Political Connections and Corporate Activities: Seasoned Equity Offerings, Share Repurchases, and M&A.

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by

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Abstract

This thesis studies the impact of political connections on firm activity. Given the literature gaps, the three corporate activities selected to be examined are i) seasoned equity offerings, ii) share repurchases, and iii) mergers and acquisitions.

First, the results of the study show the impact of political connection on seasoned equity offerings. Using seasoned equity offerings (SEOs) from 2005 to 2017 in the USA, the study shows that political connection is associated with lower SEO flotation costs, in terms of lower gross spreads and less adverse market reactions to SEO announcements. The empirical evidence is robust regarding controls for firm characteristics, corporate governance features, the removal of outliers, and an instrumental variable approach. The subsample analysis suggests that the effect is higher in primary issues. Additional analysis shows that political connection is negatively associated with SEO proceeds. Overall, the evidence is consistent with the argument that political connection reduces the cost of raising external capital.

Secondly, this study examines how political connections affect post-buyback performance. Politically connected firms generated higher post-buyback abnormal return and operating performance than unconnected firms. These differences persist after controlling firm characteristics, firm fixed effects, using a two-stage regression, and matching estimation. The probability of a company repurchasing shares and the amount of shares repurchased increases with political connectedness. Taken together, our study provides strong evidence that political connections have a significant effect on share repurchase activities.

Finally, this paper examines the effect of political connections on corporate risk-taking in mergers and acquisitions and associated implications on shareholder value. The results suggest that corporate political connections are positively associated with bidder post-acquisition financial leverage and equity return volatility around the M&A announcement period. Politically connected acquirers generated higher returns than non-connected bidders in risk-increasing deals, suggesting that investors perceive political connections as a means to hedge uncertainty from high risk deals. Further analysis suggests that politically connected bidders acquired more firms and are less likely to diversify and purchase more firms from the heavily regulated industries than non-connected acquirers.

Overall, the results of the three studies show new channels through which political connections affect corporate activities.

Declaration of Originality

I hereby declare that no part of this thesis has been submitted elsewhere for any other degree or qualification in this or any other university. This thesis has been composed by me unless referenced to the contrary in the text.

Modestus .I. Nnadi

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I can still feel you watching over me from the sky; thank you.

Abbreviations and Glossary

SDC - Securities Data Corporation (Thomson Financial)

CAR - Cumulative Abnormal Return

BHAR – Buy and Hold Abnormal Return

M&A - Mergers and Acquisitions

SEO - Seasoned Equity Offering

NPV - Net Present Value

ROA - Return on Assets

ROCAA - Return on Cash Adjusted Assets

Chapter 1

Introduction

Do political connections increase corporate value, and where do they come from? This question is one of the vigorously debated topics in financial economics. Prior studies have shown that, on the one hand, political connections can lead to lower cost of bank loans (see, e.g., Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004), increase firm value (e.g., Goldman, Rocholl, and So, 2009; Civilize, Wongchoti, and Young, 2015), lead to less SEC enforcement action (Correia, 2014), enable firms to enjoy favourable litigation outcomes (e.g., Firth, Rui & Wu, 2011; Lu, Pan, and Zhang, 2015; Correia, 2014; Jia, Mao, and Yuan, 2019; Yu and Yu, 2011), allow firms to obtain government contracts (Goldman, Rocholl and So, 2013; Ferris, Houston, and Javakhadze, 2019), and mitigate IPO underpricing (Gounopoulos, et al., 2017). On the other hand, there is also evidence that political connections can lead to non-value maximizing management behaviour (Chaney, Faccio, and Parsley, 2011; Boubakri et al., 2012; Shen, Lin, and Wang, 2015; Kostovetsky, 2015), and can negatively affect a firm's post-initial Public Offering (IPO) performance (Fan, Wong, and Zhang, 2007). These mixed findings motivate uncovering other possible channels through which political connections might create or destroy corporate value.

Despite the extensive research on the impact of political connections on corporate value, other channels through which political connections might affect firm value are unexplored – the area of seasoned equity offerings, share repurchases, and risk-taking in the M&A setting. These channels raise three questions on the impact of political connections on corporate value. First, do political connections affect SEO flotation costs in terms of gross spreads and SEO announcement stock returns? Second, what is the association between political connections and post- share repurchase stock performance? Third, do political connections exacerbate corporate risk-taking in an M&A setting?

This study has a lot of implications on corporate governance practices in both the UK and the USA. The corporate governance system in both countries appears similar but there are significant differences. While the UK and the USA have less concentrated individual block-holders, institutional investors control more than 50% of their equity market. However, several relationships comprise the corporate governance system within a specific nation (Aguilera and Jackson, 2003), two most important ones are the internal governance relationship (between the CEO and the board of directors) and the external governance relationships (between the firm and its shareholders). These relationships indicate a divergence that is existing between the USA and the UK. For example, one of the major areas of divergence is the amount of CEO power in the USA compared with the UK. In about 80% of firms in the USA, the chief executive (CEO) is also the chairman of the board whereas about 90% of the UK companies follow a dual leadership style (Higgs, 2003), separating the roles of the CEO and the Chairman, following the Cadbury Committee in 1992 (Cadbury, 1992). Extant studies have produced a mixed result on the association between CEO duality and corporate performance *(*Elsayed, 2007; Duru, Iyengar, and Zampelli, 2016).

The relationship between a company and its shareholders is another area of divergence in the corporate governance system between the UK and the USA. While institutional investor ownership exists in both countries, it is less in the USA than in the UK. Extant literature suggests that institutional investors perform a monitoring role which reduces agency problems and maximizes shareholders' wealth *(*Cornett et al., 2007*;* Demiralp et al., 2011; Hutchinson, Seamer, and Chapple, 2015). Politically connected directors might play a key role in aligning the interest of managers and their shareholders. Specifically, politically connected directors are independent of the management, they might be able to face up to the CEO to protect equity investors interests during major business decisions such as seasoned equity

offerings, share repurchases, and M&A, which, if not properly conceived, could destroy corporate value, and tarnish outside (e.g., former politicians) directors reputation.

This study also highlights the nature of the financial systems in both the USA and the UK. In terms of share repurchase, they are subject to strict regulations regarding execution and disclosure in both countries. The safe harbour promulgation of Rule 10b-18 in the USA requires that repurchasing firms should limit the daily volume of repurchases to a specified quantity, avoid trading during the last half hour before the closing of the market, and use one dealer on a single day (Grullon and Michaely, 2002). Similar to the USA, the companies Acts in 1981 requires repurchasers in the UK to cancel all the shares repurchased, repurchased not more than 15% of the outstanding shares, pay not more than 5% of the average share price for the five business days before the repurchase date (Kim, Schremper and Varaiya, 2004), and must publish their repurchase activity on the next business day (Crawford and Wang, 2012).

Unlike the USA repurchasers, the UK repurchasers are not allowed to buy back shares one month before the publication of quarterly results and two months before the publication of semi-annual and annual earnings and (Rau and Vermaelen, 2002). And their executives are not allowed to sell their shares within the same period. Rau and Vermaelen (2002) find that UK companies repurchasing shares earned smaller returns around share repurchase announcement and in the long-term than repurchasers in the USA. The scholars argued that the regulatory provisions in the UK make it less likely that firms can use superior information to buy back shares when their shares are undervalued. Since this study employs share repurchase data from the USA and political connections increases the information asymmetric between managers and equity investors (Chen, Ding, and Kim, 2010; Chaney, Faccio, and Parsley, 2011), politically connected repurchasers might have superior information about their firm. And such might be able to judge better whether their stock is undervalued, before initiating share repurchase program.

This study also highlights the nature of raising external capital in USA. Specifically, it focuses on the possible determinants that might affect firms in accessing external capital. Ando and Auerbach (1988) and Friend and Tokutsu (1987) examined the cost of raising external capital in both the USA and Japan and find that it is higher in the USA. The scholars argue that the possible explanation of the differences in the cost of raising external capital in the USA and Japan are the differences in risk, differences in the tax treatment of individual capital income, and imperfections in the international flow of capital. However, Kim and Zhang (2015) find that politically connected firms in the USA are tax aggressive due to lower expected cost of tax enforcement, better information regarding tax law and enforcement changes, lower capital market pressure for transparency, and higher risk-taking tendencies induced by political connections. Also, Boubakri, Mansi, and Saffar (2013) find that political connections are positively associated with corporate risk-taking and that this relationship is higher when government extraction is higher. Therefore, it is plausible that political connections might affect the cost of raising external capital through seasoned equity offerings.

Therefore, this study examines the effect of having formal politicians on the corporate board on firm activities. The three corporate activities studied are seasoned equity offerings, share repurchases, and mergers and acquisitions. The choice of these company activities is motivated by gaps in the literature and their significance to the firms and at the macro level.

Chapter 2 considers the effect of political connections on seasoned equity offerings. The existing literature has established, thus far, that political connections provide connected firms with easier and cheaper access to finance. These studies focus on the cost of debt (e.g., Sapienza, 2004; Khwaja and Mian, 2005; Li et al., 2008; Claessens et al., 2008; Houston et al., 2014) and initial public offerings (e.g., Francis, Hasan, and Sun, 2009; Liu, Tang, and Tian, 2013; Li and Zhou, 2015; Bao, Johan, and Kutsuna, 2016; Gounopoulos et al., 2017). However,

there is no study on the impact of political connections on seasoned equity offerings on the author's knowledge.

Chapter 2 examines the effect of political connections on seasoned equity offerings flotation costs in terms of gross spreads and SEO announcement stock returns. Using a large and up-to-date sample of USA seasoned equity offerings (SEOs) from 2005 to 2017, it is found that political connections are associated with lower SEO flotation costs in terms of gross spreads and announcement stock returns. The findings suggest that both underwriters and the market consider politically connected issuers less risky than non-connected issuers. All these results are robust regarding controls for firm characteristics, corporate governance features, the removal of outliers, and an instrumental variable approach. The subsample analysis shows that the effect of political connections on SEO flotation costs is higher in primary issues. The study also examines the association between political connections and SEO proceeds and finds that political connections are negatively associated with SEO proceeds, consistent with the evidence (e.g., Faccio, 2010; Belghitar, Clark and Saeed, 2019) that politically connected firms rely more on debt.

Chapter 3 focuses on the impact of political connections on share repurchases. Specifically, this chapter examines politically connected repurchasers' performance and the likelihood that connected companies might repurchase shares.

It has been established that political connections provide connected firms with cheaper and easier access to capital. In the share repurchase context, easy access to capital is essential since share repurchases can be myopic if financed by scrapping value-maximizing investments (Edmans, Fang, and Huang, 2018; Bendig et al., 2018) or if it results in raising costly external funds (Lie, 2005). Therefore, repurchasing firms with access to cheaper capital might not forgo value-maximizing investments and, as such, might remain more competitive following a share

buyback than firms with costly capital. However, easy access to cheap capital might cause agency problems of free cash flows, resulting in negative NPV projects and overinvestments. It has been found that share repurchase is a potential mechanism to reduce a firms' overinvestment problems (Chen et al., 2013; Lobo, Robin, and Wu, 2019). Therefore, it is expected that the market reaction to share repurchase announcements by firms with cheaper capital might be higher than firms with costly capital. Based on these two effects, this chapter hypothesized that share repurchase of politically connected firms should be associated with higher stock returns around the announcement period and in the long term. Also, the probability of a company repurchasing shares, and the value of shares repurchased should be higher for politically connected firms.

Chapter 3 tests these hypotheses on a sample of USA share repurchases announced over 2005 – 2017. Classifying firms whose directors have political backgrounds into connected repurchasers and those without former politicians as non-connected repurchasers, it is found that politically connected repurchasers generated higher stock returns around the share repurchase announcement period and in the long term. Operating performance following share repurchase announcement month is also higher for connected firms. Also, it is found that the probability of a company repurchasing shares, and the value of shares repurchased is higher for politically connected firms. These findings are robust to controlling firm characteristics, firm fixed effects, using a two-stage regression, and matching estimation.

Chapter 4 investigates the impact of political connections in mergers and acquisitions. Existing literature has found that political connections have a significant impact on mergers and acquisitions. Brockman et al. (2013) argue that the effect of political connections on M&A stock returns is subject to the institutional environment. Whereas Ferris et al. (2016) show that politically connected acquirers pay a higher premium, acquire more target firms, and generate value in the USA. Using USA data, Croci et al. (2017) further show that the acquisition process

for politically connected target firms is lengthier and that they earn a higher premium from bidders lacking political expertise. Using Chinese data, Schweizer et al. (2017) find that politically connected acquirers in China generated lower returns than non-connected acquirers and are more likely to conduct cross-border acquisitions. However, it is unknown whether political connections induce acquirer's risk-taking.

Chapter 4 re-examines the impact of political connections on mergers and acquisitions using a broad sample of UK acquisitions announced and completed from 2007 to 2017. Specifically, the study investigates the association between corporate political connections and bidder risk-taking in M&A and its implication for shareholders' value. It is found that political connections are associated with higher equity return volatility around the M&A announcement period and with higher bidder gains in risk-increasing deals. The impact of political connections on acquirer returns in risky deals persists regardless of the measures of risky deals (e.g., acquisition of unlisted targets, large deals, frequent acquirers, or glamour acquirers). It is also found that politically connected bidders acquired more firms and are less likely to diversify, and purchase more firms from the heavily regulated industries than non-connected acquirers.

Overall, the findings in all three studies present new channels through which corporate political connections affect firm activities. First, chapter 2 contributes to the literature on the effect of political connections on the cost of raising external capital. Prior studies have examined the impact of political connections on the cost of bank loans (see, e.g., Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004) and access to bank loans (Claessens et al., 2008). While Boubakri et al. (2012) focused on the rate of returns offered to equity investors, this study examines the effect of political connections on SEO gross spreads and the market reaction to SEO announcements. The results complement the findings in Boubakri et al. (2012) by showing that politically connected issuers enjoy lower

SEO flotation costs in terms of lower gross spreads and less negative SEO announcement effect.

Second, chapter 2 also extends the literature on the determinants of SEO gross spreads. While Lee and Masulis (2009) find that the information asymmetry between managers and outside investors is positively associated with SEO gross spread, Butler, Grullon, and Weston (2005) document that stock market liquidity is associated with lower SEO gross spread, chapter 2 shows that political connection is associated with lower SEO gross spreads.

Third, chapter 2 also contributes to the literature (see, e.g., Kim, Li, Pan and Zuo 2013; Dutordoir, Strong, and Sun, 2018) on the determinants of SEO announcement stock returns. This study finds that politically connected issuers experienced a less negative market reaction to their SEO announcement than non-connected issuers.

Fourth, chapter 3 contributes to the debate on the impact of political connection on corporate decisions and a firm's value. For example, prior studies have examined the effect of political connections on the firm's value (e.g., Faccio 2006; Goldman, Rocholl, and So, 2009; Cooper et al., 2010; Akey 2015), mergers and acquisitions decisions and performance (e.g., Brockman, Rui, and Zou 201; Ferris, Houston, and Javakhadze, 2016; Schweizer, Walker, and Zhang, 2019; Croci et., al., 2017), initial public offering (IPO) pricing (Gounopoulos et al., 2017), and top executive's pay rates (Chizema et., al., 2015). More closely related to this article is the work of López-Iturriaga and Martín (2019). Whereas chapter 3 provides evidence on the effect of political connections on share repurchase performance, likelihood, and magnitude in the USA, López-Iturriaga, and Martín (2019) focus on the number of shares repurchased and the dividend paid in Spain.

Fifth, this study also contributes to the literature on how corporate board and director characteristics affect share repurchase decisions and outcomes. For example, Custódio and

Metzger (2014) find that financial expert CEOs' are more likely to repurchase shares. And Evgeniou and Vermaelen (2017) focus on board gender diversity and find that it is associated with the likelihood of a company repurchasing shares and lower long-term stock returns. Chapter 3 shows that political connections increase the probability of a company repurchasing shares, the value of shares repurchased, and the impact on both operating and stock returns.

Sixth, chapter 4 contributes to the literature on corporate risk-taking, corporate political strategies, and M&A. The study shows that connected acquirers generated higher CAR in risk-increasing deals than non-connected acquirers, suggesting that investors perceive corporate political connections as a mechanism to hedge uncertainties that might arise from acquisitions with higher risk. Also, it provides empirical evidence of a positive relationship between corporate political connections and bidder risk.

Seventh, chapter 4 provides evidence that politically connected acquirers are more leveraged following M&A completion, suggesting that they exhibit less conservative financial policy following an acquisition. Also, it provides new evidence that politically connected acquirers are more likely to conduct non-diversifying deals that are less likely to reduce bidder default risk. Chapter 4 further offers insight into the existing literature on the role of corporate political connections in M&A by showing that politically connected acquirers are more likely to acquire targets from the heavily regulated industries than non-connected acquirers.

The thesis is arranged in the following pattern. Chapter 2, 3, and 4 focus on the impact of political connections on seasoned equity offerings, share repurchases, and M&A, respectively. The studies are presented independently. Chapter 5 reports conclusions and recommendations for future research.

Chapter 2

Political Connections and Seasoned Equity Offerings

2.1 Introduction

A stream of finance and economics research has provided insights into how firms can potentially benefit from their political connections. Indeed, researchers have established that political connections can affect a firm's investment decisions, further improving their competitive advantage and value. Specifically, extant studies provide evidence that political connections can affect the following: merger and acquisition decisions and outcomes (Brockman, Rui, and Zou, 2013; Ferris, Houston, and Javakhadze, 2016; Croci et al., 2017), share repurchase decisions (Nnadi, Sorwar, and Roddy, 2019), corporate performance (Goldman, Rocholl, and So, 2009; Civilize, Wongchoti, and Young, 2015), Securities Exchange Commission enforcement (Correia, 2014), access to bank loans (Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004), litigation outcomes (Firth, Rui & Wu, 2011; Lu, Pan, and Zhang, 2015; Correia, 2014; Jia, Mao, and Yuan, 2019; Yu and Yu, 2011), corporate employment (Faccio and Hsu, 2017; Bertrand et al., 2018), top executive pay (Chizema et al., 2015), and IPO under-pricing (Gounopoulos et al., 2017).

Despite the extensive research on the impact of political connections in the business world, as demonstrated above, the effect of political connections on seasoned equity offering (SEO) is still unknown.

Therefore, this study seeks to fill this gap by examining the association between political connections and SEO flotation costs regarding gross spreads and SEO announcement stock returns. This study focuses on seasoned equity offerings for two reasons. First, SEO gross spreads constitute by far the larger share of the total costs of equity issuance. For example, raising capital through SEO costs the average issuer between 5.1% and 7.1% of the total

proceeds (e.g., Lee and Masulis, 2009; Lee et al.,1996). Moreover, Butler, Grullon, and Weston (2005) document that gross spreads represent over 76% of the total costs of raising capital through SEOs. Therefore, SEO gross spreads amount to a substantial loss of capital for the issuing firms (Lee and Masulis, 2009). Second, while seasoned equity offerings announcement is mostly unpredicted (Dutordoir, Strong, and Sun, 2018), it can negatively affect shareholders' wealth. For example, extant studies (see, e.g., Denis, 1994; Lee and Masulis, 2009; Kim, Li, Pan and Zuo, 2013, Hao, 2014; Li et al., 2016) estimate the impact of SEO announcements in the USA and find a negative impact of SEO announcements on firm value. Besides, some scholars (see, e.g., Slovin, Sushka, and Lai, 2000; Gajewski and Ginglinger, 2002; Hauser, Kraizber, and Dahan, 2003; Liu et al., 2016) studied SEO announcements in non-USA markets (e.g., China, France, Isreal, United Kingdom) and reached a similar conclusion. Therefore, using SEOs as an empirical setting allows us to estimate whether political connections affect shareholder value directly.

This study argues that political connections will be negatively associated with SEO gross spreads. The rationale for this argument is as a result of the following reasons. First, politically connected firms have preferential access to finance (Claessens et al., 2008) and cheaper cost of the bank loan (see, e.g., Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004). As a result, politically connected firms might only follow through with their SEOs if the negotiated investment bankers' fee is satisfactory. Second, prior literature suggests that politically connected firms facing legal action enjoy lower penalties and increased forbearance (see, e.g., Firth, Rui & Wu, 2011; Lu, Pan, and Zhang, 2015; Correia, 2014; Jia, Mao, and Yuan, 2019; Yu and Yu, 2011). Therefore, since stock issues might attract lawsuits (DuCharme, Malatesta, and Sefcik 2004), investment bankers might view former politicians' presence on corporate boards as insurance against SEO-related lawsuits.

Third, extant literature (see, e.g., Hillman, 2005; Okhmatovskiy, 2009; Ferris, Houston, and Javakhadze, 2016; Tihanyi et al., 2019; El Nayal, van Oosterhout and van Essen, 2019) suggests that an association with former politicians enable firms to gain non-public information concerning regulations and the economy at large. Pham (2019) argues that this sensitive information enables politically connected firms to hedge against economic policy uncertainties. Therefore, SEO underwriters might consider politically connected issuers to be less risky when compared with non-connected issuers. Besides, underwriters might view underwriting SEOs, by politically connected issuers, as an opportunity to associate with former politicians to indirectly gain access to non-public information about how to navigate government bureaucracies.

Using a large sample of USA SEOs, completed between 2005 and 2017, the study examines the association between political connections and SEO gross spreads. First, this study partition seasoned equity issuers into politically connected and non-connected boards, using the information about board members' background, following Goldman, Rocholl, and So (2009) and Houston et al. (2014). The findings suggest that political connection is positively associated with lower underwriting gross spreads. The magnitude of the coefficient suggests that *ceteris paribus*, SEO gross spreads are 15 to 16 percentage points lower when an issuer is politically connected. Moreover, the subsample analysis shows that the effect of political connections on SEO gross spreads is higher in primary issues.

The study also examines the relationship between political connections and SEO announcement returns. This chapter anticipates that political connections might have two opposing effects on SEO announcement stock returns. The first explanation is based on the adverse selection theory (Myers and Majluf, 1984) that states that when there is asymmetric information regarding the value of firms' assets in place, the market perceive SEO announcements as signalling firm overvaluation. As a result, potential investors intend to

under-value the firm's equity (Bo, Huang and Wang, 2011). However, political connections exacerbate the information asymmetry between managers and investors since they exhibit low-quality earnings reporting (Chaney, Faccio, and Parsley, 2011) and inaccurate analysts' earnings forecasts (Chen, Ding, and Kim, 2010). Lee and Masulis (2009) argue that low accruals quality tends to lead to more moral hazards and adverse selection. Therefore, investors might find it difficult to assess the exact financial health of politically connected issuers. Besides, Lee and Masulis (2009) posits that around SEO announcement, the market are more likely to discount their valuation of a firm with poor quality accounting information to take into account the higher agency problems and adverse selection risks that investing in such company entails. Therefore, the market reaction to SEO announcements by politically connected issuers might be more negative than non-connected issuers.

On the other hand, the market reaction to SEO announcements might reflect the added value provided by political connections. For example, political connections provide connected firms with relaxed regulatory oversight (Ferris, Houston & Javakhadze, 2016), preferential access to resources and information (Hillman,2005; Okhmatovskiy, 2009; Tihanyi et al., 2019; El Nayal, van Oosterhout and van Essen, 2019), and the knowledge about how to sail over government bureaucracies (Goldman, Rocholl, and So, 2009). This research evidence suggests that political connections may help issuers to navigate through SEO related regulations. Moreover, former politicians' presence on an issuer's board might signal to the market that political networks might provide connected issuers with economic rents (Chen et al., 2011) and government protections. Therefore, the market reaction to SEO announcements by politically connected issuers might be less adverse than non-connected issuers.

However, the effect of political connections on SEO announcement stock returns remains an open empirical issue. Therefore, the study examined the effect of political connections on SEO announcement returns in both a univariate and multivariate setting. The results show that

politically connected issuers experience less adverse market reactions to their seasoned equity offer announcements than their non-connected counterparts. The results suggest that the market is more likely to factor in former politicians' added value on the issuer's board while reacting to their SEO announcement. Also, the subsample analysis shows that the market reaction to SEO announcement by politically connected issuers is higher in the case of primary issues.

The empirical results continue to hold after controlling for possible endogeneity issues. For example, it is plausible that the effect of political connections on both SEO gross spreads and SEO announcement stock returns results from omitted variables. Therefore, the study employed the instrumental variable approach, proposed by Houston, Jiang, Lin, and Ma (2014) and Kim and Zhang (2015), and find that the effect of political connections on both SEO gross spreads and announcement returns remained unchanged. The study further considers the possibility that good governance affects the cost of raising external equity (e.g., Tompkins and Huang, 2010; Kim and Purnanandam, 2014). Therefore, in the spirit of Kim, Li, Pan, and Zuo (2013), various corporate governance features were controlled, and the results continue to hold. Finally, the study examines whether political connections affect SEO proceeds. Prior literature (e.g., Faccio, 2010; Belghitar, Clark, and Saeed, 2019) suggests that politically connected firms rely more on debt; therefore, the study anticipates a negative relationship between political connections and the SEO proceeds. This study mitigates the possible effect of omitted variables by using an instrumental variable approach to examine the effect of political connections on SEO proceeds. The results suggest a negative association between political connections and SEO proceeds, lending support to the evidence (e.g., Faccio, 2010; Belghitar, Clark and Saeed, 2019) that politically connected firms rely more on debt.

This paper makes several contributions to the literature. First, it contributes to the literature regarding the effect of political connections on raising external capital. Prior studies have examined the impact of political connections on the cost of bank loans (see, e.g., Houston et

al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004) and access to finance (Claessens et al., 2008). More closely related to this paper, Boubakri et al. (2012) examine the impact of political connections on equity capital cost and find that political connection is associated with a lower cost of equity capital. While Boubakri et al. (2012) focused on the rate of returns offered to equity investors, this study examines the effect of political connections on SEO gross spreads and the market reaction to SEO announcements. The results complement the findings of Boubakri et al. (2012) by showing that politically connected issuers enjoy lower SEO flotation costs in terms of lower gross spreads and less negative SEO announcement effect.

Second, the study extends the literature regarding the determinants of SEO gross spreads. Lee and Masulis (2009) find that the information asymmetry between managers and outside investors is positively associated with SEO gross spread. Whereas Butler, Grullon, and Weston (2005) document that stock market liquidity is associated with a lower SEO gross spread, this thesis provides new evidence on the determinants of SEO gross spreads. The study finds a significant difference in the offer price discounts paid to investment bankers by politically connected and non-connected issuers. Specifically, the study found that political connection is associated with lower SEO gross spreads.

This study also contributes to the literature on the determinants of SEO announcement stock returns. Consistent with prior literature (see, e.g., Kim, Li, Pan and Zuo 2013; Dutordoir, Strong, and Sun, 2018), the findings show that SEO announcement is negatively associated with firm value. However, after partitioning issuers into politically connected and non-connected issuers, the study found that politically connected issuers experienced a less adverse market reaction to their SEO announcement than non-connected issuers. This study is the first study to examine the association between political connections and SEO announcement returns.

This chapter is organized as follows. Section 2 discusses the relevant literature. While section 3 describes the data and the variables. Section 4 reports the impact of political connections on SEO flotation costs regarding gross spreads and announcement returns. Also, section 5 tests the robustness of the findings. Section 6 reports the impact of political connections on SEO proceeds, and Section 7 concludes the chapter.

2.2 Related Literature

2.2.1 Political connections and Initial Public Offerings

In this section, the study reviews prior literature on the impact of political connections on corporate access to equity capitals. Extant literature on the role of political connections on equity capital focuses mainly on the initial public offerings. For example, Francis, Hasan, and Sun (2009) study the role of political connections in going public in China. Using 423 firm commitment IPOs of A-share common stocks over the years 1994–1999, these scholars find that unlike non-connected firms, politically connected firms have relatively lower under-pricing, higher offering prices, and lower fixed costs during the going-public process. Also, Gounopoulos et al. (2017) study 1578 IPOs in the USA between 1 January 1998 and 30 June 2013 and find that firms contributing to political action committees or involved in lobbying experience fewer under-pricing.

Liu, Tang, and Tian (2013) examine the value of political capital in the Chinese IPO market between 1 January 2004 and 31 December 2010. The authors find that political connection is positively associated with the probability of IPO approval of entrepreneurial firms in China. The scholar's further show that shareholders value politically connected executives than external sources of political connections such as politically connected sponsors and PE investors. Later studies by Li and Zhou (2015) and Bao, Johan, and Kutsuna (2016) also find that politically connected firms in China are more likely to have IPOs approved.

Also, Fan, Wong, and Zhang (2007) investigated the Post-IPO performance of partially privatized firms in China between 1993 and 2001. They find that partially privatized firms with politically connected CEOs underperform those without politically connected CEOs in terms of stock returns, earnings growth, sales growth, and change in returns on sales. In another Post-IPO performance level study, Liu, Uchida, and Gao (2012) study the performance of 627 Chinese A-share IPOs that went public on both the Shanghai and Shenzhen stock exchange between 2000 and 2007. The scholars find that politically connected firms enjoy higher stock returns in the three years following their IPOs. Also, Wu, Li, and Li (2012) further show that CEO political connections with the central government play a more significant role in IPO performance than political connections with regional governments.

2.2.2 Political connections and equity investors rate of returns.

In contrast with previous studies, Boubakri et al. (2012) examine the cost of firms' equity capital from 26 countries between 1997 and 2001. Using 1248 firm-year matched observations, they find that politically connected firms enjoy a lower cost of equity capital than their non-connected peers regarding the rate of return required by equity investors.

Overall, extant literature suggests that the cost of engaging in initial public offerings and the rate of returns offered to equity investors differs between politically connected and non-connected firms. However, the impact of political connections on seasoned equity offerings (SEOs) is still unknown.

2.3 Data and SEO sample description

2.3.1 SEO sample construction

This chapter employs SEO data from the USA market due to the following reasons: First, stock prices of public firms in the USA might accurately reflect firm value due to the higher disclosure standards required by the USA security and exchange commission that mitigates information asymmetries. This is in contrast with the stock prices of firms in emerging markets,

which appears to be inadequate measures of firm value due to higher degrees of information asymmetry (von Eije and Wiegerinck, 2010). Also, the USA has strong legal and institutional environments. Therefore, agency conflicts might be lesser compared with countries with weaker legal and institutional environments (Feito-Ruiz, Fernández, and Menéndez-Requejo, 2015).

The sample of USA common stock seasoned equity offerings is taken from the Securities Data Company (SDC) New Issue Database over 2005-2017, as this is the period for which the study also has data on issuers' board composition. The sample criteria require issuers to be listed on either the NYSE, Amex, or Nasdaq stock exchange and not to operate in the utility or financial industry (SIC codes 4900–4999 or 6000–6999). Consistent with prior literature (e.g., Butler, Grullon, and Weston, 2005; Lee and Masulis, 2009; Bradley and Yuan, 2013), we exclude Real Estate Investment Trusts (REITs); limited partnerships; unit issues; simultaneous international offerings; spin-offs; rights and standby issues; closed-end funds; reverse leveraged buyouts (LBOs); unit investment trusts, and SEOs with offer prices less than $3. As a result, the final sample consists of 2432 SEOs with available financial data on the Thomson Reuters DataStream and proxy statements on the EDGAR database.

2.3.2 Measuring Political Connections

Goldman, Rocholl, and So (2009) argue that a firm is likely to be politically connected if at least one board member holds, or formerly held, any of the following positions: President, presidential (Vice-Presidential) candidate, member of the House of Representatives, Senator, Cabinet secretary/deputy secretary/undersecretary or assistant secretary, Governor, United Nations representative, Ambassador, Mayor, staff member to the White House, presidential campaigner or political party appointment, appointed member of a presidential committee or council and Director/Deputy Director/Commissioner to a federal department or agency including the Central Intelligence Agency (CIA), Federal Emergency Management Agency

(FEMA), Office of Management and Budget (OMB), Internal Revenue Service (IRS), Nuclear Regulatory Commission (NRC), Social Security Administration (SSA), Civil Rights Centre (CRC), Food and Drug Administration (FDA), and Securities and Exchange Commission (SEC), etc.

Therefore, this study focuses on the explicit political connections of equity issuing firms consistent with Goldman, Rocholl, and So (2009) and Houston et al. (2014). Specifically, indicator (binary) variables are constructed to measure whether an issuer is politically connected, using data from individual issuer proxy statement.

For robustness check, this study employs an alternate proxy for political connections, the total number of former politicians on the issuer board scaled by the total number of board directors (see, Chizema, Liu, Lu, and Gao, 2015).

2.3.3 Sample statistics

Table 2.1 presents both the time-series distribution and the summary statistics of the sample. The study winsorized all continuous variables at the 1% and 99% levels to mitigate outliers' possible effects. Panel A indicates that the observations tend to be evenly spread across the years, and there is no substantial clustering. While Panel B shows that politically connected issuers comprise 11.9% of the observations. Also, the ratio of former politicians to the total number of directors is 1.6%. Panel C presents the issuer and offer characteristics. It shows that politically connected issuers obtained larger proceeds on average and are less likely to be registered on the Nasdaq stock exchange. Consistent with prior studies (e.g., Houston, Jiang, Lin and Ma, 2014; Ferris, Houston & Javakhadze, 2016), it was found that, on average, politically connected firms are larger and hold less cash compared with non-connected firms. Also, politically connected issuers tend to have a large board size and more independent directors than non-connected issuers.

[Please Insert Table 2.1 About Here]

2.4 Empirical findings

2.4.1 Political Connections and SEO Gross Spread

SEO gross spread is the offer price discount paid to investment bankers for their risk-bearing services, and it is mainly comprised of selling concessions, underwriting fees, and a management fee. SEO gross spreads are an essential source of revenue for investment banks. Therefore, it is interesting to investigate whether investment banks might factor in the connections that former politicians provide by charging connected issuers lower gross spreads. Panel A of Table 2.2 presents the univariate analysis of SEO gross spreads between politically connected issuers and non-connected issuers. For the full sample, column 1 shows that the average gross spread is 4.5%, whereas the subsample results (column 2 and 3) show that gross spreads are lower for politically connected issuers (3.6956) than non-connected issuers (4.6098) and the difference (-0.9142) is statistically significant at the 1% levels. This study also examines the different types of seasoned equity issuance, and the findings suggest that politically connected issuers have lower gross than non-connected issuers regardless of the type of stock issue.

[Please Insert Table 2.2 About Here]

The univariate analysis suggests that political connections are associated with lower SEO flotation costs, in terms of lower gross spreads. Therefore, this study now seeks to determine, in a multivariate setting, whether the effect of political connections on SEO gross spreads will survive when other determinants of SEO gross spreads were included. The principal regression is:

Gross Spread (%) = *F (Political Connections Measure, Offer Characteristics, Issuer Characteristics$_{-1}$, Industry and Year fixed effects)*

…… *(1)*

In equation (1), the dependent variable is the gross spreads. The primary independent variable of interest is the political connections indicator variable, connected issuers, that takes the value of one if an issuer has a former politician on its board and zero otherwise. This study does not expect political connections to be the only determinant of SEO gross spreads. Therefore, various offer- and issuer-specific determinants of SEO gross spread found in the literature are included. Specifically, leverage, ROA, TOBIN'S Q, Capex are included. Following prior literature (e.g., Butler, Grullon, and Weston, 2005; Lee and Masulis, 2009), this study also controls the economy of scale effect by including offer size (log of proceeds). Furthermore, further control for the effect of information quality by including firm size (log of total assets), secondary offers, tangible assets, and stock return volatility (e.g., Brav and Gompers, 2003; Lee and Masulis, 2009; Gao, 2011). To mitigate possible market microstructural effects (see, Grullon and Weston, 2005), this study includes a dummy variable equal to one if an issuer is listed in the Nasdaq stock exchange and zero otherwise.

Panel B of Table 2.2 presents the baseline results. Column (1) shows that the connected issuers variable's coefficient is negative and statistically significant at the 1% percent level. The results remain unchanged after controlling for industry fixed in column (2). Specifically, SEO gross spreads are 15 to 16 percentage points lower when politicians are on the board. Hence, the main result that political connections are negatively associated with an issuer gross spread persists after controlling for other factors known to affect issuer gross spreads.

Kim and Weisbach (2008) noted that primary issues raise capital for the firm and increase the number of shares outstanding, while secondary issues do not raise capital for the firm and keep the number of shares outstanding constant. Therefore, it is interesting to examine whether the effect of political connections on SEO gross spreads is equally essential for all equity issuance types. Therefore, this study runs the regressions separately for primary, secondary, and combined issues (column (3), (4), and (5), respectively). The subsample analysis reveals that

the political connection variable, *connected issuers*, is negative in all subsamples (columns 3 through 5) and statistically significant only in primary and combined issues (columns 3 and 5, respectively). This result suggests that the effect of political connections is higher when SEOs involve raising capital for the firm than when it involves issuing shares for some shareholders. However, the control variables' coefficients are generally consistent with the SEO literature findings (see Butler, Grullon, and Weston, 2005; Lee and Masulis, 2009). For example, the coefficient on the log of total assets (Firm Size) is negative and statistically significant (p-value<0.01). Also, consistent with the argument that secondary offers lower information asymmetry (Lee and Masulis, 2009) and lessens the adverse selection associated with the sale of primary stocks (Ljungqvist and Wilhelm 2003), the results show that the coefficient on the percentage of secondary shares offered (Secondary) is negative and statistically significant at the conventional levels. However, the stock return volatility indicator (volatility) is positive and statistically significant at the 1% level across the alternative regression specifications. Thus, consistent with the idea that information asymmetry between managers and investors increases SEO gross spreads.

Consistent with an economy of scale effect, columns 1 and 2 show that the coefficient on the proceeds' log is negative. The regression coefficient on Tobin's Q is also negative and statistically significant at the 1% level. The coefficient ranges from -0.0215 to -0.0219 across column 1 and 2. Thus, consistent with the idea that higher growth firms are more attractive underwriters' clients (see Lee and Masulis, 2009). Overall, this section supports the argument that political connection is associated with lower SEO gross spreads.

2.4.2 SEO announcement return and Political Connections

This section examines the market response to seasoned equity offerings by politically connected boards and non-connected boards. Following Lease, Masulis and Page (1991), Corwin (2003), and Kim, Li, Pan, and Zuo (2013), the SEO announcement returns are

computed using the market adjusted model. Specifically, this study calculates SEO announcement returns by subtracting the USA market index's daily returns from the issuer's daily stock return around the SEO announcement date (0) and summing the differences. Following prior literature (e.g., Dutordoir, Strong, and Sun, 2018; Kim and Purnanandam, 2014; Kim, Li, Pan and Zuo, 2013), filing dates from the SDC database are used as the offer announcement date.

The study also examines SEO announcement returns over the day before and after the SEO announcement day (-1, +1). Besides, the possibility that firms might announce SEOs after stock market closure (see, Lease, Masulis and Page, 1991; Dutordoir, Strong, and Sun, 2018) are taking to account by further estimating SEO announcement returns over the two days (0, +1) and three days (0, +2) windows around SEO announcement day (event day 0). Panel A of Table 2.3 presents the CAR around the seasoned equity offerings announcement period and tests the difference between politically connected and non-connected issuers. Consistent with prior studies (e.g., Kim, Li, Pan and Zuo, 2013; Li, Liu, and Veld, 2019), the average SEO announcement stock returns for the full sample in column 1 ranges from -1.36% to -1.78%. The negative CAR suggests that the market, in a general view, considers SEO announcements as unpleasant news. However, the negative market reaction is smaller for politically connected issuers than non-connected issuers. In particular, the result in event window (-1, +1) shows that the cumulative abnormal returns are 0.75% (p-value<0.10) lower for non-connected boards. The two days (0, +1) event window suggests that the SEO announcement returns are 0.72% (p-value<0.01) lower for non-connected issuers. Also, the three-day (day 0 through day + 2) show that the SEO announcement returns are 0.92% (p-value<0.05) lower for non-connected issuers. This result suggests that SEO announcement stock returns of politically connected issuers are less negative than those of non-connected issuers.

[Please Insert Table 2.3 About Here]

The univariate test suggests that the market reaction to SEO announcement is less adverse for politically connected issuers than non-connected issuers. However, politically connected issuers tend to be larger, use more leverage, and hold less cash. Therefore, the result in panel A (Table 2.3) could be due to confounding effects between political connections and SEO announcement returns, and as such misleading. To mitigate this concern, the study examines the association between political connections and SEO announcement returns while controlling these likely confounding effects in a multivariate setting. The principal regression is:

CAR = *F (Political Connections Measures, Offer Characteristics, Issuer Characteristics-1, Industry and Year fixed effects)* …….. *(2)*

Panel B of Table 2.3 presents the multivariate regression analysis results on the association between political connections and SEO announcement returns. The dependent variable in columns 1 and 2 is the three days CAR (-1, +1) and two days CAR (0, +1), respectively. Whereas the dependent variable in columns 3 through 6 is the three days CAR (0, +2). The primary independent variable of interest is the political connections indicator variable, connected issuers, that takes the value of one if an issuer has a former politician on its board and zero otherwise. Various offer- and issuer-specific characteristics and the year and industry fixed effects are controlled. Cash holding (cash), tangible, ROA, Capex, leverage, and the percentage of secondary offers are included. The study also considers a firm's growth potential (proxied by Tobin's q), firm risk level, and asymmetric information (proxied by stock return volatility and the natural log of total assets). Given that larger proceeds relative to issuers size might signal firm overvaluation (following Dutordoir, Strong, and Sun, 2018), the ratio of offering proceeds to total assets (relative offer size) are included. Finally, a dummy variable equal to one if an issuer is listed in the NASDAQ stock exchange and zero otherwise are included.

Columns 1 through 3 show that coefficients on the political connection's indicators are positive and statistically significant at the conventional levels. As a result, the evidence supports the notion that politically connected issuers' SEO announcement stock returns are less negative than those of non-connected issuers.

Consistent with prior (e.g., Lee and Masulis, 2009; Kim, Li, Pan and Zuo, 2013; Kim and Purnanandam, 2014; Dutordoir, Strong, and Sun, 2018; Li, Liu, and Veld, 2019) studies on SEO returns, the R-squares results are less than 10%, and the controls variables are mainly insignificant.

Columns 1 through 3 provide evidence that political connection is associated with less negative SEO announcement returns. However, the question that needs to be addressed is whether the market will respond to SEO announcements by connected issuers in a similar way in all equity issuance types. Since companies probably issue new stock to invest in value maximizing projects, it is anticipated that the effect of political connections on SEO announcement returns might be higher when SEOs help firms raise capital than when insiders decide to issue stock through secondary offers.

The study, therefore, run regressions separately for primary, secondary, and combined issues (specifications (4), (5), and (6), respectively). The findings show that the coefficient on the political connection indicator, *connected issuers*, is positive and statistically significant (p-value<0.05) for subsample primary issues. The magnitude of the coefficient indicates that ceteris paribus, former politicians' presence on issuers board, is associated with 0.94% higher CAR. However, the effect of political connection on issuer CAR based on the secondary and combined issues is positive and insignificant. The result supports the argument (Bradley and Yuan, 2013) that unlike secondary issues, primary issues signal to the market that industry prospects are promising. Overall, columns 4 through 6 suggest that the effect of political

connections on SEO announcement returns is higher for primary offers than for secondary offers.

2. 5. Endogeneity

2.5.1 Instrumental Variable Approach

Thus far, the results indicate that political connection is associated with both lower gross spreads and less negative SEO announcement returns. However, despite controlling for the various issuer and offer specific characteristics, it is still plausible that the results are driven by omitted variables that might be related to both political connections and the dependent variables. Therefore, the study addressed potential endogeneity issues using the instrumental variable approach. Following Houston, Jiang, Lin, and Ma (2014) and Kim and Zhang (2015), the distance (in kilometers) from issuers headquarters to Washington, D.C are used as an instrument for the presence of former politicians on corporate boards. This instrument's rationale is that there is no evidence that the distance from corporate headquarters to Washington, D.C, is correlated with SEO gross spreads and returns. Also, former politicians are more likely to remain in Washington, D.C, where they might have established their political networks (Houston, Jiang, Lin, and Ma (2014). For example, Barrack Obama remained in Washington, D.C, after serving as the USA president. However, if the distance from corporate headquarters to Washington, D.C is a useful instrument for political connectedness as documented by Houston, Jiang, Lin, and Ma (2014) and Kim and Zhang (2015), we would expect that issuers whose corporate headquarter is far from Washington, D.C are potentially less likely to appoint former politicians to their board. The principal regression is:

$$Prob(PoliticalConnections_i) = \alpha 0 + \alpha 1 Distance_i + \alpha 2 Issuer\ Characteristics_{-1} + \alpha 3 Offer\ Characteristics_i + Year_t + Industry + \varepsilon_i \quad \ldots\ldots (3)$$

where Political Connectionsi dummy, the dependent variables in the regressions, equals one if an issuer i has a former politician on its board. Distance, the key explanatory variables, is the natural log of one plus the distance from corporate headquarters to Washington, D.C. Issuer and offer characteristics are the full set of the control variables. Table 2.4 presents the results of the IV-regressions. In the first stage regressions, former politicians' presence on corporate boards is predicted using a probit model. Column 1 and 3 show that the coefficient on the instrumental variable, distance, is negative and statistically significant, suggesting that issuers whose corporate headquarters are far from Washington, D.C are less likely to appoint former politicians to their board compared with issuers whose headquarters are closer to Washington, DC. Therefore, the first stage fitted values for political connectedness are used in the second stage regression. Column 2 shows that the instrumented value of political connections is positive and statistically significant at the 5% level, suggesting that politically connected issuers generated higher announcement returns than non-connected issuers. Also, column 4 shows that the instrumented value of political connections is negative and statistically significant at the 10% level, suggesting that political connections are associated with a lower gross spread. Overall, this result supports the earlier evidence on the impact of political connections on SEO gross spreads and returns.

[Please Insert Table 2.4 About Here]

2.5.2 Alternative measure of political connectedness

So far, the findings suggest that politically connected issuers enjoy lower gross spreads and less negative market responses to SEO announcements. However, in the baseline regressions, this study employed a dummy variable, Connected Issuers, to denote whether an issuer has a former politician on its board at the SEO announcement period. Although the use of a dummy variable helps to mitigate the effect of outliers in the baseline results, it is also plausible that the results are sensitive to the measure of political connections. In the spirit of

Chizema, Liu, Lu, and Gao (2015), the study mitigated this concern by employing an alternate proxy, *Pcontinous*, the total number of former politicians on the issuer board scaled by the total number of board directors.

In Table 2.5, this study repeated the main regressions using this new proxy for political connections. Columns 1 and 2 show that politically connected issuers generated higher returns than non-connected issuers around the SEO announcement period. Turning to SEO gross spreads, Columns 3 and 4 show that political connections are associated with lower gross spreads. Overall, this section supports the evidence that political connections are associated with lower gross spreads and less negative SEO announcement returns.

[Please Insert Table 2.5 About Here]

2.5.3 Can economic downturns drive the results?

This study further examines the robustness of the main results by excluding observations during the year 2008. The intuition behind excluding observations during the year 2008 is that the financial crisis resulted in a decline in firm value, whereby issuers might not negotiate favorable terms with investment bankers, unlike the situation in the normal period. Therefore, investment bankers might charge higher fees during the financial crisis. Also, equity issuance around the financial crisis might signal to the market that a company's condition is critical, and the stock returns around the SEO announcement period might be more negative than in the normal period.

Since politically connected firms have cheaper access to bank loans (see, e.g., Houston et al., 2014; Li et al., 2008; Claessens et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004) and are more likely to be bailed out than non-connected firms (Faccio, Masulis, and Mcconnell, 2006; Blau, Brough and Thomas, 2013; Banerji, Duygun and Shaban, 2018). One might argue that SEO flotation cost is higher for non-connected firms just because politically connected firms might have obtained government bailouts or cheaper bank loans during the financial crisis

and, as a result, issued few equities in the year 2008. In contrast, non-connected firms might focus more on their only option, equity issuance, during the financial crisis since they are less likely to receive both government bailouts and low costs bank loans.

Importantly, this study addressed this concern since Table 2.1 suggests that politically connected firms issued few equities in the year 2008. Specifically, Table 2.1 shows that out of 98 SEOs conducted in the year 2008, 19 SEOs (19%) were issued by politically connected firms, whereas non-connected firms issued 79 SEOs (81%).

In Table 2.6, the baseline regressions were repeated, excluding the observations in the year 2008. The results in columns 1 and 2 show that politically connected issuers generated higher returns than non-connected issuers around the SEO announcement period. When focusing on SEO gross spreads, Columns 3 and 4 show that the effect of political connection on SEO gross spreads is negative and statistically significant at the conventional levels. Overall, the results are similar to the primary evidence that political connection is associated with lower gross spreads and less negative SEO announcement returns.

[Please Insert Table 2.6 About Here]

2.5.4 Controlling for Other Forms of Corporate Governance

Prior studies (e.g., Tompkins and Huang, 2010; Kim and Purnanandam, 2014) provide evidence that good governance is associated with a lower cost of raising external equity. Therefore, it is plausible that the impact of political connections on SEO gross spreads and announcement returns is an indirect effect of good corporate governance since politically connected issuers might have good governance than non-connected issuers. The study addressed this concern by re-examining the baseline regression while controlling for various corporate governance features.

In the spirit of Kim, Li, Pan, and Zuo (2013), the percentage of outside directors, CEO duality, and board size are included. Also, Faccio, Marchica, and Mura (2016) provide

evidence that a firm's leverage and risk level is lower when the CEO is a female than when the CEO is a male. Therefore, a dummy variable takes the value of one if the CEO is a female, and zero otherwise is included. Walters, Kroll, and Wright (2007) find that CEO tenure affects firm performance, whereas Serfling (2014) document a negative association between CEO age and stock return volatility. Therefore, CEO tenure and age are controlled. The study also considers the ratio of the total number of female directors to the total number of directors, since gender diversity improves informativeness of stock prices (Gul, Srinidhi, and Ng, 2011) and corporate governance quality (Evgeniou and Vermaelen, 2017).

In Table 2.7, the baseline regressions are repeated while controlling for the issuer and offer-specific characteristics as well as the corporate governance features. In column 1, the corporate governance features are included, and the primary variable of interest, Connected Issuers. The results suggest that politically connected issuers generated higher CAR around the SEO announcement period than non-connected issuers. Furthermore, both issuer and offer characteristics are controlled for in column 2, and the results suggest that the effect of political connections on SEO announcement returns remained positive and statistically significant. When focussing on issuer gross spreads, columns 3 and 4 show that the coefficient on the political connection's indicator, Connected Issuer, is negative and statistically significant at the conventional levels. Overall, this section suggests that the impact of political connections on SEO gross spreads and announcement returns is not an indirect effect of corporate governance.

[Please Insert Table 2.7 About Here]

2.6 Additional Analysis:

2.6.1 Offer Size and Political Connections

In this section, this study examines whether politically connected firms closely follow the pecking order theory. The pecking order theory predicts that when external funds are required, managers with superior information about the value of their assets in place prefer debt to equity

(Myers and Majluf 1984). Therefore, since political connections decrease the cost of raising debt by a firm (e.g., Sapienza, 2004; Khwaja and Mian, 2005; Claessens et al., 2008; Houston et al., 2014), it is anticipated that politically connected firms should rely less on equity.

[Please Insert Table 2.8 About Here]

To examine whether politically connected firms rely less on equity than non-connected firms, the relationship between political connections and offer size is examined. However, while the univariate results in Table 2.1 suggest a positive relationship between political connections and offer size, this evidence might be misleading if confounding effects exist between political connections and offer size. For example, politically connected firms tend to be large, have higher debt, and low growth potential. Therefore, this study examines the relationship between political connections and offer size using the instrumental variable approach while controlling for possible confounding effects. The instrumental variable approach lessens the concerns that the results are driven by omitted variables that might explain political connections as well as offer size. Similar to table 2.4, the study used the distance (in kilometers) between issuers headquarters and Washington, D.C as an instrument for the presence of former politicians on corporate boards. As explained earlier, issuers whose headquarters are closer to Washington might be able to appoint former politicians to their boards since former politicians might likely to remain in Washington, D.C, where they might have built their networks. Also, there is no evidence that the distance from corporate headquarters to Washington, D.C, is correlated with Offer size.

Table 2.8 presents the results of the IV-regressions. In the first stage regressions, former politicians' presence on corporate boards are predicted using a probit model. Both the corporate governance features and the full set of the control variables used in the baseline regressions, as well as the instrumental variable (natural log of one plus the distance from corporate headquarters to Washington, D.C), are controlled. Column 1 shows that the instrumental

variable, distance, is a useful instrument for political connections. After including the first-stage fitted values for political connectedness in the second stage regression, the results suggest that the univariate results do not carry over to the multivariate results. Specifically, column 2 shows that the instrumented values of political connections are negative and statistically significant at the conventional level, suggesting that political connections are associated with a lower offer size. Overall, the result indicates that politically connected firms closely follow the pecking order theory by relying less on equity.

2.7 Conclusion

While several studies provide evidence on the effect of political connections on the process of raising external capital, to my knowledge, there is no evidence on the impact of political connections on seasoned equity offerings. This paper examines the association between political connections and SEO flotation's costs in terms of gross spreads and SEO announcement stock returns. Prior studies suggest that political connections provide firms with the following: preferential access to finance (Claessens et al., 2008), lower cost of bank loans (see, e.g., Houston et al., 2014; Li et al., 2008; Khwaja and Mian, 2005; Sapienza, 2004), lower penalties and increased forbearance from lawsuits (see, e.g., Firth, Rui & Wu, 2011; Lu, Pan, and Zhang, 2015; Correia, 2014; Jia, Mao, and Yuan, 2019; Yu and Yu, 2011), and sensitive information concerning regulations and the economy at large (Ferris, Houston, and Javakhadze, 2016; Pham (2019). All of the above are likely to increase an issuer's bargaining power with the underwriters; therefore, it is anticipated that politically connected issuers might enjoy lower SEO gross spreads.

In the spirit of Goldman, Rocholl, and So (2009) and Houston et al. (2014), the study partitioned issuers from 2005 to 2017 in the USA into politically connected and non-connected issuers and find that political connection is associated with lower SEO gross spreads. The study further examined the market reaction to seasoned equity offering announcements and find that

the market reaction to the SEO announcement is less negative when politically connected issuers announce seasoned equity offerings than for those of their non-connected counterparts. The study runs regressions separately for primary, secondary, and combined issues to mitigate the impact of confounding effects that might arise from insider sales of shares in secondary issues (Krishnamurthy et al., 2005). The result suggests that the effect of political connection on both SEO announcement returns and gross spreads is higher in primary offers than in secondary offers.

The results are robust when controlling for corporate governance features, using an instrumental variable approach, and redefining political connections. In an additional analysis, the results show that political connection is negatively associated with SEO proceeds. Supporting the notion that politically connected firms rely more on debt (e.g., Khwaja and Mian, 2005; Faccio, 2010; Belghitar, Clark and Saeed, 2019).

The empirical evidence that political connections reduce SEO flotation costs in terms of lower gross spreads and less adverse market reaction to SEO announcement is closely related to Boubakri et al. (2012), finding that political connections reduce the rate of returns offered to equity investors. Additionally, Claessens et al. (2008) find that political connections provide connected firms with preferential access to finance, whereas Houston et al. (2014) and Sapienza (2004) further show that political connection is associated with lower costs of bank loan.

Appendix A: Variable definitions

Connected Issuer	Equals (1) if at least one board member holds or formerly held any of the following positions: President, presidential (Vice-Presidential) candidate, member of the House of Representatives, Senator, Cabinet secretary/deputy secretary/undersecretary or assistant secretary, Governor, United Nations representative, Ambassador, Mayor, staff member to the White House, presidential campaign or political party, appointed member of a presidential committee or council and Director/Deputy Director/Commissioner to a federal department or agency including: Central Intelligence Agency (CIA), Federal Emergency Management Agency (FEMA), Office of Management and Budget (OMB), Internal Revenue Service (IRS), Nuclear Regulatory Commission (NRC), Social Security Administration (SSA), Civil Rights Centre (CRC), Food and Drug Administration (FDA), and Securities and Exchange Commission (SEC) etc. otherwise (0).
Pcontinous	The total number of former politicians on issuer board scaled by the total number of board directors.
RelSize	The Ratio of offering proceeds to total assets.
Secondary	The Ratio of SEO shares being sold by existing shareholders to total SEO shares
LN(Proceed)	Natural log of the total amount raised in the SEO
Nasdaq	Indicator variable equals one if the SEO issuer's stock is Nasdaq listed over the SEO registration period and zero otherwise.
CAR	The market-adjusted cumulative abnormal stock return around the SEO announcement. See, Kim, Li, Pan and Zuo (2013).
Gross Spread	Underwriter's purchase price for a share of the SEOs as a percent of the offer price obtained from the SDC.
ROA	Ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets
Cash	Cash and short-term investments scaled by book value of total assets
Tobin's Q	(Market value of common equity + Total assets − Book value of common equity)/Total assets. See, Brockman, Rui, and Zou (2013)
LN(Total Assets)	Natural logarithm of total assets
Volatility	The standard deviation of daily stock return during the trading period (−90, −11) prior to the issue date.
CAPEX	Ratio of capital expenditures to the book value of total assets
Tangible	Ratio of plant, property, and equipment to total assets
Leverage	Ratio of total debt to book value of assets
DISTANCE	The natural logarithm of one plus the distance (in kilometers) from a firm's headquarter to Washington D.C.
Board Size	The number of directors on the board, measured in the year prior to the SEO announcement.
CEO Age	The natural logarithm of CEO age
Tenure-CEO	The number of years CEOs of issuing firms had held their positions.

Independent Directors	The percentage of independent directors measured in the year prior to the SEO announcement.
Female CEO	indicator variable that takes the value of 1 if the CEO is a female, and 0 otherwise.
CEO Duality	Indicator variable that takes the value of 1 if the CEO is also the chairman of the board, and 0 otherwise.
Female Proportion	The percentage of female directors measured in the year prior to the SEO announcement.

Table 2.1: Sample Distribution and Descriptive Statistics

Table 2.1 provides summary statistics of the firm characteristics between politically connected and non-connected issuers in the sample. Panel A presents a time-series distribution of the sample. Panel B contains the nature of politically connected issues in the sample. Panel C reports the average issuer and offer characteristics of politically connected and non-connected issuers. The sample contains 2432 seasoned equity offerings between January 2005 and December 2017 in the USA. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Panel A: Time-Series Distribution of The Sample			
Year	Connected Issuers = 1	Non-Connected Issuers = 0	Obs
2005	25	130	155
2006	19	149	168
2007	22	126	148
2008	19	79	98
2009	33	186	219
2010	17	152	169
2011	24	163	187
2012	23	151	174
2013	20	217	237
2014	31	226	257
2015	23	225	248
2016	11	141	152
2017	22	198	220
Total	289	2143	2432

Panel B: Politically Connected Issuers				
	Obs	Mean	Median	Std
Connected Issuers	2432	0.1188	0	0.3236
Pcontinous	2432	0.0158	0	0.0466

Panel C: Issuer and Offer Characteristics								
	Obs	Mean	Median	Std	Politically connected Issuers (1)	Non-Connected Issuers (2)	Diff. (Col.1 – Col.2)	P-Value
Nasdaq	2432	0.6365	1.0000	0.4811	0.4706	0.6589	-0.1883***	0.0000
Proceeds	2432	4.6275	4.6439	1.2111	5.2252	4.5469	0.6783***	0.0000
Secondary	2432	0.3336	0.0000	0.4556	0.3391	0.3329	0.0062	0.8293
Total Assets	2432	12.8891	12.6813	1.7841	13.8788	12.7557	1.1231***	0.0000
CAPEX	2432	0.0616	0.0266	0.0898	0.0702	0.0604	0.0097	0.1029
ROA	2432	-0.0754	0.0545	0.2943	-0.0402	-0.0801	0.0399**	0.0248
Cash	2432	0.3288	0.1536	0.3416	0.2562	0.3386	-0.0824***	0.0000
Leverage	2432	0.2719	0.2370	0.2560	0.2879	0.2698	0.0181	0.2274

Tangible	2432	0.2455	0.1170	0.2790	0.3112	0.2367	0.0745***	0.0001
Tobin's Q	2432	2.8143	1.9787	2.2021	2.6869	2.8315	-0.1446	0.3093
Volatility	2432	0.0343	0.0292	0.0203	0.0332	0.0344	-0.0012	0.3428
CEO Tenure	2432	1.7723	1.7918	0.6946	1.8770	1.7582	0.1188***	0.0052
Board Size	2432	2.0627	2.0794	0.2354	2.1937	2.0450	0.1486***	0.0000
Independent Directors	2432	1.8651	1.9459	0.2997	1.9848	1.8490	0.1359***	0.0000
Female CEO	2432	0.0271	0.0000	0.1625	0.0138	0.0289	-0.0151*	0.0530
CEO Duality	2432	0.3302	0.0000	0.4704	0.4948	0.3080	0.1868***	0.0000
CEO Age	2432	3.9780	3.9890	0.1448	3.9963	3.9756	0.0208***	0.0084
Female Proportion	2432	0.0776	0.0000	0.0983	0.0914	0.0757	0.0157***	0.0091

Table 2.2: SEO Gross Spread and Political Connections

Table 2.2 Estimates the impact of political connections on seasoned equity offering (SEO) gross spread. Panel A presents the univariate analysis of the association between SEO gross spread and political connections for a sample of USA SEOs announced over the period 2005 to 2017. Panel B reports the cross-sectional OLS regression analysis of SEO gross spreads on political connections and other issuer- and offer-specific characteristics. The dependent variable is the log gross spreads. The dependent and all the explanatory variables are defined in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

Panel A: Univariate Analysis – Gross Spreads						
		Full Sample (1)	**Connected Issuers (2)**	**Non-connected Issuers (3)**	**Diff. (Col. 2 – Col. 3)**	**P-Value**
(A)	All Issues	4.5028	3.6956	4.6098	-0.9142***	0.0000
		2153	252	1901		
(B)	Primary Issues Only	5.1157	4.3227	5.2228	-0.9001***	0.0000
		1370	163	1207		
(C)	Secondary Issues Only	2.8398	2.0428	2.9479	-0.9051***	0.0001
		561	67	494		
(D)	Combined Issues	4.9231	4.0826	5.0156	-0.9329***	0.0077
		222	22	200		

Panel B: Multivariate Analysis – Gross Spreads					
	Full Sample		**Primary Issues Only**	**Secondary Issues Only**	**Combined Issues**
	(1)	(2)	(3)	(4)	(5)
Connected Issuers	-0.1639***	-0.1501***	-0.0831*	-0.1772	-0.0951*
	(-2.85)	(-2.73)	(-1.90)	(-1.22)	(-1.74)
Nasdaq	-0.0592	-0.0592	-0.0403	-0.1596*	-0.0127
	(-1.45)	(-1.45)	(-0.96)	(-1.70)	(-0.30)
Secondary	-0.5567***	-0.5554***			
	(-13.29)	(-13.24)			
LN(Proceeds)	-0.0033	-0.0057	-0.0445***	0.0386	-0.0644*
	(-0.16)	(-0.29)	(-2.79)	(0.65)	(-1.67)
LN(Total Assets)	-0.1978***	-0.1941***	-0.1081***	-0.3605***	-0.1079***
	(-11.06)	(-11.19)	(-7.57)	(-6.93)	(-3.52)
CAPEX	-0.2554	-0.1880	-0.0782	0.5190	-0.4726
	(-0.98)	(-0.74)	(-0.29)	(0.70)	(-1.22)
Leverage	0.0561	0.0548	-0.0097	0.3941**	0.0587
	(0.86)	(0.82)	(-0.17)	(2.12)	(0.49)
Cash	0.0728	0.1364**	0.0359	-0.0873	0.0693
	(1.41)	(2.21)	(0.71)	(-0.27)	(0.47)

ROA	0.1921***	0.1823***	0.1134***	-0.2772	0.0554
	(3.80)	(3.49)	(3.14)	(-0.63)	(0.58)
Tangible	-0.0074	0.0372	-0.1708	-0.0965	-0.0860
	(-0.06)	(0.29)	(-1.26)	(-0.43)	(-0.63)
Volatility	1.6429***	1.7764***	1.3098***	3.1218	1.0393
	(3.25)	(3.45)	(3.37)	(1.35)	(1.32)
Tobin's Q	-0.0215***	-0.0219***	-0.0154**	-0.0619**	-0.0223**
	(-3.47)	(-3.59)	(-2.67)	(-2.41)	(-2.17)
Constant	3.9427***	3.8813***	3.2949***	5.6962***	2.8302***
	(20.47)	(18.39)	(17.18)	(9.02)	(7.84)
Year FE	YES	YES	YES	YES	YES
Industry FE	NO	YES	YES	YES	YES
Cluster by Issuer	YES	YES	YES	YES	YES
Number of observations	2153	2,153	1,370	561	222
Adjusted R2	0.4301	0.4352	0.3673	0.288	0.4102

Table 2.3: Political Connections and SEO Announcement Return

Table 2.3 Estimates the impact of political connections on the stock price reaction to seasoned equity offering (SEO) announcements. Panel A presents the univariate analysis of the association between political connections and seasoned equity offering (SEO) announcement stock returns for a sample of USA SEOs announced over the period 2005 to 2017. Panel B reports the cross-sectional OLS regression analysis of SEO announcement stock returns on political connections and other issuer- and offer-specific characteristics. The dependent variable in column 1 through 3 is the *CAR*, measured over the window (-1, +1), (0, +1), and (0, +2) respectively, relative to the announcement day (0). While the dependent variable in column 4 through 6 is the *CAR*, measured over the window (0, +2) relative to the announcement day (0). Column 1 through 3 report the results from the full sample whereas Column 4 through 6 is centred around announcements of SEOs primary, secondary, and combined issues, respectively. The dependent and all the explanatory variables are defined in Appendix A. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

	Panel A: Univariate Analysis				
Event windows	**All (1)**	**Connected Issuers (2)**	**Non-connected Issuers (3)**	**Diff. (Col. 2 – Col. 3)**	**P-Value**
CAR(-1,+1)	-0.0178	-0.0112	-0.0187	0.0075*	0.0603
	1916	208	1708		
CAR(0,+1)	-0.0136	-0.0072	-0.0144	0.0072***	0.0085
	1916	208	1708		
CAR(0,+2)	-0.0156	-0.0074	-0.0166	0.0092**	0.0138
	1916	208	1708		

Panel B: Multivariate Analysis						
	Full Sample			**Primary Issues Only**	**Secondary Issues Only**	**Combined Issues**
	(1)	(2)	(3)	(4)	(5)	(6)
Connected Issuers	0.0072*	0.0073**	0.0081**	0.0094**	0.0001	0.0064
	(1.85)	(2.50)	(2.15)	(2.06)	(0.01)	(0.56)
Nasdaq	0.0049	0.0029	0.0009	0.0045	-0.0012	-0.0069
	(1.40)	(1.17)	(0.28)	(0.90)	(-0.26)	(-0.82)
Secondary	-0.0029	-0.0025	-0.0017			
	(-0.84)	(-1.01)	(-0.54)			
RelSize	4.4550	3.5276*	2.0699	1.7165	7.2285	0.7840
	(1.58)	(1.84)	(0.81)	(0.53)	(1.46)	(0.15)
LN(Total Assets)	0.0011	-0.0002	0.0004	0.0001	0.0025	-0.0008
	(0.92)	(-0.20)	(0.37)	(0.04)	(1.21)	(-0.20)
CAPEX	0.0244	0.0343*	0.0403	0.0345	0.0709*	-0.0299
	(0.90)	(1.70)	(1.63)	(1.13)	(1.73)	(-0.47)
Leverage	0.0173**	0.0064	0.0102	0.0175*	0.0041	-0.0057
	(2.61)	(1.29)	(1.62)	(1.94)	(0.46)	(-0.29)

Cash	0.0111	0.0014	0.0040	0.0067	0.0412**	-0.0383**
	(1.42)	(0.27)	(0.58)	(0.77)	(2.62)	(-2.10)
ROA	-0.0031	0.0005	-0.0011	-0.0023	-0.0165	-0.0236
	(-0.46)	(0.09)	(-0.17)	(-0.28)	(-0.91)	(-0.91)
Tangible	-0.0023	-0.0063	-0.0083	-0.0023	-0.0181	-0.0004
	(-0.26)	(-0.91)	(-0.99)	(-0.17)	(-1.62)	(-0.02)
Volatility	-0.1104	-0.0721	-0.1536*	-0.2865***	-0.0178	0.2146
	(-1.35)	(-1.20)	(-1.84)	(-2.70)	(-0.12)	(1.27)
Tobin's Q	-0.0012	-0.0017**	-0.0016*	-0.0021**	-0.0009	-0.0005
	(-1.39)	(-2.74)	(-1.94)	(-2.05)	(-0.57)	(-0.24)
Constant	-0.0306	0.0072	0.0092	-0.0091	-0.0065	-0.0128
	(-1.50)	(0.45)	(0.47)	(-0.29)	(-0.18)	(-0.20)
Year FE	YES	YES	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES	YES	YES
Cluster by Issuer	YES	YES	YES	YES	YES	YES
Number of observations	1,916	1,916	1,916	1,202	480	234
Adjusted R2	0.0275	0.0536	0.0423	0.0557	0.1057	0.1613

Table 2.4: Instrumental Variable Approach

This table reports the instrumental variable regression results on the impact of political connections on both SEO gross spreads and announcement stock returns using the distance (KM) between corporate headquarters and Washington, DC as an instrument for political connections. The sample contains USA SEOs announced over the period 2005 to 2017. In the first stage we predict political connections using (Distance) the log of one plus the distance from a firm's headquarter to Washington DC with issuer and offer variables as well as year and industry fixed effects. The dependent variable in column 2 is the the *CAR*, measured over the window (0, +2) relative to the announcement day (0). While the dependent variable in column 4 is the SEO gross spreads. Column 1 and 3 present the first stage probit regression whereas column 2 and 4 report the second-stage regression. The dependent and all the explanatory variables are defined in Appendix A. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t and z*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

	(1) Ist Stage	(2) 2nd Stage **(SEO-CAR)**	(3) Ist Stage	(4) 2nd Stage **(SEO-Gross Spread)**
Predicted-Connection		0.0621**		-0.6349*
		(2.01)		(-1.93)
Distance	-0.0969*		-0.0985*	
	(-1.73)		(-1.77)	
Nasdaq	0.0394	0.0009	0.0328	-0.0608
	(0.28)	(0.29)	(0.21)	(-1.46)
Secondary	-0.1867	0.0006	-0.1332	-0.5715***
	(-1.38)	(0.17)	(-1.03)	(-13.18)
RelSize	39.5931	1.7485		
	(0.42)	(0.69)		
LN(Proceed)			0.0473	-0.0039
			(0.67)	(-0.20)
LN(Total Assets)	0.2969***	-0.0023	0.3112***	-0.1671***
	(5.94)	(-1.15)	(4.79)	(-6.92)
CAPEX	-0.6691	0.0502**	-0.7653	-0.2922
	(-0.78)	(2.02)	(-0.84)	(-1.06)
Leverage	-0.6193**	0.0158**	-0.4114	0.0166
	(-2.51)	(2.26)	(-1.63)	(0.24)
Cash	-0.3828	0.0076	-0.2747	0.1110*
	(-1.43)	(1.02)	(-0.89)	(1.76)
ROA	-0.7016***	0.0046	-0.8372***	0.1184*
	(-3.29)	(0.62)	(-3.67)	(1.87)
Tangible	0.1878	-0.0107	-0.0880	0.0344
	(0.61)	(-1.30)	(-0.26)	(0.27)
Volatility	1.9258	-0.1709**	1.5326	1.8948***
	(0.80)	(-2.02)	(0.68)	(3.59)
Tobins' Q	0.0923***	-0.0024**	0.0855***	-0.0144*
	(3.61)	(-2.57)	(3.19)	(-1.86)

Constant	-4.7426***	0.0389	-5.1915***	3.5266***
	(-5.32)	(1.48)	(-5.68)	(12.05)
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Cluster by Issuer	YES	YES	YES	YES
Number of observations	1,916	1,916	2,153	2,153
Pseudo R2 (Adjusted R2)	0.1323	(0.0424)	0.1409	(0.4328)

Table 2.5: Alternative Measure of Political Connectedness

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns whilst controlling for issuer- and offer-specific characteristics. The dependent variable in column 1 and 2 is the *CAR*, measured over the window (0, +2) relative to the announcement day (0). While the dependent variable in column 3 and 4 is the SEO gross spreads. We redefine political connections using an alternate proxy, Pcontinous, the total number of former politicians on issuer board scaled by the total number of board directors (see, Chizema, Liu, Lu, and Gao (2015). All the explanatory variables are defined in Appendix A. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

	SEO-CAR		**SEO-Gross Spread**	
	(1)	(2)	(3)	(4)
PContinous	0.0535**	0.0477*	-2.0101***	-0.8854**
	(2.01)	(1.78)	(-3.09)	(-2.28)
Nasdaq		0.0008		-0.0581
		(0.27)		(-1.43)
Secondary		-0.0018		-0.5556***
		(-0.55)		(-13.24)
Relsize		2.1022		
		(0.82)		
LN(Proceed)				-0.0062
				(-0.31)
LN(Total Assets)		0.0006		-0.1961***
		(0.49)		(-11.23)
Capex		0.0404		-0.2005
		(1.63)		(-0.79)
Leverage		0.0100		0.0579
		(1.59)		(0.87)
Cash		0.0039		0.1392**
		(0.56)		(2.25)
ROA		-0.0014		0.1877***
		(-0.21)		(3.57)
Tangible		-0.0084		0.0440
		(-1.00)		(0.34)
Volatility		-0.1542*		1.7902***
		(-1.84)		(3.48)
Tobin's Q		-0.0015*		-0.0224***
		(-1.91)		(-3.66)
Constant	-0.0163***	0.0078	1.3673***	3.9041***
	(-12.21)	(0.40)	(56.35)	(18.45)
Year FE	NO	YES	NO	YES
Industry FE	NO	YES	NO	YES
Cluster by Issuer	YES	YES	YES	YES

Number of observations	1,916	1,916	2,153	2,153
Adjusted R2	0.0019	0.0417	0.1657	0.4343

Table 2.6: Can Economic Downturns Drive the Results?

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns whilst excluding observations in the year 2008. The dependent variable in column 1 and 2 is the *CAR*, measured over the window (0, +2) relative to the announcement day (0). While the dependent variable in column 3 and 4 is the SEO gross spreads. The dependent and all the explanatory variables are defined in Appendix A. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

	SEO-CAR		**SEO-Gross Spread**	
	(1)	(2)	(3)	(4)
Connected Issuers	0.0072*		-0.1686***	
	(1.82)		(-2.95)	
PCONTINOUS		0.0476*		-1.0662**
		(1.68)		(-2.60)
Nasdaq	0.0014	0.0013	-0.0652	-0.0632
	(0.43)	(0.41)	(-1.57)	(-1.54)
Secondary	-0.0021	-0.0021	-0.5655***	-0.5661***
	(-0.63)	(-0.63)	(-13.02)	(-13.02)
RelSize	2.5079	2.5301		
	(0.96)	(0.97)		
LN(Proceed)			-0.0053	-0.0058
			(-0.26)	(-0.29)
LN(Total Assets)	0.0004	0.0005	-0.1932***	-0.1949***
	(0.33)	(0.40)	(-10.96)	(-10.97)
CAPEX	0.0351	0.0351	-0.2116	-0.2205
	(1.37)	(1.37)	(-0.81)	(-0.85)
Leverage	0.0133**	0.0131**	0.0603	0.0632
	(2.04)	(2.02)	(0.88)	(0.92)
Cash	0.0026	0.0025	0.1258**	0.1282**
	(0.37)	(0.36)	(1.97)	(2.00)
ROA	-0.0015	-0.0016	0.1871***	0.1914***
	(-0.22)	(-0.24)	(3.52)	(3.57)
Tangible	-0.0102	-0.0102	0.0248	0.032144
	(-1.19)	(-1.20)	(0.19)	(0.24)
Volatility	-0.1567*	-0.1572*	1.6980***	1.7195***
	(-1.86)	(-1.86)	(3.17)	(3.21)
Tobins' Q	-0.0016**	-0.0016**	-0.0222***	-0.0225***
	(-2.00)	(-1.98)	(-3.54)	(-3.59)
Constant	0.0019	0.0014	3.8826***	3.8985***
	(0.10)	(0.07)	(18.23)	(18.26)

Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Cluster by Issuer	YES	YES	YES	YES
Number of observations	1,837	1,837	2,066	2,066
Adjusted R2	0.044	0.0438	0.44	0.4392

Table 2.7: Controlling For Other Forms of Corporate Governance

This table reports the cross-sectional OLS regression analysis of the impact of political connections on both SEO gross spreads and announcement stock returns whilst controlling for issuer- and offer-specific characteristics as well as corporate governance features. The dependent variable in column 1 and 2 is the *CAR*, measured over the window (0, +2) relative to the announcement day (0). While the dependent variable in column 3 and 4 is the SEO gross spreads. The dependent and all the explanatory variables are defined in Appendix A. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

	SEO-CAR		**SEO-Gross Spread**	
	(1)	(2)	(3)	(4)
Connected Issuers	0.0079**	0.0072*	-0.2391***	-0.1392**
	(2.14)	(1.88)	(-2.85)	(-2.48)
Tenure-CEO	0.0013	0.0015	-0.0154	-0.0351
	(0.83)	(0.97)	(-0.42)	(-1.38)
Board Size	0.0109*	0.0055	-1.2119***	-0.0401
	(1.65)	(0.69)	(-9.50)	(-0.46)
Independent Directors	-0.0035	0.0008	0.5682***	0.0005
	(-0.83)	(0.18)	(5.45)	(0.01)
Female CEO	-0.0025	-0.0006	0.2059**	0.1856**
	(-0.26)	(-0.06)	(2.04)	(2.63)
Female Proportion	-0.0019	0.0052	-0.5712**	-0.2680
	(-0.15)	(0.38)	(-2.07)	(-1.40)
CEO Duality	0.0033	0.0004	-0.0434	0.0117
	(1.18)	(0.13)	(-0.93)	(0.34)
CEO Age	-0.0123	-0.0038	-0.2268	0.0724
	(-1.33)	(-0.41)	(-1.64)	(0.80)
Nasdaq		0.0008		-0.0648
		(0.26)		(-1.57)
Secondary		-0.0015		-0.5639***
		(-0.45)		(-12.41)
RELSIZE		2.0511		
		(0.80)		
LN(Proceed)				-0.0043
				(-0.22)
LN(Total Assets)		-0.0001		-0.1906***
		(-0.09)		(-11.06)
CAPEX		0.0395		-0.1783
		(1.59)		(-0.70)
Leverage		0.0103		0.0466
		(1.61)		(0.71)
Cash		0.0033		0.1399**
		(0.48)		(2.29)
ROA		-0.0011		0.1870***

		(-0.17)		(3.53)
Tangible		-0.0077		0.0291
		(-0.90)		(0.23)
Volatility		-0.1475*		1.7539***
		(-1.75)		(3.40)
Tobin's Q		-0.0016**		-0.0214***
		(-1.98)		(-3.53)
Constant	0.0130	0.0156	3.7773***	3.7075***
	(0.36)	(0.39)	(6.63)	(9.25)
Year FE	NO	YES	NO	YES
Industry FE	NO	YES	NO	YES
Cluster by Issuer	YES	YES	YES	YES
Number of observations	1,916	1,916	2,153	2,153
Adjusted R2	0.0057	0.0435	0.1281	0.4387

Table 2.8: Political Connections and SEO Proceeds

This table reports the instrumental variable regression results on the impact of political connections on SEO proceeds using the distance (KM) between corporate headquarters and Washington, DC as an instrument for political connections. The sample contains USA SEOs announced over the period 2005 to 2017. In the first stage we predict political connections using (Distance) the log of one plus the distance from a firm's headquarter to Washington DC with issuer and offer variables as well as year and industry fixed effects. The dependent variable in column 2 is the natural log of SEO proceeds. Column 1 present the first stage probit regression whereas column 2 report the second-stage regression. The dependent and all the explanatory variables are defined in Appendix A. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively. The *t and z*-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity and issuer clustering.

	Ist Stage	**2nd Stage**
Predicted-Connection		-0.6095*
		(-1.91)
Distance	-0.1056*	
	(-1.82)	
Tenure-CEO	0.1242	0.0379
	(1.41)	(1.30)
Board Size	0.9328**	0.4524***
	(2.43)	(3.77)
Independent Directors	0.2123	-0.1701**
	(0.71)	(-2.23)
Female CEO	-0.2511	0.0569
	(-0.91)	(0.51)
Female Proportion	0.8177	0.1663
	(1.32)	(0.86)
CEO Duality	0.2515**	0.0697*
	(2.08)	(1.72)
CEO Age	-0.0729	-0.2756**
	(-0.19)	(-2.33)
Nasdaq	0.0625	0.0743
	(0.41)	(1.44)
Secondary	-0.0736	0.1561***
	(-0.56)	(3.00)
LN(Total Assets)	0.2209***	0.6589***
	(4.32)	(32.13)
CAPEX	-1.0690	0.9915**
	(-1.17)	(2.79)
Leverage	-0.5647**	-0.3515***
	(-2.28)	(-3.96)
Cash	-0.3433	0.2687**
	(-1.09)	(2.46)
ROA	-0.6867**	0.0181
	(-2.61)	(0.19)
Tangible	-0.0856	-0.2661**
	(-0.26)	(-2.08)

Volatility	1.2788	-0.6887
	(0.58)	(-0.88)
Tobin's Q	0.0833***	0.1613***
	(3.25)	(15.69)
Constant	-6.1142***	-4.4180***
	(-3.83)	(-7.78)
Year FE	YES	YES
Industry FE	YES	YES
Cluster by Issuer	YES	YES
Number of observations	2432	2432
Pseudo R2 (Adjusted R2)	0.1666	(0.6939)

Chapter 3

Political Connections and Share Repurchases

3.1 Introduction

A growing body of economic literature has established that political connections affect corporate investment decisions (Ferris, Houston, and Javakhadze, 2016). Nevertheless, existing research dedicated to the question of whether corporate political connection affects firm value has provided mixed evidence on the impact of political connections on firm value. While some of these studies suggest that political connections are negatively associated with firm performance (e.g., Fan, Wong, and Zhang, 2007; Boubakri, Cosset, and Saffar, 2008; Hadani and Schuler, 2012; Bertrand et al., 2018), several studies, on the other hand, provide evidence that political connections can increase shareholder value (e.g., Faccio, 2006; Goldman, Rocholl, and So, 2009; Cooper, Gulen, and Ovtchinnikov, 2010; Akey, 2015; Ferris, Houston, and Javakhadze, 2016). In addition to the disagreement on the impact of political connections on firm value, another channel through which political connections might affect firm value is unexplored – the area of share repurchases.

Therefore, this study seeks to fill this gap by examining the effect of political connections on shareholder value in the share repurchase context. Specifically, the aim is to examine whether firms with former politicians on their board generated higher returns from share repurchases than their counterparts without former politicians on their board. This chapter focuses on share repurchases for two reasons. First, the determinants of share repurchase decisions (Dittmar, 2000) and its effects on firm value (Edmans, Fang, and Huang, 2018) can be accurately estimated. Therefore, it is possible to accurately assess the impact of share repurchase decisions by politically connected firms on shareholders' value. Also, share repurchases are substantial economic activities that often do not benefit firms (Boudry,

Kallberg, and Liu, 2013). It is pertinent to determine why some firms benefit from share repurchases, and others do not. For example, could former politicians' presence on corporate boards result in higher stock returns around the share repurchase announcement period and the long term?

The primary analysis addresses the effect of political connections on the market reaction to share repurchase announcements. This study anticipates that political connections might have two opposing effects on stock returns around the share repurchase announcement period. First, extant literature (Wu, 2012; Evgeniou and Vermaelen, 2017; Manconi, Peyer, and Vermaelen, 2018) suggests that corporate governance is positively associated with higher stock returns around share repurchase announcement. Therefore, the market reaction to share repurchase announcements by politically connected firms might be less favourable compared with that of non-connected firms since political connections undermine corporate governance and exacerbate agency problems (Fan, Wong, and Zhang, 2007; Chaney, Faccio, and Parsley, 2011; Boubakri et al., 2012; Shen, Lin, and Wang, 2015; Kostovetsky, 2015).

On the other hand, political connections provide politically connected companies with both information and financial advantage. However, easy access to finance can cause agency problems of free cash flows, resulting in negative NPV projects and empire building (entrenchment). Besides the free cash-flow hypothesis (Jensen, 1986) predicts that firms with excess cash and few investment opportunities might face substantial agency costs if the excess cash is not distributed to shareholders. Given that share repurchase is a potential mechanism to reduce a firms' overinvestment problems, thereby removing the incentive for wasteful investment and increasing firm value (Chen et al., 2013; Lobo, Robin, and Wu, 2019), the market reaction to share repurchase announcements by politically connected firms might be higher compared with non-connected firms. However, the effect of political connections on the

stock returns around the share repurchase announcement period remains an open empirical issue.

This chapter examines the relationship between political connections and stock performance around the share repurchase announcement period, controlling for various firm characteristics as well as industry and year fixed effects. Following Goldman, Rocholl, and So (2009) and Houston et al. (2014), this research uses information about board members' backgrounds to classify firms into politically connected and non-connected groups. The results show that a portfolio of S&P 1500 firms classified as politically connected firms generated higher stock returns around share repurchase announcement than a portfolio of S&P 1500 firms classified as non-connected firms.

This study also examines repurchasing firms' stock performance in the long term. This chapter predicts that political connections will be positively associated with repurchasing firms' long-term stock performance. The prediction stems from the evidence that share repurchases can be myopic if financed by scrapping value-maximizing investments (Edmans, Fang, and Huang, 2018; Bendig et al., 2018) or if it results in raising costly external funds (Lie, 2005). However, politically connected firms have a financial advantage. Specifically, they have preferential access to finance (Claessens, Feijen, and Laeven, 2008), cheaper costs of both bank loans (e.g., Sapienza, 2004; Houston et al., 2014), and equity capital (Boubakri et al., 2012). One would, ceteris paribus, expect that politically connected firms can afford to follow through with their share repurchase programs and remain competitive by not repurchasing shares at the detriment of their first-choice investment (value-enhancing investments) or long-run investments.

Consequently, the chapter hypothesizes that the long-run stock returns following share repurchase announcements will be higher for politically connected firms than those of non-connected firms. Therefore, this research estimates the effect of political connections on the

repurchasing firm's long-term stock returns in both univariate and multivariate settings. For up to three years following share repurchase announcements, politically connected firms gained higher stock returns than their non-connected counterparts. The results suggest that share buyback programs produce higher stock returns for firms that are politically connected.

Importantly, firm fixed effects, an instrumental variable, and the propensity score matching approach were used to address the possibility that other factors drive the effect of political connection on repurchasing firm's stock returns. These approaches control possible unobserved firm heterogeneity, omitted variables, and the observable differences in firm characteristics between politically connected and non-connected boards that might explain share repurchase returns. The findings that political connections are associated with repurchasing firm's stock returns are robust to the three approaches.

Furthermore, this chapter examines whether politically connected boards are associated with repurchasing firms accounting performance following share repurchase announcement year and finds that politically connected boards generated higher accounting returns in the three years following share repurchase announcement than non-connected boards. This evidence is consistent with the premise that politically connected firms are more likely to remain competitive following share repurchase by not repurchasing at the expense of their first-choice investments and thereby earning higher operating returns.

In an additional analysis, this study also examines whether politicians' presence on corporate boards increases the probability of a company repurchasing shares and the amount spent on share repurchases using a panel of Standard and Poor's (S&P) 1,500 firms over 2006-2017. The results suggest that politically connected boards are more likely to repurchase shares more often than non-connected boards while controlling for other determinants of share repurchases, year and industry fixed effects. Specifically, the probability of a company repurchasing shares is 47 percentage points higher when politicians are on the board. When

focusing on the value of shares repurchased, the results reveal a positive and significant relationship between political connection and the amount spent on a share repurchase. These results continue to hold after using firm-fixed effects to control firm-level heterogeneity in share repurchase value, and further using the distance between corporate headquarters and Washington, DC as an instrument (see, Houston et al., 2014) for political connections.

In summary, these results suggest that firms with former politicians on their corporate board are more likely to generate higher stock returns around share repurchase announcement and in the long-term than firms without former politicians on their board.

This paper makes several contributions to the literature. First, it shows how political connections contribute to our understanding of the outcome of share repurchases. Also, it provides new insights into the debate on the impact of political connection on corporate decisions and a firm's value. For example, prior studies have examined the impact of political connections on the firm's value (e.g., Faccio 2006; Goldman, Rocholl, and So, 2009; Cooper et al., 2010; Akey 2015), mergers and acquisitions decisions and performance (e.g., Brockman, Rui, and Zou 201; Ferris, Houston, and Javakhadze, 2016; Schweizer, Walker, and Zhang, 2019; Croci et al., 2017), initial public offering (IPO) pricing (Gounopoulos et al., 2017), and top executive's pay rates (Chizema et al., 2015). More closely related to this article is the work of López-Iturriaga and Martín (2019). Whereas this study provides evidence on the effect of political connections on share repurchase performance, likelihood, and magnitude in the USA, López-Iturriaga, and Martín (2019) focus on the magnitude of shares repurchased and the dividend paid in Spain.

This chapter also contributes to the studies about how corporate board and director characteristics affect share repurchase decisions and outcomes. Custódio and Metzger (2014) analyzed financial expert CEOs' impact on corporate decisions and find that they are more likely to repurchase shares. This study provides evidence that the propensity to repurchase

shares and the value of shares repurchased are higher when a firm has a director with a political background. Evgeniou and Vermaelen (2017) focus on board gender diversity and find that it is associated with the likelihood of repurchasing shares and lower long-term stock returns. The scholars argued that gender diversity increases information disclosure, which provides fewer opportunities to repurchase undervalued stock, resulting in smaller long-term excess returns. This research shows that political connections are positively associated with the probability of a company repurchasing shares, the value of shares repurchased, and the impact on both operating and stock returns. Consistent with the notion that political connections provide firms with a financial advantage and decrease information disclosure, which provides a higher opportunity to repurchase undervalued stock, resulting in higher returns.

The rest of the paper is structured as follows: Section 2 describes the data used in this paper and the measures of political connectedness; Section 3 reports the empirical analyses and the main results of the article; Section 4 presents endogeneity tests; Section 5 reports additional robustness tests. In section 6, this paper report additional analysis. Section 7 concludes the paper.

3.2 Data and Variable Constructions

3.2.1 Data and Political Connectedness measurement

This chapter employs the single country research design (the USA market) so as to hold constant the numerous country-level factors (legal, regulatory, institutional, cultural etc.) that might influence share repurchase outcome. As noted by Gerakos, Piotroski and Srinivasan (2013) concentrating on one market will enhance the use of detailed data for the sampled firms without being anxious about data availability and comparability across markets. This approach is also comparable to other studies such as Croci, Pantzalis, Park, and Petmezas (2016), and Ferris, Houston, and Javakhadze (2016) with their single market focus.

Share repurchase data is obtained from Thomson Reuters's Securities Data Company Platinum database (SDC). Following Acemoglu et al. (2016), the study collects financial and stock price data from Thomson Reuters Datastream and Thomson Reuters Worldscope data. To keep the data manageable, the study focuses on the USA share repurchase data for firms in Standard and Poor 1500 firms (S&P 500, S&P Midcap 400, and S&P Smallcap 600 indices) at any point in time between 2006 and 2017; this is the period where the data on the S&P 1500 firms is accessible. Besides, the sample period that ends in the year 2017 allows for the long-term stock returns to be estimated.

Repurchasing firms are classified into connected or non-connected firms following the approach of Goldman, Rocholl, and So (2009), Houston et al. (2014), and Kim and Zhang (2016). Each of the firms' proxy statements from the EDGAR database was collected. The EDGAR database contains information concerning public firms' (SEC) filing. Firms are required by the Securities and Exchange Commission (SEC) to provide a brief history of each of the board member's career backgrounds. From the career history, it is possible to determine whether board members are politically connected (Goldman, Rocholl, and So, 2009; Houston et al., 2014; Kim and Zhang, 2016).

This chapter examines all board members' biographical information using annual proxy statements (2006-2017). Following Goldman, Rocholl, and So (2009), A firm is classified as a politically connected firm if at least one board member holds, or formerly held, any of the following positions: President, presidential (Vice-Presidential) candidate, member of the House of Representatives, Senator, Cabinet secretary/deputy secretary/undersecretary or assistant secretary, Governor, United Nations representative, Ambassador, Mayor, staff member to the White House, presidential campaigner or political party appointment, appointed member of a presidential committee or council and Director/Deputy Director/Commissioner to a federal department or agency including the Central Intelligence Agency (CIA), Federal

Emergency Management Agency (FEMA), Office of Management and Budget (OMB), Internal Revenue Service (IRS), Nuclear Regulatory Commission (NRC), Social Security Administration (SSA), Civil Rights Centre (CRC), Food and Drug Administration (FDA), and Securities and Exchange Commission (SEC).

3.2.2 Sample statistics

The sample yields 15,801 observations with a non-missing proxy statement and the firm characteristics of interest. Table 3.1 presents the summary statistics. Panel A shows that politically connected firms are significantly (p-value < 0.01) older and larger than non-connected firms. Politically connected firms have a higher market-to-book ratio, higher leverage, and hold less cash compared with non-connected firms; this is consistent with Faccio (2010), Kim and Zhang (2016), and Ferris, Houston, and Javakhadze (2016). Prior literature (see Dittmar, 2000; Lee and Suh, 2011) provide evidence that cash holdings are associated with a share repurchase. Politically connected firms appear to pay higher cash dividends compared with non-connected firms. The work of Grullon and Michaely (2004) suggests that firms are likely to substitute a share repurchase for a dividend payment. The average operating performance in the sample is 0.128; politically connected firms (0.150) appear to have higher operating performance compared with non-connected firms (0.125), consistent with Boubakri, Cosset, and Saffar (2012). The work of Custódio and Metzger (2014) shows that firms with higher operating performance are more likely to repurchase shares compared with firms with lower operating performance. Overall, the summary statistics suggest that the difference in firm characteristics between politically connected firms and non-connected firms is generally in-line with prior literature on political connections.

Panel B of Table 3.1 presents the summary statistics of 5036 share buyback programs between 2006 and 2017. Like panel A, politically connected firms that announced share

repurchases are older and larger than non-connected firms. Also, they hold less cash and are have more debt than non-connected firms.

[Please Insert Table 3.1 About Here]

3.2.3 Time-Series Distribution of Repurchase announcements sample

This chapter also examines the number of share repurchase announcements made by politically connected and non-connected firms across the sample years in table 2. Share repurchase announcements decreased around the global financial crisis (2008 and 2009). Table 2 suggests that the observations appear to be spread across the years, and there is no significant clustering.

[Please Insert Table 3.2 About Here]

3.3 Empirical findings

3.3.1 Political Connections and Short-Term Stock Performance

This section examines whether politically connected boards deliver higher stock returns than their non-connected counterparts around the share repurchase announcement period. Following Chan, Ikenberry, and Lee (2004), and Chen and Wang (2012), this chapter measures the initial market reaction to share repurchase announcement by calculating the buy-and-hold abnormal return over three (-1, +1) days and five (-2, +2) days event windows around share repurchase announcement date. Specifically, short-term abnormal stock performance is the difference between repurchasing firms buy and hold returns and the USA market index for the three (-1, +1) days and the five (-2, +2) days event windows around share repurchase announcement date. The market return is the USA value-weighted market index (TOTMKUS)(R.I.) obtained from the DataStream.

Table 3.3 reports both the univariate and the multivariate analysis of the abnormal announcement stock returns. Panel A reports the univariate analysis. Consistent with the share repurchase literature (e.g., Chan et al., 2018), column (1) of panel A shows that the market

regards a share repurchase announcement as good news. For example, the average abnormal stock returns for the full sample around the three (-1, +1) days and five (-2, +2) days announcement period is 1.1% (p-value<0.01) and 1.2% (p-value<0.01) respectively. However, column (2) and (3) shows that politically connected boards are associated with higher announcement stock returns than non-connected boards. For example, the average three-day (− 1, + 1) stock return around the announcement period for politically connected boards is 1.4% compared to 1.0% stock return for non-connected boards and the difference (0.4%) is statistically significant at the 5% levels. Also, the five-day (-2, +2) abnormal return shows that politically connected boards (1.5%) generated higher announcement stock returns than non-connected boards (1.1%) and the difference (0.4%) is significant at the 5% levels.

The univariate analysis appears to support the prediction that corporate political connections are associated with higher stock returns around the share repurchase announcement period. Next, the study seeks to determine whether the effect of political connections on repurchasing firm's announcement returns will survive when controlling for other determinants of share repurchase announcement returns.

[Please Insert Table 3.3 About Here]

Panel B presents the cross-sectional regressions of the announcement stock returns on political connections. Controlling for the determinants of share repurchase such as firm age (Ln(Age)), capital expenditure (Capex), operating performance (ROA), Cash Holding (Cash), total debt to assets ratio (Leverage), total Assets (Ln(Size)), cash dividend (Dividend), market-to-book ratio (M.B.), recent stock returns (RET), intangible assets (Tangible), sales growth (S-Growth), and a set of year and industry fixed effects. In column (1) and (2), the dependent variable is the three-day (−1, +1) buy-and-hold abnormal stock, and in column (3) and (4), the independent variable is the five-day (-2, +2) buy-and-hold abnormal stock. The results show that political connections are positively and significantly associated with share repurchase

announcement stock returns. Specifically, the coefficients on both the three-day (-1, +1) and five-day (-2, +2) announcement stock returns, column (1) through (4), respectively, are positive and statistically significant at the conventional levels.

3.3.2 Political Connections and Long-Term Stock Performance.

This section tests the second hypothesis and seeks to determine whether political connections are associated with the long-term stock performance following the share repurchase announcement month. Consistent with Bargeron, Bonaime, and Thomas (2017) and Evgeniou and Vermaelen (2017), the study computes the long-term stock returns over the standard 12-, 24-, and 36-month event windows using the buy and hold return method, an approach widely used and accepted (e.g., Brockman, Rui, and Zou 2013; Bargeron, Bonaime and Thomas, 2017; Iyer and Rao, 2017). Specifically, the long-term abnormal stock performance is computed as the difference between the repurchasing firm's buy and hold returns and that of the USA market index for the 12, 24, and 36-month horizon following share repurchase announcement month.

Table 3.4 reports on both the univariate and the multivariate analysis of the long-term stock returns. On the univariate basis, Panel A shows that political connections are associated with higher stock returns in the three years following share repurchase month. For instance, in the 36-month following share repurchase announcement month, politically connected boards experienced a 12.10% increase in their share price whereas non-connected boards gained 5.10% and the difference (7.0%) is statistically significant at the 1% levels. Panel B of Table 3.4 reports the cross-sectional regression of the long-term stock returns following the share repurchase announcement month. As with all the tests, this chapter controls for various firm characteristics as well as industry and year fixed effects. The study also uses heteroskedasticity-robust standard errors adjusted for firm clustering. The primary explanatory variable of interest is an indicator as to whether the repurchasing firm is politically connected (1) or not (0).

Consistent with the second hypothesis, when a firm has a former politician on its board, long term stock returns following share repurchase announcement is significantly larger (at the 1% level) over the 12-month, 24-month, and 36-month horizon. Specifically, column (1) through (3) shows that the signs on the political connections indicator are positive and statistically significant at the conventional levels. Also, the signs on the control variables are generally consistent with those in existing share repurchase literature (e.g., Chan et al., 2018; Evgeniou and Vermaelen, 2017)

[Please Insert Table 3.4 About Here]

3.4 Endogeneity Concerns

As a further check, the study examines whether the main findings that political connections are associated with higher stock returns will continue to hold after adjusting for possible endogeneity issues in a two-stage-least-square (2SLS) analysis and propensity score matching approach.

3.4.1 2SLS Analysis

Thus far, the results show a positive and significant association between political connections and stock returns around the share repurchase announcement period and in the long-term. However, unknown and omitted variables may drive these findings. Specifically, it is plausible that certain unobserved determinants of employing politicians might also increase repurchasing firms' stock returns. This research re-examines the impact of political connections on share repurchase performance using two-stage least squares regressions to mitigate this factor.

The distance (in kilometers) between Washington, D.C. and corporate headquarter is used as the instrumental variable for political connection, following Houston et al. (2014) and Kim and Zhang (2016). It is unclear whether the distance between the corporate headquarter and Washington, DC, affects firms repurchasing firms' stock performance. However, Houston et

al. (2014) and Kim and Zhang (2016) find that the distance (in kilometers) from corporate headquarters to Washington, DC is a useful instrument for the presence of politicians on corporate boards. Since politicians are likely to remain in Washington, DC, where they might have established political networks (Houston et al., 2014), therefore, it is anticipated that firms whose corporate headquarter are closer to Washington, DC, are more likely to attract politicians to their board compared with those that are far away from Washington, DC. The principal regression is:

$$Prob(PoliticalConnections_i) = \alpha 0 + \alpha 1 Distance_i + \alpha 2 firmCharacteristics_{-1} + Year_t + Industry + \varepsilon i \quad \ldots\ldots (4)$$

where Political Connectionsi dummy, the dependent variables in the regressions, equals one if an issuer i has a former politician on its board. Distance, the key explanatory variables, is the natural log of one plus the distance from corporate headquarters to Washington, D.C. Firm characteristics are the full set of the control variables.

Table 3.5 reports the results for both the first stage and second stage regression. In column (1), (3), (5), and (7), this study runs a probit model for political connections on the instrumental and control variables. Consistent with Houston et al. (2014), the results show that the coefficient on the instrument (DISTANCE) for political connections is negative and statistically significant at the 1% levels, suggesting that the distance between firms headquarter and Washington, DC, is a good predictor for political connections.

In column (2), (4), (6), and (8), the first-stage fitted values are included for political connections in the second stage regressions. The results in column (2) through (5) show that the instrumented value of political connection is positive and statistically significant at the conventional levels. These results support the earlier evidence that there is a positive and significant association between political connections and stock returns around the share repurchase announcement period and in the long-term.

[Please Insert Table 3.5 About Here]

Furthermore, this chapter assesses whether the possible endogeneity associated with political connections affected the baseline results by performing the Durbin-Wu-Hausman test. The Durbin-Wu-Hausman test is based on the premise that in the absence of endogeneity, the ordinary least square (O.L.S.) regression is more efficient than the two-stage least squares (2SLS) regressions (Antia, Pantzalis and Park, 2010). However, political connections must be treated as endogenous if the null hypothesis is rejected. Coccorese and Ferri (2020) pointed out that the null hypothesis is not rejected at the 5% level. The Durbin-Wu-Hausman test results in table 3.5 show insignificant values in chi-squared. This indicates that this study is not subject to endogeneity, justifying the O.L.S. estimator's use in the primary analysis.

3.4.2 Propensity Score Matching Approach.

In addition to the instrumental variable approach, the second step to adjust for possible endogeneity issues is to control for the observable differences in the characteristics between politically connected and non-connected repurchasing firms. This is important given that it is plausible that politically connected repurchasing firms might have better performance ability than their non-connected counterparts, thereby creating a possible endogeneity problem that might result from sample selection bias. This study employs the propensity score matching approach to eliminate potential sample selection bias. Rosenbaum and Rubin (1983) posit that the propensity score matching approach can effectively eliminate sample selection bias because it deals with distributing the covariates between a control group and treatment group and, finally, creating matched balanced samples with characteristics similar to those of the treatment group.

The matching candidates are required to be traded at least three years following the share repurchase announcement date so that the effect of the share repurchase initiative on the long-

term stockholder's wealth can be determined. Besides, this makes the sample relatively stable over time. Applying these criteria yields a sample of 3764 repurchasing firms. Following Schweizer, Walker, and Zhang (2019), this chapter estimates propensity scores using the probit model. The dependent variable is a dummy variable for political connection, and the independent variable includes all the firm characteristics included in the primary analysis since they might capture a firm's propensity to be politically connected (e.g., Faccio, 2006; Faccio, 2010; Boubakri et al., 2012; Houston et al., 2014). The study matched firms using a one-to-one nearest neighbor technique. Both the treatment and the control firms are from the same (two-SIC) industry, and both firms have announced a share repurchase in the same year (660 politically connected repurchasing firms and 660 non-connected repurchasing firms).

Panel A of Table 3.6 reports parameter estimates for the probit model used in calculating the propensity score. Column 1 shows that politically connected and non-connected repurchasing firms' firm characteristics are statistically different before implementing the propensity score matching. Whereas column 2 shows that the sample is well balanced after implementing the propensity score matching. Specifically, politically connected firms' firm characteristics are not statistically different from those of non-connected repurchasing firms after matching.

[Please Insert Table 3.6 About Here]

This study used the matched balanced sample to examine the effect of political connections on the repurchasing firms' stock performance. For brevity, this chapter documents only the coefficients of interest in panel B. Column (1) through (4) show that political connections are positively associated with repurchasing firm's stock performance both in the long-term and around share repurchase announcement period, and the effect is statistically significant at the

1% levels. This finding reinforces the earlier findings that political connection is positively associated with the repurchasing firms' stock performance.

3.5 Additional robustness check

So far, the results suggest that politically connected firms are more likely to generate higher stock returns around the share repurchase announcement period and in the long-term. However, the results raise three essential questions.

First, can firm fixed effects account for the results? It is plausible that most firms that attract politicians to their board are extraordinary repurchasers that performances better irrespective of their size and cash levels. Therefore, one might argue that firm-specific heterogeneity in share repurchase returns is driving the results. To lessen this concern, the study further probes the effect of political connections on share repurchase performance by including firm fixed effects in panel A of Table 3.7. Besides, addressing this concern is essential since there are multiple observations for some firms. Even after including firm fixed effects in column (1) through (8), the coefficient on the political connection's variable remains positive and statistically significant at the conventional levels.

[Please Insert Table 3.7 About Here]

Secondly, do economic downturns drive the results? Table 3.2 suggests that politically connected firms initiated fewer share buybacks than non-connected firms in the year 2008. One might argue that the declining stock price during the 2008 global financial crisis might have motivated non-connected firms to initiate more share buybacks than politically connected, and as such, underperformed. To sort out this concern, this chapter excludes observations in the 2008 financial crisis. Panel B of Table 3.7 shows that the effect of political connections on stock returns around the share repurchase announcement period and in the long-run remains positive and statistically significant. These results suggest that economic downturns do not drive the findings.

Finally, can an information asymmetry explain the effect of political connections on share repurchase performance? Extant studies suggest that the information asymmetry between managers and investors positively affects stock returns around the share repurchase announcement period and in the long-term (e.g., Barth and Kasznik, 1999; Billett and Yu, 2016). Thus, these scholars argue that managers with superior information about their company have more prospects of identifying whether their future performance will be better than market expectations and, therefore, might have more opportunity to repurchase undervalued stocks. Given that political connection exacerbates the information asymmetry between managers and investors (e.g., Chen et al., 2010; Chaney et al., 2011), it is plausible that politically connected firms might have a higher prospect to repurchase undervalued stock compared with non-connected boards. Resulting in higher stock returns following the share repurchase announcement.

To test whether information asymmetry explains the impact of political connections on share repurchase returns, this study controls information asymmetry in the main analysis. Consistent with prior studies (e.g., Kim, Li, Pan and Zuo 2013; Huang and Thakor, 2013), this chapter uses a firm's idiosyncratic volatility of stock returns as a proxy for information asymmetry. It is defined as the standard deviation of daily stock return during the trading period (−90, −11) before the share repurchase announcement date.

In undocumented results, the study re-examines the relationship between political connections and share repurchase performance while controlling for information asymmetry, and again the coefficients on the political connections indicator remain positive and statistically significant at the conventional levels. However, the information asymmetry indicator coefficient is positive and statistically significant, suggesting that firms with higher information asymmetry gained more stock returns around the share repurchase announcement period and in the long run. This chapter further repeats the analysis while including the interaction P.C. x

AsymInfo, as well as the information asymmetry indicator (AsymInfo). The results show that the coefficients on the interaction terms are positive but statistically insignificant. These results suggest that information asymmetry does not explain the impact of political connections and share repurchase stock returns.

3.6 Additional analysis

3.6.1 Political Connections and Operating Performance

In this section, this study examines the operating performance of politically connected and non-connected firms following the share repurchase announcement year. Extant literature (e.g., Sapienza, 2004; Claessens, Feijen, and Laeven, 2008; Boubakri et al., 2012; Houston et al., 2014) suggest that politically connected firms have a financial advantage compared with non-connected firms. Therefore, this chapter anticipates that politically connected firms can finance future investments following a share repurchase program. Therefore, they might remain competitive and generate higher operating returns following share repurchase compared with non-connected firms.

The study computes operating performance following share repurchase announcement year, as operating income before depreciation (EBITDA) scaled by total assets using the matched balanced sample; this ensures that the results are not driven by the observable differences between politically connected and non-connected firms. Grullon and Michaely (2004) document that the main advantage of using operating income before depreciation (EBITDA) instead of income before extraordinary items is that this measure is not affected by changes in the capital structure. The study computes the abnormal operating performance as the repurchasing firm-specific ROA for one year, two years, or three years following share repurchase announcement year minus it's ROA in the year before the share repurchase announcement year. This chapter further used cash-adjusted total assets to scale operating income before depreciation following Grullon and Michaely (2004) and Lie (2005). The cash-

adjusted total assets are equal to total assets, minus cash and short-term investments. Lie (2005) suggested removing cash and short-term investments from total assets lessen concerns that scaled operating performance increases only because cash was removed from the asset base to finance share repurchases.

Table 3.8 presents the O.L.S. regression analysis of abnormal operating performance changes over three years, following the share repurchase announcement year. The explanatory variable is an indicator of whether the repurchasing firm is politically connected (1) or zero (0) otherwise. This study also includes firm characteristics and further controlled for industry and year fixed effects. Panel A presents both the changes on return on assets and the return on cash-adjusted assets for the three years following the share repurchase announcement year. The dependent variable in column (1) through (3) is the changes in the return on assets. The coefficient on the political connections' indicator is positive and statistically significant at the 1% levels, indicating that politically connected firms generated higher operating performance in the three-years following share repurchase announcement year, compared with non-connected firms. In column (4) through (6), the dependent variable is the changes in the return on cash-adjusted assets. The results show that the political connection indicator's coefficient remains positive and statistically significant at the 1% levels in the three years following the share repurchase announcement month.

[Please Insert Table 3.8 About Here]

However, in column (7) through (9), the study re-examines the return on assets (ROA) for the 1, 2, and 3 years following share repurchase announcement year while excluding prior returns on assets. This lessens the concern that non-connected repurchasing firms underperformed connected firms simply because they had higher operating performance in the year before the share repurchase announcement year. Again, the findings (column (7) through

(9)) suggests that the coefficient on the political connections' indicator remains positive and statistically significant at the conventional levels.

This chapter repeats the analysis in table 3.8 using industry-adjusted operating performance as the dependent variable in an undocumented result. Operating performance is industry adjusted by deducting all the corresponding firms' median performance in the same (two SIC) industry group that announced share repurchase in the same year. The results indicate that the coefficient on the political connections' indicator is positive and statistically significant at the conventional levels in the three years following the share repurchase announcement year. Overall, this section suggests that politically connected firms generated a superior operating performance in the one, two, and three years following share repurchase announcement year, compared with their non-connected counterparts.

3.6.2 Political Connections and Share Repurchase Decisions

This chapter also examines the impact of political connections on the probability of USA companies repurchasing shares and the value of shares repurchased. Repurchasing shares decreases corporate liquidity and exacerbates financial constraints (Chen and Wang, 2012). Therefore, if politically connected firms have preferential and cheaper access to capital, the study anticipates that politically connected firms might be less concerned about reducing liquidity compared with non-connected firms. Moreover, the study predicts that the probability of repurchasing shares and the value of shares repurchased might be higher for politically connected firms than non-connected firms.

This chapter tests the prediction by running a panel regression on the determinants of share repurchase decisions in which the main variable of interest is a politically connected board dummy that takes the value one (1) if at least one of the firms' board member holds or formerly held any of the following positions described in section (2.1), and zero (0) otherwise.

Table 3.9 presents the baseline regression on whether politically connected boards are more likely to repurchase shares compared with non-connected boards. In columns (1) and (2) the study runs probit regressions in which the dependent variable is a dummy variable that equals one (1) if a firm repurchase share in a given year, and zero (0) otherwise. Controlling a set of variables used in the share repurchase analysis (e.g., Dittmar 2000; Huang and Thakor, 2013; Custódio and Metzger 2014), such as firm age (Ln(Age)), capital expenditure (Capex), operating performance (ROA), cash Holding (Cash), total debt to assets ratio (Leverage), total assets (Ln(Size)), cash dividend (Dividend), market-to-book ratio (M.B.), recent stock returns (RET), intangible assets (Tangible), and sales growth (S-Growth). These variables measure factors that affect share repurchase programs, such as firm size, life cycle, managerial motives for excess capital, dividend substitution, and undervaluation. The study also controls for time variation and unobserved systematic differences by including year and industry fixed effects. The results show that the coefficient on the political connections' variable is positive and statistically significantshowalue<0.01), suggesting that politically connected boards are more likely to repurchase shares than non-connected boards. A company's propensity to repurchasing shares is 47 percentage points higher when a politician is a board member.

Consistent with the share repurchase literature (e.g., Bhattacharya and Jacobsen, 2015; Dittmar, 2000; Huang and Thakor, 2013; Custódio and Metzger 2014), the estimated coefficients on the other control variables generally display the predicted signs. For example, both regressions show that firm size, operating performance, and cash holdings are positively associated with the probability of repurchasing shares. In contrast, capital expenditure, leverage, prior stock returns, higher market-to-book value, and dividend payment decreases the propensity of a firm repurchasing shares.

[Please Insert Table 3.9 About Here]

Column 2 and 3 of Table 3.9 presents results on whether there is a relationship between political connections and shares repurchased value. The study runs an ordinary least square (O.L.S.) and firm fixed effects regressions in which the dependent variable is the value of shares repurchased by a firm in a given year scaled by the book value of assets (see, e.g., Huang and Thakor, 2013). This chapter includes industry and year fixed effects in column (2) and further control for firm fixed effects in column (3). The coefficient on the political connections dummy remained positive and statistically significant at the conventional levels

In column (4) and (5), this research re-examines the association between political connections and shares repurchased value. The study runs ordinary least square (O.L.S.) and firm fixed effects regressions in which the dependent variable is the natural log of one plus the value of shares repurchased by a firm in a given year. Moreover, further control for time variation and unobserved systematic differences, including the year and industry fixed effects, also adjusted for within-firm correlation and heteroskedasticity using clustered standard errors. Column (4) and (5), without and with firm fixed effects respectively, show that there is a positive and significant relationship between political connections and the value of shares repurchased, lending support to the findings in column (2) and (3) that political connections are positively associated with the value of shares repurchased.

For robustness reasons, this study re-estimates the association between political connections and share repurchases using the distance from corporate headquarters to Washington DC as an instrument for political connectedness. Column (6) through (8) shows that the instrumented value of political connections is positive and statistically significant at the conventional levels. This suggests that an omitted variable does not drive the impact of political connections on the likelihood of a company repurchasing shares and the value of shares repurchased. Overall, the section concludes that political connections are positively associated with the likelihood of a company repurchasing shares and the value of shares

repurchased. The effect persists after controlling for other determinants of share repurchase, fixed effects, and adjusting for potential endogeneity issues

3.6.3 Further Sensitivity Tests

This chapter conducted additional sensitivity tests: (1) measuring political connections as a ratio of directors with a political background to the total number of board directors (see, e.g., Chizema et al., 2015); (2) using daily returns from the announcement date to compute the average annual buy-and-hold returns. The study defines each year as a uniform block of 252 trading days following Chen and Wang (2012); (3) using (-3, +3) and (-5, +5) windows as an alternative share repurchase announcement period return windows; (4) this chapter examines whether regulatory concerns account for the differential performance between politically connected and non-connected firms around share repurchase announcement period and in the long-term by excluding firms from the regulated industries (SIC code 6000–6999 and 4900–4999). None of these sensitivity tests changes the results.

3.7 Conclusion

This chapter finds that political connections have a persistent effect on share repurchase performance in the USA. Using share repurchase programs initiated by Standard and Poor's (S&P) 1,500 firms over 2006-2017, the results show that the market responds more favorably to the share repurchase announcements by politically connected boards compared with non-connected boards. Further analysis shows that politically connected firms generated higher abnormal stock and operating returns in the long-term, following the share repurchase announcement period, suggesting that politically connected boards do not repurchase shares at the detriment of their first-choice investment, as a result, remain competitive compared with non-connected firms.

This research further provides evidence that a company's probability of repurchasing shares and the amount spent are higher when former politicians are board members. This result

continues to hold in a two-stage regression, controlling for other determinants of the share repurchase and firm, industry, and year fixed effects. These results suggest that political connections are an essential determinant of a company's likelihood of repurchasing shares and the value of shares repurchased.

Appendix B Variable definitions

POLITICAL CONNECTIONS	Equals (1) if at least one board member holds or formerly held any of the following positions: President, presidential (Vice-Presidential) candidate, member of the House of Representatives, Senator, Cabinet secretary/deputy secretary/undersecretary or assistant secretary, Governor, United Nations representative, Ambassador, Mayor, staff member to the White House, presidential campaign or political party, appointed member of a presidential committee or council and Director/Deputy Director/Commissioner to a federal department or agency including: Central Intelligence Agency (CIA), Federal Emergency Management Agency (FEMA), Office of Management and Budget (OMB), Internal Revenue Service (IRS), Nuclear Regulatory Commission (NRC), Social Security Administration (SSA), Civil Rights Centre (CRC), Food and Drug Administration (FDA), and Securities and Exchange Commission (SEC) etc. otherwise (0).
LN(SIZE)	Firm size proxied by the natural logarithm of total assets in year t-1
LEVERAGE	Ratio of total debt to book value of assets in year t-1
LN(AGE)	The natural logarithm of firm age
CASH	Cash and short-term investments scaled by book value of total assets in year t-1
RET	RET is the prior twelve-month buy-and-hold abnormal return, adjusted by that of the USA value-weighted market index return (TOTMKUS)(RI) provided by DataStream.
DIVIDEND	the ratio of cash dividends paid to net income in year t-1
MB	market value of equity plus debt to the book value of assets in year t-1
CAPEX	Ratio of capital expenditures to the book value of total assets in year t-1
TANGIBLE	Ratio of plant, property, and equipment to total assets in year t-1
S-GROWTH	The difference in current and lagged value of sales divided by lagged value of sale
ROA	Ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to book value of total assets in year t-1
DISTANCE	The natural logarithm of one plus the distance (in kilometers) from a firm's headquarter to Washington D.C.

Table 3.1: Summary Statistic

Table 3.1 provides summary statistics of the firm characteristics between politically connected and non-connected boards in the sample. Panel A presents an unbalanced panel of 1,595 firms (15,801 firm years) that were in S&P 1500 firms (S&P 500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. Panel B shows summary characteristics of S&P 1500 firms that announced share repurchases at any time between 2006 and 2017. Continuous variables are winsorized at the 1% and 99% levels. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% two-tailed level, respectively.

Panel A: All Firms									
	N	Mean	p50	p75	Std. Dev.	Politically Connected Boards (1)	Non-Connected Boards (2)	Diff. (Col. 1 – Col. 2)	P-value
LN(AGE)	15,801	2.898	2.995	3.526	0.736	3.017	2.879	0.138***	0.000
CAPEX	15801	0.049	0.034	0.065	0.047	0.044	0.051	-0.006***	0.000
ROA	15801	0.128	0.122	0.180	0.098	0.150	0.125	0.025***	0.000
CASH	15801	0.150	0.091	0.217	0.159	0.138	0.153	-0.014***	0.000
LEVERAGE	15801	0.250	0.233	0.370	0.198	0.261	0.248	0.013***	0.002
LN(SIZE)	15801	14.700	14.620	15.770	1.649	15.891	14.507	1.384***	0.000
DIVIDEND	15801	0.218	0.082	0.394	0.375	0.234	0.216	0.017**	0.023
MB	15801	0.250	0.234	0.371	0.196	0.262	0.249	0.013***	0.001
RET	15801	0.041	0.005	0.196	0.320	0.058	0.039	0.019***	0.004
TANGIBLE	15801	0.295	0.197	0.451	0.267	0.273	0.299	-0.026***	0.000
S-GROWTH	15801	0.082	0.062	0.151	0.195	0.066	0.085	-0.019***	0.000
Panel B: Repurchase announcements sample									
LN(AGE)	5036	2.921	3.044	3.526	0.699	2.969	2.906	0.063**	0.006
CAPEX	5036	0.043	0.031	0.057	0.039	0.039	0.044	-0.005***	0.000
ROA	5036	0.158	0.147	0.205	0.087	0.168	0.155	0.013***	0.000
CASH	5036	0.168	0.115	0.245	0.156	0.150	0.173	-0.023***	0.000
LEVERAGE	5036	0.224	0.202	0.333	0.189	0.238	0.219	0.019***	0.001
LN(SIZE)	5036	15.032	14.945	16.048	1.595	15.971	14.734	1.237***	0.000
DIVIDEND	5036	0.197	0.107	0.315	0.275	0.223	0.188	0.035***	0.000
MB	5036	0.224	0.203	0.334	0.187	0.239	0.220	0.019***	0.001
RET	5036	0.065	0.026	0.212	0.285	0.076	0.062	0.014	0.115

TANGIBLE	5036	0.238	0.158	0.338	0.224	0.230	0.241	-0.011	0.121
S-GROWTH	5036	0.070	0.058	0.127	0.143	0.058	0.073	-0.015***	0.001

Table 3.2: Time-Series Distribution of Repurchase announcements sample

Table 3.2 presents the time-series distribution of repurchase announcements sample between politically connected and non-connected firms that were in S&P 1500 firms (S&P 500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017.

Panel A: Time-Series Distribution of Repurchase announcements sample			
Year	PC	NPC	Observation
2006	83	323	406
2007	125	385	510
2008	67	314	381
2009	31	139	170
2010	80	286	366
2011	130	371	501
2012	111	325	436
2013	139	328	467
2014	163	386	549
2015	140	411	551
2016	76	278	354
2017	68	277	345
Total	1213	3823	5036

Table 3.3: Political Connections and Short-term Stock Returns

Panel A reports the Univariate analysis of the association between political connections and share repurchase announcement stock returns. The sample includes firms that were in S&P 1500 firms (S&P 500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. Panel B presents the multivariate analysis of share repurchase announcement stock returns. The dependent variable in column (1) and (2) is the three-day (-1, +1) BHAR and the dependent variable in column (3) and (4) is the five-day (-2, +2) BHAR around share repurchase announcement period. BHAR is calculated over the value-weighted market index. Year and industry controls are used. Continuous variables are winsorized at the 1% and 99% levels. The *t*-statistics reported in parentheses are based on standard errors, clustered by firm. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Panel A: Univariate Analysis

	All	Politically Connected Firms	Non-Connected Firms	Diff. (Col. 2 – Col. 3)	P-value
	(1)	(2)	(3)		
(-1, +1)	0.011***	0.014***	0.010***	0.004**	0.014
	(17.36)	(11.94)	(13.54)		
	5036	1213	3823		
(-2, +2)	0.012***	0.015***	0.011***	0.004**	0.008
	(15.57)	(11.21)	(11.93)		
	5036	1213	3823		

Panel B: Multivariate Analysis

	(-1, +1)		(-2, +2)	
	(1)	(2)	(3)	(4)
INTERCEPT	0.013**	0.048***	0.007	0.046***
	(1.97)	(4.29)	(1.00)	(3.74)
PC	0.004**	0.007***	0.005**	0.008***
	(2.06)	(3.42)	(2.31)	(3.76)
LN(AGE)		0.001		0.002
		(1.08)		(1.24)
LN(SIZE)		-0.002***		-0.003***
		(-4.41)		(-4.60)
CAPEX		-0.049*		-0.058*
		(-1.87)		(-1.85)
ROA		-0.003		-0.001
		(-0.33)		(-0.08)
CASH		0.011*		0.013*
		(1.73)		(1.76)
LEVERAGE		-0.001		-0.010
		(-0.10)		(-0.82)
DIVIDEND		-0.006**		-0.008**
		(-2.17)		(-2.58)
MB		0.003		0.012
		(0.31)		(0.96)
RET		-0.004		-0.004
		(-1.32)		(-1.34)

TANGIBLE		0.006		0.009
		(1.38)		(1.81)
S-GROWTH		0.009*		0.006
		(1.71)		(0.98)
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES
N	5,036	5,036	5,036	5,036
R-Squared	0.010	0.020	0.011	0.021

Table 3.4: Political Connections and Long-term Stock Returns

Panel A reports the Univariate analysis of the association between political connections and long-term stock returns following share repurchase announcement. The sample includes firms that were in S&P 1500 firms (S&P500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. Panel B presents the multivariate analysis of the association between political connections and long-term stock returns following share repurchase announcement. The dependent variable in column (1) is the 12-month BHAR following share repurchase announcement month. In column (2), the 24-month BHAR is the dependent variable. The dependent variable in column (3) is the 36-month BHAR following share repurchase announcement month. BHAR is calculated over the value-weighted market index. Year and industry controls are used. Continuous variables are winsorized at the 1% and 99% levels. The *t*-statistics reported in parentheses are based on standard errors, clustered by firm. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Panel A: Univariate Analysis					
	All	Politically Connected Firms	Non-Connected Firms	Diff. (Col. 2 – Col. 3)	P-value
	(1)	(2)	(3)		
BHAR(12 month)	0.033***	0.045***	0.029***	0.016*	0.074
	(8.17)	(6.06)	(6.12)		
	5036	1213	3823		
BHAR(24 month)	0.045***	0.079***	0.033***	0.046***	0.001
	(6.80)	(6.54)	(4.29)		
	4691	1145	3546		
BHAR(36 month)	0.069***	0.121***	0.051***	0.07***	0.001
	(7.09)	(6.66)	(4.53)		
	4334	1069	3265		

Panel B: Multivariate Analysis			
	BHAR(12-Month) (1)	BHAR(24-Month) (2)	BHAR(36-Month) (3)
INTERCEPT	0.428***	0.466***	0.765***
	(5.68)	(3.68)	(3.66)
PC	0.052***	0.110***	0.177***
	(4.61)	(5.00)	(4.84)
LN(AGE)	-0.001	0.003	-0.006
	(-0.12)	(0.18)	(-0.28)
LN(SIZE)	-0.019***	-0.028***	-0.048***
	(-5.82)	(-4.21)	(-4.22)
CAPEX	-0.209	-0.228	-0.618
	(-1.14)	(-0.71)	(-1.35)
ROA	-0.121*	-0.115	-0.189
	(-1.89)	(-1.06)	(-1.11)
CASH	0.017	0.106	0.229*
	(0.44)	(1.34)	(1.79)
LEVERAGE	-0.024	-0.041	1.496
	(-0.59)	(-0.12)	(1.25)
DIVIDEND	-0.047***	-0.097***	-0.110**
	(-2.92)	(-2.95)	(-2.07)

MB	0.010	0.052	-1.427
	(0.23)	(0.15)	(-1.19)
RET	-0.000	0.028	0.002
	(-0.01)	(0.89)	(0.05)
TANGIBLE	0.009	0.025	0.099
	(0.29)	(0.45)	(1.15)
S-GROWTH	0.176***	0.177**	0.192**
	(4.55)	(2.76)	(1.96)
Industry FE	YES	YES	YES
Year FE	YES	YES	YES
Cluster by Firm	YES	YES	YES
N	5,036	4,691	4,334
R-Squared	0.052	0.062	0.078

Table 3.5: Political Connections and Stock Returns: Instrumental Variable Approach.

This table reports the 2-SLS IV regression regression results on the association between political connections and repurchasing firms stock returns using the distance (KM) between corporate headquarters and Washington, DC as an instrument for political connections. The sample includes firms that were in S&P 1500 firms (S&P 500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. Column (1), (3), (5), and (7) present the first-stage probit regression. Whereas column (2), (4), (6), and (8) present the second stage regression results. BHAR is calculated over the value-weighted market index. Year and industry controls are used. Continuous variables are winsorized at the 1% and 99% levels. The t and z-statistics reported in parentheses are based on standard errors, clustered by firm. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	Political Connections (Ist Stage)	BHAR(-2, +2) (2SLS)	Political Connections (Ist Stage)	BHAR(12-Month) (2SLS)	Political Connections (Ist Stage)	BHAR(24-Month) (2SLS)	Political Connections (Ist Stage)	BHAR(36-Month) (2SLS)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
INTERCEPT	-0.661***	0.054***	-0.661***	0.337***	-0.682***	0.424***	-0.668***	0.716***
	(-3.57)	(3.66)	(-3.57)	(4.53)	(-3.62)	(2.91)	(-3.49)	(3.03)
Distance	-0.062***		-0.062***		-0.062***		-0.062***	
	(-5.67)		(-5.67)		(-5.69)		(-5.58)	
PC		0.020**		0.088*		0.183**		0.308**
		(2.08)		(1.75)		(1.98)		(2.00)
LN(AGE)	-0.019	0.002	-0.019	-0.000	-0.021	0.005	-0.025	-0.002
	(-0.96)	(1.42)	(-0.96)	(0.01)	(-1.03)	(0.32)	(-1.17)	(-0.08)
LN(SIZE)	0.097***	-0.004***	0.097***	-0.023***	0.099***	-0.036***	0.100***	-0.061***
	(9.45)	(-3.57)	(9.45)	(-4.02)	(9.52)	(-3.11)	(9.29)	(-3.23)
CAPEX	-0.768**	-0.049	-0.768**	-0.182	-0.746*	-0.176	-0.691*	-0.533
	(-2.05)	(-1.50)	(-2.05)	(-0.97)	(-1.93)	(-0.55)	(-1.79)	(-1.17)
ROA	0.629***	-0.009	0.629***	-0.145**	0.616***	-0.164	0.587***	-0.273
	(4.38)	(-0.76)	(4.38)	(-2.09)	(4.19)	(-1.38)	(3.91)	(-1.54)
CASH	0.044	0.013*	0.044	0.017	0.049	0.106	0.039	0.229*
	(0.45)	(1.75)	(0.45)	(0.45)	(0.48)	(1.35)	(0.38)	(1.80)
LEVERAGE	-0.272	-0.006	-0.272	-0.010	-0.287	-0.013	-0.278	1.546
	(-1.48)	(-0.39)	(-1.48)	(-0.23)	(-1.52)	(-0.04)	(-1.48)	(1.32)
DIVIDEND	-0.029	-0.007**	-0.029	-0.046***	-0.033	-0.095***	-0.039	-0.105**
	(-0.74)	(-2.45)	(-0.74)	(-2.85)	(-0.82)	(-2.88)	(-0.94)	(-1.98)
MB	0.128	0.009	0.128	0.000	0.146	0.031	0.138	-1.464
	(0.65)	0.60	(0.65)	(0.01)	(0.71)	(0.09)	(0.68)	(-1.24)
RET	0.035	-0.004	0.035	-0.002	0.034	0.025	0.030	-0.002
	(1.56)	(-1.49)	(1.56)	(-0.09)	(1.44)	(0.80)	(1.24)	(-0.05)
TANGIBLE	-0.008	0.010*	-0.008	0.011	-0.016	0.029	-0.037	0.109
	(-0.10)	(1.87)	(-0.10)	(0.34)	(-0.19)	(0.52)	(-0.45)	(1.25)
S-GROWTH	-0.019	0.006	-0.019	0.177***	-0.006	0.179***	-0.021	0.197**
	(-0.36)	(1.03)	(-0.36)	(4.58)	(-0.11)	(2.77)	(-0.36)	(2.01)

Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES	YES	YES	YES
DWH test		2.430		0.786		1.231		1.885
		(0.119)		(0.375)		(0.267)		(0.169)
N	5036	5036	5,036	5,036	4,691	4,691	4334	4334
R-Squared	0.199	0.012	0.199	0.049	0.202	0.058	0.201	0.071
F		32.133		32.133		32.453		31.146
[Prob. > F]		0.000		0.000		0.000		0.000

Table 3.6: Political Connections and Stock Returns: Propensity Score Matching Approach.

This table reports the OLS regression results on the association between political connections and repurchasing firms stock performance, using the propensity score matching method. The sample includes firms that were in S&P 1500 firms (S&P 500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. The candidates for the propensity score matching were matched using the nearest neighbor propensity score matching approach. We use Probit model to calculate propensity scores and include a dummy variable for political connection as the dependent variable. We match firms using a one-to-one nearest neighbor technique and require that both the treatment and the control firms must be in the same (two-SIC) industry and both firms announced share repurchase in the same year. Panel A reports parameter estimates for the probit model used in calculating the propensity score. The "Pre-Match" column reports the estimates of the probit model estimated using the sample before matching. We then used the estimates to generate the propensity scores for matching politically connected and non-connected firms. The "Post-Match" column reports the estimates of the probit model estimated using the matched balanced. Panel B reports the OLS regression results on the association between political connections and repurchasing firms stock performance, using the propensity score matched sample. Variable definitions are in Appendix A. Continuous variables are winsorized at the 1% and 99% levels. The *t*-statistics reported in parentheses are based on standard errors, clustered by firm. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Panel A.		
	Pre-match	Post-match
INTERCEPT	-5.628***	-0.243
	(-8.00)	(-0.27)
LN(AGE)	-0.145*	-0.035
	(-1.75)	(-0.33)
LN(SIZE)	0.373***	0.038
	(8.35)	(0.69)
LEVERAGE	-49.135*	-1.438
	(-1.77)	(-0.04)
CAPEX	-2.896	1.094
	(-1.55)	(0.40
ROA	2.452***	-0.941
	(3.94)	(-0.97)
CASH	-0.286	-0.283
	(-0.66)	(-0.53)
DIVIDEND	-0.161	0.121
	(-0.91)	(0.51)
RET	0.184*	0.075
	(1.68)	(0.47)
TANGIBLE	-0.291	0.066
	(-0.78)	(0.14)
S-GROWTH	-0.214	0.374
	(-0.84)	(1.00)
MB	48.999*	0.799

		(1.76)	(0.02)	
Industry FE		YES	YES	
Year FE		YES	YES	
Cluster by Firm		YES	YES	
N		3,764	1,320	
Pseudo-R2		0.158	0.009	
P-value of $\chi 2$		< 0.001	1.000	
Panel B: Short and Long-Term Stock Returns				
	BHAR(-2, +2)	BHAR(12-month)	BHAR(24-month)	BHAR(36-month)
	(1)	(2)	(3)	(4)
PC	0.012***	0.068***	0.138***	0.229***
	(3.72)	(4.59)	(5.22)	(5.54)
INTERCEPT	0.076***	0.205	0.395*	0.498
	(3.26)	(1.44)	(1.68)	(1.44)
Firm Controls	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES
N	1,320	1,320	1,320	1,320
R-Squared	0.049	0.076	0.094	0.126

Table 3.7: Robustness checks on the effect of political connections on post-buyback stock performance.

This table reports different robustness checks on the effect of political connections on post-buyback stock performance. Panel A reports the multivariate analysis of the association between political connections and repurchasing firms stock returns controlling for firm fixed effects. The sample includes firms that were in S&P 1500 firms (S&P500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. The dependent variable in column (1) and (2) is the five-day (-2, +2) BHAR around share repurchase announcement period. The dependent variable in column (3) and (4) is the 12-month BHAR following share repurchase announcement month. In column (5) and (6), the 24-month BHAR is the dependent variable. The dependent variable in column (7) and (8) is the 36-month BHAR following share repurchase announcement month. BHAR is calculated over the value-weighted market index. Panel B reports the multivariate analysis of the association between political connections and repurchasing firms stock returns excluding firms from the regulated industries. The sample includes firms that were in S&P 1500 firms (S&P500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. The dependent variable in column (1) is the five-day (-2, +2) BHAR around share repurchase announcement period. The dependent variable in column (2) is the 12-month BHAR following share repurchase announcement month. In column (3), the 24-month BHAR is the dependent variable. The dependent variable in column (4) is the 36-month BHAR following share repurchase announcement month. BHAR is calculated over the value-weighted market index. For all regressions, Year and industry controls are used. Continuous variables are winsorized at the 1% and 99% levels. The *t*-statistics reported in parentheses are based on standard errors, clustered by firm. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

Panel A: controlling for firm fixed effects								
	BHAR(-2, +2)		BHAR(12-Month)		BHAR(24-Month)		BHAR(36-Month)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
INTERCEPT	0.009**	0.009**	0.053**	0.059***	0.034*	0.035	-0.045*	-0.044
	(2.39)	(2.31)	(2.54)	(2.66)	(1.66)	(1.61)	(-1.68)	(-1.56)
PC	0.001*	0.001*	0.011***	0.012***	0.021***	0.020***	0.029***	0.029***
	(1.87)	(1.81)	(3.60)	(3.57)	(3.66)	(3.56)	(3.59)	(3.49)
LN(AGE)	-0.008	-0.008	-0.016	-0.016	-0.002	-0.003	-0.045	-0.046
	(-1.48)	(-1.49)	(-0.39)	(-0.39)	(-0.03)	(-0.05)	(-0.46)	(-0.48)
LN(SIZE)	-0.007**	-0.007**	-0.151***	-0.151***	-0.311***	-0.312***	-0.411***	-0.413***
	(-2.05)	(-2.05)	(-7.05)	(-7.04)	(-8.31)	(-8.31)	(-7.71)	(-7.71)
CAPEX	-0.051	-0.051	-1.085***	-1.084***	-1.563***	-1.563***	-1.729***	-1.731**
	(-0.98)	(-0.98)	(-3.43)	(-3.42)	(-3.13)	(-3.12)	(-2.65)	(-2.64)
ROA	-0.022	-0.022	-0.525***	-0.525***	-0.772***	-0.774***	-1.315***	-1.319***
	(-1.20)	(-1.20)	(-4.13)	(-4.12)	(-4.24)	(-4.25)	(-4.43)	(-4.43)
CASH	0.004	0.004	-0.127	-0.127	-0.120	-0.119	0.018	0.020
	(0.27)	(0.27)	(-1.32)	(-1.32)	(-0.70)	(-0.70)	(0.08)	(0.09)
LEVERAGE	0.002	0.002	-0.019	-0.019	-0.289	-0.289	1.273	1.275
	(0.05)	(0.05)	(-0.22)	(-0.22)	(-1.25)	(-1.24)	(1.21)	(1.21)
DIVIDEND	-0.004	-0.004	0.005	0.005	0.018	0.018	0.062	0.062
	(-0.89)	(-0.89)	(0.18)	(0.18)	(0.47)	(0.46)	(1.13)	(1.11)
MB	0.011	0.011	0.141	0.141	0.598**	0.597**	-0.898	-0.900
	(0.22)	(0.22)	(1.33)	(1.33)	(2.35)	(2.34)	(-0.84)	(-0.84)

RET	-0.009**	-0.009**	-0.043**	-0.043**	-0.088***	-0.088***	-0.190***	-0.190***
	(-2.46)	(-2.46)	(-2.07)	(-2.07)	(-2.76)	(-2.75)	(-4.36)	(-4.35)
TANGIBLE	-0.013	-0.013	0.184	0.184	0.234	0.235	0.044	0.047
	(-0.55)	(-0.55)	(1.22)	(1.21)	(0.84)	(0.84)	(0.13)	(0.14)
S-GROWTH	0.010	0.009	0.066	0.067	-0.071	-0.070	-0.191*	-0.189*
	(1.31)	(1.31)	(1.42)	(1.42)	(-0.99)	(-0.97)	(-1.83)	(-1.82)
Industry FE	NO	YES	NO	YES	NO	YES	NO	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES	YES	YES	YES
N	5036	5,036	5,036	5,036	4,691	4,691	4,334	4,334
R-Squared	0.013	0.013	0.050	0.050	0.072	0.072	0.084	0.084

Panel B: Excluding financial crisis

	(1)	(2)	(3)	(4)
	(-2, +2)	BHAR(12-Month)	BHAR(24-Month)	BHAR(36-Month)
INTERCEPT	0.060***	0.456***	0.509***	0.998***
	(4.40)	(6.73)	(3.84)	(4.46)
PC	0.009***	0.057***	0.119***	0.188***
	(3.50)	(4.66)	(5.24)	(4.87)
LN(AGE)	0.002	0.001	0.005	0.001
	(1.39)	(0.13)	(0.32)	(0.03)
LN(SIZE)	-0.003***	-0.022***	-0.036***	-0.058***
	(-4.07)	(-5.95)	(-4.97)	(-4.70)
CAPEX	-0.078**	-0.288	-0.485	-1.069**
	(-2.36)	(-1.42)	(-1.37)	(-2.10)
ROA	0.005	-0.119*	-0.077	-0.163
	(0.48)	(-1.73)	(-0.67)	(-0.90)
CASH	0.013*	0.015	0.121	0.250*
	(1.68)	(0.37)	(1.51)	(1.91)
LEVERAGE	-0.013	-0.019	-0.061	1.465
	(-1.05)	(-0.49)	(-0.19)	(1.24)
DIVIDEND	-0.006*	-0.034*	-0.058	-0.069
	(-1.70)	(-1.92)	(-1.60)	(-1.16)
MB	0.014	0.033	0.127	-1.321
	(1.10)	(0.77)	(0.39)	(-1.11)
RET	-0.005	-0.001	0.038	0.021
	(-1.50)	(-0.08)	(1.18)	(0.46)
TANGIBLE	0.016**	0.055	0.123*	0.245**
	(2.49)	(1.53)	(1.84)	(2.40)
S-GROWTH	0.008	0.181***	0.185**	0.189*
	(1.27)	(4.45)	(2.68)	(1.80)
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Cluster by Firm	YES	YES	YES	YES
N	4,543	4,543	4,235	3,911
R-Squared	0.021	0.049	0.064	0.085

Table 3.8: Political Connections and Operating Performance

This table reports the OLS regression results on the association between political connections and abnormal operating performance following share repurchase announcement year, using the matched balanced sample. The sample includes firms that were in S&P 1500 firms (S&P 500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. Column (1) through (3) presents the return on assets (ROA) for the 1, 2, and 3 years following share repurchase announcement year. Column (4) through (6) presents the return on cash-adjusted assets for the 1, 2, and 3 years following share repurchase announcement year. In column (7) through (9) we re-examine the return on assets (ROA) for the 1, 2, and 3 years following share repurchase announcement year whilst excluding prior returns on assets. The abnormal operating performance is the repurchasing firm-specific ROA (ROCAA) for one year, two years or three years following share repurchase announcement minus it's ROA (ROCAA) in the year before share repurchase announcement. Continuous variables are winsorized at the 1% and 99% levels. The *t*-statistics reported in parentheses are based on standard errors, clustered by firm. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	Return on Assets			**Return on cash-adjusted assets**			**Return on Assets: Excluding prior operating returns.**		
	Year 1 (1)	Year 2 (2)	Year 3 (3)	Year 1 (4)	Year 2 (5)	Year 3 (6)	Year 1 (7)	Year 2 (8)	Year 3 (9)
INTERCEPT	-0.127***	-0.165***	-0.066*	-0.135**	-0.236***	-0.151**	-0.217***	-0.258***	-0.155***
	(-2.81)	(-3.49)	(-1.70)	(-1.98)	(-2.74)	(-2.44)	(-4.37)	(-5.03)	(-3.70)
PC	0.026***	0.035***	0.025***	0.022***	0.029***	0.024***	0.028***	0.037***	0.027***
	(5.37)	(6.55)	(4.81)	(2.95)	(3.29)	(2.87)	(5.63)	(6.84)	(5.11)
LN(AGE)	0.006	0.005	-0.000	0.008	0.012	0.003	0.005	0.003	-0.002
	(1.45)	(1.06)	(-0.04)	(1.45)	(1.47)	(0.51)	(1.07)	(0.72)	(-0.34)
LN(SIZE)	0.005**	0.007***	0.003	0.009**	0.014***	0.008**	0.009***	0.011***	0.007***
	(2.54)	(2.98)	(1.29)	(2.50)	(2.87)	(2.57)	(4.58)	(4.56)	(3.05)
LEVERAGE	-5.159**	-3.179	-2.099	-0.590	4.844	0.858	2.841	5.152	5.807**
	(-2.14)	(-1.33)	(-0.69)	(-0.15)	(1.59)	(0.23)	(1.00)	(1.55)	(2.25)
CAPEX	0.046	-0.228*	-0.203*	-0.057	-0.194	-0.151	-0.278***	-0.564***	-0.523***
	(0.38)	(-1.90)	(-1.78)	(-0.30)	(-0.95)	(-0.79)	(-2.81)	(-4.77)	(-4.57)
ROA	-0.354***	-0.368***	-0.349***	-0.404***	-0.439***	-0.498***			
	(-6.56)	(-7.40)	(-6.63)	(-5.61)	(-5.83)	(-6.96)			
CASH	0.049**	0.067**	0.071**	-0.136***	-0.181***	-0.122**	0.012	0.028	0.034
	(2.20)	(2.64)	(2.38)	(-3.02)	(-3.44)	(-2.48)	(0.53)	(1.08)	(1.25)
DIVIDEND	-0.003	0.020*	0.032***	-0.008	0.019	0.018	-0.011	0.013	0.024**
	(-0.26)	(1.93)	(2.70)	(-0.47)	(1.35)	(1.06)	(-0.83)	(1.12)	(2.03)
RET	0.032***	0.015	-0.002	0.053***	0.024	0.010	0.022**	0.004	-0.012
	(3.43)	(1.30)	(-0.21)	(3.05)	(1.36)	(0.72)	(2.33)	(0.34)	(-1.25)
TANGIBLE	0.013	0.035**	0.041**	0.019	0.029	0.051**	0.029	0.052***	0.056***
	(0.67)	(2.41)	(2.66)	(0.79)	(1.27)	(2.13)	(1.56)	(3.37)	(3.59)
S-GROWTH	0.029	0.043	0.025	0.052	0.066	0.012	0.036	0.051	0.033
	(0.96)	(1.41)	(1.18)	(1.18)	(1.34)	(0.41)	(1.19)	(1.63)	(1.41)
MB	5.209**	3.254	2.152	0.641	-4.774	-0.786	-2.810	-5.100	-5.775**
	(2.16)	(1.36)	(0.70)	(0.16)	(-1.56)	(-0.21)	(-0.99)	(-1.53)	(-2.24)

Industry FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES	YES
Cluster by Firm	YES	YES	YES	YES	YES	YES	YES	YES	YES
N	1320	1320	1320	1320	1320	1320	1320	1320	1320
R-Squared	0.2244	0.2721	0.2627	0.2083	0.2981	0.3196	0.1624	0.2168	0.1902

Table 3.9: Political Connections and Share Repurchase Decisions

This table reports the regression results on the association between political connections and share repurchases. In Column (1), the dependent variable is a binary variable that indicate whether a firm repurchased shares in a given year. In Column (2) and (3) the dependent variable is the value of shares repurchased in a given year scaled by book value of assets. The dependent variable in Column (4) and (5) is the natural log of one plus share repurchase value in a given year. Columns 6 through 8 are based on two-stage least squares (2SLS) regression, where the first-stage regression has the form shown in table 3.4. The sample includes companies that were in S&P 1500 firms (S&P 500, S&P Midcap 400, and S&P Small cap 600 indices) at any time between 2006 and 2017. Continuous variables are winsorized at the 1% and 99% levels. The t and z-statistics reported in parentheses are based on standard errors, clustered by firm. Variable definitions are in Appendix A. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	PROBIT (REP (1/0))	OLS (REP/ASSETS)		OLS (LN(1+REP))		2SLS	2SLS	2SLS
INTERCEPT	-5.528***	-0.029***	-0.005***	-3.707***	-0.382***	-0.339***	-0.021	-2.987***
	(-26.95)	(-3.54)	(-5.81)	(-12.04)	(-10.69)	(-4.14)	(-1.43)	(-5.36)
PC	0.473***	0.011***	0.001**	0.653***	0.045***	0.212***	0.019*	1.215**
	(11.78)	(5.72)	(2.36)	(7.72)	(3.12)	(2.78)	(1.72)	(2.47)
LN(AGE)	-0.003	-0.001	-0.002	-0.033	-0.096	-0.001	-0.001	-0.028
	(-0.12)	(-1.35)	(-0.55)	(-1.24)	(-1.10)	(-0.31)	(-1.26)	(-1.05)
LN(SIZE)	0.263***	0.002***	0.002**	0.268***	0.193***	0.026***	0.001	0.227***
	(21.47)	(4.83)	(2.36)	(13.45)	(5.21)	(4.18)	(1.28)	(5.34)
CAPEX	-1.588**	-0.017**	-0.017*	-0.643*	-0.942**	-0.075	-0.014	-0.462
	(-2.60)	(-2.03)	(-1.68)	(-1.69)	(-2.52)	(-1.06)	(-1.50)	(-1.10)
ROA	2.210***	0.049***	0.008	1.417***	0.322*	0.183***	0.046***	1.229***
	(10.54)	(7.08)	(1.24)	(7.21)	(1.71)	(4.39)	(5.49)	(4.72)
CASH	0.572***	0.022***	0.008	0.687***	0.200	0.085***	0.021***	0.645***
	(4.34)	(4.78)	(1.21)	(4.35)	(1.01)	(3.21)	(4.41)	(3.73)
LEVERAGE	-9.976	-0.019	-0.022**	-1.641***	-1.034***	-0.202***	-0.015	-1.408***
	(-1.14)	(-1.19)	(-2.35)	(-3.59)	(-4.03)	(-3.06)	(-0.92)	(-3.09)
DIVIDEND	-0.264***	-0.003***	-0.002**	-0.098**	-0.066*	-0.018**	-0.003***	-0.085*
	(-4.35)	(-3.23)	(-2.16)	(-2.34)	(-1.67)	(-2.47)	(-2.79)	(-1.87)
MB	9.924	0.023	-0.001	1.413***	0.306	0.185***	0.019	1.217**
	(1.13)	(1.54)	(-0.15)	(2.99)	(1.03)	(2.80)	(1.33)	(2.67)
RET	0.097	-0.001	0.000	0.057	0.058	0.009	-0.001	0.046
	(1.61)	(-0.69)	(0.04)	(1.54)	(1.61)	(1.39)	(-0.88)	(1.25)
TANGIBLE	-0.223**	-0.001	0.001	-0.083	-0.199	-0.011	-0.000	-0.059
	(-2.06)	(-0.30)	(0.21)	(-0.89)	(-1.03)	(-0.67)	(-0.10)	(-0.60)
S-GROWTH	-0.417***	-0.004*	-0.003	-0.214***	-0.251***	-0.037***	-0.004*	-0.218***
	(-3.67)	(-1.79)	(-1.55)	(-3.30)	(-4.12)	(-3.45)	(-1.81)	(-3.31)
Industry FE	YES	YES	NO	YES	NO	YES	YES	YES
Year FE	YES	YES	YES	YES	YES	YES	YES	YES
Firm FE	NO	NO	YES	NO	YES	NO	NO	NO

Cluster by Firm	YES	YES	YES	YES	YES	YES	YES	YES
N	15,801	15,801	15,801	15,801	15,801	15,801	15,801	15,801
Pseudo-R2 (Adj.-R2)	0.199	(0.047)	(0.018)	(0.135)	(0.039)	(0.092)	(0.042)	(0.123)

Chapter 4

Political Connections, Acquisition Riskiness, and Bidder Returns

4.1 Introduction

Academic studies reporting evidence on the association between corporate political connections and mergers and acquisitions have identified only limited evidence of their effect on the takeover process and outcomes (Croci et al., 2017). For example, Ferris et al. (2016) present evidence that politically connected acquirers pay a higher premium; they successfully acquire more target firms and generate value in the USA. Brockman et al. (2013) find that the long-term returns for politically connected acquirers are higher than those of non-connected acquirers in countries with high corruption, whereas, in countries with low corruption, they earned lower returns than the returns for non-connected acquirers. Schweizer et al. (2017) find that politically connected acquirers in China generated lower returns than non-connected acquirers and are more likely to conduct cross-border acquisitions. Croci et al. (2017) further show that the acquisition process for politically connected target firms is lengthier and that they earn a higher premium from bidders lacking political expertise. However, it is unknown whether corporate political connections induce bidder risk-taking in mergers and acquisitions and whether the risk associated with a deal is a determinant of value creation for politically connected acquirers.

This paper tackles this literature gap and examines the association between corporate political connections and corporate risk-taking and the implications for shareholder value in the takeover setting. Mergers and acquisitions are one of the essential investments undertaken by a firm (Hagendorff and Vallascas, 2011) and might increase risk and change a firm's status quo (Datta et al., 2001). Therefore, the following questions are investigated here: First, do politically connected acquirers have higher equity return volatility around the M&A announcement period than non-connected acquirers? Secondly, do politically connected and

non-connected acquirers have stock return differentials in risk-increasing deals? Third, do political connections affect the bidder's financial policy after acquisitions? Finally, do political connections affect bidder acquisition behavior?

To address these questions, the paper employs a broad sample of UK acquisitions announced and completed over the period from 2007 to 2017. First, this chapter examines the association between corporate political connection and the change in bidder total risk around the acquisition announcement period and finds a positive association. The probability is examined for politically connected acquirers to generate a positive announcement CAR when they experience an increase in their total risk around the M&A announcement period. This is important, given that under perfect capital markets, firms should choose investments so as to maximise the market of the firm (Faccio, Marchica and Mura, 2016). The result from the logit regressions shows that politically connected acquirers are more likely to generate a positive CAR when their total risk increases around the M&A announcement period. This result is consistent with the prospect theory that predicts that the bottom line for managers is to maintain their market share, which is regarded as a fixed reference point (Wood, 2009).

The study further investigates market reaction to acquisitions announcement of both politically connected and non-connected acquirers. Specifically, the study partitioned the sample based on acquirers that experienced an increase or a decrease in their total risk around the acquisition announcement period. In both univariate and multivariate analysis, the resultant findings show that politically connected acquirers generated higher CAR than non-connected acquirers in risk-increasing deals but not in risk-decreasing deals. For robustness checks, the study investigates politically connected and non-connected acquirers CAR in deals that are arguably risky, such as deals that involves: bidders that purchased unlisted targets, bidders that purchased large targets, glamour acquirers, and frequent acquirers. The results show that

politically connected acquirers generated higher CAR than non-connected acquirers in each set, and the coefficients are statistically significant.

The study further employs instrumental variables and a propensity-score matching approach to address possible endogeneity in the empirical analysis. The results are robust in both approaches. The plausible explanation for the return differentials between politically connected and non-connected acquirers in deals with higher risk is that investors might perceive corporate political connections as a means to hedge uncertainty that might result from deals with higher risk. Risky deals might result in a bidder becoming a target, being financially constrained, and bidders might require government bailout funds in extreme cases. Investors have more significant incentives to prefer deals by politically connected acquirers when both deals by politically connected and non-connected acquirers are risky. For instance, if a bidder becomes a target, a study (see, Croci et al., 2017) shows that targets with political connections are more likely to command a higher premium for the shareholders. If an acquirer becomes financially constrained or requires a government bailout fund following an acquisition, the study by Faccio et al. (2006) shows that politically connected firms are more likely to be bailed out compared with non-connected firms. Studies also suggest that politically connected acquirers have preferential access to finance (Claessens et al., 2008), cheaper cost of equity (Boubakri et al., 2012; and Guedhami et al., 2013), and greater access to bank loans (Khwaja and Mian, 2005; Chen et al., 2013; Houston et al., 2014).

Also, the analysis was undertaken of the association between corporate political connections and bidder post-acquisition financial leverage. The results show that corporate political connections are positively associated with bidder financial leverage following M&A completion. The empirical results also show that politically connected acquirers purchased more targets from the regulated industries than non-connected acquirers. These findings furthermore show that political connections induce a greater propensity for acquirers to acquire

more deals (non-diversifying deals) that are less likely to reduce bidder default risk, consistent with Acharya et al. (2011), which suggests that risk-tolerant firms are less likely to diversify. Further analysis show they also acquired more deals than non-connected acquirers, consistent with Ferris et al. (2016). This suggests that politically connected acquirers' ability to purchase more deals relative to non-connected acquirers is not peculiar to the regulations and institutions in the USA.

This study makes vital contributions to the literature on corporate risk-taking, corporate political strategies, and M&A. First, this is the first study to the authors' knowledge to examine how the market assesses the impact of political connections on M&A performance at the announcement period. The study shows that connected acquirers generated higher CAR in risk-increasing deals than non-connected acquirers, suggesting that investors perceive corporate political connections as a mechanism to hedge uncertainties that might arise from deals with higher risk. Second, it sheds new light on the role of political connections in corporate risk-taking, providing empirical evidence of a positive relationship between corporate political connections and total bidder risk. Third, this is the first study to the authors' knowledge that attempts to shed light on the association between political connections and bidder post-acquisition financial policy, which has not been addressed by previous studies. The research provides evidence that politically connected acquirers are more leveraged following M&A completion, suggesting that they exhibit less conservative financial policy following an acquisition. Fourth, it provides new evidence that politically connected acquirers are more likely to conduct non-diversifying deals that are less likely to reduce bidder default risk. Fourth, this paper offers new insight to the existing literature on the role of corporate political connections in M&A by showing that politically connected acquirers are more likely to acquire targets from the heavily regulated industries than non-connected acquirers.

This research contributes to the existing literature. Brockman et al. (2013) examine the association between political connections and long-term bidder performance. This research examines the effect on bidder announcement stock returns and further shows that there are announcement stock return differentials between connected and non-connected acquirers in risk-increasing deals. Schweizer et al. (2017) examine politically connected acquirers' performance in China and find that they destroy shareholder value by engaging in cross-border acquisitions. This research employs a UK-based sample and finds that the politically connected acquirers outperformed non-connected acquirers in risk-increasing deals. Ferris et al. (2016) also examine politically connected acquirers in the USA and find that they pay a higher premium, acquire more target firms, and generate value. However, they did not consider the association between political connections and bidder total risk, bidder financial policy changes, the probability of acquiring targets in the heavily regulated industry, and bidder returns in deals with higher risk. This study fills this gap. The research is also close to the work of Boubakri et al. (2013) that examined the effect of political connections on corporate risk-taking—via Return on assets (ROA). They show that political connections are positively associated with corporate risk-taking. However, they did not examine political connections' effect on a firm's risk-taking in a mergers and acquisitions setting; this study fills this gap and examines the effect of political connections on a bidder's risk-taking (—via stock return volatility) and its implication for shareholder value in the takeover setting. This research traces the level of risk-taking to bidder's policies and finds that corporate political connections are positively associated with bidder post-acquisition leverage, acquisition of targets from the regulated industries, number of deals acquired, and acquisition of deals (non-diversifying deals) that are less likely to decrease a bidder's default risk.

The rest of the paper is structured as follows: Section 2 describes the research sample and the construction of variables employed in the empirical analysis. Section 3 examines the effect

of corporate political connections: on the change in bidder total risk, bidder returns announcement, changes in bidder post-acquisition leverage, and bidder acquisition behaviors. Section 4 reports the results from further robustness checks. Section 5 concludes the paper.

4.2 Sample and Data

4.2.1 Sample Selection Criteria

This chapter employs M&A data from the UK market due to the following reasons: First, to the author's knowledge, there are no published studies that addressed the benefits of political connections to acquirers in the UK. Also, following the US, the UK has the largest capital market in the world (Zhang, Sabherwal, Jayaraman and Ferris, 2016) and most merger activity after the US, which represents more than 65% of all merger transactions in Europe (Doukas and Petmezas, 2007; Martynova and Renneboog, 2011). Also, acquirers are more likely to face antitrust litigation if they fail to comply with the regulatory institutions hence they have more need for political connections to gain merger approval. This is unlike Acquirers in countries with weaker institutions. They are less likely to face antitrust litigation and hence have less need for political connections to gain merger approval (Ferris, Houston and Javakhadze, 2016).

The sample was made up of domestic M&A's announced and completed between January 1, 2007, and December 31, 2017, from the Zephyr database, following Erel et al. (2015). This study chose an 11-year time-span to ensure sufficient data as well as the possibility to cover both economic cycles as well as the global financial crisis period. Huyghebaert and Luypaert (2010) observed that the Zephyr mergers and acquisition database has better coverage of European Acquisitions. To be included in the sample, there was a requirement that the relative size of the deal value to bidder size was at least 1%, and the deal value must be of the minimum value of £1 million. The acquirer owns less than 10% of the target company's stock before the acquisition and more than 50% after the deal. Finally, the acquiring firm must also have stock return data in the Thomson Reuters DataStream, from two days before to two days after the

acquisition announcement date. The application of these criteria yielded a total sample of 1,097 deals, conducted by 530 public UK bidders.

4.2.2 Measuring political connections

A bidder is categorized as a politically connected acquirer if at least one of its top officers or large shareholders formerly served in the government or industry regulator. An acquirer's political connection (PC) were measured using binary variables (PC dummy equals 1 and 0 otherwise).

4.2.3. Industry Patterns

Table 4.1 presents the number of acquisitions made by politically connected and non-connected acquirers across industries using the Fama-French 12 industry classification scheme. The final sample consists of 1,097 acquisitions, where 447 (40.75%) acquisitions were conducted by 199 politically connected firms and 650 (59.25%) by 331 non-connected firms. The proportion of acquisitions conducted by politically connected firms relative to non-connected firms is higher in the telecommunication and utility industries. The subsample shows that the percentage of the total acquisitions conducted by politically connected acquirers in the heavily regulated industries is higher than non-connected acquirers, consistent with the findings in Ferris et al. (2016).

[Please Insert Table 4.1 about here]

4.2.4 Summary statistics.

Table 4.2 compares bidder and deal-specific characteristics between politically connected and non-connected acquirers. Panel A reports that politically connected acquirers' average market size (2,260.390 million GBP) is significantly (p-value < 0.01) higher than the average market size (383.500 million GBP) of non-connected acquirers. Moeller et al. (2004) find that acquirer size is negatively related to the M&A announcement CAR. Politically connected firms

appear to have a higher (2.812) market-to-book (MTB) value compared with that of non-connected acquirers (2.791), consistent with the findings of Ferris et al. (2016). The average Tobin's q for the full sample is 1.756. Politically connected acquirers (1.685) appear to have a lower mean Tobin's q relative to non-connected acquirers (1.806), and the mean difference is statistically significant. Politically connected acquirers have significantly higher collateral relative to non-connected acquirers. Politically connected acquirers (0.181) are also more leveraged than non-connected acquirers (0.163), consistent with the results in Faccio (2010). Maloney et al. (1993) find a positive association between acquirer leverage and M&A announcement CAR. The mean returns on assets (ROA) in the total sample is 0.056. Politically connected acquirers (0.086) earned higher returns on assets (ROA) compared to non-connected acquirers (0.034), being consistent with the sample characteristics in Ferris et al. (2016). Politically connected acquirer's cash holding (0.131) is less than that of non-connected acquirers (0.144). This suggests that connected firms are more likely to have higher credit ratings or greater access to the capital markets (see, Opler, 1999). Politically connected acquirers have a lower stock run-up and Sigma compared with non-connected acquirers. On average, concerning blockholder ownership, connected acquirer's blockholder ownership (22.45%) is significantly lower than non-connected acquirer's blockholder ownership (25.675%). The difference is because politically connected acquirers in the sample tend to be relatively large firms and have more widely dispersed ownership, while non-connected acquirers tend to be relatively small firms and have relatively more concentrated ownership.

[Please Insert Table 4.2 about here]

Panel B shows that the deal-specific features of politically connected and non-connected acquirers are quite different. For instance, the average deal value conducted by politically connected acquirers (258.470 million GBP) is significantly higher than that of non-connected acquirers (25.480 million GBP). Politically connected acquirers (23%) purchased more targets

in the heavily regulated industries compared with non-connected acquirers (16.2%), and the difference is statistically significant (p-value < 0.05). The average size of a target relative to the bidder (relative size) is higher for non-connected acquirers (0.457) and lower for politically connected acquirers (0.266). Fuller et al. (2002) document that bidder and relative target size is positively associated with acquirer CAR in unlisted target acquisitions and negatively associated with bidder CAR in listed target acquisitions. The full sample suggests that the UK bidders acquired more unlisted targets (90.1%) than listed targets (9.9%), consistent with Doukas and Petmezas (2007) that show that the bulk of M&A in the UK consists of unlisted targets. The number of listed and unlisted targets purchased by politically connected and non-connected acquirers appears to be indifferent. Faccio et al. (2006) find that unlisted targets' acquirers generated higher announcement mean CAR relative to acquirers of listed targets. Non-connected acquirers (51.5%) purchased more diversifying deals than politically connected acquirers (40.9%), and the mean difference is statistically significant (p-value < 0.01). Politically connected firms (66.5%) made more all-cash payments relative to non-connected acquirers (56%). Whereas non-connected acquirers (23.7%) made more all-stock payments than politically connected acquirers (7.5%). Politically connected acquirers (26%) made more mixed cash and stock payments than non-connected acquirers (20.3%), and the difference is statistically significant (p-value < 0.01). Panel B also shows that politically connected acquirers' average announcement CAR is higher than that of non-connected acquirers, consistent with Ferris et al.'s (2016) findings. However, the difference is statistically insignificant and consistent with Brockman et al. (2013) that document but does not show that the difference between the M&A announcement CAR for politically connected and non-connected acquirers is statistically insignificant.

4.2.5 Time-series distribution of the sample

Table 4.3 compares the number of acquisitions and deal values between politically connected and non-connected acquirers across the sample years. Politically connected firms acquired more firms in 2007, whereas non-connected acquirers purchased more firms in 2015. The number of acquisitions for connected and non-connected acquirers decreased significantly in the year 2008 and 2009, possibly due to the global financial crisis. The average deal value is higher for connected acquirers over the years and in both subsamples. Moreover, the difference remains statistically significant across the years in the sample, except in 2012 and 2016.

[Please Insert Table 4.3 about here]

4.3 Empirical findings

4.3.1 Corporate Political Connections, Acquisition Riskiness, and Success

In table 4.4, this study investigates the association between corporate political connections and the change in the bidder's total risk. This chapter further examines the probability of politically connected and non-connected acquirers to generate a positive CAR in either risk-increasing or decreasing deals. Cain and McKeon (2016) document that firms with greater stock return volatility are "riskier" than firms with low stock return volatility. Boubakri et al. (2013) document a positive association between corporate political connections and firms' risk-taking proxied by firm profitability (ROA). Consistent with this evidence, this chapter anticipates corporate political connections to be positively associated with the change in bidder total risks around the acquisition announcement period. In the spirit of Croci and Petmezas (2015), change in bidder total risk is computed as the bidder standard deviation of daily (excess) stock returns over the event window (− 30, + 30) days around acquisition announcement minus the one over the period (− 120, − 60) days before the deal announcement date. Excess stock return is defined as the difference between a bidder's stock return and the FTSE All-Share Index.

This research employs OLS multivariate regression to examine the change in the total bidder risk around the acquisition announcement period. Also, it examines the likelihood for politically connected acquirers to generate a positive CAR, when their total risk increase or decrease around acquisitions announcement period using logistic regression. Following Guay (1999) and Cain and McKeon (2016), this study controls leverage, firm size, and other bidders-and-deal-specific characteristics that could plausibly affect stock return volatility. Year and industry fixed effects were included to control for unobserved systematic differences. Column (1) indicates that politically connected acquirers experienced a positive and statistically significant increase in their stock return volatility. Column (2) shows that the coefficient on the *political connections indicator* is positive and statistically significant for the excess stock return volatility. These suggest that corporate political connections are positively associated with increased bidder total risk around the acquisition announcement period.

[Please Insert Table 4.4 about here]

Column (3) through (6) presents the results from the logistic regression. The dependent variable takes the value one (1) if a bidder announcement (-2, +2) stock return is positive and zero otherwise. For the raw return volatility, column (3) shows that the coefficient on the *political connection indicator* is negative in risk-decreasing deals whereas, column (4) reports that the coefficient on the *political connection indicator* is positive and statistically significant in risk-increasing deals. For the excess return volatility, column (5) shows that the coefficient on the *political connection indicator* is negative in risk-decreasing deals whereas, column (6) reports that the coefficient on the *political connection indicator* is positive and statistically significant in risk-increasing deals. This suggests that politically connected acquirers are more likely to generate a positive announcement CAR in risk-increasing acquisitions.

Overall, this section provides evidence that corporate political connections are positively associated with the change in bidder total risk around the M&A announcement period and the probability of generating a positive stock return in risk-increasing deals.

4.3.2 Market Reaction to Acquisitions by Politically Connected and Non-Connected Bidders Conditional on Deals with Greater Risk: Univariate Analysis.

Having shown that politically connected acquirers are more likely to generate positive CAR in risk-increasing deals. Next, the study examines, in a univariate setting, the announcement average CAR of acquirers whose total risk increased or decreased over the period 30 days before to 30 days after M&A announcement date, relative to 120 days to 60 days before M&A announcement date. Acquirer CARs is estimated using the market adjusted model and the FTSE All-Share Index as the market benchmark. Following Fuller et al. (2002) and Faccio et al. (2006), this study employs a short event window period to determine whether an acquisition announcement creates value for the shareholders. Andrade et al. (2001) argue that short-term event windows produce a statistically reliable source of evidence on whether M&A creates value for the shareholders.

Table 4.5 shows whether there are announcement return differentials between politically connected and non-connected bidders in risk-increasing deals. Panel AA, column (1) show that acquirers that experienced an increase in their total risk around the acquisition announcement period generated a higher announcement mean CAR, relative to those that experienced a decrease in their total risk. Acquirers are classified into politically connected and non-connected acquirers in columns (2) and (3), respectively. The results show that politically connected acquirers that experienced an increase in their total risk generated a higher CAR compared with non-connected acquirers that experienced an increase in their total risk. The difference is statistically significant at conventional levels. The results also show that politically connected acquirers whose total risk decreased around the acquisition

announcement period earned a higher mean CAR relative to non-connected acquirers that experienced a decrease in their total risk and that the difference is statistically insignificant. For a robustness test, the study re-estimated the bidder CAR in risk-increasing deals, when the bidder's total risk around the acquisition announcement period is estimated using a different event window ((-20, +40) – (-120, -60)) period. The results in panel AB remaining qualitatively, similar to the results in panel AA.

[Please Insert Table 4.5 about here]

To further test the proposition that politically connected acquirers' announcement stock returns are higher relative to that of non-connected acquirers in deals with greater risk. This chapter estimates the announcement CAR for politically connected and non-connected acquirers in deals that are arguably risky. This is precisely the case of: I) unlisted target acquisition; II) large deal acquisition; III) glamour acquirers; and IV) frequent acquirers. Table 4.5, panel B presents the results from the univariate analysis.

4.3.2.1 CARs by Deals with Greater Risk of Information Asymmetry (Unlisted target acquirers)

For unlisted target acquisitions, Capron and Shen (2007) and Officer (2007) suggest that information asymmetry is less prominent in listed target acquisitions compared with unlisted target acquisitions. Following Croci and Petmezas (2015), this study classifies unlisted target acquisitions as riskier than listed target acquisitions. In panel BA, column (1), it shows that unlisted target acquirers generated higher CAR compared with listed target acquirers and is consistent with the results in Faccio et al. (2006). Listed target acquirers are classified into politically connected and non-connected acquirers in columns (2) and (3), respectively. The results show that politically connected acquirers of unlisted targets earned higher CAR compared with non-connected acquirers of unlisted targets, and the difference is statistically significant at conventional levels. The results further show that politically connected acquirers

of listed targets underperformed relative to non-connected acquirers of listed targets, and the difference is insignificant.

4.3.2.2 CARs by Deals with Higher Risk Exposure (Frequent acquirers)

Concerning infrequent and frequent acquirers, Croci and Petmezas (2015) document that acquisitions are risk-increasing corporate investments; thus, bidders' risks increase following an acquisition. Therefore frequent acquirers are more exposed to an increase in total risk compared with infrequent acquirers. Frequent acquirers are defined as firms that acquired five or more targets within three years in the sample, and infrequent acquirers as firms that acquired less than five targets in any three years (following Fuller et al., 2002). Classifying bidders into frequent and infrequent acquirers might also serve as a form of endogeneity control, given that firms that acquired five or more firms within three years are more likely to have more exposure to regulatory delay and litigation risk. As a result, frequent acquirers might have a greater need for regulatory oversight, non-public information regarding regulatory delay or denial over a potential acquisition, and unique insights that political connections can provide. In panel BB, column (1) shows that infrequent acquirers generated higher CAR relative to frequent acquirers. When acquirers are segmented into politically connected and non-connected in column (2) and (3), respectively, the results show that non-connected frequent acquirers significantly underperform compared to politically connected frequent acquirers, by an average of 1.48 percent. The results also show an insignificant difference between the CAR for non-connected infrequent acquirers and connected infrequent acquirers.

4.3.2.3 CARs by Deals with Higher Risk of Value Destruction (Glamour acquirers)

Regarding value and glamour acquirers, Rau and Vermaelen (1998) document that glamour acquirers are less likely to face stricter scrutiny from their directors and large shareholders before conducting an acquisition; they are more likely to make value-destroying acquisitions,

unlike value acquirers. Following Cain and McKeon (2016), the study partition acquirers by glamour and value acquirers. In the spirit of Datta et al. (2001), glamour acquirers are defined as those acquirers with book-to-market equity below or at the median, while value firms are those with book-to-market equity above the median. In Panel BC, the univariate test shows that (in column (1)) glamour acquirers generated higher CAR than value acquirers at the acquisition announcement period, consistent with the extrapolation hypothesis. However, when acquirers are categorized into politically connected and non-connected in column (2) and (3), respectively, the result shows that politically connected glamour acquirers significantly outperform non-connected glamour acquirers, by an average of 1.11 percent. The results also show an insignificant difference between the CAR for politically connected value acquirers and non-connected value acquirers.

4.3.2.4 CARs by Deals with Higher Integration Complexity (Large deals)

Concerning large deals, Alexandridis et al. (2013) document that acquirers are less likely to realize economic benefits from large deals, given that large deals are associated with higher integration complexity. Following Croci and Petmezas (2015), this study classifies large deals as riskier than small deals. To include unlisted target acquirers, bidders were partitioned by the target's relative size into three terciles for the calendar year in which the acquisition was announced (following Fuller et al. 2002). In Panel BD, column (1) shows that large deal acquirers generated higher CAR compared with acquirers of medium and small deals. Column (2) and (3) shows that both politically connected and non-connected acquirers of large deals generated a positive mean CAR. However, politically connected acquirers of large targets generated higher CAR than non-connected acquirers of large targets, and the difference is statistically significant. The results remained qualitatively similar when they both acquire a medium deal. However, the mean CAR difference for politically connected and non-connected acquirers of small deals is statistically insignificant.

Overall, the results suggest that politically connected acquirers' announcement stock returns are higher than those of the non-connected acquirers in deals with greater risk on a univariate basis.

4.3.3 Market Reaction to Acquisitions by Politically Connected and Non-connected Bidders Conditional on deals with greater risk: Multivariate Analysis.

In the previous section, the research findings show, on a univariate basis, that politically connected acquirers generated higher CAR than non-connected acquirers in deals with greater risk. To explore this observation further, the research examines whether the effect of political connections on bidder CARs in deals with higher risks will survive in a multivariate setting. The dependable variable is the five-day (-2, +2) CAR. The explanatory variable is an indicator of whether the acquirer is politically connected (1) or not (0). As per studies by Golubov et al. (2012) and Faccio et al. (2006), deal and bidder characteristics were included in the regression. These include the acquirer's market-to-book value; an indicator for whether the deal was a pure cash offer (1) or not (0); an indicator for whether the deal was a pure stock offer (1) or not (0), the natural log of the acquirers' size (market value of equity one month before the acquisition announcement). An indicator as to whether the acquirer is from a heavily regulated (SIC codes 4900-4999 or 6000-6999) industry (1) or not (0). This study also considers the acquirer's collateral, ROA, leverage, and cash holdings, all of which are measured at the fiscal year-end, before deal announcement. The stock price run-up, which is the acquirer's buy-and-hold market-adjusted return, measured from 205 days to 6 days before the announcement date, was included.

Faccio et al. (2006) document that bidder's CARs are higher when a bidder acquires unlisted firms than listed target acquisitions. Therefore, the study includes an indicator of whether the target is unlisted (1) or not (0). Moeller et al. (2007) document that the bidders with higher sigma generate higher acquisition announcement CARs. Sigma is measured as the

standard deviation of the acquiring firm's market-adjusted daily returns from DataStream over the period beginning 205 and ending six days before the deal announcement.

Maquieira et al. (1998) find that bidder's CARs are higher in non-diversifying acquisitions than diversifying acquisitions. Therefore, this study includes an indicator variable to detect whether the acquirer and the target have the same two SIC codes (1) or not (0). For the USA acquirers, Golubov et al. (2015) documented that the acquirer and relative target size is positively correlated with bidder CAR. Also, Bae et al. (2002) found similar results for Korean acquirers. Acquirer's relative size (Deal value scaled by the acquirer market value of equity) was included in the independent variables to control this factor.

Table 4.6 presents the results from the multivariate regression. Column (1) shows a positive association between corporate political connections and acquirers announcement CAR for all acquisitions, consistent with Ferris et al.'s (2016) results. Column (2) shows that the coefficient on the *political connections indicator* for bidders that experienced a decrease in their total risk is lower, whereas, in column (3), the coefficient on *the political connections indicator* for acquirers whose total risk increased is higher and statistically significant at conventional levels. The results in column (4) and column (5) remained qualitatively similar with the results in column (2) and (3), respectively, when a change in the bidder total risk around the acquisition announcement period is estimated using a different event window ((-20, +40) – (-120, -60)) period.

[Please Insert Table 4.6 about here]

For the listed target acquirers subsample, column (6) shows that the coefficient for the *politically connected (1/0)* indicator is negative, whereas the unlisted target acquirers subsample in column (7) shows a positive and significant (p-value < 0.05) coefficient for the *politically connected (1/0)* indicator. For the value and glamour acquirers, column (8) reveals that political connections had no impact in the value acquirers subsample, whereas

column (9) shows that political connections had a positive and significant (p-value < 0.05) effect on the dependent variable. For the infrequent acquirer's subsample, column (10) shows that the effect of political connections on the dependent variable is insignificant, whereas column (11) suggests that the effect of political connections on the dependent variable is positive and statistically significant (p-value < 0.05) at the conventional levels. For the deal size, column (12) shows that the coefficient on the *political connections indicator* for acquirers of small deals is positive and statistically insignificant, whereas column (13) shows that the coefficient on the *political connections indicator* is positive and statistically significant for acquirers of medium deals. Column (14) shows that politically connected acquirers of large deals earned higher and a statistically significant mean CAR. In summary, the findings are consistent with the proposition that the announcement CAR is higher for politically connected acquirers relative to non-connected acquirers in deals with higher levels of risk.

4.3.4 Market Reaction to Acquisitions by Politically Connected and Non-Connected Bidders Conditional on the Change in Total Bidder Risk: Instrumental variable and Propensity Score Matched Sample.

To address the issue of reverse causality within bidder returns, the study employs instrumental variable estimation, using the bidder headquarters' location as the instrumental variable for political connection following, Boubakri et al. (2012) and Boubakri et al. (2013). Table 4.7 presents the results. In column (1), probit estimation has been used to predict political connection, where CAPITAL is a dummy variable that equals one if the bidder's headquarters' location is in London. The results show that the instrument is positive and statistically significant. In column (2), the first-stage fitted values are included for political connections in the second stage OLS regression. The result shows that the instrumented value of Political connections is positive and statistically insignificant, suggesting no effect from political connections on acquirer's announcement return in risk-decreasing deals. For the risk-increasing deals, the process is repeated in column (3) and (4), respectively. The results in column (3)

show that the instrument is a good predictor of political connections. Column (4) suggests that the instrumented value of political connections is positive and statistically significant at the conventional levels, suggesting that political connections are positively associated with bidder announcement returns in risk-increasing deals.

[Please Insert Table 4.7 about here]

To further examine the main finding that political connections are positively associated with bidder announcement returns in risk-increasing deals, a propensity score matching method was employed to address potential selection bias and control for the observable difference (e.g., Bidder size) between politically connected and non-connected bidders. In the spirit of Brockman et al. (2013), the study estimated the propensity score, using a comprehensive set of bidder characteristics that drive the likelihood of a bidding firm towards being politically connected. Specifically, the variables, following Brockman et al. (2013), including leverage, bidder size, market-to-book ratio, a dummy variable indicating whether the bidding firms headquarter is located in the capital (London), and a dummy variable indicating whether the bidding firm is from a heavily regulated industry (i.e., SIC is in 6000-6999 or 4900-4999). For each politically connected acquirer, the study selected one non-connected acquirer with the closest propensity (based on the propensity score) of having political connections. Finally, the study regressed the bidder announcement returns in both risk-increasing and decreasing deals, separately. Table 4.7, column (6), shows a positive association between political connections and bidder announcement returns in risk-increasing deals.

4.3.5 Corporate Political connections and Post-Acquisition Financial Leverage

Target firms are often acquired because they are financially constrained (Erel et al., 2015). As such, a bidder might borrow more to relieve the acquired firms' financial constraints. Therefore, the study examines the relationship between corporate political connections and

bidder post-acquisition financial leverage changes. Cain and McKeon (2016) argue that leverage increasing transactions increase a firm's risk, whereas Phan (2014) documented that higher financial leverage increases a firm's risk of default. It is anticipated that corporate political connections are positively associated with bidder post-acquisition leverage, given that political connections induce firms to undertake more risk (Boubakri et al., 2013), connected firms have preferential access to finance (Claessens et al., 2008), and potentially lower costs for bank loans (Houston et al., 2014).

Table 4.8 presents the results for the change in the acquirer's post-acquisition financial leverage. The dependent variable is the change in the acquirer's industry-adjusted book leverage (ΔIALEV), calculated as the difference between an acquirer's industry-adjusted book leverage in the second year after merger completion and its specific industry adjusted book leverage in the year before acquisition announcement (following Phan, 2014). Industry-adjusted book leverage is examined as the difference between an acquirer's book leverage and its 2-digit industry SIC code median book leverage.

Bidder- and-deal-specific characteristics as control variables were included. Also, other variables that were identified to affect leverage from other studies (Harford et al., 2009; Phan, 2014), such as Cash-ratio and Pre-bid Book Leverage, were also included.

[Please Insert Table 4.8 about here]

In column (1), the coefficient on the political connections' indicator is positive and statistically significant (p-value < 0.05) at the conventional levels. The result remains qualitatively similar after including industry fixed effects in column (2). This indicates that political connections are positively associated with higher post-acquisition leverage. The results also show that collateral, market-to-book ratio, returns on assets (ROA), and cash ratio are all positive and significantly associated with debt increases after acquisition completion.

Whereas cash-holding and pre-bid book leverage had a strong negative association with debt increase after M&A completion.

4.3.6 Political Connections and Bidder Acquisition Behaviour

In this section, the study examined the acquisition behavior of politically connected acquirers. Specifically, this chapter investigates whether connected acquirers are: i) more likely to acquire targets from the heavily regulated industries than non-connected acquirers; ii) more likely to conduct non-diversifying deals; iii) more likely to acquire more domestic firms than non-connected acquirers. Concerning target firms in the regulated industry, Ferris et al. (2016) suggest that firms with SIC codes 4900-4999 (Utilities) or 6000-6999 (financial services) are heavily regulated compared with other firms in other industries. Acquisitions involving firms from the regulated industry sectors might attract greater regulatory scrutiny. Therefore, acquirers of targets in the heavily regulated industries might benefit from the regulatory oversight that political connections provide. It is anticipated that the acquisition of targets in the heavily regulated industry is positively associated with bidder political connections.

For non-diversifying acquisitions, Ferris et al. (2016) document that non-diversifying deals are more likely to increase market or industry concentration and are more likely to be opposed by the regulators than diversifying deals. However, this study anticipates that non-diversifying acquisitions are positively associated with corporate political activity given that politically connected acquirers enjoy regulatory oversight (Ferris et al. 2016) and are more likely to have access to non-public knowledge regarding the M&A regulatory process.

Regarding the number of acquisitions, this study examines whether political connections motivate connected firms to be acquisitive given that political connections provide firms with regulatory oversight, non-public information as regards M&A regulation, unique insights, and connections that help bidders to avoid regulatory delay or denial during the acquisition process.

Table 4.9 presents the results of the analysis. In column (1), the dependent variable takes a value of one (1) if the target firm is from the heavily regulated industry and zero (0) otherwise. In column (2), the dependent variable takes a value of one (1) if the acquirer and target belong to the same 2-digit SIC code industries and zero (0) otherwise. In columns (3) through (6), the dependent variable is the natural logarithm of the total number of domestic acquisitions each firm makes from the year 2007 to 2017 (following Ferris et al., 2016). The explanatory variable is a politically connected indicator that takes the value of one (1) if the acquiring firm is politically connected and zero (0) if not. The study controls for deal-and-acquirer-specific characteristics, industry, and year fixed effects. Column (1) shows that the coefficient on the political connections' indicator is positive (0.2187) and statistically significant (p-value < 0.05) at the conventional levels. This result suggests that politically connected acquirers are more likely to acquire targets from the heavily regulated industry sectors.

[Please Insert Table 4.9 about here]

Column (2) presents the results for non-diversifying acquisitions. The coefficient in political connections indicator is positive (0.1983) and statistically significant (p-value < 0.05). Two possible explanations arise from this result. First, politically connected acquirers might prefer to conduct fewer diversifying deals given that the knowledge of the former politician or former regulator on their board is more beneficial (Ferris et al., 2016) when conducting non-diversifying acquisitions. On the other hand, the direction regarding the riskiness for diversifying deals is unclear. For instance, Acharya et al. (2011) and Phan (2014) argue that diversifying M&A deals is a means of reducing a firm's default risk. In contrast, Croci and Petmezas (2015) argue that diversifying deals might be risky for managers because they are outside of their expertise and are likely to have less information and knowledge of the target firm industry. Therefore politically connected acquirers might prefer to trade off default risk for corporate value, given that they are more likely to be bailed out by the government than

non-connected firms (Faccio et al., 2006), they have preferential access to finance (Claessens et al., 2008) and lower costs for bank loans (Houston et al., 2014).

Column (3) suggests that politically connected firms make more domestic acquisitions than non-connected firms, consistent with Ferris et al.'s (2016) results. The result appears to persist after controlling for industry and year fixed effects in column (4). For the robustness check, the analysis was repeated using a Tobit model since the number of bids is truncated at zero (Ferris et al., 2016). The results in column (5) and (6) remain qualitatively similar to that in column (3) and (4), respectively.

In summary, there is a positive association between the acquiring firm's political connections and the number of domestic acquisitions the firm makes. This section's results are also consistent with the proposition that the likelihood of acquiring deals that might be disapproved or might attract greater regulatory scrutiny is higher for politically connected firms.

4.4 Additional Robustness Check:

4.4.1. Association between Political Connections and total bidder risk: instrumental variable regressions

To address the issue of reverse causality within bidder risk-taking. The study requires an instrument related to the political connections but uncorrelated with corporate risk-taking, except through independent variables for which the study controls. Following Boubakri et al. (2012) and Boubakri et al. (2013), the instrumental variable is the bidder's headquarters' location. Table 4.10 presents the results. The principal regression is:

$$Prob(PoliticalConnections_i) = \alpha 0 + \alpha 1 \text{CAPITAL}_i + \alpha 2 firmCharacteristics_{-1} + a3 deal\ Characteristics + Year_t + Industry + \varepsilon i \quad \ldots\ldots (5)$$

where Political Connectionsi dummy, the dependent variables in the regressions, equals one if an issuer i has a former politician on its board. CAPITAL, the key explanatory variables, is the is a dummy variable that equals one if the bidder's headquarters is in London. Firm and deal characteristics are the full set of the control variables.

In column (1), the study uses a probit estimation to predict political connections where CAPITAL is a dummy variable that equals one if the bidder's headquarters is in London. The results show that the instrument is positive and statistically significant. In column (2), the first-stage fitted values for political connections in the second stage OLS regression are included. The result shows that the instrumented value for Political connections is positive and statistically significant at the conventional levels, suggesting that politically connected acquirers have more return volatility around the M&A announcement period. This process is repeated in columns (3) and (4) for the excess return volatility, respectively. The results in column (3) show that the instrument is a good predictor of political connections. Column (4) suggests that the instrumented value of Political connections is positive and statistically significant at the conventional levels, suggesting that political connections are positively associated with bidder excess return volatility around the M&A announcement period.

[Please Insert Table 4.10 about here]

4.4.2 Other Sensitivity Tests

To further confirm that politically connected acquirers generated higher CAR than non-connected acquirers in deals with greater risk, other sensitivity tests were conducted: (1) using Buy-and-hold market-adjusted stock returns; (2) excluding acquirers of targets from highly regulated industries (SIC codes 6000-6999 and 4900-4999); (3) by using different announcement period stock return windows such as (−1, +1) and (-1,+2), (4) by grouping bidders by their size (large and small bidders following Faccio et al. (2006)). The results remain qualitatively similar despite these variations.

4.5 Conclusion

Consistent with the empirical evidence (Boubakri et al., 2013) that corporate political connection induces firm risk-taking, this paper provides evidence on the link between corporate political connections and bidder risk-taking in M&A and its implication for shareholders' value. Specifically, corporate political connections are positively associated with higher equity return volatility around the M&A announcement period and with higher bidder gains in risk-increasing deals, but not in risk-decreasing deals. The effect of political connections on bidder returns in risky deals persists regardless of whether the study measures risky deals as deals involving unlisted targets, large deals, frequent acquirers, or glamour acquirers. The enhancement in politically connected bidder's returns in risk-increasing deals indicates that investors perceive political connections as a means to hedge uncertainty from risky deals. Notably, the differential effect of corporate political connection on bidder gains in risk-increasing and risk-decreasing deals is attributed to the incentives that political connections can provide. Such incentives include but are not limited to cheaper costs of bank loans (Khwaja and Mian (2005) and equity capital (Boubakri et al., 2012; Guedhami et al., 2013), preferential access to a bank loan (Claessens et al., 2008), access to government bailout funds (Faccio et al., 2006), higher premiums during the takeover (Croci et al., 2017).

The bidder post-acquisition financial leverage is also considered, and the study finds a positive association between corporate political connections and bidder post-acquisition financial leverage. The research findings also indicate that politically connected acquirers take advantage of their connections, insights, non-public information regarding M&A regulations, and regulatory oversights by conducting higher non-diversifying acquisitions, acquiring more firms, and targets from the heavily regulated industries compared with non-connected acquirers.

In response to the questions highlighted in the introduction, these results suggest that (1) corporate politically connections increase bidder total risk and politically connected acquirers are more likely to generate higher returns in risk-increasing deals; (2) Politically connected acquirers are less conservative with their financial policy following an acquisition. Specifically, corporate political connections are positively associated with bidder post-acquisition financial leverage; (3) Political connections affect the bidder acquisition behaviors. In particular, politically connected bidders are more likely to acquire more firms, are less likely to diversify, and are more likely to purchase firms from the heavily regulated industry sectors than non-connected acquirers.

Appendix C: Variable definitions

Variable	Definition
Panel A: Acquirer characteristics	
Political connections	A dummy variable that equals 1 if an acquiring firm has a former politician or former industry regulator as a top officer or large shareholder and 0 otherwise.
Size	The acquiring firm's market value of equity (in GBP) 4 weeks prior to M&A announcement (DataStream).
Book-to-market	Book value of equity at the fiscal year-end prior to the acquisition announcement divided by the market value of equity 4 weeks prior to the acquisition announcement. Data is from DataStream.
Leverage	Measured as acquirer total debt over total assets for the fiscal year ending prior to the announcement obtained from DataStream.
Collateral	The ratio of firm's property, plant and equipment to total assets at the fiscal year immediately prior to the acquisition announcement from DataStream
Sigma	Acquiring firm's standard deviation of daily market-adjusted returns (DataStream) over the period beginning 205 and ending 6 days prior to M&A announcement (Zephyr database).
Tobin's Q	((Total assets + Market value of common equity − Book value of common equity)/Total assets) Data from the DataStream
Cash holding	Cash and short-term investments scaled by total assets
ROA	The ratio of EBITDA to total assets (DataStream)
% Blockholder ownership	Overall holding of a minimum of 5% of the bidders stock (Zephyr database).
Cash ratio	The ratio of cash and equivalents to the book value of assets at the beginning of the year.
Stock Run-up	The bidder market-adjusted buy-and-hold stock return (DataStream) computed over the period beginning 205 days and ending 6 days before M&A announcement date from the Zephyr database.
Panel B: Deal characteristics	
Deal value	transaction value in £ million (Zephyr database)
Relative size	Deal value (Zephyr database) scaled by acquirer market value of equity (DataStream)
Unlisted target (1/0)	A dummy variable that takes the value 1 if the target firm is not listed on a stock exchange and 0 otherwise (Zephyr database)
Listed target (1/0)	A dummy variable that takes the value 1 if the target firm is listed on a stock exchange and 0 otherwise (Zephyr database)
Diversifying Deals (1/0)	A dummy variable that takes the value of 1 if the 2-digit primary SIC code of the acquirer is different from that of the target and 0 otherwise (Zephyr database)
All-cash deal (1/0)	A dummy variable that takes the value 1 if the acquiring firm used only cash as a method of payment and 0 otherwise (Zephyr database)
All-shares deal (1/0)	A dummy variable that takes the value 1 if the acquiring firm used only stock as a method of payment and 0 otherwise (Zephyr database)
Mixed payment (1/0)	A dummy variable that takes the value 1 if the acquiring firm used both stock and cash as a method of payment and 0 otherwise (Zephyr database)

Regulated target	A dummy variable that equals 1 if the target is from either utility (Primary SIC code 4900–4999) or finance industry (Primary SIC code 6000–6999) and 0 otherwise (Zephyr database)
$CAR_{(-2,+2)}$	This is the modified market adjusted cumulative abnormal return of the acquiring firm's stock computed over the period beginning 2 days before and ending 2 days after M&A announcement date. The FTSE All-Share Index return is the market return.

Table 4.1. Industry patterns

This table presents descriptive statistic of the domestic acquisitions conducted by connected and non-connected acquirers across industries based on Fama-French 12-industry classification. Regulated firms are defined as firms with standard industry classification (SIC) codes 4900-4999 or 6000-6999. The sample period is from January 1, 2007 to December 31, 2017 for UK acquirers of domestic targets.

Fama-French 12-industry classification		ALL		Politically connected		Non-connected	
		N	%	N	%	N	%
NoDur	Consumer nondurables	61	5.56	31	6.94	30	4.62
Durbl	Consumer durables	7	0.64	2	0.45	5	0.77
Manuf	Manufacturing	55	5.01	16	3.57	39	6
Enrgy	Oil, gas, and coal extraction and products	29	2.64	19	4.25	10	1.54
Chems	Chemicals and allied products	8	0.73	5	1.12	3	0.46
BusEq	Business equipment	204	18.6	59	13.2	145	22.31
Telcm	Telephone and television transmission	10	0.91	6	1.34	4	0.62
Utils	Utilities	15	1.37	12	2.69	3	0.46
Shops	Wholesale, retail, and some services	100	9.12	57	12.75	43	6.61
Hlth	Healthcare, medical equipment, and drugs	37	3.37	18	4.03	19	2.92
Money	Finance	193	17.59	91	20.35	102	15.69
Other	Other (Mines, Constr, BldMt, Trans, Hotels, Bus Serv, Entertainment)	378	34.46	131	29.31	247	38
Subsample:							
Unregulated industries		889	81.04	344	76.96	545	83.85
Regulated industries (SIC codes 4900-4999 and 6000-6999)		208	18.96	103	23.04	105	16.15
Total		1097	100	447	100	650	100

Table 4.2. Summary statistics.

The table compares bidder and deal-specific characteristics between politically connected and non-connected acquirers. The sample of the UK domestic M&A is from the Zephyr M&A database for the period 01/01/2007 to 31/12/2017. Deal and bidder characteristics are defined in Appendix A. Continuous variables are winsorized at the 99th and 1st percentiles. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

	Full Sample (1)		Politically Connected (2)		Non-Connected (3)			
	N	Mean	N	Mean	N	Mean	Difference (2) - (3)	P-value (2) - (3)
Acquirer characteristics								
Firm size (£ million)	1097	1148.291	447	2260.390	650	383.500	1876.898***	0.000
MTB	1054	2.800	434	2.812	620	2.791	0.021	0.453
Tobin's Q	1054	1.756	434	1.685	620	1.806	-0.121**	0.044
Collateral	1043	0.153	429	0.176	614	0.136	0.039***	0.001
Leverage	1052	0.171	432	0.181	620	0.163	0.017*	0.076
ROA	1028	0.056	423	0.086	605	0.034	0.052***	0.003
Cash Holding	1031	0.139	416	0.131	615	0.144	-0.012	0.123
Stock Run-up	1055	0.082	432	0.069	623	0.092	-0.024	0.174
Sigma	1055	0.023	432	0.020	623	0.024	-0.004***	0.000
% Blockholder Ownership	1092	24.359	446	22.452	646	25.675	-3.223**	0.013
Deal characteristics								
Deal Value (£ million)	1097	120.418	447	258.470	650	25.480	232.990***	0.004
Heavily Regulated deals (1/0)	1097	0.211	447	0.230	650	0.162	0.056**	0.014
Relative Size	1097	0.379	447	0.266	650	0.457	-0.191***	0.004
Listed Deals (1/0)	1097	0.099	447	0.098	650	0.100	-0.002	0.466
Unlisted Deals (1/0)	1097	0.901	447	0.902	650	0.900	0.002	0.466
Diversifying Deals (1/0)	1097	0.430	447	0.409	650	0.515	-0.107***	0.000
All-Cash Deals (1/0)	1097	0.604	447	0.665	650	0.560	0.105***	0.000
All-Shares Deals (1/0)	1097	0.108	447	0.075	650	0.237	-0.162***	0.001
Mixed Deals (1/0)	1097	0.288	447	0.260	650	0.203	0.057***	0.000
CAR(-2, +2)	1097	0.019	447	0.023	650	0.016	0.007	0.138

Table 4.3 Time-series distribution of the sample

	Politically Connected		Non-connected		Difference (1) - (2)
	N	Deal Value (£ million) (1)	N	Deal Value (£ million) (2)	P-value
All years	447	258.47	650	25.48	0.0039
2007	68	65.51	69	10.49	0.0000
2008	46	22.60	54	10.13	0.0023
2009	21	56.82	35	14.32	0.0261
2010	28	159.81	46	17.38	0.0288
2011	19	87.57	56	19.20	0.0205
2012	28	33.74	34	20.33	0.1066
2013	41	40.69	66	16.77	0.0493
2014	58	163.00	63	34.59	0.0923
2015	49	1203.73	82	54.48	0.0000
2016	51	66.98	74	24.93	0.1383
2017	38	214.07	71	27.47	0.0042
Sub-sample					
2007-2011	182	180.96	260	16.61	0.0254
2012-2017	265	311.70	390	31.38	0.0387

Table 4.4: Corporate Political Connections, Acquisition Riskiness, and Success

Column (1) and (2) presents the change in bidder total risk (OLS regression) results. Change in acquirers' risk is computed as bidder standard deviation of daily (excess) stock returns over the event window (− 30, + 30) days around acquisition announcement minus the one over the period (− 120, − 60) days before deal announcement date. Excess stock return is defined as the difference between a bidder's stock return and the FTSE All-Share Index. Column (3) through (6) presents results from the cross-sectional logit regression analysis of the probability of politically connected bidders to generate a positive CAR in risk-increasing deals. The dependent variable takes one if a bidder announcement (-2, +2) stock return is positive and zero otherwise. Deal-and-bidder-specific characteristics for a sample of the UK acquirers of domestic targets announced over the period 2007 to 2017 were included. The *t and z*-statistics based on heteroskedasticity-robust standard errors and bidder clustering are reported in parentheses. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively. The coefficients of the year and industry fixed effects are omitted for brevity. Variables are defined in Appendix A.

	Change in bidder total risk		**Probability of a positive CAR conditional on deal riskiness**			
	Return Volatility (1)	Excess Return Volatility (2)	Return Volatility		Excess Return Volatility	
			Risk-decreasing Deals (3)	Risk-increasing Deals (4)	Risk-decreasing Deals (5)	Risk-increasing Deals (6)
Political Connection (1/0)	0.0028**	0.0022*	-0.0392	0.4452*	0.0043	0.3688*
	(2.02)	(1.68)	(-0.17)	(1.98)	(0.02)	(1.66)
Sigma	-0.5917*	-0.5524*	3.9726	-10.2691	-3.9315	-7.4846
	(-1.94)	(-1.84)	(0.34)	(-1.08)	(-0.35)	(-0.79)
ROA	0.0004	0.0002	0.1692	-0.1858	0.0879	-0.2148
	(0.15)	(0.01)	(0.61)	(-0.61)	(0.35)	(-0.72)
Stock Price Run-up	0.0018	0.0012	-0.4020	0.3272	-0.1999	0.3101
	(0.48)	(0.31)	(-1.18)	(1.14)	(-0.59)	(1.10)
Cash-holding	0.0042	0.0022	-1.5146*	0.7696	-0.6676	0.1946
	(0.67)	(0.33)	(-1.90)	(1.05)	(-0.83)	(0.29)
Relative-Size	-0.0018	-0.0019	-0.2402	0.1895*	-0.0915	0.1739*
	(-0.98)	(-0.98)	(-1.18)	(1.84)	(-1.42)	(1.84)
Leverage	0.0044	0.0049	-0.2023	-1.2886**	-0.0122	-1.1259*
	(0.91)	(0.99)	(-0.34)	(-2.00)	(-0.02)	(-1.84)
Collateral	-0.0007	-0.0003	0.3561	0.9578	0.5964	0.6306
	(-0.19)	(-0.10)	(0.55)	(1.55)	(0.90)	(1.03)
Tobin's Q	-0.0011	-0.0011	0.0549	0.0084	0.0916	-0.0091
	(-1.11)	(-1.09)	(0.49)	(0.11)	(1.15)	(-0.10)
MTB	0.0001	0.0001	-0.0116	-0.0069	-0.0139	-0.0128
	(1.17)	(1.32)	(-0.42)	(-1.50)	(-0.44)	(-1.13)
Ln(Size)	-0.0020**	-0.0018**	-0.0155	-0.0367	-0.0143	-0.0207
	(-2.65)	(-2.32)	(-0.21)	(-0.54)	(-0.19)	(-0.31)
% Blockholder Ownership	-0.0009	-0.0009	0.2818	-0.1453	0.1564	-0.0078

	(-0.58)	(-0.6)	(1.14)	(-0.61)	(0.63)	(-0.03)
Diversifying Deals (1/0)	0.001	0.0014	-0.2534	0.3016	-0.2758	0.0326
	(0.62)	(0.88)	(-1.16)	(1.47)	(-1.25)	(0.15)
Regulated (1/0)	-0.0018	-0.0008	-0.3378	-0.3680	-0.3815	-0.2889
	(-0.56)	(-0.24)	(-0.73)	(-0.85)	(-0.86)	(-0.62)
Unlisted (1/0)	-0.0005	-0.0001	0.6539	0.1704	0.8665*	0.0767
	(-0.23)	(-0.06)	(1.46)	(0.45)	(1.93)	(0.21)
All-Shares (1/0)	0.0039	0.0049	0.1847	0.0553	0.2741	-0.0673
	(0.71)	(0.92)	(0.54)	(0.16)	(0.76)	(-0.21)
All-Cash (1/0)	-0.0019	-0.0025	0.0034	0.3701	0.0916	0.2827
	(-1.02)	(-1.31)	(0.01)	(1.60)	(0.36)	(1.24)
Intercept	0.0304**	0.0289**	-0.5042	0.6146	1.2102	0.0789
	(2.37)	(2.24)	(-0.60)	(0.83)	(1.40)	(0.11)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
(R-squared) Pseud R^2	(0.2322)	(0.2259)	0.0834	0.0828	0.0936	0.0668
N	936	936	441	492	439	491
Wald Statistics			41.84	47.82	53.25	37.32

Table 4.5: Market Reaction to Acquisition by Politically Connected and Non-Connected Firms: Univariate Analysis

In Panel A, sub-panel AA compares announce average CAR (-2, +2) of politically connected and non-connected acquirers whose total risk increased or decreased around the acquisition announcement period. Change in acquirers total risk is computed as bidder standard deviation of excess stock returns over the event window (− 30, + 30) days around acquisition announcement minus the one over the period (− 120, − 60) days before deal announcement date. Sub-panel AB compares announce average CAR (-2, +2) of politically connected and non-connected acquirers whose total risk increased or decreased over the event window (− 20, + 40) days around the acquisition announcement. Change in acquirers total risk is computed as bidder standard deviation of excess stock returns over the event window (− 20, + 40) days around acquisition announcement minus the one over the period (− 120, − 60) days before the deal announcement date. The excess stock return is defined as the difference between a bidder's stock return and the FTSE All-Share Index. In Panel B sub-panels BA through BD presents the univariate estimates of the difference in the mean CAR (-2, +2) of politically connected and non-connected acquirers around the M&A announcement period. Sub-panel BA focuses on the announcement average CAR between listed and unlisted target acquirers. Sub-panel BB compares the announcement average CAR between infrequent and frequent acquirers. Sub-panel BC focuses on the announcement average CAR between glamour and value acquirers. Sub-panel BD presents the univariate estimates of the difference in the mean CAR (-2, +2) of politically connected and non-connected acquirers of large and small deals. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively

	All (1)	Politically connected (2)	Non-connected (3)	Diff. Test Col (2) - Col (3)
Panel A: Market Reaction to Acquisitions by Politically Connected and Non-connected Bidders Conditional on change in bidder total Risk				
Panel AA: Change in Bidder total risk ((-30, +30) – (-120, -60))				
(A) Risk-increasing Deals	0.0223***	0.0306***	0.0161***	0.0145*
	578	246	332	
(B) Risk-decreasing Deals	0.0119***	0.0126***	0.0114***	0.0012
	495	195	300	
Diff. Test (A) - (B)	0.0104**	0.0179**	0.0047	
Panel AB: Change in Bidder total risk ((-20, +40) – (-120, -60))				
(A) Risk-increasing Deals	0.0232***	0.0321***	0.0169***	0.0152*
	574	236	338	
(B) Risk-decreasing Deals	0.0128***	0.0117***	0.0136***	-0.0019
	498	205	293	
Diff. Test (A) - (B)	0.0103*	0.0204**	0.0033	
Panel B: Market reaction to acquisitions by politically connected and non-connected bidders conditional on risky acquisitions i.e. unlisted target acquirers, glamour acquirers, frequent acquirers, and large deal acquirers.				
Panel BA: Unlisted Target (Information asymmetry)				
(A) Unlisted Target Acquirers	0.0202***	0.0264***	0.0158***	0.0105*

	988	403	585	
(B) Listed Target Acquirers	-0.0064	-0.0108	-0.0033	-0.0075
	109	44	65	
Diff. Test (A) - (B)	0.0266***	0.0372***	0.0192*	
Panel BB: Frequent Acquirers (Higher risk exposure)				
(A) Frequent Acquirers	0.0159***	0.0242***	0.0094*	0.0148**
	222	99	123	
(B) Infrequent Acquirers	0.0193***	0.0221***	0.0174***	0.0047
	875	348	527	
Diff. Test (A) - (B)	-0.0033	0.0021	-0.008	
Panel BC: Glamour (value-destroying acquisitions)				
(A) Glamour Acquirers	0.0195***	0.0257***	0.0146**	0.0111*
	530	235	295	
(B) Value Acquirers	0.0177***	0.0190**	0.0170***	0.002
	567	212	355	
Diff. Test (A) - (B)	0.0018	0.0067	-0.0024	
Panel BD: large Deals (Higher integration complexity)				
(A) Large Deals	0.0282***	0.0373***	0.0232**	0.0141*
	374	139	235	
(B) Medium Deals	0.0159**	0.0233**	0.0114**	0.0118*
	357	131	226	
(C) Small Deals	0.0075**	0.0112**	0.0039	0.0072
	366	177	189	
Difference Test				
A - B	0.0123*	0.014*	0.0118*	
B - C	0.0083*	0.0121*	0.0074	
A - C	0.0206***	0.0262**	0.0192**	

Table 4.6. Market Reaction to Acquisition by Politically Connected and Non-Connected Firms: Multivariate analysis

Panel A shows the results from the cross-sectional OLS regression of CAR (-2, +2) on measures of corporate political connection and other deal-and-bidder-specific characteristics for a sample of the UK acquirers of domestic targets announced over the period 2007 to 2017. Bidders are classified base on: i) change in total risk (column (2) through (5)); ii) acquirers of listed and unlisted targets (column (6) and (7) respectively); ii) value and glamour acquirers (column (8) and (9) respectively); iii) infrequent and frequent acquirers (column (10) and column (11) respectively); and iv) acquirers of Large and small (column (12) through column (14). The t-statistics based on heteroskedasticity-robust standard errors and bidder clustering are reported in parentheses. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The coefficients of the industry and year fixed effects are omitted for brevity. Variables are defined in Appendix A.

	ALL (1)	Δ in Bidder total risk ((-30, +30) – (-120, -60))		Δ in Bidder total risk ((-20, +40) – (-120, -60))		Listed Targets (6)	Unlisted Targets (7)	Value Acquirers (8)	Glamour Acquirers (9)	Infrequent Acquirers (10)	Frequent Acquirers (11)	Small Deals (12)	Medium Deals (13)	Large Deals (14)
		Risk decreasing deals (2)	Risk increasing deals (3)	Risk decreasing deals (4)	Risk increasing deals (5)									
Political connection (1/0)	0.010	0.004	0.021*	0.001	0.021*	-0.012	0.016**	0.003	0.017**	0.0092	0.024**	0.007	0.014*	0.027*
	(1.47)	(0.72)	(1.75)	(0.09)	(1.73)	(0.47)	(2.15)	(0.26)	(2.33)	(0.99)	(2.15)	(1.10)	(1.69)	(1.74)
Sigma	-0.362	0.653*	-0.688	0.624*	-0.549	1.95*	-1.098	-0.680	0.590	-0.489	0.222	-1.396	0.484	-0.478
	(-0.64)	(1.77)	(-0.63)	(1.70)	(-0.49)	(1.84)	(-1.54)	(-1.07)	(0.95)	(-0.78)	(0.39)	(1.01)	(1.29)	(-0.69)
Unlisted (1/0)	0.024**	0.022**	0.015	0.02***	0.014			0.008	0.031**	0.033**	-0.020	0.002	0.011	0.05**
	(2.14)	(2.13)	(0.84)	(2.64)	(0.80)			(0.48)	(2.1)	(2.50)	(-1.57)	(0.16)	(0.90)	(2.42)
All-Stock (1/0)	0.0130	-0.003	0.025	-0.005	0.026	-0.034	0.018	0.041	-0.020	0.014	-0.010	-0.006	-0.015	0.021
	(0.65)	(-0.03)	(0.96)	(-0.46)	(1.08)	(1.41)	(1.12)	(1.1)	(-1.14)	(0.83)	(-0.62)	(0.39)	(-1.47)	(0.82)
All-Cash (1/0)	0.004	0.002	-0.002	0.009	-0.004	0.04*	-0.005	0.010	0.004	0.005	-0.001	-0.007	0.011	-0.005
	(0.47)	(0.33)	(-0.17)	(0.99)	(-0.39)	(1.84)	(-0.66)	(1.00)	(0.41)	(0.57)	(-0.13)	(0.63)	(1.42)	(-0.33)
Stock Run-up	-0.004	-0.008	0.013	-0.005	0.012	-0.022	0.004	0.004	-0.007	-0.003	0.014	0.005	-0.03**	0.017
	(-0.25)	(-0.69)	(0.51)	(-0.41)	(0.47)	(0.75)	(0.24)	(0.17)	(-0.59)	(-0.16)	(0.61)	(0.25)	(-2.17)	(0.81)
Cash holding	-0.017	-0.035	-0.022	-0.004	-0.035	0.039	-0.015	-0.022	-0.002	-0.036	-0.037	0.047	-0.007	-0.12**
	(-0.71)	(-1.63)	(-0.62)	(-0.12)	(-1.09)	(0.52)	(-0.62)	(-0.5)	(-0.06)	(-1.25)	(-0.72)	(1.39)	(-0.30)	(-2.54)
Relative Size	0.004	-0.005*	0.006	-0.006*	0.006	0.000	0.013	0.003	0.015***	0.004	0.098***	0.026	0.179	0.002
	(0.82)	(-1.84)	(0.83)	(-1.93)	(0.81)	(0.22)	(1.40)	(0.68)	(2.98)	(0.92)	(2.67)	(0.20)	(1.51)	(0.58)
ROA	0.0031	0.006	0.012	0.002	0.008	0.026	-0.003	0.040**	-0.012	-0.001	-0.012	0.022	0.0004	-0.003
	(0.29)	(0.47)	(0.73)	(0.14)	(0.47)	(1.55)	(-0.23)	(2.12)	(-0.95)	(-0.07)	(-0.53)	(0.44)	(0.09)	(-0.16)
Ln(Size)	-0.006***	-0.001	-0.009**	-0.002	-0.008*	0.005	-0.006***	-0.012***	-0.003	-0.007**	0.001	-0.003	-0.001	-0.002
	(-2.84)	(-0.80)	(-2.38)	(-0.78)	(-1.97)	(0.68)	(-2.63)	(-3.06)	(-1.32)	(-2.54)	(0.20)	(0.81)	(-0.30)	(-0.42)

Diversifying Deals (1/0)	-0.001	-0.002	0.002	-0.010	-0.004	0.006	0.012**	-0.003	-0.004	-0.003	-0.004	0.006	0.003	0.010
	(-0.13)	(-0.40)	(0.18)	(-1.43)	(-0.36)	(0.26)	(2.05)	(-0.23)	(-0.41)	(-0.39)	(-0.33)	(0.74)	(0.43)	(0.68)
MTB	-0.000	-0.001	0.000	-0.000	-0.000	0.005	-0.000	-0.000	-0.003***	-0.000	-0.003*	-0.000	-0.001	0.001
	(-0.67)	(-0.77)	(0.73)	(-0.26)	(-0.53)	(1.24)	(-0.51)	(-0.71)	(-3.35)	(-0.72)	(-1.71)	(0.75)	(-0.48)	(0.48)
Leverage	-0.038	-0.004	-0.065	-0.010	-0.062	0.002	-0.0453	-0.079**	0.025	-0.059*	0.031	-0.008	0.027	-0.088**
	(-1.46)	(-0.28)	(-1.28)	(-0.64)	(-1.27)	(0.02)	(-1.72)	(-2.06)	(1.41)	(-1.97)	(0.65)	(0.43)	(1.06)	(2.02)
Tobin's Q	0.002	0.004*	0.000	0.004	0.005	0.011*	-0.003	-0.001	0.012***	0.001	0.014	-0.002	0.010**	0.000
	(0.51)	(1.79)	(0.01)	(1.63)	(0.69)	(1.78)	(-0.67)	(-0.26)	(2.68)	(0.33)	(1.59)	(0.50)	(2.16)	(0.05)
Collateral	-0.001	0.016	-0.002	0.019	-0.004	-0.027	0.019	-0.002	0.030	-0.001	0.015	0.006	0.019	-0.006
	(-0.04)	(1.13)	(-0.05)	(1.29)	(-0.12)	(0.54)	(0.99)	(-0.1)	(1.17)	(-0.05)	(0.23)	(0.37)	(0.88)	(0.12)
% Blockholder Ownership	-0.004	0.002	-0.006	-0.001	-0.004	0.016	-0.006	-0.000	-0.002	-0.002	-0.007	-0.009	-0.003	0.003
	(-0.52)	(0.25)	(-0.48)	(-0.13)	(-0.33)	(0.68)	(-0.96)	(-0.01)	(-0.26)	(-0.27)	(-0.85)	(1.06)	(-0.43)	(0.23)
Regulated (1/0)	-0.017	-0.007	-0.032	-0.016*	-0.021	-0.024	-0.024**	-0.026	-0.012	-0.017	-0.011	-0.014*	-0.022*	-0.0310
	(-1.52)	(-0.91)	(-1.56)	(-1.90)	(-0.9)	(-0.46)	(-2.01)	(-1.19)	(-1.13)	(-1.27)	(-0.64)	(-1.72)	(-1.79)	(-0.80)
Intercept	0.070***	-0.031	0.089**	-0.028	0.081*	-0.132*	0.082***	0.121***	-0.001	0.096***	-0.008	0.056	-0.013	-0.025
	(2.99)	(-1.40)	(2.06)	(-1.31)	(1.71)	(-1.99)	(3.19)	(3.41)	(-0.01)	(3.21)	(-0.22)	(1.38)	(-0.41)	(-0.55)
Year Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
N	938	442	494	440	493	82	854	447	491	737	199	319	306	308
R-squared	0.069	0.132	0.126	0.103	0.115	0.335	0.121	0.145	0.137	0.089	0.209	0.144	0.173	0.214

Table 4.7: Market Reaction to Acquisitions by Politically Connected and Non-Connected Bidders Conditional on the Change in Bidder Total Risk: Instrumental Variable Approach and Propensity Score Matched Sample.

This table presents the results from the cross-sectional OLS regression of CAR (-2, +2) on measures of corporate political connection and other deal-and-bidder-specific characteristics from a sample of the UK acquirers of domestic targets announced over the period 2007 to 2017. Column (1) through (4) shows the results from the instrumental variable regression and column (5) and (6) presents results from the propensity score matched sample. The t-statistics based on heteroskedasticity-robust standard errors and bidder clustering are reported in parentheses. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. The coefficients of the industry and year fixed effects are omitted for brevity. Variables are defined in Appendix A.

	Instrumental Variable Regression				**Propensity Score Matched Sample**	
	Risk-Decreasing deals		Risk-Increasing deals		Risk-decreasing deals	Risk-increasing deals
	First stage regression (1)	Second stage regression (2)	First stage regression (3)	Second stage regression (4)		
Political Connection (1/0)		0.0085		0.1200*	0.0034	0.0247*
		(0.18)		(1.70)	(0.38)	(1.83)
CAPITAL	0.3542**		0.2494*			
	(2.40)		(1.79)			
Sigma	-11.7295	0.9708	-0.2852	-0.9649**	0.8713**	-1.3955**
	(-1.57)	(2.29)	(-0.04)	(-2.04)	(2.18)	(-2.68)
ROA	0.4782	0.0052	1.0903**	-0.0001	0.0039	0.0089
	(1.12)	(0.39)	(2.18)	(-0.01)	(0.40)	(0.40)
Stock Price Run-Up	-0.1236	-0.0129	0.0301	0.0205	-0.0224*	0.0309*
	(-0.56)	(-0.98)	(0.18)	(1.45)	(-1.84)	(1.95)
Cash-holding	-0.3303	-0.0163	0.7930*	-0.0304	-0.0344	0.0445
	(-0.61)	(-0.53)	(1.73)	(-0.77)	(-1.14)	(1.03)
Relative-Size	-0.0308	-0.0069**	0.1344**	0.0042*	-0.0093**	0.0084***
	(-0.23)	(-2.27)	(2.17)	(1.72)	(-2.75)	(3.75)
Leverage	-0.3934	-0.0115	-0.8835**	-0.0449	-0.0097	-0.0403
	(-0.90)	(-0.79)	(-2.01)	(-1.23)	(-0.41)	(-0.94)
Collateral	0.0802	0.0134	0.1671	-0.0126	0.0104	0.0124
	(0.21)	(0.87)	(0.46)	(-0.41)	(0.44)	(0.37)
Tobin's Q	-0.0713	0.0053	-0.1901**	0.0005	0.0084**	0.0042
	(-0.87)	(1.53)	(-2.35)	(0.12)	(2.23)	(0.90)
MTB	-0.0188	-0.0001	0.0186*	-0.0003	0.0004	-0.0024***
	(-0.89)	(-0.16)	(1.99)	(-1.05)	(0.31)	(-3.04)
Ln(Size)	0.1572***	-0.0038	0.1955***	-0.0144**	-0.0028	-0.0060

	(3.18)	(-1.35)	(4.54)	(-2.72)	(-0.96)	(-1.52)
% Blockholder Ownership	0.0416	0.0039	-0.0578	-0.0044	0.0072	0.0064
	(0.27)	(0.58)	(-0.38)	(-0.35)	(0.82)	(0.46)
Diversifying Deals (1/0)	-0.1019	-0.0039	-0.1258	0.0071	-0.0093	-0.0187
	(-0.74)	(-0.59)	(-0.92)	(0.61)	(-1.15)	(-1.40)
Regulated (1/0)	0.1253	-0.0075	0.8344**	-0.0552*	-0.0056	-0.0379
	(0.44)	(-0.85)	(2.75)	(-1.82)	(-0.33)	(-1.44)
Unlisted (1/0)	0.3296	0.0177	0.0879	0.0209	0.0171	0.0221
	(1.23)	(1.48)	(0.37)	(1.08)	(1.10)	(1.03)
All-Shares (1/0)	-0.6522	0.0075	-0.8992***	0.0472*	-0.0049	-0.0031
	(-2.57**)	(0.44)	(-3.95)	(1.91)	(-0.30)	(-0.12)
All-Cash (1/0)	0.0029	0.0115	0.1086	-0.0052	0.0119	0.0084
	(0.02)	(1.26)	(0.75)	(-0.42)	(1.23)	(0.55)
Intercept	-0.2207	-0.0158	-0.9654**	0.0454	-0.0335	0.0320
	(-0.35)	(-0.45)	(-2.01)	(0.86)	(-1.05)	(0.76)
Year Fixed Effects	YES	YES	YES	YES	Yes	Yes
Industry Fixed Effects	YES	YES	YES	YES	Yes	Yes
Pseudo R^2(R-squared)	0.1345	(0.1081)	0.1738	(0.1342)	(0.1222)	(0.1385)
N	440	440	489	489	350	396

Table 4.8. Corporate Political connections and Post-Acquisition Financial Leverage

This table presents the results of the change in industry-adjusted financial leverage regressions. The dependent variable is the change in acquirer's industry-adjusted book leverage (ΔIALEV), calculated as the difference between an acquirer's industry-adjusted book leverage in the second year after merger completion and its specific industry adjusted book leverage in the year prior to acquisition announcement (following Phan, 2014) . Industry-adjusted book leverage is examined as the difference between an acquirer's book leverage and its 2-digit industry SIC code median book leverage. Bidder-and-deal-specific characteristics as control variables were included. Deal-and-bidder-specific characteristics, for a sample, of the UK acquirers of domestic targets announced over the period January 1, 2007 to December 31, 2015 were included. The *t*-statistics based on heteroskedasticity-robust standard errors and bidder clustering are reported in parentheses. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively. The coefficients of the year and industry fixed effects are omitted for brevity. Variables are defined in Appendix A.

	(1)	(2)
Political connection (1/0)	0.0317**	0.0280**
	(2.48)	(2.18)
Sigma	-0.2286	-0.5045
	(-0.28)	(-0.62)
Unlisted (1/0)	-0.0350	-0.0341
	(-1.29)	(-1.25)
All-Shares (1/0)	-0.0059	-0.0027
	(-0.25)	(-0.12)
All-Cash (1/0)	-0.0028	-0.0029
	(-0.20)	(-0.21)
Stock Price Run-up	0.0089	0.0127
	(0.37)	(0.50)
Cash holding	-0.1739**	-0.1903**
	(-2.02)	(-2.29)
Relative Size	-0.0008	-0.0007
	(-0.57)	(-0.45)
ROA	0.0481**	0.0450**
	(2.05)	(2.02)
Ln(Size)	0.0051	0.0053
	(1.35)	(1.43)
MTB	0.0019**	0.0018**
	(2.43)	(2.27)
Cash-Ratio	0.1383*	0.1435*
	(1.80)	(1.87)
Tobin's Q	-0.0091	-0.0092
	(-1.53)	(-1.55)
Collateral	0.1139***	0.1023**
	(2.77)	(2.28)
Pre-bid Book Leverage	-0.4459**	-0.4495***
	(-4.67)	(-4.49)

Regulated (1/0)	0.0178	0.0199
	(0.98)	(1.06)
Diversifying Deals (1/0)	0.0087	0.0041
	(0.77)	(0.37)
Intercept	0.0010	-0.0309
	(0.03)	(-0.74)
Year Fixed Effects	NO	YES
N	736	736
Adjusted R^2	0.2688	0.2823

Table 4.9. Political Connections and Bidder Acquisition Behaviour

This table presents the results on the acquisition behaviour of connected bidders. The dependent variable in column (1) takes a value of one (1) if the target firm is from the heavily regulated industry and zero (0) otherwise. In column (2) the dependent variable takes a value of one (1) if the acquirer and target belong to same 2-digit SIC code industries and zero (0) otherwise. In Column (3) through (6), the dependent variable is the natural logarithm of the total number of domestic acquisitions each firm makes from the year 2007 to 2017. The sample period is from January 1, 2007 to December 31, 2017 for UK acquirers of domestic targets. The t and z-statistics are reported in parentheses. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively. The coefficients of the industry and year fixed effects are omitted for brevity. Variables are defined in Appendix A.

	Regulated Target Acquisitions	**Non-Diversifying Acquisitions**	**Number of Acquisitions**			
	Probit Model	**Probit Model**	**OLS Model**		**Tobit Model**	
	(1)	(2)	(3)	(4)	(5)	(6)
Political connection (1/0)	0.2187**	0.1983**	0.1226*	0.1306*	0.1237*	0.1319*
	(2.09)	(2.16)	(1.67)	(1.71)	(1.73)	(1.83)
Sigma	-15.1117	3.9856	-1.7794	-1.7123	-1.7830	-1.7109
	(-1.59)	(1.00)	(-0.69)	(-0.63)	(-0.73)	(-0.69)
Unlisted (1/0)	0.0925	-0.2193	0.1952*	0.1723	0.1955*	0.1724
	(0.48)	(-1.32)	(1.93)	(1.63)	(1.78)	(1.54)
All-Stock (1/0)	-0.1436	-0.1175	0.2246*	0.2293*	0.2243**	0.2291**
	(-0.62)	(-0.65)	(1.68)	(1.67)	(2.08)	(2.11)
All-Cash (1/0)	-0.1051	-0.1265	0.0165	0.0182	0.0173	0.0189
	(-0.88)	(-1.24)	(0.21)	(0.23)	(0.24)	(0.26)
Stock Run-up	-0.0352	-0.1779	0.0957	0.0934	0.0959	0.0934
	(-0.17)	(-1.48)	(1.07)	(0.99)	(1.20)	(1.14)
Cash holding	2.1180***	-0.6678**	-0.1177	-0.1628	-0.1173	-0.1629
	(6.02)	(-2.11)	(-0.57)	(-0.76)	(-0.57)	(-0.77)
Relative Size	0.0154	0.0024	-0.0119	-0.0121	-0.0119	-0.0121
	(0.85)	(0.11)	(-0.64)	(-0.62)	(-0.79)	(-0.79)
ROA	0.1826	-0.1426	-0.0715	-0.0708	-0.0718	-0.0711
	(0.85)	(-0.85)	(-0.76)	(-0.75)	(-0.68)	(-0.67)
Ln(Size)	0.0018	-0.0174	-0.0271	-0.0285	-0.0274	-0.0287
	(0.05)	(-0.62)	(-1.43)	(-1.47)	(-1.39)	(-1.44)
MTB	0.0101	0.0027	0.0040	0.0044	0.0040	0.0044
	(1.58)	(1.05)	(0.77)	(0.82)	(0.80)	(0.87)
Leverage	0.8132***	-0.2029	0.4187***	0.4208***	0.4179**	0.4202**
	(2.72)	(-0.73)	(2.75)	(2.72)	(2.29)	(2.28)
Tobin's Q	-0.2781***	-0.0050	-0.0202	-0.0194	-0.0205	-0.0196
	(-3.36)	(-0.14)	(-1.05)	(-0.95)	(-0.89)	(-0.85)
Collateral	-0.0693	0.9613***	-0.4378	-0.4252***	-0.4375***	-0.4248***
	(-0.25)	(3.70)	(-3.02)	(-2.8)	(-2.76)	(-2.61)
% Blockholder Ownership	0.1622	-0.1341	-0.0693	-0.0600	-0.0690	-0.0597
	(1.31)	(-1.32)	(-0.9)	(-0.76)	(-0.93)	(-0.79)

Regulated (1/0)		-0.0823	-0.0938	-0.1670	-0.0944	-0.1676
		(-0.44)	(-1.08)	(-1.09)	(-1.08)	(-1.26)
Diversifying Deals (1/0)	-0.1121		-0.0153	-0.0022	-0.0163	-0.0031
	(-1.08)		(-0.21)	(-0.03)	(-0.25)	(-0.05)
Intercept	-1.0933**	0.8580**	0.8856***	0.9435***	0.8856***	0.9445***
	(-2.53)	(2.64)	(4.25)	(4.24)	(4.27)	(4.34)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	NO	YES	NO	YES	NO	YES
N	937	932	410	410	410	410
Wald statistic	77.69	87.16				
Pseudo-R^2 (R-squared)	0.104	0.0757	(0.1036)	(0.1133)	0.0532	0.0585

Table 4.10: Explaining the Association between Political Connections and bidder total risk: instrumental variable regressions.

Column (1) through (4) presents the results from the change in bidder total risk using the instrumental variable approach. Change in bidder risk is measured in two ways: Change in acquirers' risk is computed as bidder standard deviation of daily (excess) stock returns over the event window (− 30, + 30) days around acquisition announcement minus the one over the period (− 120, − 60) days before deal announcement date. Excess stock return is defined as the difference between a bidder's stock return and the FTSE All-Share Index. Deal-and-bidder-specific characteristics for a sample of the UK acquirers of domestic targets announced over the period 2007 to 2017 were included. The *t and z*-statistics based on heteroskedasticity-robust standard errors and bidder clustering are reported in parentheses. The symbols ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively. The coefficients of the year and industry fixed effects are omitted for brevity. Variables are defined in Appendix A.

	Return Volatility		Excess Return Volatility	
	First stage regression (1)	Second stage regression (2)	First stage regression (3)	Second stage regression (4)
Political Connection (1/0)		0.0234**		0.0185*
		(2.23)		(1.78)
CAPITAL	0.2279**		0.2279**	
	(2.31)		(2.31)	
Sigma	-2.3192	-0.5819***	-2.3192	-0.5455***
	(-0.46)	(-9.7)	(-0.46)	(-9.22)
ROA	0.5772	-0.0005	0.5772	-0.0007
	(1.60)	(-0.21)	(1.60)	(-0.29)
Stock Price Run-Up	-0.0375	0.0022	-0.0375	0.0015
	(-0.29)	(1.14)	(-0.29)	(0.77)
Cash-holding	0.2329	0.0029	0.2329	0.0013
	(0.69)	(0.58)	(0.69)	(0.25)
Relative-Size	0.0455**	-0.0021***	0.0455**	-0.0021***
	(2.76)	(-6.32)	(2.76)	(-6.26)
Leverage	-0.5381*	0.0077	-0.5381*	0.0074
	(-1.82)	(1.65)	(-1.82)	(1.62)
Collateral	0.0459	-0.0015	0.0459	-0.0010
	(0.18)	(-0.38)	(0.18)	(-0.26)
Tobin's Q	-0.1219**	-0.0007	-0.1219**	-0.0008
	(-2.28)	(-1.05)	(-2.28)	(-1.20)
MTB	0.0095	0.0001	0.0095	0.0001*
	(1.15)	(1.38)	(1.15)	(1.89)
Ln(Size)	0.1795***	-0.0034***	0.1795***	-0.0028***
	(5.91)	(-4.16)	(5.91)	(-3.56)
% Blockholder Ownership	-0.01948	-0.0006	-0.01948	-0.0007
	(-0.19)	(-0.37)	(-0.19)	(-0.44)
Diversifying Deals (1/0)	-0.1203	0.0021	-0.1203	0.0023
	(-1.31)	(1.35)	(-1.31)	(1.48)

Regulated (1/0)	0.5671**	-0.0063*	0.5671**	-0.0049
	(2.86)	(-1.73)	(2.86)	(-1.38)
Unlisted (1/0)	0.2468	-0.0022	0.2468	-0.0015
	(1.44)	(-0.80)	(1.44)	(-0.55)
All-Shares (1/0)	-0.3715*	0.0058*	-0.3715*	0.0064**
	(-1.96)	(1.87)	(-1.96)	(2.09)
All-Cash (1/0)	0.0191	-0.0022	0.0191	-0.0027
	(0.18)	(-1.32)	(0.18)	(-1.64)
Intercept	-1.4366***	0.0228***	-1.4366***	0.0261***
	(-4.22)	(4.00)	(-4.22)	(4.66)
Year Fixed Effects	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES
Pseudo R^2(R-squared)	0.1201	(0.2340)	0.1201	(0.2281)
N	936	936	936	936

Chapter 5

Conclusion

This thesis studies the impact of political connections on corporate activity. Specifically, it examines the roles of political connections on seasoned equity offerings, share repurchases, and M&A. These company activities' choice is based on gaps in the literature and their importance to the firms.

To summarise the findings, it has been established that issuers whose directors have a political background enjoy lower SEO floatation costs in terms of lower gross spreads and less negative market reaction. The evidence is pronounced in primary issues, where agency conflicts might be less. The findings withstand rigorous control for the endogeneity of political connections. Notably, the empirical results are consistent with the argument that political connections provide connected firms with cheaper capital costs. The results further show that political connections are negatively associated with SEO proceeds, lending support to the notion that political connections rely more on debt.

Turning to the impact of political connections on share repurchases, it is found that political connections are positively associated with the repurchaser's stock returns around the share repurchase announcement period and in the long term. The post-repurchase operating performance is also higher for politically connected firms. The results also show that political connections are positively associated with the probability of a company repurchasing firms and the value of shares repurchased.

As for the impact of political connections on mergers and acquisitions, it has been found that political connections are positively associated with bidder post-acquisition financial leverage and equity return volatility around the M&A announcement period. Further evidence shows that politically connected bidders acquired more firms and are less likely to diversify. Also, they purchased more firms from the heavily regulated industries than non-connected

acquirers, suggesting that connected firms are confident that they can navigate the regulations in these industries strictly regulated by the government.

While the three studies reveal new channels through which political connections affect corporate activities, the overall evidence is broadly consistent with the literature.

This thesis has important implications for both researchers and practitioners. First, this research sheds new light on the impact of political connections on access to external capital. Previous literature has focused on the effects of political connections on access to bank loans and the initial public offerings process. However, this study shows that political connections affect SEO flotation costs. As a consequence, this thesis establishes novel evidence that issuers whose directors have a political background enjoy lower gross spreads and less adverse market reaction to SEO announcements. This is consistent with the notion that political connections provide connected firms with a cheaper cost of capital.

Regarding the result that political connections are negatively associated with SEO proceeds, it implies that political connections enable connected firms to reduce reliance on external equity capital that decreases shareholders value and increases share outstanding. The results concerning politically connected firms' performances better than non-connected firms following share repurchase announcements imply that political connections make firms more competitive. Importantly, to the best of the author's knowledge, no other study has examined the impact of political connections on share repurchase performance. To the practitioners, the evidence shows that the market prefers buyback programs of firms with cheaper access to capital since it reduces the agency problem of free cash flow. The results regarding the higher probability of repurchasing shares by connected firms should be of particular interest to short-term shareholders that seek quick turnover on their investments. The results concerning fast acquisition completion and firms' acquisition in the heavily regulated by connected firms imply

that connected firms provide firms in the UK with non-public information about how to navigate regulations. The results also caution that politically connected firms are more likely to engage in risk increasing M&A deals.

To conclude, this study has some limitations that could be fruitful if addressed in future work. For example, this study uses USA seasoned equity offerings data. Therefore, it would be valuable to determine whether the results are robust for countries (e.g., China, India, Nigeria, Pakistan, and South Africa) that are different from the USA regarding culture, institutional quality, investor sentiments, and regulations, etc. Concerning share repurchases, it would be interesting to determine whether connected firms' managers have incentives that motivate them to repurchase shares. Specifically, it will be interesting to determine whether executives of politically connected firms have equity-incentive compensation that drives them to repurchase shares. Finally, the UK M&A sample starts in 2007 and ends in 2017. A natural extension of this study is to examine whether Brexit does not impact the findings. Therefore, it would be valuable to test whether the findings that political connections induce risk-increasing deals will be robust in other markets such as the USA and China.

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