
2004	21	74	0.011**	23	72	0.018**	48	47	0.592	
2005	40	53	0.065*	40	53	0.123	51	42	0.745	
2006	41	62	0.214	42	61	0.255	57	46	0.654	
2007	38	66	0.560	41	63	0.396	55	49	0.947	
2008	37	50	0.092*	38	49	0.105	49	38	0.550	
2009	21	38	0.814	21	38	0.996	31	28	0.918	
2010	27	54	0.871	28	53	0.849	42	39	0.804	
2011	18	31	0.701	19	30	0.634	28	21	0.575	
2012	31	36	0.033**	32	35	0.034**	41	26	0.181	
2013	27	33	0.072*	27	33	0.120	36	24	0.283	
Total	614	1183		639	1158		956	841		
P-value from the X ² test of the difference in the ratio of political connections across industries			0.008***				0.024**	0.897		

Table 2: Distribution of Acquirers by Industry and Level of Political Connections

PC indicates politically connected firms. NPC indicates non-politically connected firms. Firms that are politically connected according to the first political connectedness measure (POL1) have at least one member of the board of directors or a manager who is a former politician or regulator. POL2 equals one if the firm has a former politician, regulator, or member of the military on their board or management team and equals zero otherwise. POL3 equals one if the firm has a former politician, regulator, member of the military, or non-general counsel lawyer on their board or management team and equals zero otherwise. Regulated firms are defined as firms with SIC codes 4000-4999 or 6000-6999. The χ^2 p-value is the significance level from a Chi-Square test of the difference in the number of observations across industries. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

SIC Code	Desc.	Measure of Political Connections								
		POL1			POL2			POL3		
		PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value
0000-0999	Agriculture, Forestry, and Fisheries	2	1	0.235	2	1	0.260	3	0	0.104
1000-1999	Mineral and Construction Industries	28	61	0.581	28	61	0.407	47	42	0.940
2000-2999	Manufacturing	109	123	<0.001***	109	123	<0.001***	136	96	0.076*
3000-3999	Manufacturing	158	335	0.244	178	315	0.766	223	270	<.001***
4000-4999	Transportation, Communications, and Utilities	67	63	<0.001***	67	63	<0.001***	94	36	<0.001***
5000-5999	Wholesale and Retail Trade	31	70	0.449	33	68	0.533	47	54	0.1670
6000-6999	Finance, Insurance, and Real Estate	127	275	0.217	128	274	0.077*	260	142	<0.001***
7000-7999	Service Industries	74	225	<0.001***	75	224	<0.001***	122	177	<0.001***
8000-8999	Service Industries	18	30	0.622	19	29	0.555	24	24	0.653
9000-9999	Public Administration	-	-	-	-	-	-	-	-	-
Regulated Firms	4000's and 6000's	190	342	0.183	191	341	0.530	354	178	<0.001***
Non-regulated Firms	All other SIC's	420	845		444	821		602	663	
P-value from the χ^2 test of the difference in the ratio of political connections across the 10 industries		<0.001***			<0.001***			<0.001***		

Table 3: Comparative Characteristics of Public Bidders and Acquirers

In this table, we examine the difference in characteristics of politically connected and non-connected acquirers. Panel A provides a comparison of financial characteristics between politically connected and non-connected acquirers. Panel B contains the results from a difference in difference test for the same financial characteristics. PC and NPC indicates politically connected and non-connected firms, respectively. We identify politically connected firms using POL1. POL1 equals one when a firm has a former politician or regulator on the board or management team and equals zero otherwise. The comparative data are Winsorized at the 5% and 95% levels. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

<i>Panel A: Politically Connected vs. Non-Connected Acquirers</i>						
	Mean			Median		
	PC	NPC	P-Value	PC	NPC	P-Value
Equity Capitalization	37877.0	11019.7	<0.001***	10761.0	1791.9	<0.001***
Total Assets	26164.9	8875.6	<0.001***	9603.5	1298.5	<0.001***
Total Sales	17665.9	5102.0	<0.001***	6893.0	768.0	<0.001***
Cash/Total Assets	0.094	0.124	<0.001***	0.055	0.076	0.024**
Return on Assets	0.059	0.016	<0.001***	0.062	0.045	0.002***
Debt/Total Assets	0.176	0.168	0.410	0.147	0.118	0.006***
Market/Book	4.576	4.208	0.245	3.166	2.738	0.013**
Number of Obs.	473	858		473	858	

Panel B: Difference-in-difference test of Politically Connected vs. Non- Connected Acquirers in the year Prior to the Merger

	Mean			Median		
	PC	NPC	P-Value	PC	NPC	P-Value
Equity Capitalization	12.58%	31.23%	0.01***	20.05%	17.73%	0.618
Total Assets	47.68%	34.16%	0.123	22.63%	18.07%	0.318
Total Sales	59.84%	21.73%	0.002***	19.88%	13.58%	0.081*
Cash/Total Assets	45.57%	54.58%	0.584	3.11%	-1.07%	0.803
Return on Assets	-69.77%	-45.27%	0.352	-9.95%	-20.19%	0.318
Debt/Total Assets	17.79%	24.61%	0.534	0.40%	-8.13%	0.081*
Market/Book	1.86%	7.84%	0.317	-1.74%	0.99%	0.618
Number of Obs.	128	128		128	128	

Table 4: Probability of Merger Success and Regulatory Action

In this table we examine whether a firm that hires a politically connected individual is less likely to face litigation during an acquisition using the Two Stage Least Squares procedure. Panel A estimates the probability of acquisition success while Panel B calculates the probability of regulator action. In the first stage, we regress POL1 against our instrument, total PAC contributions made by the industry during the current election cycle. POL1 equals one if the acquiring firm has a former politician or regulator on the board or management team. We complete our model specification with select control variables and industry/year fixed effects. The dependent variable in the second stage, CASE, is a dummy variable that takes the value of one if either the FTC or the DOJ file merger litigation and zero otherwise. Target ROA is the return on assets of the target firm. RELATIVE_TA is the acquirer size divided by the target size in total assets. HORIZ equals one if the two firms have the same primary 4-digit SIC code. Target_TA is the target firm's total assets (in millions). CASH is an indicator variable that takes a value of one if the transaction includes a cash component and zero otherwise. TAR_HERF_SIC2_SALE is the Herfindahl index of the target firm's 2-digit SIC code during the year. TAR_HERF_SIC2_AT is the Herfindahl index of total assets of the 2-digit SIC code in which the target firm operates. We provide P-values in the row below the coefficients. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Probability of Acquisition Success

Parameter	Stage 1 Dependent Variable = POL1					Stage 2 Dependent Variable = Incomplete Merger				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Intercept	-0.548*** (<0.001)	-0.514*** (<0.001)	-0.553*** (<0.001)	-0.521*** (<0.001)	-0.554*** (<0.001)	-0.437 (0.163)	-0.381 (0.204)	-0.455 (0.145)	-0.4 (0.174)	-0.459 (0.131)
Industry-Year PAC Contributions	$<0.001^{**}$ (0.031)	$<0.001^{**}$ (0.046)	$<0.001^{**}$ (0.033)	$<0.001^{**}$ (0.045)	$<0.001^{**}$ (0.034)					
Instrumental Variable						-2.543** (0.01)	-2.697*** (0.004)	-2.526** (0.012)	-2.678*** (0.004)	-2.543*** (0.01)
Target Return on Assets	0.18 (0.119)	0.181 (0.117)	0.174 (0.131)	0.189 (0.102)	0.183 (0.114)	0.157 (0.291)	0.166 (0.261)	0.148 (0.317)	0.176 (0.233)	0.162 (0.276)
Relative Total Assets	-0.304*** (<0.001)	-0.303*** (<0.001)	-0.305*** (<0.001)	-0.306*** (<0.001)	-0.307*** (<0.001)	0.059 (0.369)	0.052 (0.374)	0.062 (0.382)	0.051 (0.372)	0.06 (0.379)
Horizontal Acquisition	-0.067 (0.307)	-0.071 (0.274)	-0.071 (0.275)	-0.075 (0.248)	-0.074 (0.252)	-0.200** (0.018)	-0.206** (0.015)	-0.192** (0.023)	-0.202** (0.017)	-0.188** (0.025)
Acquirer Total Assets	$<0.001^{**}$ (0.017)	$<0.001^{**}$ (0.019)	$<0.001^{**}$ (0.02)	$<0.001^{**}$ (0.028)	$<0.001^{**}$ (0.028)	<0.001 (0.22)	<0.001 (0.244)	<0.001 (0.213)	<0.001 (0.213)	<0.001 (0.19)
Target Total Assets	<0.001 (0.568)	<0.001 (0.579)	<0.001 (0.586)	<0.001 (0.685)	<0.001 (0.689)	<0.001 (0.56)	<0.001 (0.588)	<0.001 (0.552)	<0.001 (0.519)	<0.001 (0.495)
Cash	0.250*** (<0.001)	0.257*** (<0.001)	0.253*** (<0.001)	0.262*** (<0.001)	0.258*** (<0.001)	0.290** (0.02)	0.307** (0.013)	0.284** (0.025)	0.314** (0.012)	0.295** (0.02)
Acquirer M/B	0.002 (0.265)	0.002 (0.272)	0.002 (0.27)	0.002 (0.267)	0.002 (0.266)	-0.004 (0.405)	-0.004 (0.412)	-0.004 (0.386)	-0.004 (0.394)	-0.004 (0.367)
Target M/B	<0.001 (.982)	<0.001 (.99)	<0.001 (.982)			<0.001 (.93)	<0.001 (.937)	-0.001 (.911)		
Acquirer Sales/Tot. Assets	0.042 (0.372)					0.014 (0.797)				
Acquirer Herfindahl by Sales	0.395 (0.687)	0.543 (0.575)		0.548 (0.569)		1.301 (0.23)	1.388 (0.191)		1.386 (0.192)	
Target Herfindahl by Sales	-0.949 (.331)	-0.992 (.31)		-0.855 (.378)		0.28 (.803)	0.208 (.853)		0.333 (.763)	
Acquirer Herfindahl by Tot. Assets			0.332 (0.715)		0.299 (0.742)			1.038 (0.312)		0.995 (0.332)
Target Herfindahl by Tot. Assets			-0.098 (0.911)		-0.02 (0.981)			0.932 (0.352)		0.996 (0.32)
McFadden R ²	0.034	0.033	0.033	0.033	0.033	0.039	0.039	0.039	0.039	0.038
Num. of Obs.	1760	1760	1760	1771	1771	1760	1760	1760	1771	1771

Panel B: Probability of Regulatory Action

	Stage 1 Dependent Variable = POL1					Stage 2 Dependent Variable = Regulatory Action				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	8	(9)	(10)
Intercept	-0.591*** (<0.001)	-0.546*** (<0.001)	-0.575*** (<0.001)	-0.548*** (<0.001)	-0.574*** (<0.001)	-1.172** (0.042)	-0.653 (0.304)	-0.835 (0.164)	-0.697 (0.265)	-0.856 (0.150)
Industry-Year PAC Contributions	<0.001* (0.057)	<0.001* (0.093)	<0.001* (0.074)	<0.001* (0.096)	<0.001* (0.078)					
Instrumental Variable						-3.170* (0.091)	-4.381** (0.031)	-3.992** (0.043)	-4.138** (0.039)	-3.766* (0.054)
Target Return on Assets	0.154 (0.199)	0.157 (0.189)	0.151 (0.207)	0.165 (0.168)	0.159 (0.183)	1.356*** (0.003)	1.443*** (0.002)	1.401*** (0.002)	1.508*** (0.002)	1.469*** (0.002)
Relative Total Assets	-0.305*** (<0.001)	-0.303*** (<0.001)	-0.302*** (<0.001)	-0.307*** (<0.001)	-0.305*** (<0.001)	-0.008 (0.955)	-0.085 (0.601)	-0.056 (0.720)	-0.079 (0.625)	-0.048 (0.759)
Horizontal Acquisition	-0.085 (0.222)	-0.091 (0.188)	-0.088 (0.207)	-0.098 (0.159)	-0.093 (0.177)	0.011 (0.935)	-0.056 (0.686)	-0.034 (0.803)	-0.08 (0.568)	-0.057 (0.679)
Acquirer Total Assets	<0.001** (0.027)	<0.001** (0.032)	<0.001** (0.033)	<0.001** (0.046)	<0.001** (0.047)	<0.001* (0.063)	<0.001** (0.034)	<0.001** (0.046)	<0.001* (0.055)	<0.001* (0.073)
Target Total Assets	<0.001 (0.518)	<0.001 (0.531)	<0.001 (0.528)	<0.001 (0.626)	<0.001 (0.618)	<0.001 (0.900)	<0.001 (0.713)	<0.001 (0.779)	<0.001 (0.909)	<0.001 (0.959)
Cash	0.273*** (<0.001)	0.281*** (<0.001)	0.276*** (<0.001)	0.285*** (<0.001)	0.280*** (<0.001)	0.382* (0.093)	0.528** (0.029)	0.474** (0.042)	0.489** (0.042)	0.438* (0.060)
Acquirer M/B	0.002 (0.260)	0.002 (0.270)	0.002 (0.268)	0.002 (0.270)	0.002 (0.269)	0.001 (0.760)	0.001 (0.610)	0.001 (0.658)	0.001 (0.583)	0.001 (0.633)
Target M/B	0.001 (0.872)	0.001 (0.859)	0.001 (0.846)			0.007 (0.204)	0.007 (0.171)	0.007 (0.180)		
Acquirer Sales/Tot. Assets	0.056 (0.26)					0.221*** (0.003)				
Acquirer Herfindahl by Sales	0.811 (0.454)	1.052 (0.322)		1.032 (0.329)		1.792 (0.298)	3.297* (0.059)		3.306* (0.049)	
Target Herfindahl by Sales	-0.589 (0.586)	-0.669 (0.536)		-0.531 (0.620)		-1.207 (0.498)	-1.878 (0.298)		-1.291 (0.447)	
Acquirer Herfindahl by Tot. Assets			0.418 (0.672)		0.383 (0.697)			2.358 (0.129)		2.317 (0.123)
Target Herfindahl by Tot. Assets			0.421 (0.658)		0.51 (0.589)			0.152 (0.924)		0.393 (0.802)
McFadden R ²	0.033	0.033	0.033	0.032	0.033	0.064	0.057	0.058	0.055	0.056
Num. of Obs.	1528	1528	1528	1538	1538	1528	1528	1528	1538	1538

Table 5: Cumulative Abnormal Return Around Announcement of Deal

In this table, we compare the difference in the average cumulative abnormal returns of politically connected and non-politically connected acquirers around the announcement of a merger bid. In Panel A, we examine investor response surrounding all bid announcements. In Panel B we examine the investor response around announcements of deals between direct competitors (horizontal acquisitions). In Panel C, we examine the investor response around the announcement of deals between buyers and suppliers (vertical acquisitions). In Panel D, we examine the response around the announcement of the remaining (diversifying) acquisitions. In Panel E, we report the multivariate tests of the relationship between the cumulative abnormal return and political connections. PC indicates politically connected firms while NPC refers to non-connected firms. Firms which are politically connected according to POL1 have at least one member of the board of directors or a manager who is a former politician or regulator. POL2 defines politically connected firms as those firms which have a former politician, regulator on their board or management team, or former senior member of the military. POL3 defines politically connected firms as those firms which have a former politician, regulator, senior military officer, or lawyer on the board or management team. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

<i>Panel A: All Deals</i>									
	POL1			POL2			POL3		
	PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value
(-1, 0)	-0.8%	-1.4%	0.034**	-0.7%	-1.4%	0.017**	-1.1%	-1.3%	0.584
(-1, +1)	-1.1%	-1.9%	0.023**	-1.0%	-2.0%	0.008***	-1.3%	-1.9%	0.124
(-2, +2)	-1.1%	-1.9%	0.033**	-1.0%	-2.0%	0.015**	-1.4%	-1.9%	0.226
(-3, +3)	-1.3%	-2.2%	0.034**	-1.2%	-2.2%	0.012**	-1.5%	-2.2%	0.132
(-5, +5)	-1.7%	-1.8%	0.832	-1.5%	-1.8%	0.581	-1.6%	-1.8%	0.767
Num. of Obs.	574	1122		595	1101		905	791	

<i>Panel B: Horizontal Acquisitions</i>									
	POL1			POL2			POL3		
	PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value
(-1, 0)	-0.6%	-1.5%	0.066*	-0.6%	-1.6%	0.057*	-1.3%	-1.2%	0.773
(-1, +1)	-1.1%	-2.1%	0.106	-1.0%	-2.1%	0.093*	-1.6%	-1.9%	0.671
(-2, +2)	-1.2%	-2.1%	0.203	-1.2%	-2.1%	0.168	-1.9%	-1.8%	0.943
(-3, +3)	-1.0%	-2.3%	0.086*	-1.0%	-2.4%	0.069*	-1.8%	-2.1%	0.696
(-5, +5)	-2.2%	-1.9%	0.657	-2.2%	-1.9%	0.704	-2.4%	-1.5%	0.278
Num. of Obs.	215	468		220	463		339	344	

Panel C: Vertical Acquisitions

	POL1			POL2			POL3		
	PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value
(-1, 0)	-1.1%	-1.6%	0.603	-1.0%	-1.7%	0.464	-0.7%	-2.3%	0.119
(-1, +1)	-1.2%	-1.9%	0.543	-1.1%	-2.0%	0.464	-0.9%	-2.4%	0.226
(-2, +2)	-1.5%	-2.1%	0.647	-1.5%	-2.2%	0.580	-1.3%	-2.6%	0.350
(-3, +3)	-1.8%	-2.4%	0.672	-1.7%	-2.5%	0.588	-0.9%	-2.0%	0.567
(-5, +5)	-0.9%	-1.7%	0.628	-0.9%	-1.8%	0.584	-1.0%	-1.2%	0.744
Num. of Obs.	60	102		63	99		87	75	

Panel D: Diversifying Acquisitions

	POL1			POL2			POL3		
	PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value
(-1, 0)	-0.8%	-1.3%	0.245	-0.7%	-1.3%	0.159	-0.9%	-2.0%	0.567
(-1, +1)	-0.9%	-1.8%	0.077*	-0.8%	-1.9%	0.027**	-1.1%	-1.9%	0.155
(-2, +2)	-0.8%	-1.8%	0.069*	-0.7%	-1.9%	0.036**	-1.1%	-1.9%	0.151
(-3, +3)	-1.2%	-2.0%	0.154	-1.0%	-2.1%	0.060*	-1.3%	-2.3%	0.158
(-5, +5)	-1.3%	-1.6%	0.600	-1.1%	-1.7%	0.368	-1.2%	-2.0%	0.314
Num. of Obs.	299	552		312	539		479	372	

Panel E: Multivariate Regressions

Parameter	Dependent Variable = Cumulative Abnormal Returns											
	(-1, 0)	(-1, 0)	(-1, 0)	(-1, 0)	(-1, +1)	(-1, +1)	(-1, +1)	(-1, +1)	(-2, +2)	(-2, +2)	(-2, +2)	(-3, +3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Intercept	-0.016 (0.285)	-0.016 (0.279)	-0.015 (0.323)	-0.022 (0.226)	-0.022 (0.220)	-0.022 (0.233)	-0.008 (0.681)	-0.009 (0.671)	-0.008 (0.708)	-0.018 (0.425)	-0.018 (0.412)	-0.017 (0.429)
POL1	0.006* (0.085)			0.008** (0.047)			0.009* (0.061)			0.009* (0.073)		
POL2		0.007** (0.049)			0.010** (0.021)			0.010** (0.032)			0.011** (0.030)	
POL3			0.002 (0.464)			0.007* (0.077)			0.006 (0.153)			0.008* (0.092)
Value of Transaction	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)
Cash	0.020*** (<0.001)	0.020*** (<0.001)	0.021*** (<0.001)	0.028*** (<0.001)	0.028*** (<0.001)	0.029*** (<0.001)	0.029*** (<0.001)	0.029*** (<0.001)	0.030*** (<0.001)	0.035*** (<0.001)	0.035*** (<0.001)	0.036*** (<0.001)
Horizontal Acquisition	-0.001 (0.839)	-0.001 (0.853)	-0.001 (0.834)	-0.003 (0.546)	-0.002 (0.561)	-0.002 (0.582)	-0.002 (0.599)	-0.002 (0.613)	-0.002 (0.623)	0.000 (0.955)	0.000 (0.936)	0.001 (0.913)
Vertical Acquisition	-0.004 (0.517)	-0.004 (0.516)	-0.004 (0.520)	-0.004 (0.599)	-0.004 (0.597)	-0.004 (0.590)	-0.007 (0.388)	-0.007 (0.387)	-0.007 (0.384)	-0.006 (0.442)	-0.007 (0.440)	-0.007 (0.435)
Acquirer Total Assets	<0.001 (0.555)	<0.001 (0.600)	<0.001 (0.509)	<0.001 (0.395)	<0.001 (0.441)	<0.001 (0.378)	<0.001 (0.544)	<0.001 (0.592)	<0.001 (0.516)	<0.001 (0.556)	<0.001 (0.610)	<0.001 (0.540)
Target Total Assets	<0.001 (0.213)	<0.001 (0.212)	<0.001 (0.240)	<0.001* (0.079)	<0.001* (0.078)	<0.001* (0.093)	<0.001 (0.101)	<0.001 (0.101)	<0.001 (0.117)	<0.001*** (0.009)	<0.001*** (0.009)	<0.001** (0.011)
Target Return on Assets	-0.014*** (0.002)	-0.014*** (0.002)	-0.014*** (0.002)	-0.022*** (<0.001)	-0.022*** (<0.001)	-0.022*** (<0.001)	-0.022*** (0.001)	-0.022*** (0.001)	-0.023*** (0.001)	-0.016** (0.020)	-0.016** (0.020)	-0.017** (0.018)
R ²	0.128	0.128	0.126	0.132	0.132	0.131	0.118	0.119	0.118	0.115	0.115	0.114
Num. of Obs.	1673	1673	1673	1673	1673	1673	1673	1673	1673	1673	1673	1673
Year and Industry F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 6: Share Returns Surrounding Regulatory Actions

This table examines the relation between equity returns around select announcements during the merger review process and political connections. In Panel A, we examine investor response surrounding the early termination date of the merger review process. In Panel B we report our return analysis for the period surrounding the announcement of litigation resolution. In Panel C we examine the return around the resolution of merger litigation in a multivariate setting. PC indicates politically connected firms while NPC refers to non-connected firms. Firms which are politically connected according to POL1 have at least one member of the board of directors or a manager who is a former politician or regulator. POL2 defines politically connected firms as those firms which have a former politician, regulator on their board or management team, or former senior member of the military. POL3 defines politically connected firms as those firms which have a former politician, regulator, senior military officer, or lawyer on the board or management team. Regulated firms are defined as firms with SIC codes 4000-4999 or 6000-6999. Regulated acquirers are those whose primary SIC code is between 4000-4999 and 6000-6999. Horizontal is an indicator variable that equals one if the acquirer and target have the same primary 4-digit SIC code and equals zero otherwise. Same State equals one if the acquirer and target are headquartered in the same state and equals zero otherwise. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

Panel A: Return Analysis Surrounding the Early Termination Date

	Measure of Political Connections								
	POL1			POL2			POL3		
	PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value
3 Day	-0.2%	-0.0%	0.700	-0.2%	0.0%	0.494	-0.2%	0.0%	0.642
7 Day	-0.2%	0.6%	0.180	-0.2%	0.6%	0.158	-0.1%	0.7%	0.174
11 Day	-0.7%	0.9%	0.033**	-0.7%	0.9%	0.038**	-0.4%	1.0%	0.050**
15 Day	-1.4%	0.6%	0.023**	-1.3%	0.6%	0.021**	-1.1%	0.9%	0.012**

Panel B: Return Analysis Surrounding the Resolution of Litigation

	Measure of Political Connections								
	POL1			POL2			POL3		
	PC	NPC	P-Value	PC	NPC	P-Value	PC	NPC	P-Value
3 Day	-0.6%	1.1%	0.025**	-0.6%	1.1%	0.025**	-0.4%	1.1%	0.071*
7 Day	-0.4%	2.1%	0.011**	-0.4%	2.1%	0.011**	-0.3%	2.3%	0.016**
11 Day	-1.1%	1.6%	0.099*	-1.1%	1.6%	0.099*	-1.0%	1.9%	0.109
15 Day	-1.2%	2.0%	0.033**	-1.2%	2.0%	0.033**	-0.8%	2.0%	0.068*

Panel C: Multivariate Return Analysis Surrounding the Resolution of Merger Litigation

	Dependent Variable = Cumulative Abnormal Returns			
	(-1, +1)	(-3, +3)	(-5, +5)	(-7, +7)
	(1)	(2)	(3)	(4)
Intercept	0.007 (0.3450)	0.024** (0.022)	0.014 (0.401)	0.008 (0.605)
POL1	-0.017** (0.024)	-0.030*** (0.005)	-0.034** (0.044)	-0.030* (0.063)
Regulated Acquirer	0.005 (0.533)	0.010 (0.390)	0.020 (0.294)	0.009 (0.628)
Horizontal Acquisition	0.008 (0.241)	0.004 (0.645)	0.018 (0.236)	0.019 (0.189)
Same State	-0.001 (0.920)	-0.015 (0.182)	-0.019 (0.288)	0.005 (0.783)
R ²	0.112	0.141	0.105	0.096
Num. of Obs.	64	64	64	64

Table 7: Political Connections and Merger Activity

In Panel A, we regress the number of bids and the number of acquisitions against various measures of political connections. In Panel B, we examine the difference between the periods (t+1 to t+3) and (t-3 to t-1) where t represents the year the connected individual joined the firm. In Panel C, we examine the difference between periods (t to t+3) and (t-3 to t-1). In Panel D, we perform 2SLS, using industry-level PAC contributions as our instrument. All Bids refers to all bids for public firms, private firms, subsidiaries, and joint ventures. Firms which are politically connected according to POL1 have at least one member of the board of directors or a manager who is a former politician and regulator. POL2 defines politically connected firms as those firms which have a former politician, regulator on their board or management team, or former senior member of the military. POL3 defines politically connected firms as those firms which have a former politician, regulator, senior military officer, or lawyer on the board or management team. Regulated firms are defined as firms with SIC codes 4000-4999 or 6000-6999. EQINPAY is an indicator variable that equals one if the deal includes compensation to the target firm's shareholders in the form of the bidder firm's equity and equals zero otherwise. We provide P-values in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

Panel A: Ordinary Least Squares Regressions of the Number of Bids and Acquisitions

Parameter	Dependent Variable					
	Number of Bids			Number of Acquisitions		
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	0.950** (0.041)	0.970** (0.037)	0.899* (0.053)	0.917* (0.054)	0.928* (0.052)	0.849* (0.074)
POL1	0.716*** (<0.001)			0.669*** (<0.001)		
POL2		0.636*** (<0.001)			0.613*** (<0.001)	
POL3			0.719*** (<0.001)			0.715*** (<0.001)
Regulated Acquirer	-0.381* (0.060)	-0.378* (0.063)	-0.526*** (0.010)	-0.281 (0.178)	-0.276 (0.185)	-0.427* (0.040)
Acquirer Total Assets	0.001*** (<0.001)	<0.001*** (<0.001)	0.001*** (<0.001)	0.001*** (<0.001)	<0.001*** (<0.001)	<0.001*** (<0.001)
Acquirer Cash / Total Assets	0.400 (0.613)	0.408 (0.607)	0.290 (0.713)	0.800 (0.329)	0.815 (0.320)	0.675 (0.408)
Acquirer Return on Assets	6.672*** (<0.001)	6.675*** (<0.001)	6.758*** (<0.001)	6.809*** (<0.001)	6.814*** (<0.001)	6.873*** (<0.001)
Acquirer Debt / Total Assets	-0.586 (0.202)	-0.565 (0.220)	-0.613 (0.182)	-0.539 (0.274)	-0.523 (0.289)	-0.565 (0.250)
Equity in Pay	-0.009 (0.953)	-0.012 (0.935)	-0.031 (0.834)	0.049 (0.751)	0.045 (0.770)	0.033 (0.831)
Target Total Assets	<-0.001*** (<0.001)	<-0.001*** (<0.001)	<-0.001*** (<0.001)	<-0.001*** (<0.001)	<-0.001*** (<0.001)	<-0.001*** (<0.001)
Target Cash / Total Assets	1.593*** (<0.001)	1.585*** (<0.001)	1.602*** (<0.001)	1.577*** (<0.001)	1.574*** (<0.001)	1.602*** (<0.001)
Target Return on Assets	-0.720*** (0.006)	-0.714*** (0.006)	-0.753*** (0.004)	-0.778*** (0.003)	-0.770*** (0.003)	-0.805*** (0.002)
Target Debt / Total Assets	-0.489*** (<0.001)	-0.501*** (<0.001)	-0.512*** (<0.001)	-0.477*** (<0.001)	-0.488*** (<0.001)	-0.500*** (<0.001)
R ²	0.361	0.359	0.362	0.381	0.379	0.383
Num. of Obs.	1648	1648	1648	1431	1431	1431
Year and Industry F.E.	Yes	Yes	Yes	Yes	Yes	Yes

Panel B Tobit Regression Analysis of the Number of Bids and Acquisitions

Parameter	Dependent Variable					
	Number of Bids			Number of Acquisitions		
	(1)	(2)	(3)	(4)	(5)	(6)
Intercept	-2.790*** (0.006)	-2.830*** (0.006)	-2.671*** (0.009)	-3.350*** (0.002)	-3.251*** (0.003)	-3.074*** (0.004)
POL1	1.279*** (<0.001)			1.226*** (<0.001)		
POL2		1.150*** (<0.001)			1.129*** (<0.001)	
POL3			1.274 (<0.001)			1.344*** (<0.001)
Regulated Acquirer	-1.764** (0.017)	-1.715** (0.021)	-2.113*** (0.004)	-1.235* (0.097)	-1.233* (0.099)	-1.637** (0.028)
Acquirer Total Assets	111.0*** (<0.001)	112.6*** (<0.001)	111.3*** (<0.001)	102.3*** (<0.001)	102.5*** (<0.001)	100.6*** (<0.001)
Acquirer Cash / Total Assets	-2.137* (0.093)	-1.993 (0.119)	-2.484* (0.051)	-1.512 (0.256)	-1.561 (0.242)	-1.972 (0.137)
Acquirer Return on Assets	9.145*** (<0.001)	9.351*** (<0.001)	9.288*** (<0.001)	9.955*** (<0.001)	9.773*** (<0.001)	9.899*** (<0.001)
Acquirer Debt / Total Assets	-0.201 (0.796)	-0.099 (0.899)	-0.271 (0.727)	-0.027 (0.975)	-0.080 (0.925)	-0.168 (0.842)
Equity in Pay	-0.105 (0.649)	-0.095 (0.680)	-0.134 (0.559)	-0.003 (0.991)	-0.044 (0.857)	-0.074 (0.764)
Target Total Assets	-52.950 (0.457)	-68.415 (0.338)	-30.579 (0.667)	-98.613 (0.209)	-56.025 (0.477)	-20.466 (0.794)
Target Cash / Total Assets	1.930*** (0.003)	1.905*** (0.003)	1.865*** (0.004)	1.840*** (0.005)	1.830*** (0.006)	1.795*** (0.006)
Target Return on Assets	-0.748* (0.053)	-0.726* (0.062)	-0.774** (0.046)	-0.734* (0.059)	-0.729* (0.062)	-0.804** (0.039)
Target Debt / Total Assets	-0.533*** (<0.001)	-0.549*** (<0.001)	-0.567*** (<0.001)	-0.515*** (<0.001)	-0.545*** (<0.001)	-0.561*** (<0.001)
R ²	0.194	0.193	0.195	0.202	0.202	0.204
Num. of Obs.	1648	1648	1648	1431	1431	1431
Year and Industry F.E.	Yes	Yes	Yes	Yes	Yes	Yes

Panel C: Difference-in-Difference Test of the Effect of Political Hiring on the Number of Bids

	PC	NPC	P-Value
Three Year Public Bids $(t+1 \text{ to } t+3) - (t-3 \text{ to } t-1)$	0.539	0.039	<0.001***
Three Year All Bids $(t+1 \text{ to } t+3) - (t-3 \text{ to } t-1)$	0.492	0.016	0.003***
Five Year Public Bids $(t+1 \text{ to } t+5) - (t-5 \text{ to } t-1)$	0.648	0.055	<0.001***
Five Year All Bids $(t+1 \text{ to } t+5) - (t-5 \text{ to } t-1)$	0.523	-0.008	<0.017**
Num. of Obs.	128	128	

Panel D: Difference-in-Difference Test of the Effect of Political Hiring on the Number of Bids

	3 Year All Acquisitions		
	PC	NPC	P-Value
Three Year Public Acquisitions $(t \text{ to } t+3) - (t-3 \text{ to } t-1)$	0.844	0.273	0.001***
Three Year All Acquisitions $(t \text{ to } t+3) - (t-3 \text{ to } t-1)$	0.781	0.188	<0.001***
Five Year Public Acquisitions $(t \text{ to } t+5) - (t-5 \text{ to } t-1)$	0.891	0.203	<0.001***
Five Year All Acquisitions $(t \text{ to } t+5) - (t-5 \text{ to } t-1)$	0.875	0.250	0.006***
Num. of Obs.	128	128	

Table 8: Merger Target Size and Acquirer Political Connections

This table examines the relation between the size of merger targets and the political connectedness of acquirers. We use total sales, equity market capitalization, and total assets as alternative measures for firm size. We use three different measures for political connections. Firms which are politically connected according to POL1 have at least one member of the board of directors or a manager who is a former politician and regulator. POL2 defines politically connected firms as those firms which have a former politician, regulator on their board or management team, or former senior member of the military. POL3 defines politically connected firms as those firms which have a former politician, regulator, senior military officer, or lawyer on the board or management team. We note P-values in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

	Dependent Variable								
	Total Sales			Market Capitalization			Total Assets		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Intercept	895.8*** (<0.001)	895.7*** (<0.001)	906.2*** (<0.001)	840.1*** (<0.001)	841.7*** (<0.001)	854.7*** (<0.001)	1188.4*** (<0.001)	1193.4*** (<0.001)	1213.8*** (<0.001)
POL1	162.6*** (0.003)			178.0*** (0.003)			142.1* (0.086)		
POL2		158.7937*** (0.003)			169.9*** (0.003)			127.0 (0.120)	
POL3			109.0** (0.034)			113.3** (0.039)			66.5 (0.387)
Regulated Acquirer	-565.4*** (<0.001)	-563.8*** (<0.001)	-592.6*** (<0.001)	-446.9*** (<0.001)	-445.4*** (<0.001)	-475.8*** (<0.001)	278.2** (0.011)	278.5** (0.011)	257.6** (0.018)
Acquirer Total Assets	0.012*** (<0.001)	0.013*** (<0.001)	0.013*** (<0.001)	0.019*** (<0.001)	0.019*** (<0.001)	0.019*** (<0.001)	0.027*** (<0.001)	0.027*** (<0.001)	0.027*** (<0.001)
Acquirer Cash / Total Assets	-2368.6*** (<0.001)	-2367.6*** (<0.001)	-2397.3*** (<0.001)	-1480.2*** (<0.001)	-1480.3*** (<0.001)	-1512.7*** (<0.001)	-3120.8*** (<0.001)	-3123.7*** (<0.001)	-3150.7*** (<0.001)
Acquirer Return on Assets	455.7 (0.148)	451.6 (0.152)	499.1 (0.113)	585.9* (0.083)	583.5* (0.084)	635.3* (0.060)	-280.1 (0.560)	-277.5 (0.564)	-233.1 (0.627)
R ²	0.177	0.176	0.174	0.192	0.192	0.189	0.212	0.212	0.211
Num. of Obs.	1713	1713	1713	1713	1713	1713	1713	1713	1713
Year and Industry F.E.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 9: Post-Merger Performance of Acquiring firms after adjustment for firm size and beta risk

In this table, we use the post-merger financial performance measure of Agrawal, Jaffe, and Mandelker (1992). We account for firm size and beta risk when calculating abnormal returns. The dependent variable in all regressions is the cumulative abnormal return from the month the merger becomes effective until the end of the year noted. We use three different measures for political connections. Firms which are politically connected according to POL1 have at least one member of the board of directors or a manager who is a former politician and regulator. POL2 defines politically connected firms as those firms which have a former politician, regulator on their board or management team, or former senior member of the military. POL3 defines politically connected firms as those firms which have a former politician, regulator, senior military officer, or lawyer on the board or management team. In Panel B, we note P-values in parentheses. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

Panel A: Univariate Statistics of Non-diversifying Acquisitions

Panel A.1: POL1

Months after Merger	Num. of Obs.		Average Abnormal Return			Cumulative Abnormal Return		
	PC	NPC	PC	NPC	P-Value	PC	NPC	P-Value
1-12	189	388	-0.29%	-1.78%	0.660	-0.29%	-1.78%	0.660
13-24	180	352	0.29%	1.21%	0.839	2.05%	-4.61%	0.252
25-36	166	304	2.21%	-0.11%	0.481	4.91%	-3.21%	0.306
37-48	151	278	1.00%	0.11%	0.802	8.64%	-7.59%	0.051*
49-60	132	247	1.01%	-2.46%	0.389	8.82%	-11.01%	0.016**

Panel A.2: POL2

Months after Merger	Num. of Obs.		Average Abnormal Return			Cumulative Abnormal Return		
	PC	NPC	PC	NPC	P-Value	PC	NPC	P-Value
1-12	194	383	-1.18%	-1.35%	0.961	-1.18%	-1.35%	0.961
13-24	184	348	0.84%	0.93%	0.985	1.39%	-4.34%	0.320
25-36	169	301	2.23%	-0.15%	0.467	4.26%	-2.92%	0.362
37-48	154	275	0.94%	0.13%	0.819	7.84%	-7.32%	0.066*
49-60	135	244	1.47%	-2.75%	0.290	8.12%	-10.86%	0.019**

Panel A.3: POL3

Months after Merger	Num. of Obs.		Average Abnormal Return			Cumulative Abnormal Return		
	PC	NPC	PC	NPC	P-Value	PC	NPC	P-Value
1-12	283	294	-2.59%	-0.04%	0.480	-2.59%	-0.04%	0.480
13-24	266	266	0.48%	1.32%	0.851	-1.99%	-2.73%	0.894
25-36	239	231	1.21%	0.20%	0.769	2.14%	-2.90%	0.502
37-48	219	210	1.25%	-0.44%	0.662	2.50%	-6.44%	0.225
49-60	194	185	0.29%	-2.87%	0.386	0.72%	-9.15%	0.188

Panel B: Multivariate Analysis of Non-diversifying Acquisitions

	Dependent Variable: Cumulative Abnormal Returns				
	1 Year (1)	2 Year (2)	3 Year (3)	4 Year (4)	5 Year (5)
Intercept	-0.452 (0.225)	-1.278** (0.030)	-1.887** (0.011)	-1.165 (0.122)	-1.334* (0.073)
POL1	0.025 (0.640)	0.136* (0.090)	0.214** (0.050)	0.298*** (0.003)	0.297*** (0.004)
Wave Month	-0.058 (0.410)	-0.318*** (0.003)	-0.379*** (0.008)	-0.396*** (0.002)	-0.390*** (0.002)
High Valuation	-0.015 (0.777)	-0.004 (0.963)	0.015 (0.893)	0.014 (0.894)	0.023 (0.824)
Cash	0.003 (0.951)	-0.013 (0.871)	0.014 (0.893)	0.115 (0.241)	0.085 (0.383)
Relative Deal Size	-85.4** (0.018)	-105.4* (0.051)	-74.4 (0.376)	-76.4 (0.319)	-107.2 (0.153)
Average 3 year Ind. M/B	0.113* (0.073)	0.332*** (0.001)	0.389*** (0.003)	0.232* (0.054)	0.171 (0.152)
Age of Acquiring CEO	0.003 (0.427)	0.007 (0.255)	0.007 (0.417)	0.005 (0.560)	0.008 (0.286)
Missing Acquiring CEO Age	0.164 (0.468)	0.301 (0.386)	0.379 (0.429)	0.231 (0.596)	0.447 (0.304)
Runup	-0.010 (0.804)	-0.139 (0.035)	-0.100 (0.365)	-0.068 (0.498)	-0.033 (0.760)
Target Ind. Adj. ROA	-0.098 (0.231)	-0.256** (0.042)	-0.522*** (0.004)	-0.267 (0.115)	0.025 (0.893)
Same State	0.046 (0.391)	0.166** (0.047)	0.186 (0.103)	0.175* (0.100)	0.025 (0.808)
Acquirer Debt/Total Assets	0.003 (0.981)	0.044 (0.850)	0.302 (0.358)	0.043 (0.890)	-0.137 (0.665)
R ²	0.156	0.201	0.175	0.205	0.239
Num. of Obs.	461	422	377	347	308
Year and Industry F.E.	Yes	Yes	Yes	Yes	Yes

Table 10: Post-Merger Accounting Performance

In this table we examine the relation between industry adjusted ROA and the political connections of acquirers. In Panel A, we report the industry-adjusted ROA and the change in the industry-adjusted ROA for politically connected acquirers. Panel B contains a multivariate analysis of the change in industry-adjusted ROA for a sample of non-diversifying acquirers. Firms which are politically connected according to POL1 have at least one member of the board of directors or a manager who is a former politician and regulator. POL2 defines politically connected firms as those firms which have a former politician, regulator on their board or management team, or former senior member of the military. POL3 defines politically connected firms as those firms which have a former politician, regulator, senior military officer, or lawyer on the board or management team. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels.

Panel A: Univariate Analysis of Non-diversifying Acquisitions

Industry Adj. ROA	Num. of Obs.		POL1			Num. of Obs.		POL2			Num. of Obs.		POL3		
	PC	NPC	PC	NPC	P-Value	PC	NPC	PC	NPC	P-Value	PC	NPC	PC	NPC	P-Value
Year t-1	173	351	7.65%	4.21%	0.001***	177	347	7.66%	4.17%	0.001***	257	267	6.74%	4.01%	0.004***
Year t	181	354	5.02%	0.29%	<0.001***	185	350	5.00%	0.25%	<0.001***	265	270	3.46%	0.35%	<0.001***
Year t+1	181	346	5.38%	0.27%	<0.001***	185	342	5.41%	0.20%	<0.001***	263	264	3.74%	0.32%	0.001***
Year t+2	168	322	5.34%	0.70%	<0.001***	171	319	5.32%	0.67%	<0.001***	239	251	4.22%	0.45%	<0.001***
Year t+3	158	301	4.79%	0.52%	<0.001***	160	299	4.76%	0.51%	<0.001***	229	230	3.42%	0.56%	0.002***
Year t+4	144	273	5.46%	1.43%	<0.001***	146	271	5.45%	1.40%	<0.001***	206	211	4.02%	1.65%	0.008***
Year t+5	130	247	5.61%	1.59%	<0.001***	132	245	5.57%	1.58%	<0.001***	192	185	4.10%	1.81%	0.004***
Δ Industry Adj. ROA															
Year t-1 to t+1	169	330	-2.05%	-4.09%	0.013**	173	326	-2.03%	-4.13%	0.010**	248	251	-2.93%	-3.87%	0.286
Year t-1 to t+2	157	304	-2.30%	-3.96%	0.076*	160	301	-2.32%	-3.96%	0.076*	224	237	-2.47%	-4.27%	0.066*
Year t-1 to t+3	147	278	-2.85%	-4.32%	0.125	149	276	-2.91%	-4.29%	0.145	213	212	-3.34%	-4.28%	0.319
Year t-1 to t+4	132	249	-1.96%	-3.68%	0.058*	134	247	-2.00%	-3.67%	0.064*	189	192	-2.59%	-3.57%	0.291
Year t-1 to t+5	119	220	-1.60%	-3.92%	0.017**	121	218	-1.69%	-3.89%	0.023	173	166	-2.31%	-3.93%	0.104

<i>Panel B: Multivariate Analysis of Non-diversifying Acquisitions</i>					
Parameter	Change in Industry Adjusted ROA				
	1 Year (1)	2 Year (2)	3 Year (3)	4 Year (4)	5 Year (5)
Intercept	-0.014	0.011	0.035	0.022	0.037
POL1	0.027***	0.020*	0.028***	0.026***	0.035***
Cash	0.009	0.013	0.008	0.006	-0.009
Relative Deal Size	-28.192***	-14.500*	-9.355	-12.291*	0.182
Industry Adj. ROA	-0.376***	-0.417***	-0.511***	-0.558***	-0.682***
Industry Adj. Tobin's Q	0.002	0.006	0.006	0.003	0.003
R ²	0.268	0.295	0.384	0.467	0.612
Num. of Obs.	486	448	412	369	327
Year and Industry F.E.	Yes	Yes	Yes	Yes	Yes