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Political Contributions and Firm Performance:
Evidence from Lobbying and Campaign Donations

A Dissertation

Submitted to the Graduate Faculty of the
University of New Orleans
In partial fulfillment of the
Requirements for the degree of

Doctor of Philosophy
in
Financial Economics

By
Omer Unsal
B.A. Yildiz Teknik University, 2011
M.B.A. Western Michigan University 2013
M.S. University of New Orleans, 2015
May, 2017

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Dedication

To my parents, Sakir and Canan, words are not adequate to thank you for your endless encouragement, love, and sacrifice while I pursued my Ph.D.; I have earned this degree for you. To my darling sister, Ozge, who without her support none of this would have been possible. Thank you for your loving support of me over the years as I have pursued my goals to obtain my PhD.

Acknowledgement

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Abstract

The following dissertation contains two distinct empirical essays which contribute to the overall field of Financial Economics. Chapter 1 titles as “Corporate Lobbying, CEO Political Ideology and Firm Performance”. We investigate the influence of CEO political orientation on corporate lobbying efforts. Specifically, we study whether CEO political ideology, in terms of manager-level campaign donations, determines the choice and amount of firm lobbying involvement and the impact of lobbying on firm value. We find a generous engagement in lobbying efforts by firms with Republican leaning-managers, which lobby a larger number of bills and have higher lobbying expenditures. However, the cost of lobbying offsets the benefit for firms with Republican CEOs. We report higher agency costs of free cash flow, lower Tobin’s Q, and smaller increases in buy and hold abnormal returns following lobbying activities for firms with Republican managers, compared to Democratic and Apolitical rivals. Overall, our results suggest that the effects of lobbying on firm performance vary across firms with different managerial political orientations. Chapter 2 titled as “Corporate Lobbying and Labor Relations: Evidence from Employee” Litigations. We utilize employee litigations and other work-related complaints to examine if lobbying firms are favored in judicial process. We gather 27,794 employee lawsuits (after initial court hearing) between 2000 and 2014 and test the relationship between employee allegations and firms’ lobbying strategies. We find that employee litigations increase the number of labor-related bills in our sample. We document that the increase in employee lawsuits may drive firms into lobbying to change policy proposals. We also find robust evidence that the case outcome is different for lobbying firms compared to non-lobbying rivals, which may protect the shareholder wealth in the long run. Our results present that lobbying activities may make a significant difference in employee allegations. Our findings highlight the benefit of building political capital to obtain a biased outcome in favor of politically-connected firms.

Keywords: Corporate Lobbying, CEO Political Ideology, Corporate Governance, Agency Problem, Excess Returns

Chapter 1

Corporate Lobbying, CEO Political Ideology and Firm Performance

1. Introduction

This paper investigates the cause and consequences of corporate political lobbying in the U.S. and examines whether manager political ideology affects corporate lobbying actions and their ultimate contribution to firm value. The concept of corporate lobbying and firm performance has been an ongoing debate in the finance literature. From a shareholder perspective, corporate political lobbying is a strategic action that, through potential legislative and regulatory actions, may shift market opportunities in favor of the firm and/or the operating industry, thus increasing firm value through increased cash flows, or reduced firm operational risk. However, the firm's managers, namely CEOs, who have their own personal political ideologies, are charged with establishing firm lobbying policy. Thus, an agency problem arises in the context of the corporate lobbying decision. The personal political beliefs of the CEO, combined with the perceived influence derived from the close access to politicians that corporate lobbying provides, can provide personal benefits to CEOs that are independent of changes in the value of the firm. Thus, the extent to which the lobbying agency costs exist and under what conditions they exist are of key importance to shareholders.

Firm engagement in political strategy is defined as an advantage whereby campaign donations and/or lobbying expenditures ultimately increase firm value through the building of political capital (Goldman et al., 2009; Johnson and Mitton, 2003; Boubakri et al., 2012; Hill et al., 2013; Faccio, 2006; Niessen and Ruenzi, 2009, Cooper et al., 2010; Blau et al., 2013; Kroszner and Stratmann, 1998; Stratmann, 1995; and Chen et al., 2015). The main motivation to engage in political strategy is to endorse political actions on behalf of the firm's interests. Particularly, the firm's goal is to persuade politicians who, in turn, may become willing to support political acts that benefit the lobbying firms. Thus, the primary focus of this study is lobbying, which is a channel for firms to use their financial resources to impact policy proposals. However, agency costs may impact whether such political strategies are ultimately effective. Accordingly, we ask whether or not a CEO's personal political contributions affect those of their firms and the degree to which such an effect results in changes in firm value.

Manager political orientation affects both firm performance and firm-level decision making processes. For example, Republican managers apply financially conservative policies (Hutton et al. 2014), and Democrat managers are more socially responsible (Di Giuli and Kostovetsky, 2014). Therefore, we hypothesize that manager political ideology could also explain the entry decision to lobbying activities, as well as the amount of involvement in lobbying itself.

One possible explanation of a relation between manager political ideology and corporate policy and lobbying decisions is that the manager's political ideology is consistent with the goals of the firm, and managers are selected to fulfill those goals. Therefore, the manager's personal political interests are aligned with those of the firm, managers conduct optimal lobbying actions, agency costs are low, and there is the potential for the firm to benefit from corporate lobbying. On the other hand, it may be the case that the existence of agency costs induces managers to enact lobbying policies that are sub-optimal. For example, the manager's personal political convictions, whether aligned with those of the firm or not, may cause the manager to overinvest in lobbying activities at the expense of shareholders. As a result, lobbying expenditures and agency costs increase, causing firm value to decline. Agency costs under these circumstances would be highest for firms with weak governance. Finally, there are many CEOs and firms that contribute to candidates and issues of both political parties. In this case, managers may see investing in political capital across both parties as a hedge against future policy actions that may harm the firm. In this case, the ultimate effect of firm lobbying activities on firm value is unclear.

The relative importance of CEO political orientation on firm lobbying decisions and firm agency costs has not been explicitly investigated at the firm level in previous studies. We fill this gap in the literature by empirically testing a) how CEO political orientations determine firm lobbying behaviors, and b) whether corporate lobbying efforts create a value enhancing opportunity for lobbying firms across firms with different managerial political ideologies. Our study represents an initial analysis of a new panel dataset of individual CEO-level political contributions and corporate lobbying. First, we analyze whether manager political orientation is a determinant of corporate lobbying activity. We then examine whether the lobbying outcomes across distinct CEO ideologies contribute to shareholder wealth maximization.

Our sample consists of 2,503 unique firms and 4,585 distinct CEOs from the Compustat Executive Compensation (ExecuComp) database between 2000 and 2012, and we find strong evidence that corporate lobbying outcomes vary in accordance with the political orientation of the managers. Initially, we find that firms with Republican-leaning CEOs are lobbying the greatest number of bills and issues, have relatively larger lobbying expenditures, and employ a higher number of lobbyists. Hutton et al. (2014) find that Republican managers make less risky corporate decisions, have less debt and leverage, hold less tangible assets, and make safer investments. Additionally, we document a generous engagement in lobbying efforts by Republican-leaning CEOs, who enact lobbying as an overall corporate strategy.

We next investigate whether the benefits of corporate lobbying drives the lobbying efforts. We focus on the CEO and board characteristics of lobbyist firms. We determine if lobbying introduces principal-agent problems, where the upper-level managers' decisions are not in the shareholders' interest (Jensen and Meckling, 1976). We find that lobbying CEOs earn higher compensation, i.e. total compensation, salary, and cash, compared to non-lobbying firm peers. In addition, lobbying CEOs have higher ownership in their firms and are associated with weaker governance, i.e. busy boards (Skaife et al., 2013). In this situation, if lobbying fails to create firm value, then only the managers, not the shareholders, would actually benefit from corporate lobbying efforts.

Finally, we estimate the relationship between firm performance and lobbying and show that firms with Republican-leaning CEOs experience relatively poorer firm performance in terms of decreases in Tobin's Q, increases in agency conflicts, and the lowest increase in buy-and-hold abnormal returns, compared to firms with Democrat and Apolitical CEOs. On the other hand, the results reveal that lobbying has no effect on the Tobin's Q and agency costs of firms with Democrat-leaning managers, and these firms yield positive abnormal returns. Our results imply that Democrat-leaning firms do experience some benefits from lobbying, while the increase in buy-and-hold abnormal returns seen by Republican-leaning lobbying firms comes at the cost of increased agency costs and reductions in Tobin's Q.

Our results are not surprising, given that firms with Republican-leaning managers are shown to have higher political expenditures and heavy involvement in lobbying efforts. The results signify that firm performance appears to be different across the lobbying firms with managers of differing

political orientations. We find that some managers lobby even though firm value is not maximized. This finding provides evidence of a potential agency conflict, whereby excessive lobbying activity decreases shareholder wealth (Skaife et al., 2013). While lobbying expenditures spent by firms is not subject to any limit for legislative proposals, our findings may imply an optimal amount of political lobbying, whereby the firm will receive lobbying benefits up to a point, after which additional lobbying expenditures make the lobbying ineffective in raising firm value. This could suggest a hypothetical optimal lobbying expenditure for firms, and expenditure above that point will be a potential agency cost, not a benefit, to the firm.

The paper proceeds as follows. We provide a summary of existing literature on firm-level political engagement in section 2. Section 3 describes our methodology and research hypotheses. In Section 4, we present the data. In Section 5 we discuss our findings, and we conclude in section 6.

2. Literature Review

Lobbying is a strategic process in which corporations attempt to influence government officials and politicians. In 2012, organizations spent approximately \$3.30 billion on lobbying efforts.¹ Additionally, lobbying expenditures were nine times greater than individual political campaign donations (Kerr et al., 2011). Direct individual donations to politicians are limited to \$5,000 per candidate per election cycle, while there is no restriction on the amount firms can spend on lobbying.²

Due to a potential agency problem, lobbying efforts should be implemented only if lobbying provides shareholder benefits. However, the managers of lobbyist firms can potentially expend firm resources, but fail to obtain better firm performance for the shareholders. When the agency costs of lobbying are low, lobbying may contribute the firm value by providing high excess returns (Mathur et al., 2013; Borghesi and Chang, 2012). Such an explanation of lobbying behavior is consistent with our results showing both Democrat-leaning and Apolitical CEOs engage in less lobbying by expending less on lobbying activities, compared to Republican-leaning CEOs.

Lobbying efforts have the potential to modify official legislative acts, which could lead to changes in firm revenue, sales and expenditures, by providing tax policy benefits (Richter et al., 2009),

¹ <http://www.opensecrets.org/lobby/>

² <http://www.fec.gov/pages/brochures/contriblimits.shtml>

influencing visa and trade policy (Kerr et al., 2011), or preventing corporate fraud detection (Yu and Yu, 2012). Lobbying is also found to be positively related to market and accounting measures of firm performance (Chen et al., 2015), serves shareholders' interests by increasing firm value (Hill et al., 2013), promotes accounting conservatism (Kong et al., 2013), and increases firm value for corporations operating in heavily regulated industries (Agrawal and Knoeber, 2000).

Outperforming PAC donations, lobbying expenditures doubled between 1999 and 2006, when firms recognized the importance of effective lobbying (Blanes i Vidal et al., 2012). Subsequently, firms are found to increase their lobbying expenditure if the political geography shifts to an area that is not closely affiliated with the President (Antia et al., 2013). More importantly, firm lobbying actions are determined by the amount of entry cost (Bombardini, 2008).

The critical issue of firm involvement in politics is whether firms actually gain benefits from engagement. The main reason for firm lobbying is to access favor from the American political system (de Figueiredo and Richter, 2013). U.S. firms that make donations to political campaigns are found to have well established access to politicians (Kroszner and Stratmann, 1998). Additionally, lower agency costs of free cash flow are reported for politically diverse boards, with regard to their corporate PAC³ contributions (Kim et al., 2013). Similarly, PAC contributing firms are reported to exhibit better stock performance, while helping corporations develop a relationship with politicians (Goldman et al., 2009), which again yield to positive stock price reactions if the supported candidate is elected (Cooper et al., 2010).

For this reason, it is legitimate that firms may decide to enter politics in a manner in which they presume political connections as a feasible opportunity to establish shareholder wealth. Lobbying is one such political involvement, as well as PAC contributions. Firms are found to spend larger amounts in lobbying efforts, compared to PAC activity (Hill et al., 2013). Since firms allocate greater expenditures on lobbying, influencing legislative proposals would benefit the firms in terms of greater success in securing bailout assistance (Duchin and Sosyura, 2012), decreased taxes on firms' repatriated earnings (Alexander et al., 2009), lower effective corporate tax rates (Richter

³ Political Action Committee, designed for the aim of raising and spending money to either elect or defeat political candidates. Most of the political contributions are introduced as business, labor or ideological interests.

et al.; 2009), and a higher likelihood to receive more TARP (Trouble Asset Relief Program) funds (Blau et al., 2013), which suggests that lobbying serves shareholder interests.

A vital issue in firm political engagement is whether managers are using firm resources for private gain. Thus, there may actually be an agency issue in which CEO decisions regarding political actions is driven by self-interest. Richter et al. (2009) suggests that lobbying activity is not completely observable and, therefore, not all of its outcomes are traceable into law. As a result of this agency cost problem, lobbying has no effect on Tobin's Q and does not create any long term benefit for the corporation (Hersh et al., 2008). Lobbying could be derived from unethical practices (Borisov et al., 2014), and lobbyist CEOs earn greater compensation, compared to CEOs of non-lobbying firms (Skaife et al., 2013). Besides, political engagement may result in lower cumulative abnormal returns, compared to firms with no donations, (Aggarwal, et al., 2012) or contributions may not serve shareholder interests, but rather, contributions become the personal and political instruments of the CEOs and other executives, resulting in higher agency costs (Bebchuk and Jackson, 2010).

Although it may be true that political connections attract firms to engage in lobbying actions, our work highlights the potential implication of a resulting severe agency cost problem. Our research is similar to Skaife et al., (2013), Borghesi and Chang (2012), Hill et al. (2013), who analyze the value of lobbying, but we differ from them by analyzing the influence of CEO political ideology on lobbying efforts. Departing from other major empirical findings regarding lobbying effort and firm performance, we conclude that high levels of lobbying action lowers firm value and increases agency conflicts that are borne by shareholders.

3. Methodology

In estimating parameters in our empirical models, the political ideology of CEOs is the main explanatory variable. We also include a set of firm specific control variables to measure the relationship between corporate lobbying and firm performance.

Following Hutton et al. (2015), the political ideology of a CEO is measured by

$$CPID = \frac{\textit{Contribution to Republican Party} - \textit{Contribution to Democratic Party}}{\textit{Total Contribution}} \quad (1)$$

The variable *Cpid* is a measure with boundaries of +1, which is equal to extreme Republican and (-1), which is equal to extreme Democrat. If a CEO does not make any contribution that year, we assume $Cpid = 0$. To identify the relationship between lobbying and CEO political ideology and other control variables on the financial well-being of companies, we use two approaches: Linear logistic regression and fixed effect panel regression.

Our main focus is to examine how CEO political orientation determines firm value in response to lobbying strategy. At the same time, we acknowledge the potential agency conflict inside the lobbyist firms if the lobbying decisions are driven by CEO self-interest, rather than protecting shareholder wealth. For that reason, we examine the lobbying effort of politically diverse managers, while considering a possible agency problem. For this purpose, we hypothesize that

H.1: All other things equal, Republican managers lobby a larger number of bills. ($\beta_1 > 0$)

$$\bullet \text{Number of Bills} = \beta_0 + \beta_1 \text{RepCeo} + \sum \beta_s \text{Controls} \quad (2)$$

The number of bills is the log transformation of the number of bills lobbied in a given calendar year. *RepCEO* is a binary variable and equal to one if $Cpid > 0$ and zero otherwise. *RepCEO* estimates how many more bills are lobbied by firms with Republican-leaning managers, compared to rivals. Controls include firm specific variables such as firm size, financial leverage, tangibility, ROA, Herfindahl Index, and firm age.

H.2: All other things equal, Republican CEOs expend on lobbying. ($\beta_1 > 0$)

$$\bullet \text{Lobbying Expenditure} = \beta_0 + \beta_1 \text{RepCeo} + \sum \beta_s \text{Controls} \quad (3)$$

Lobbying expenditure is the log transformation of expenditure spent on lobbying in a given calendar year. *RepCEO* is a binary variable and equal to one if $Cpid > 0$ and zero otherwise. *RepCEO* measures how much more is spent on lobbying by firms with Republican-leaning managers, compared to rivals. Controls include the same set of firm specific variables.

H.3: All other things equal, lobbying influences CEO and board characteristics.

$$\bullet \text{Lobbyist Firm} = \beta_0 + \beta_1 \text{CPID} + \beta_2 \text{CEO\&BoardChar} + \sum \beta_s \text{Controls} \quad (\beta_1 > 0, \beta_2 > 0) \quad (4)$$

Lobbyist firm is the dependent variable and equal to one if the firm has lobbying activity, zero otherwise. First, we use CPID to measure if a firm exhibits lobbying activity in response to having a Republican CEO. Then, we examine the potential agency problem in terms of excess CEO pay and board characteristics. We introduce various CEO pay forms such as salary, cash, total compensation, and total compensation including options. We interpret “excess” CEO compensation as the CEO pay which is not fully explained by the market determinants of pay (Core et al., 2008). We also include board specific governance variables such as CEO ownership, board size and busy boards. Our investigation aims to examine whether higher compensation and weaker governance are lobbyist firm characteristics. In this case, if lobbying fails to create firm value, then only the managers and not the shareholders would actually benefit from the lobbying action. Next, we test if greater involvement in lobbying has a positive effect on firm value;

H.4: All other things equal, lobbying affects firm performance.

$$\bullet \text{ Firm Performance} = \beta_0 + \beta_1 \text{LobbyBills} + \sum \beta_s \text{Controls} (\beta_1 > 0) \quad (5)$$

To further investigate the impact of agency costs, we analyze the relationship between corporate lobbying and firm performance. In brief, finding an association between lobbying and poor firm performance can be explained by the agency problem and unexplained CEO compensation. In order to identify the effect of lobbying on shareholder wealth creation, we measure firm performance as Tobin’s Q, agency cost of free cash flow, and excess return over time. *LobbyBills* is a binary variable and it is equal to one if a firm is lobbying at least one bill in a given calendar year and zero otherwise. Controls include the same firm specific variables. We estimate the model by running a fixed effect panel regression⁴, and our main interest is the sign and magnitude of β_1 , which is the coefficient of *LobbyBills*. A large and negative value of β_1 indicates that lobbying decreases firm performance. For all tests in the study, we also generate binary variables for each industry and each year to capture panel fixed effects for the analysis.

⁴ Std. Errors are clustered for robustness check.

4. Data Description

4.1) Firm Data

We collect personal information for CEOs (i.e. age, full name, compensation, ownership, position on the board) and their firm affiliations from the ExecuComp database and RiskMetrics. Our sample begins in 2000 and ends in 2012.⁵ The sample includes 2,503 unique firms, 4,585 unique CEOs, and political contributions for 2,037 distinct CEOs for a total of 22,061 firm-year observations between 2000 and 2012. To measure firm performance, control variables are gathered from COMPUSTAT and the Center for Research Security Prices. We include all industries (no SIC restriction) and group them by their Fama-French 12 Industry classification and generate 12 industry dummy variables, such as Consumer Nondurables, Manufacturing, Oil-Gas and Coal Extraction Products, Wholesale, and Retail.

4.2) Political Contributions

Our motivation is to measure whether the political orientations of managers influence lobbying activities. Therefore, the CEOs' political orientation is the key variable of our paper. First, we identify a manager's political view by tracking his or her personal or PAC financial contributions to both Democratic and Republican parties during elections (senate, house, presidential and gubernatorial).

The financial contributions to political parties, candidates, or committees can be found on the Federal Election Committee (FEC) website.⁶ The contribution files include the contributor's name, occupation, year, and the amount of the money donated, among other variables. We match the executive names from ExecuComp with the FEC data to observe CEO donations. Most of the CEOs report their occupation or current employment position in the FEC contribution files. It is less likely to obtain the best matching results using computer based matching algorithm. Hence, we hand correct our results by name, surname, and suffixes (i.e. Mr, Mrs, Jr, II.) after matching ExecuComp names with the FEC data.

⁵ Our RiskMetrics data starts from 1998, but since some of the important variables before 1998 are missing; ExecuComp is used to calculate firm and CEO specific characteristics.

⁶ Election data starts from 1979 in <http://www.fec.gov>

4.3) Lobbying Information

Lobbying information is gathered from the Center for Responsible Politics (CRP).⁷ The data contain U.S. firms that are lobbying in a given calendar year. We calculate the expenditure amount spent on lobbying, the number of bills lobbied, the name of the lobbyist, and the topic of the bills using the CRP database. We match the CRP data with our firms in the ExecuComp database by company name and year to find publicly traded firm contributions between 2000 and 2012. We also use the Congressional Bills Project database⁸ to track the lobbied bills that are passed in both the Senate and House of Representatives.

Table 1 shows descriptive statistics for our sample at the individual CEO and firm levels. As shown in Panel A, over the 12 year span of our sample period, CEO donations averaged \$2,643 yearly, while Republican candidates received almost \$3,000 more in contributions than Democratic candidates. In addition, the mean of *Cpid* is 0.18 for the managers in our study, suggesting that CEOs are more aligned with the Republican Party.

Panel B of Table 1 represents lobbying characteristics at the firm level. The number of bills lobbied is different than the number of issues lobbied, since one bill is able to contain several issues (topics) in it. The mean of number of bills lobbied is 3.97 and is smaller than the mean number of issues lobbied of 8.69. We also find average lobbying expenditure per bill is approximately \$610,000, yearly. Moreover, we report bills which are lobbied in U.S. Senate and U.S. House of Representatives. The average number of bills lobbied in the U.S. legislature is greater than the average number of bills passed to become law. Therefore, our findings may suggest that not all the bills are able to gain enough votes to overcome legal procedures. As a result, some firms increase their lobbying expenditure over time until the bill becomes law.

Panel C of Table 1 exhibits the CEO and board characteristics, and Panel D of Table 1.a reports results regarding the control variables used in the study. The detailed definitions of variables are described in the Appendix.

⁷ www.opensecrets.org/lobbying

⁸ <http://www.congressionalbills.org/>

Table 1
Summary Statistics

Variables	N	Mean	Median	Std.Dev	Min	Max
<u>Panel A. Political characteristic at CEO level</u>						
<i>Annual Donation</i>	22,061	2,643.87	0.00	13,355.39	0.00	500,000.00
<i>CPID</i>	22,061	0.18	0.00	0.58	-1.00	1.00
<i>Donation to Rep. Party (Yearly)</i>	7,973	6,004.07	1,000.00	20,602.17	0.00	683,000.00
<i>Donation to Dem. Party (Yearly)</i>	7,973	3,094.62	0	14,648.12	0.00	542,402.00
<u>Panel B. Lobbying characteristics at Firm level</u>						
<i>N. of Bills Lobbied</i>	22061	3.97	0.00	10.62	0.00	278.00
<i>Total Lobbying Amount</i>	22061	609,785.50	0.00	7,106,778	0.00	995,000,000
<i>N. of Issue Lobbied</i>	22061	8.69	0.00	24.04	0.00	441.00
<i>N. of Issue Lobbied at Senate</i>	22061	3.09	0.00	8.53	0.00	225.00
<i>N. of Issue Lobbied at House</i>	22061	3.08	0.00	8.50	0.00	234.00
<i>N. of Bills Passed at House</i>	22061	0.35	0.00	1.88	0.00	67.00
<i>N. of Bills Passed at Senate</i>	22061	0.31	0.00	1.43	0.00	37.00
<i>N. of Bills Became Law</i>	22061	0.28	0.00	1.20	0.00	31.00
<i>N. of Lobbyist Emp.</i>	22061	4.68	0.00	13.39	0.00	274.00
<i>N. of Lobbyist Emp. as Congressman</i>	22061	0.14	0.00	0.64	0.00	23.00
<u>Panel C. CEO and Board Characteristic</u>						
<i>Board Size</i>	16,609	9.38	9.00	2.59	3.00	34.00
<i>Proportion of Busy Directors</i>	22,061	0.18	0.00	0.38	0.00	1.00
<i>CEO Compensation</i>	21,932	5,286.40	3,016.46	9,298.95	0.00	600,347.35
<i>CEO Compensation (Opt. Included)</i>	22,022	5,911.38	2,573.28	20,014.73	0.00	2,278,668.21
<i>CEO Ownership</i>	21,525	0.42	0.03	18.60	0.00	2,463.62
<i>CEO Salary</i>	22,061	724.59	671.62	403.56	0.00	8,100.00
<i>CEO Bonus</i>	22,061	504.58	0.00	1,498.44	0.00	76,951.00
<i>CEO Cash</i>	22,061	1,229.17	866.25	1,646.22	0.00	77,926.00
<i>CEO Gender</i>	22,061	0.97	1.00	0.16	0.00	1.00
<i>CEO Age</i>	21,390	55.45	55.00	7.45	28.00	96.00
<u>Panel D. Control Variables</u>						
<i>Size</i>	22,061	7,392.82	1,475.00	23,774.83	0.00	504,239.58
<i>Tobin's Q</i>	22,058	1.88	1.42	1.55	0.49	35.11
<i>Leverage</i>	22,061	0.23	0.20	0.99	0.00	120.94
<i>ROA</i>	22,061	0.07	0.08	0.14	-3.75	0.39
<i>Tangible</i>	22,061	0.25	0.18	0.23	0.00	0.94
<i>FCF</i>	21,527	0.03	0.04	0.15	-4.46	0.25
<i>Firm Age</i>	22,061	25.61	20.00	16.65	1.00	62.00
<i>HHI</i>	22,061	0.21	0.16	0.18	0.01	1.19

Table 1 provides descriptive statistics of our sample (2000-2012), reporting the full sample summary statistics for measures of political values, lobbying variables, and control variables. Detailed definitions of variables are reported in the appendix. Panel A summarizes information of political contributions of 2,037 individual CEOs used in this study. Panel B lists calculated summary statistics of lobbying characteristics Panel C lists summary statistics of CEO and board characteristics. Panel C lists calculated summary statistics of control variables.

Table 2**Political Orientation of Managers**

Cycle	Num. Don	Donors (3-4)			Contributions (5-7)				Polarizer (10-12)			Cycle Specific	
		All	N(Donor)	%Don	Mean\$	Rep\$	Dem\$	N(Rep)	N(Dem)	Pol(Rep)	Pol(Dem)	%Pol	REPDUMMGR
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1993-94	7,833	2,708	943	34.82%	\$3,793	\$1,920	\$1,870	577	351	412	278	73.17%	0.61
1995-96	10,237	3,251	1,263	38.85%	\$5,710	\$3,879	\$1,829	905	343	778	188	76.48%	0.72
1997-98	8,961	3,405	1,065	31.28%	\$4,219	\$4,164	\$1,969	729	285	625	212	78.59%	0.68
1999-00	12,074	3,603	1,287	35.72%	\$9,554	\$5,921	\$3,627	932	347	830	206	80.50%	0.72
2001-02	8,941	3,346	858	25.64%	\$5,634	\$3,077	\$2,556	552	298	382	305	80.07%	0.64
2003-04	13,759	3,494	1,158	33.14%	\$7,002	\$4,915	\$2,086	808	340	659	244	77.98%	0.70
2005-06	10,355	3,621	843	23.28%	\$7,412	\$4,619	\$2,703	560	276	451	221	79.72%	0.66
2007-08	15,989	4,142	1,205	29.09%	\$9,765	\$5,888	\$3,873	777	424	563	357	76.35%	0.64
2009-10	12,427	3,921	948	24.18%	\$7,688	\$4,067	\$3,561	584	364	389	358	78.80%	0.62
2011-12	17,636	3,680	1,083	29.43%	\$16,481	\$12,921	\$3,554	758	325	637	204	77.65%	0.69
1993-12	118,212	35,171	11,004	31.29%	\$8,103	\$5,316	\$2,770	7,465	3,539	5,827	2,633	76.88%	0.67

Table 2 reports the descriptive statistics for donor managers during all election cycles from 1993 to 2012. Managers who are making at least one donation in given election cycle are identified as donors. % Donor is the percentage of managers that donate in a given election cycle. Mean\$ contribution is the average dollar amount given to political parties. Rep\$ and Dem\$ refer to dollar amount donated to Republican and Democratic parties, respectively. Polarizer indicates the managers who make all contributions to either Republican- or Democratic parties. %Pol is the total number of polarizes as a percentage of total number of donor CEOs. REPDUMMGR is the cycle-specific Republican dummy for donor managers, which takes the value of one when all donations of the manager go to the Republican Party in that cycle and zero otherwise. The 1993-10 row reports the summary statistics for all unique donor managers.

Table 2 exhibits statistics for CEO political donations per election cycle in a similar approach to Hutton et al. (2014). *Number of Donations* refers to the number of each distinct donation made by CEOs in the election cycle. Based on our data, the number of donations substantially increases in U.S Presidential Elections cycles (1996, 2000, 2004, 2008 and 2012). Mid-year elections are associated with U.S Senate, U.S House and gubernatorial (governor) elections. *Number of CEO* is the number of managers reported in ExecuComp for a given year. *Donor* is the CEOs who made at least one donation in a given election cycle. 31% of CEOs in our sample are labeled as a donor. Indeed, Table 2 shows that the mean donation made to the Republican Party is higher than the Democratic Party through all election cycles. The average contribution made by CEOs in our sample is \$8,103, of which \$5,316 is to the Republican Party, and \$2,770 is to the Democratic Party.

In Table 2, we also observe that the number of Republican CEOs is more than twice the number of Democratic CEOs (7,465 vs. 3,539). This difference becomes even larger in Presidential Election years. Therefore, CEOs in our sample who are making at least one donation in a given election cycle are more likely to be Republican leaning CEOs. While individual and PAC donations may be made to both parties, some managers donate to only a single party, and these are reported under *Polorizer*. We find that 76.88% of CEOs make all donations completely to either the Republican Party or Democratic Party, and we define one-party contributors as polarizers.

Different from firm level PAC contributions, individual CEO donations may also be motivated to gain political favors, or to represent the political orientation of a diverse shareholder base (Hutton et al. 2014). In brief, political donations of each individual manager are more likely to show their particular political ideologies and could be used as a proxy to identify their firm-level financial decisions. Lastly, REPDUMMGR is the cycle-specific Republican dummy for donor CEOs, which takes the value of one when all donations of the manager go to the Republican Party in that cycle and zero otherwise.

Table 3**Lobbyist Firm and Industry Details**

Panel A. Lobbying Firm Characteristics				
Year	Num. Firms	Num. Firm Lobbying	% Firms Lobbying	Average Lobbying Expenditure
2000	1687	537	32%	\$923,863.04
2001	1595	551	35%	\$945,832.94
2002	1592	567	36%	\$1,053,251.84
2003	1642	612	37%	\$1,090,820.89
2004	1651	617	37%	\$1,206,354.39
2005	1644	667	41%	\$1,201,210.77
2006	1720	714	42%	\$1,316,801.71
2007	1882	741	39%	\$1,456,917.83
2008	1815	725	40%	\$1,801,042.39
2009	1779	742	42%	\$3,192,902.30
2010	1740	738	42%	\$1,933,055.30
2011	1684	710	42%	\$1,798,518.70
2012	1630	681	42%	\$1,803,086.34
2000-2012	22061	8602	39%	\$1,517,204.50

Panel B. Lobbying Across Industries

Industry	Num.Firms	Num.Firms Lobbying	% of Firms Lobbying	LOB. Exp.
Consumer Non-Durables	1354	418	31%	\$ 638,437,575
Consumer Durables	637	187	29%	\$ 175,996,923
Manufacturing	2630	826	31%	\$ 1,403,637,593
Oil, Gas and Coal Extraction	906	357	39%	\$ 802,816,859
Chemical and Allied Products	706	323	46%	\$ 368,269,979
Business Equipment	4243	1156	27%	\$ 1,667,275,826
Telephone and Television Transmission	540	285	53%	\$ 985,493,228
Utilities	1056	677	64%	\$ 1,267,904,660
Whole Sale, Retail and Some Services	2675	532	20%	\$ 1,448,450,004
Healthcare, Medical and Drugs	1782	829	47%	\$ 1,506,210,588
Finance	2869	977	34%	\$ 1,761,186,885
Other	2668	971	36%	\$ 1,426,798,143

Table 3 exhibits lobbying firms' characteristics in firm and industry level. Panel A shows the yearly distribution of the proportion of lobbying firms between 2000 and 2012 and average lobbying expenditures spent in calendar year. Panel B shows lobbying distribution of the Fama-French 12 industry classification system with the amount spent on lobbying activities.

Table 3 presents lobbying firm and industry characteristics in our sample. Panel A of Table 3 exhibits the firm characteristic statistics obtained from the ExecuComp database. We observe the proportion of firms lobbying increases over time, as well as the average lobbying expenditure. In Panel B, we report substantial differences between lobbying industries. The industries are adjusted by the Fama-French 12 industry classification system. The utilities industry is the leading lobbyist, with a lobbying proportion of 64% and a lobbying expenditure of more than \$1 million USD. The health and medical industry is the next highest, with the proportion of 47% lobbyists and around \$1.5 million USD average expenditure.

5. Empirical Results

5.1) Lobbying Activity of Politically Diverse Managers

Table 4 is designed to compare the mean score of two groups. Since our main objective is to investigate political ideology on lobbying outcome, we split our managers in two subgroups: Republican managers and others managers (Democrat and Apolitical CEOs)⁹. In Panel A, we compare subgroups by firm specific variables. The univariate analysis shows that Republican leaning firms are larger in market size and less leveraged compared to their rivals. In addition, they have higher ROA and higher tangibility with slightly less Tobin's Q.

In Panel B, we examine CEO pay and board characteristics at the managerial level by again comparing subgroup means. First, we find that Republican firms have a higher proportion of busy boards and larger board size. Second, Republican firms outperform their competitors in all forms of CEO pay. To put it briefly, Republican CEOs have higher salary, cash, bonus and overall total compensation, compared to their counterparties. For this reason, the higher CEO pay of Republican managers with relatively weak corporate governance may support the existence of a possible agency problem (Skaife et al. 2013).

⁹ CEOs are assumed to be Republican if CPID is greater than zero. Other managers are defined as CPID is less than or equal to zero.

Table 4
Univariate Test

Variable	<u>N</u>	Republican [1]	<u>N</u>	Other [2]	Difference [1]-[2]	T-statistics
<i><u>Panel A. Firm Characteristic</u></i>						
<i>Market Cap.</i>	8493	9,438.10	13568	6,112.60	3,325.50	[10.13]***
<i>Ln(Size)</i>	8493	7.61	13568	7.22	0.39	[16.10]***
<i>Leverage</i>	8493	0.26	13568	0.21	0.05	[4.15]***
<i>ROA</i>	8493	0.08	13568	0.07	0.01	[3.43]***
<i>Tobin's Q</i>	8493	1.78	13565	1.93	-0.15	[-6.95]***
<i>FCF</i>	8241	0.03	13286	0.03	0.00	[0.06]
<i>HHI</i>	8493	0.21	13568	0.22	-0.01	[6.01]***
<i>Tangible</i>	8493	0.28	13568	0.22	0.06	[19.15]***
<i>Firm Age</i>	8493	27.99	13568	24.13	3.86	[16.79]***
<i><u>Panel B. CEO and Board Characteristic</u></i>						
<i>CEO Age</i>	8215	56.51	13175	54.76	1.75	[16.89]***
<i>Proportion of Busy Directors</i>	6627	0.49	9809	0.442	0.05	[12.75]***
<i>Board Size</i>	6733	9.69	6733	9.17	0.51	[12.64]***
<i>CEO Gender</i>	8493	0.98	13568	0.97	0.01	[6.95]***
<i>CEO Ownership</i>	8271	0.32	13254	0.47	-0.15	[0.57]
<i>CEO Compensation</i>	8446	5,740.00	13486	5,002.30	737.70	[5.72]***
<i>CEO Compensation (Opt. Included)</i>	8481	6,409.90	13541	5,599.20	810.70	[2.93]***
<i>CEO Salary</i>	8493	778.50	13568	690.90	87.60	[15.78]***
<i>CEO Bonus</i>	8493	546.60	13568	478.30	68.30	[3.29]***
<i>CEO Cash</i>	8493	1,325.10	13568	1,169.20	155.90	[6.85]***
<i><u>Panel C. Lobbying Characteristics</u></i>						
<i>Total Bills</i>	8493	4.90	13568	3.38	1.52	[10.31]***
<i>Total Amount</i>	8493	718,100	13568	541,985.00	176,115.00	[1.79]*
<i>Total Number of Issue</i>	8493	10.77	13568	7.38	3.39	[10.20]***
<i>Number of Issue Lobbied at Senate</i>	8493	3.84	13568	2.62	1.23	[10.41]***
<i>Number of Issue Lobbied at House</i>	8493	3.83	13568	2.61	1.22	[10.39]***
<i>Number of Bills Passed at House</i>	8493	0.41	13568	0.31	0.10	[3.79]***
<i>Number of Bills Passed at Senate</i>	8493	0.36	13568	0.27	0.09	[4.45]***
<i>Number of Bills Became Law</i>	8493	0.33	13568	0.24	0.09	[5.59]***
<i>Number of Lobbyist Emp.</i>	8493	0.18	13568	0.13	0.05	[5.67]***
<i>Number of Lobbyist Emp. as Congressman</i>	8493	5.84	13568	3.95	1.89	[10.24]***
<i><u>Panel D. Lobbying Issues</u></i>						
<i>Accounting</i>	8493	0.03	13568	0.03	0.00	[0.63]
<i>Agriculture</i>	8493	0.26	13568	0.17	0.09	[3.85]***
<i>Banking</i>	8493	0.55	13568	0.31	0.25	[5.63]***
<i>Bankruptcy</i>	8493	0.12	13568	0.06	0.07	[4.21]***
<i>Budget</i>	8493	1.12	13568	0.82	0.30	[5.63]***
<i>Chemicals/Chemical Industry</i>	8493	0.13	13568	0.06	0.07	[6.30]***
<i>Clean Air & Water (Quality)</i>	8493	0.35	13568	0.21	0.14	[6.22]***

<i>Economics</i>	8493	0.06	13568	0.05	0.02	[2.31]**
<i>Copyright/Patent/Trademark</i>	8493	0.46	13568	0.40	0.06	[1.47]
<i>Financial</i>	8493	0.67	13568	0.50	0.18	[3.87]***
<i>Institutions/Investments/Securities</i>						
<i>Defense</i>	8493	0.93	13568	0.78	0.14	[1.64]
<i>Education</i>	8493	0.18	13568	0.10	0.08	[4.25]***
<i>Energy</i>	8493	1.24	13568	0.75	0.49	[8.32]***
<i>Environmental/Superfund</i>	8493	0.87	13568	0.51	0.36	[8.74]***
<i>Food Industry (Safety, Labeling, etc.)</i>	8493	0.20	13568	0.14	0.06	[2.57]**
<i>Foreign Relations</i>	8493	0.15	13568	0.12	0.03	[2.05]**
<i>Fuel/Gas/Oil</i>	8493	0.18	13568	0.07	0.11	[7.60]***
<i>Natural Resources</i>	8493	0.21	13568	0.11	0.10	[5.91]***
<i>Gaming/Gambling/Casino</i>	8493	0.01	13568	0.02	-0.01	[-2.19]**
<i>Government Issues</i>	8493	0.25	13568	0.19	0.07	[3.64]***
<i>Health Issues</i>	8493	1.27	13568	0.85	0.42	[6.51]***
<i>Intelligence and Surveillance</i>	8493	0.04	13568	0.01	0.03	[4.06]***
<i>Homeland Security</i>	8493	0.34	13568	0.28	0.06	[2.26]**
<i>Housing</i>	8493	0.17	13568	0.08	0.09	[3.97]***
<i>Immigration</i>	8493	0.20	13568	0.12	0.08	[3.83]***
<i>Insurance</i>	8493	0.25	13568	0.13	0.12	[5.41]***
<i>Communications/Broadcasting/Radio/TV</i>	8493	0.24	13568	0.24	0.00	[0.06]
<i>Labor Issues/Workplace</i>	8493	0.54	13568	0.34	0.21	[6.24]***
<i>Law Enforcement</i>	8493	0.19	13568	0.10	0.09	[5.99]***
<i>Manufacturing</i>	8493	0.11	13568	0.06	0.05	[4.37]***
<i>Marine/Maritime/Boating/Fisheries</i>	8493	0.07	13568	0.04	0.03	[3.35]***
<i>Media (Information/Publishing)</i>	8493	0.02	13568	0.03	-0.01	[1.70]*
<i>Medical/Disease Research/Clinical Labs</i>	8493	0.10	13568	0.05	0.05	[5.40]***
<i>Medicare/Medicare</i>	8493	0.74	13568	0.47	0.28	[5.32]***
<i>Postal</i>	8493	0.10	13568	0.07	0.03	[2.04]**
<i>Railroads</i>	8493	0.17	13568	0.10	0.07	[2.87]***
<i>Real Estate</i>	8493	0.05	13568	0.03	0.03	[3.65]***
<i>Retirement</i>	8493	0.23	13568	0.18	0.06	[2.91]***
<i>Roads/Highway</i>	8493	0.06	13568	0.03	0.03	[4.22]***
<i>Science/Technology</i>	8493	0.22	13568	0.15	0.07	[3.87]***
<i>Small Business</i>	8493	0.05	13568	0.03	0.02	[2.57]**
<i>Taxation/Internal Revenue Code</i>	8493	2.29	13568	1.47	0.82	[9.86]***
<i>Telecommunications</i>	8493	0.77	13568	0.56	0.22	[2.15]**
<i>Trade (Domestic & Foreign)</i>	8493	0.95	13568	0.64	0.31	[7.48]***
<i>Transportation</i>	8493	0.53	13568	0.35	0.19	[6.25]***
<i>Travel/Tourism</i>	8493	0.01	13568	0.03	-0.02	[-3.21]***
<i>Utilities</i>	8493	0.25	13568	0.13	0.12	[5.74]***
<i>Veterans</i>	8493	0.06	13568	0.03	0.03	[3.18]***
<i>Waste</i>	8493	0.12	13568	0.05	0.07	[6.62]***
<i>(hazardous/solid/interstate/nuclear)</i>						
<i>Welfare</i>	8493	0.01	13568	0.00	0.01	[2.40]**

Table 4 reports the estimates of T-statistics from variables listed between 2000 and 2012. Panel A. exhibits the firm specific variables used in the study. Panel B shows CEO and Board characteristic variables. Panel C shows the main lobbying indicators. Panel D shows the detailed lobbying issues. CEOs are assumed to be Others if *CPID* is less and equal to zero, and are assumed to be Republican when *CPID* is greater than zero. In column (1)-(2), we report the differences in means of given variables and T-test results. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

In Panel C, we analyze firm lobbying involvement from various dimensions. Our results confirm that there is a significant statistical difference between Republican firms and other firms in terms of lobbying effort. We report that firms with Republican CEOs are more profoundly involved in lobbying to impact the legislation that they assume would benefit the firm. We find that Republican leaning firms lobby a larger number of bills and their bills include more than one issue (topic) coded. Moreover, Republican leaning firms have higher lobbying expenditures and they lobby more bills in both the U.S Senate and U.S House of Representatives. As a result, more bills are successfully passed in both U.S legislative bodies and become law for Republican firms. In addition, Republican firms hire more lobbyists and more of those lobbyists are former Congressmen. Our findings support the evidence that firms with Republican managers are leaders in lobbying and use all lobbying channels to alter legislative actions on behalf of their firm.

In Panel D, we examine the lobbying issues (topics) that are most frequently lobbied in our database. We report 50 types of issues that are lobbied by firms during each calendar year. Republican CEOs lobby a higher number of bills in 44 of the subtopics, compared to other CEOs, and the results are statistically significant.

Our univariate analyses report a more profound involvement in lobbying activity for Republican CEOs. While firms having Republican managers are found to follow less risky corporate decisions, have less debt and leverage, hold less tangible assets, and make safer investments (Hutton et al. 2014), we report that the Republican managers drive greater lobbying expenditures, lobby a larger number of bills, employ more lobbyists and recognize lobbying as an overall corporate strategy.

5.2) Association between lobbying and CEO Political Ideology

In Table 5, we test our first hypothesis and estimate equation (2) to determine the relation between lobbying activities and manager political orientation. We describe lobbying activities as the number of bills lobbied and lobbying expenditures. In column (1), we regress the log transformation of the number of bills lobbied on *Repdum* and other firm control variables. *Repdum* is a binary variable and equal to one when $Cpid > 0$ and zero otherwise. Therefore, *Repdum* represents the firms with Republican-leaning managers.

Table 5**Corporate Lobbying and CEO Ideology.**

Dependent Variable	Ln(Number of Bills) _{t+1}	Ln(Lob. Amount) _{t+1}
Sample	(1)	(2)
<i>Repdum_t</i>	0.557 [0.001]***	0.101 [0.001]***
<i>Ln(Size)_t</i>	1.726 [0.001]***	0.336 [0.001]***
<i>Leverage_t</i>	0.135 [0.489]	0.020 [0.570]
<i>Tangible_t</i>	1.433 [0.015]**	0.210 [0.016]**
<i>ROA_t</i>	-3.125 [0.001]***	-0.675 [0.001]***
<i>HHI_t</i>	2.143 [0.001]***	0.369 [0.001]***
<i>Ln(FirmAge)_t</i>	0.681 [0.001]***	0.134 [0.001]***
<i>Constant</i>	-10.690 [0.001]***	-2.059 [0.001]***
Industry & Year Fixed	Yes	YES
Num.Cluster	2,400	2,400
N	20,231	20,231
R ²	28%	33%

Table 5 exhibits the relationship between lobbying intensity and manager orientation between 2000 and 2012. In Panel A, the dependent variable is log transformation of number of bills lobbied in given calendar year. *Repdum* is a binary variable and equal to one if *CPID*>0, zero otherwise. In Panel B, the dependent variable is log transformation of lobbying expenditure spend in USD. Other control variables are calculated from COMPUSTAT. All definitions of variables used in this table are in the appendix. Std. Errors are clustered for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 6
Lobbying and CEO/Board Characteristics

Dependent Variable	Bills Lobbied _{t+1}								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<i>CPID_t</i>	0.069	0.073	0.074	0.077	0.078	0.077	0.074	0.089	0.074
	[0.015]**	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.024]**	[0.001]***	[0.001]***
<i>Ln(CEO Compensation)_t</i>	0.194								
	[0.001]***								
<i>Ln(CEO Compensation inc. Opt.)_t</i>		0.120							
		[0.001]***							
<i>Ln(CEO Salary)_t</i>			0.201						
			[0.001]***						
<i>Ln(CEO Cash)_t</i>				0.152					
				[0.001]***					
<i>CEO Ownership_t</i>					0.013				
					[0.001]***				
<i>Ln(CEO Age)_t</i>						-0.394			
						[0.001]***			
<i>Busy Boards</i>							1.334		
							[0.001]***		
<i>Ln(Board Size)_t</i>								1.025	
								[0.001]***	
<i>Ln(Size)_t</i>	0.579	0.609	0.635	0.633	0.661	0.664	0.651	0.688	0.659
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Leverage_t</i>	0.064	0.076	0.078	0.072	0.102	0.095	0.947	1.103	0.112
	0.213	0.252	0.223	0.245	0.180	0.202	[0.001]***	[0.001]***	0.137
<i>Tangible_t</i>	0.480	0.453	0.426	0.445	0.390	0.443	0.221	0.038	0.418
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.066]*	0.752	[0.001]***

<i>ROA_t</i>	-0.786	-0.903	-0.840	-0.884	-0.864	-0.858	-1.180	-1.259	-0.836
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>HHI_t</i>	0.708	0.699	0.694	0.691	0.717	0.721	0.511	0.566	0.689
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Ln(FirmAge)_t</i>	0.244	0.243	0.214	0.222	0.247	0.252	0.115	0.086	0.249
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Constant</i>	-7.235	-6.849	-7.271	-6.976	-6.268	-4.740	-6.569	-8.426	-6.264
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Industry & Year Fixed	YES	YES	YES	YES	YES	YES	YES	YES	YES
N	20,075	20,192	20,231	20,231	19,730	19,589	20,231	15,227	20,231
R ²	23%	23%	23%	23%	23%	22%	23%	25%	22%

Table 6 exhibits the relationship between lobbying and firm characteristics between 2000 and 2012. Dependent variable Bills Lobbied is a binary variable an equal to one if a firm lobbied at least one bill in given calendar year, zero otherwise. Independent variable *CPID* is the political indicator between -1 (Extreme Democrat) and 1 (Extreme Republican). Other firm, board and CEO level characteristic control variables are calculated from COMPUSTAT and RiskMetrics. All definitions of variables used in this table are in the appendix. Std. Errors are clustered for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Based on our regression results, we find that Republican CEOs lobby 74% more bills, compared to their rival Democrat and Apolitical managers. Since we hypothesize that corporate lobbying actions are influenced by the CEO's political ideology, our results confirm the involvement of Republican oriented managers in lobbying efforts. Similar to Skaife et al. (2013), we also find lobbyist firms are larger (firm size) but less profitable (ROA) in terms of firm characteristics.

In column (2), we test the relationship between lobbying expenditure and CEO political ideology. We use lobbying amount in USD as the dependent variable after taking the log transformation. Likewise, we provide evidence that Republican CEOs spend 10% more on lobbying, compared to rival managers. Firm specific control variables show similar findings to those of the column (1) regression. Overall, findings from Table 5 are consistent with both our research motivation and our univariate analysis in which we report increased lobbying activity for Republican leaning managers of sample firms.

5.3) Association between lobbying and CEO incentives

Table 6 is designed to examine the relationship between lobbying and potential agency conflict in terms of CEO incentives and board characteristics. We estimate a logistic regression of equation (3), where the dependent variable *Bills* represents firm lobbying activity and is defined as a binary variable equal to one if a firm lobbied at least one bill (lobby active), zero otherwise.

We use several forms of CEO pay such as salary, cash, total compensation and total compensation including options. We also introduce CEO ownership, board size and the proportion of busy boards to investigate whether weak governance is related to the lobbying effort. Since Core et al. (1999) find that CEOs earn higher compensation when board structure is less effective, we test the similar assumption regarding the relation between agency cost, CEO pay, and corporate lobbying.

Results from Table 6 demonstrate strong evidence of a relationship between lobbying and excess CEO compensation, as well as given CEO political orientation. We run nine logistic regressions and report that *Cpid* is positive and significant in all regressions and that, if a firm is involved in lobbying activities, the manager is more likely to be Republican, which is consistent with our previous findings.

Further, we report that all CEO pay incentives are positive and suggest that, if a firm engages in lobbying, the managers are more likely to receive higher compensation. In other words, Table 6 shows a possible explanation of agency cost, where lobbyist CEOs earn greater compensation, compared to non-lobbyist peers. Our results are similar to Skaife et al. (2013), where lobbyist managers are better compensated, and Aslan and Grinstein (2011), where higher political connections increase CEO annual compensation.

Next, we find that lobbyist firms are more likely to have higher CEO ownership, defined as the ratio of shares the CEO owns to all the firm's shares outstanding. Additionally, if a firm exhibits lobbying activity, it is more likely to have a larger board as well as busy boards, where at least one director holds more than three seats outside the firm. Lastly, CEO age is introduced to the model, and our findings suggest that lobbying firms are more likely to have younger CEOs serving as the top executive, rather than older managers.

Findings from Table 6 support our hypothesis of agency cost and lobbying in which we control for CEO pay and board specific variables. It could be the case that lobbying is positively correlated with "weak governance". To emphasize, lobbyist managers may be monitored less efficiently and enjoy several forms of greater compensation (i.e. cash, bonus and total compensation). (Skaife et al. 2013)

On the other hand, lobbying could also indirectly affect higher CEO pay in alternative ways. First, Sloan (1993) finds that CEO compensation is sensitive to accounting-based firm performance. Since lobbying activity is defined as that intended to influence regulations (i.e. tax, trade, sales, and product approvals) that would benefit the firm revenues, expenditures, and earnings, it is not surprising that lobbying increases CEO pay. In that case, if lobbying increases firm value, but this increase in firm value is not reflected in shareholder value, then lobbying benefits the CEOs, not the shareholders.

A second indirect effect of lobbying on CEO pay could be defined as the long-run assumption. While some scholars view firm political engagement as a strategic investment that benefits firms and industries (Goldman et al., 2009; Johnson and Mitton, 2003; Boubakri et al., 2012; Hill et al., 2013; Faccio, 2006; Niessen and Ruenzi, 2009, Cooper et al., 2010; Blau et al., 2013; Kroszner and Stratmann, 1998; Stratmann, 1995; and Chen et al., 2015), firms consider increasing CEO

compensation based on anticipated future outcomes from lobbying. In this situation, lobbying would increase CEO pay in the short run before generating real shareholder wealth. As a result, lobbying increases CEO compensation and agency costs simultaneously.

5.4) Association between lobbying and firm performance

Our main goal is to empirically test the relation between lobbying outcome and CEO political ideology, since the lobbying decision is made by the firm's top management. Therefore, lobbying should serve to benefit the shareholders and should increase shareholder wealth, as well as increase firm value.

The Lobbying Disclosure Act became law in 1995 to provide public disclosure about how much corporations spend on lobbying. However, the lobbying concept and the expected outcome from lobbying can be difficult to measure systematically. In this case, shareholders who aim to monitor managers and evaluate their performance may suffer due to a lack of transparency. Lobbying expenditure and the opacity of lobbying may introduce agency costs that result from not only the costs associated with the entry decision to lobbying, but also costs from the lobbying outcome itself. Therefore, the link between lobbying and firm performance is potentially important, because legislative acts can affect firm value and is shaped by lobbying efforts.

In Table 7, to better understand the determinants of corporate lobbying and firm performance, we check whether lobbying creates an agency cost problem once we group our sample according to CEO political orientation. We measure the agency cost of free cash flow following Doukas et al. (2000) and Antia et al. (2010), where free cash flow is multiplied by a binary variable that proxies for poor growth opportunities, and it is equal to one (zero) if the firm's Tobin's Q is less (equal to or greater) than one. The literature suggests that, when a poorly governed corporation has a greater amount of free cash flow, the corporation, by definition, has higher agency cost. In our regressions, the *Agency Cost* variable is introduced one year after the firm's lobbying decision.

Table 7
Lobbying And Agency Cost

Dependent Variable	Agency Cost _{t+2}							
	All	Republican	Apolitical	Democrat	All	Republican	Apolitical	Democrat
Sample	(2)	(3)	(4)	(5)	(2)	(3)	(4)	(5)
<i>Ln(Lob.Amount)_{t+1}</i>					-0.009	0.022	-0.042	0.003
					0.566	[0.007]***	0.224	0.797
<i>Lobbydum_{t+1}</i>	-0.074	0.256	-0.371	-0.005				
	0.618	[0.001]***	0.216	0.973				
<i>Ln(Size)_t</i>	0.150	0.039	0.332	-0.041	0.157	0.030	0.353	-0.046
	0.104	0.533	0.109	0.287	0.122	0.644	0.117	0.243
<i>Leverage_t</i>	1.314	1.160	1.546	0.693	1.318	1.160	1.574	0.685
	[0.030]**	[0.054]*	0.134	[0.022]**	[0.031]**	[0.055]*	0.133	[0.024]**
<i>Tangible_t</i>	0.003	-0.780	0.821	-0.872	0.010	-0.792	0.842	-0.876
	0.995	[0.018]**	0.316	[0.082]*	0.983	[0.017]**	0.312	[0.079]*
<i>ROA_t</i>	6.761	4.790	9.812	1.408	6.749	4.811	9.786	1.412
	[0.083]*	[0.036]**	0.159	[0.001]***	[0.083]*	[0.035]**	0.157	[0.006]***
<i>HHI_t</i>	0.112	0.094	-0.252	0.802	0.121	0.080	-0.212	0.801
	0.557	0.718	0.477	[0.022]**	0.524	0.761	0.541	[0.022]**
<i>Ln(FirmAge)_t</i>	0.068	-0.069	0.134	0.243	0.070	-0.071	0.141	0.242
	0.309	0.551	0.144	[0.064]*	0.294	0.540	0.133	[0.064]*
<i>Constant</i>	-3.139	-0.799	-6.114	-0.895	-3.186	-0.731	-6.284	-0.868
	[0.050]**	0.126	[0.073]*	[0.097]*	[0.056]*	0.174	[0.077]*	0.108
Industry & Year Fixed	YES	YES	YES	YES	YES	YES	YES	YES
Num.Cluster	2314	1,299	1,475	737	2314	1,299	1,475	737
N	17,509	6,698	7,627	3,184	17,509	6,698	7,627	3,184
R ²	4%	3%	6%	3%	4%	3%	6%	3%

Table 7 exhibits the relationship between lobbying and firm characteristics between 2000 and 2012. Dependent variable Agency cost is a product of FCF and Grow. FCF is free cash flow divided by assets. Grow is a binary variable equals 1 if Tobin's Q is less than 1 (Doukas et al. (2000)). *Amount* is a binary variable and equal to one if firms have lobbying expenditure in given year. *Bills* is a binary variable and equal to one if firm lobbied at least one bill. Columns show different political ideologies of CEOs, which are Republican (*CPID*>0), Apolitical (*CPID*=0) and Democrat (*CPID*<0). Control variables are calculated from COMPUSTAT and RiskMetrics. All definitions of variables used in this table are in the appendix. Std. Errors are clustered for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Our key independent variables are $\ln(\text{Amount})$ and Lobbydum . $\ln(\text{Amount})$ is the log transformation of lobbying expenses, while Lobbydum is a binary variable and is equal to one if a firm has lobbied at least one bill in a given calendar year and zero otherwise, respectively. While most bills require an expenditure in order to be lobbied, some bills are actually lobbied by corporations without any expenditure. In our sample data, we find 95% of the bills are lobbied by firms through a certain amount of expenditure. Therefore, we use both $\ln(\text{Amount})$ and Bills to identify whether the agency cost of free cash flow is related to lobbying expenditure. The results of Table 7 show that lobbying does not result in an agency cost problem for Democrat and Apolitical managers. However, firms with Republican managers are positively and significantly related to the agency cost of free cash flow. Thus, our results strongly support the cost of agency problem that lobbying activity comes at the expense of shareholder wealth. Considering the excess involvement in lobbying, it is reasonable that firms with Republican oriented managers are confronting this agency problem.

While we find greater CEO pay, along with weak governance, contribute to firm lobbying, our results are aligned with previous literature. On average, we report that Republican CEO firms have higher agency costs in terms of both lobbying expenditure and lobbying effort. A similar association is documented by Kim (2008), where lobbying introduces a principal-agent issue and lowers shareholder rights. Coates and John (2012) also argue that lobbying lowers the financial performance of firms and generates agency costs. Lobbyist CEOs may exploit firm resources for their own benefit rather than corporate gain (Skaife et al., 2013) and receive greater compensation (Aslan and Grienstein, 2012). Our findings show that the higher lobbying efforts of Republican managers is associated with agency conflict that is borne by shareholders. In Table 8, we study the effect of lobbying on firm performance, where firm performance is measured by Tobin's Q. Tobin's Q is calculated as the ratio of the market value of total assets to the book value of total assets, and in our regressions it is calculated one year following the lobbying decision. As in Table 7, our main independent variables are lobbying amount and lobbying activity, which are main lobbying proxies. The OLS regression includes industry and year fixed effects and reports clustered standard errors for robustness of our results. We divide our sample into three sub-samples based on the CEO political ideology and measure the effect of lobbying on firm value.

Table 8
Corporate Lobbying and Tobin's Q.

Dependent Variable	Tobin's Q_{t+2}							
	All	Republican	Apolitical	Democrat	All	Republican	Apolitical	Democrat
Sample	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
$Ln(Lob.Amount)_{t+1}$					-0.012	-0.014	-0.010	-0.004
					[0.001]***	[0.001]***	[0.069]*	0.502
$Lobbydum_{t+1}$	-0.135	-0.179	-0.134	0.018				
	[0.001]***	[0.001]***	[0.040]**	0.790				
$Ln(Size)_t$	0.119	0.085	0.162	0.119	0.124	0.090	0.162	0.128
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
$Leverage_t$	0.752	1.157	0.562	-0.247	0.754	1.156	0.563	-0.235
	0.124	[0.085]*	0.404	0.480	0.123	[0.086]*	0.404	0.500
$Tangible_t$	-0.358	-0.421	-0.174	-0.348	-0.351	-0.413	-0.171	-0.340
	[0.001]***	[0.019]**	0.335	0.162	[0.011]**	[0.021]**	0.346	0.176
ROA_t	0.368	0.522	0.383	0.105	0.357	0.510	0.385	[0.097]*
	0.596	0.397	0.769	0.872	0.607	0.409	0.768	0.881
HHI_t	0.074	0.179	0.142	-0.181	[0.083]*	0.190	0.142	-0.179
	0.494	0.381	0.320	0.271	0.442	0.353	0.321	0.280
$Ln(FirmAge)_t$	-0.284	-0.196	-0.343	-0.285	-0.283	-0.197	-0.343	-0.283
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
<i>Constant</i>	1.823	1.683	1.735	2.085	1.781	1.644	1.722	2.037
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Industry & Year Fixed	YES	YES	YES	YES	YES	YES	YES	YES
Num.Cluster	2329	1,313	1,481	741	2329	1,313	1,481	741
N	17,701	6,811	7,690	3,200	17,701	6,811	7,690	3,200
R ²	14%	17%	13%	18%	14%	17%	13%	18%

Table 8 exhibits regression analysis for the sample survey data, clustered by GVKEY, examining the relation between lobbying and firm performance between 2000 and 2012. The dependent variable is the firm performance measured by *Tobin's Q*. The independent variable *Amount* is a binary variable and equal to one if firms have lobbying expenditure in given year. And *Bills*, is a binary variable and equal to one if a company is lobbying in given calendar year, zero otherwise. Columns show different political ideologies of CEOs, which are Republican ($CPID > 0$), Apolitical ($CPID = 0$) and Democrat ($CPID < 0$). All definitions of variables used in this table are in the appendix. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 8 compares the performance of lobbying firms, depending on CEO political ideology. Since we report that Republican CEOs lobby more bills and spend more on lobbying activities, we expect to find a different outcome from corporate lobbying on Tobin's Q for firms with Republican-leaning managers. We find that lobbying lowers Tobin's Q in our full sample. However, once we analyze the sub-samples, the decrease in Tobin's Q is statistically significant for Republican CEOs ($Cpid > 0$) and Apolitical CEOs ($Cpid = 0$). Moreover, the decrease in Tobin's Q is greater for Republican CEOs (1.5% and 17%) than for Apolitical CEOs (1.1% and 13%). The decrease in Tobin's Q has the lowest magnitude for Democratic CEOs, but this decrease is statistically insignificant. Table 8 shows the consequences of the lobbying decision on firm value. Our findings present that lobbying activity influences Tobin's Q negatively and lowers firm value, unlike Hersh et al (2008), which fails to find a relationship between Tobin's Q and corporate lobbying.

The main desire for firms to participate in political actions may be to protect themselves from the threats of future legislative processes. In order to change those legislative processes, firms commit to expend their financial resources on "lobbying expenditures". Firm-level lobbying expenditure is delivered to politicians through employed lobbyists to promote the firm's interests. Despite the fact that lobbying firms seek corporate gain, we find that lobbying lowers the firm value for firms with Republican and Apolitical managers. If a firm is involved in lobbying to establish a relationship with Washington, it remains as a lobbyist to reinforce the value of lobbying (Drutman, 2011). Thus, managers may be expending more on lobbying to promote more bills in which they believe it would serve firm's objectives. However, the cost of extra lobbying actually offsets the potential benefits. As a result, we cast doubt on the value relevance of lobbying and political engagement in a manner similar to Aggarwal et al. (2012). Comparatively, we perform panel regressions of market adjusted returns on lobbying activity, controlling for other firm characteristics in Table 9. Since lobbying investment is unlikely to affect same-year returns, a firm's buy-and-hold abnormal returns (*BHAR*) are calculated over the next 12, 24, and 36 months following lobbying activities, which is measured using a lobbying dummy variable. Given that the firm lobbied at least one bill for year t , the abnormal return is calculated as the difference in the

stock's annual return, which is geometrically compounded using monthly returns over December t through November $t + 1$, minus the return on value-weighted market index, calculated in the same way over the same period.¹⁰

Table 9 presents the regression results of estimating the relationship between lobbying and excess returns. Our results are mostly consistent with the prior studies in which lobbying increases stock returns over time (Hill et al., 2013; Chen et al., 2015). In Panel A, the first three columns show that lobbying firms, compared to non-lobbying firms, earn higher excess returns in the next 1, 2 and 3 years following the lobbying action. Similarly, columns 4, 5 and 6 demonstrate that the amount of money spent on lobbying expenses is positively correlated with the excess returns in the following years. Panel A shows the results for all firms in our sample; however, our main objective is to determine whether the lobbying effect on stock performance differs depending on the political ideology of the CEO.

Panel B examines whether firms with Republican-leaning CEOs, which are lobbying a higher number of bills and spending more in lobbying expenditures, earn higher abnormal returns, controlling for other variables. The results in the first three columns reveal that lobbying firms have higher excess returns over the next 12, 24 and 36 months in our Republican sample. Nevertheless, the magnitude of the difference in excess returns between lobbyists and non-lobbyists is lower than that of the overall sample. Likewise, in columns 4, 5 and 6, if firm has lobbying expenditure, it has a positive effect on the following year's excess return, although the magnitude is smaller, compared that of the whole sample. Panel C presents the same regressions for firms with Apolitical CEOs. We observe that lobbying and the amount of the money spent on lobbying is positively related to the excess returns in the subsequent years. Additionally, the magnitude of next period's excess returns following lobbying action is larger for firms with Apolitical CEOs, compared to Republican ones.

¹⁰ We also have the results using buy and hold abnormal returns adjusted for equal-weighted market index, the results are the same and available upon request.

Table 9
Corporate Lobbying and Stock Returns

Sample Dependent Variable	All					
	ER(VW)t+1 (1)	ER(VW)t+2 (2)	ER(VW)t+3 (3)	ER(VW)t+1 (4)	ER(VW)t+2 (5)	ER(VW)t+3 (6)
$Ln(Lob.Amount)_{t+1}$				0.005 [0.001]***	0.009 [0.001]***	0.012 [0.001]***
$Lobbydum_{t+1}$	0.060 [0.001]***	0.105 [0.001]***	0.155 [0.001]***			
$Ln(Size)_t$	-0.053 [0.001]***	-0.096 [0.001]***	-0.132 [0.001]***	-0.054 [0.001]***	-0.100 [0.001]***	-0.135 [0.001]***
$Leverage_t$	0.125 [0.001]***	0.246 [0.001]***	0.335 [0.001]***	0.127 [0.001]***	0.244 [0.001]***	0.335 [0.001]***
$Tangible_t$	0.014	0.038	0.090	0.017	0.034	0.082
ROA_t	0.555	0.411	0.225	0.468	0.469	0.266
HHI_t	0.073 [0.092]*	0.056 0.539	0.116 0.459	0.054 0.233	0.056 0.534	0.116 0.462
$Ln(FirmAge)_t$	-0.026	-0.047	-0.088	-0.030	-0.052	-0.094
$Constant$	0.226	0.293	0.199	0.162	0.250	0.170
	0.002	0.000	-0.003	0.000	0.000	-0.002
	0.765	0.973	0.878	0.982	0.969	0.906
	0.486 [0.001]***	0.796 [0.001]***	1.011 [0.001]***	0.485 [0.001]***	0.823 [0.001]***	1.041 [0.001]***
Industry & Year Fixed	YES	YES	YES	YES	YES	YES
Num.Cluster	2,328	2,248	2,152	2,328	2,248	2,152
N	20,331	18,022	15,790	20,331	18,022	15,790
R ²	5.6%	7.2%	7.2%	5.6%	7.2%	7.1%

Table 9 presents the results of panel fixed effects regressions of annual abnormal stock returns on lobbying activity. Panel A exhibits the results for whole sample. Panel B, C and D show the results in different samples divided according to political ideologies of CEOs, which are Republican ($CPID > 0$), Apolitical ($CPID = 0$) and Democrat ($CPID < 0$), respectively. In all Panels, the dependent variable $ER(VW)_{t+x}$ is a firm's buy-and-hold abnormal returns over the next 1, 2, and 3 years adjusted by value-weighted market return. The independent variable $Bills$ used in first 3 columns, is a binary variable and equal to one if a company is lobbying in given calendar year, zero otherwise. The independent variable $Ln(Lobbying Amount)$ used in the last 3 columns, is log transformation of lobbying expenditure spent by the firm in given calendar year. The definitions of all other control variables are in the appendix. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel B

Dependent Variable Sample	Republican					
	ER(VW)t+1 (1)	ER(VW)t+2 (2)	ER(VW)t+3 (3)	ER(VW)t+1 (4)	ER(VW)t+2 (5)	ER(VW)t+3 (6)
<i>Ln(Lob.Amount)_{t+1}</i>				0.003 [0.001]***	0.004 [0.034]**	0.007 [0.033]**
<i>Lobbydum_{t+1}</i>	0.033 [0.001]***	0.053 [0.024]**	0.0760 [0.043]**			
<i>Ln(Size)_t</i>	-0.043 [0.001]***	-0.083 [0.001]***	-0.121 [0.001]***	-0.044 [0.001]***	-0.084 [0.001]***	-0.123 [0.001]***
<i>Leverage_t</i>	0.151 [0.001]***	0.326 [0.001]***	0.5496 [0.001]***	0.158 [0.001]***	0.327 [0.001]***	0.549 [0.001]***
<i>Tangible_t</i>	-0.009	-0.031	-0.035	-0.006	-0.035	-0.041
<i>ROA_t</i>	0.747 0.024	0.606 -0.088	0.738 -0.296	0.846 0.010	0.561 -0.091	0.694 -0.303
<i>HHI_t</i>	0.810 -0.039	0.661 -0.087	0.498 -0.187	0.920 -0.033	0.650 -0.092	0.488 -0.192
<i>Ln(FirmAge)_t</i>	0.209 -0.005	0.162 -0.001	[0.058]* 0.004	0.311 -0.005	0.142 -0.002	[0.054]* 0.002
<i>Constant</i>	0.598 0.432 [0.001]***	0.944 0.711 [0.001]***	0.904 0.985 [0.001]***	0.606 0.458 [0.001]***	0.921 0.724 [0.001]***	0.957 1.015 [0.001]***
Industry & Year Fixed	YES	YES	YES	YES	YES	YES
Num.Cluster	1,365	1,279	1,184	1,365	1,279	1,184
N	7,845	6,940	6,089	7,845	6,940	6,089
R ²	5%	7%	7%	6%	7%	7%

Panel C						
Sample Dependent Variable	Apolitical					
	ER(VW)t+1	ER(VW)t+2	ER(VW)t+3	ER(VW)t+1	ER(VW)t+2	ER(VW)t+3
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Ln(Lob.Amount)_{t+1}</i>				0.007 [0.001]***	0.013 [0.001]***	0.015 [0.001]***
<i>Lobbydum_{t+1}</i>	0.068 [0.001]***	0.123 [0.001]***	0.175 [0.001]***			
<i>Ln(Size)_t</i>	-0.064 [0.001]***	-0.116 [0.001]***	-0.153 [0.001]***	-0.066 [0.001]***	-0.122 [0.001]***	-0.158 [0.001]***
<i>Leverage_t</i>	0.125 [0.001]***	0.208 [0.011]**	0.227 [0.035]**	0.114 [0.001]***	0.200 [0.001]***	0.224 [0.037]**
<i>Tangible_t</i>	0.059	0.160 [0.051]*	0.282 [0.028]**	0.063	0.159 [0.055]*	0.275 [0.033]**
<i>ROA_t</i>	0.152 [0.001]***	0.183	0.331 [0.046]**	0.126 [0.031]**	0.178	0.325 [0.052]*
<i>HHI_t</i>	-0.044	-0.076	-0.069	-0.045	-0.081	-0.074
<i>Ln(FirmAge)_t</i>	0.196	0.320	0.555	0.196	0.289	0.524
<i>Constant</i>	0.009 0.334 0.531 [0.001]***	0.006 0.735 0.897 [0.001]***	-0.007 0.806 1.150 [0.001]***	0.004 0.718 0.547 [0.001]***	0.004 0.839 0.940 [0.001]***	-0.005 0.842 1.187 [0.001]***
Industry & Year Fixed	YES	YES	YES	YES	YES	YES
Num.Cluster	1,519	1,431	1,354	1,519	1,431	1,354
N	8,842	7,840	6,865	8,842	7,840	6,865
R ²	6%	8%	8%	6%	8%	8%

Panel D

Sample Dependent Variable	Democrat					
	ER(VW)t+1 (1)	ER(VW)t+2 (2)	ER(VW)t+3 (3)	ER(VW)t+1 (4)	ER(VW)t+2 (5)	ER(VW)t+3 (6)
<i>Ln(Lob.Amount)_{t+1}</i>				0.005 [0.001]***	0.010 [0.001]***	0.015 [0.001]***
<i>Lobbydum_{t+1}</i>	0.096 [0.001]***	0.163 [0.001]***	0.246 [0.001]***			
<i>Ln(Size)_t</i>	-0.050 [0.001]***	-0.080 [0.001]***	-0.105 [0.001]***	-0.046 [0.001]***	-0.080 [0.001]***	-0.103 [0.001]***
<i>Leverage_t</i>	0.102 0.176	0.216 0.104	0.227 0.291	0.125 0.109	0.214 0.113	0.228 0.290
<i>Tangible_t</i>	-0.019 0.749	-0.060 0.581	-0.071 0.649	-0.019 0.756	-0.068 0.539	-0.082 0.605
<i>ROA_t</i>	-0.026 0.743	-0.067 0.703	0.072 0.741	-0.048 0.552	-0.053 0.762	0.092 0.674
<i>HHI_t</i>	0.014 0.779	0.046 0.633	-0.001 0.991	-0.011 0.780	0.035 0.719	-0.020 0.868
<i>Ln(FirmAge)_t</i>	-0.007 0.621	-0.020 0.456	-0.026 0.526	-0.002 0.875	-0.017 0.526	-0.021 0.618
<i>Constant</i>	0.524 [0.001]***	0.793 [0.001]***	0.797 [0.001]***	0.412 [0.001]***	0.809 [0.001]***	0.813 [0.001]***
Industry & Year Fixed	YES	YES	YES	YES	YES	YES
Num.Cluster	772	719	670	772	719	670
N	3,644	3,242	2,836	3,644	3,242	2,836
R ²	7%	9%	8%	7%	9%	8%

Panel D demonstrates the most striking results. Firms with Democrat-leaning CEOs experience the highest gain in value, measured as the excess stock return following lobbying. The lobbying expenditure's positive effect on the subsequent years' excess return for the Democrat-leaning sample is more than twice that of the Republican sample. Equally important, lobbying firms in our Democrat sample encounter three times the excess returns of their lobbying Republican-leaning counterparts. This result is evident, since firms with Republican-leaning CEOs carry the burden of higher lobbying engagement. Although lobbying increases stock returns over time, the lowest increase is associated with Republican leaning managers, while lobbying appears to most benefit firms with Democrat leaning managers. This result could support our assumption that lobbying increases firm value only to a point. After that, the cost of excessive lobbying outweighs the potential benefit for the firms.

For further investigation, we also analyze the relation between lobbying and stock return volatility. We calculate the standard deviation of stock returns in the years following the lobbying activity. Standard deviations are calculated for each year using monthly returns. Each firm is required to have 12 months of data in order to be included in the sample for that year. Table 10 shows the effect of lobbying on risk, measured as the standard deviation of stock return over the next 12 months for the whole sample, Republican, Apolitical and Democrat samples, respectively. Results reveal that lobbying firms encounter higher stock return volatility in the whole sample. On the other hand, columns 2, 4, 6, and 8 indicate that the amount spent on lobbying is positively related with the following period's variability in stock returns for all subsamples, as well as for the full sample.

Table 10 also shows that firms with Democrat leaning CEOs experience slightly higher stock return volatility in our sample. One possible explanation of lobbying and higher stock volatility is that, if the lobbying activity succeeds (fails) in passing bills through U.S legislative bodies, then the market would react positively (negatively). In this case, lobbying effort may increase stock returns volatility.

Table 10
Standard Deviations of Stock Returns

Sample Dependent Variable	All		Republican		Apolitical		Democrat	
	STDEV _{t+1} (1)	STDEV _{t+1} (2)	STDEV _{t+1} (1)	STDEV _{t+1} (2)	STDEV _{t+1} (1)	STDEV _{t+1} (2)	STDEV _{t+1} (1)	STDEV _{t+1} (2)
<i>Ln(Lob.Amount)_{t+1}</i>		0.001 [0.001]***		0.001 [0.001]***		0.001 [0.001]***		0.001 [0.001]***
<i>Lobbydum_{t+1}</i>	0.006 [0.001]***		0.005 [0.040]**		0.006 [0.001]***		0.009 [0.001]***	
<i>Ln(Size)_t</i>	-0.011 [0.001]***	-0.012 [0.001]***	-0.011 [0.001]***	-0.011 [0.001]***	-0.012 [0.001]***	-0.012 [0.001]***	-0.011 [0.001]***	-0.012 [0.001]***
<i>Leverage_t</i>	0.020 [0.001]***	0.021 [0.001]***	0.012 [0.030]**	0.013 [0.022]**	0.028 [0.001]***	0.029 [0.001]***	0.020 [0.015]**	0.022 [0.001]***
<i>Tangible_t</i>	0.002	0.002	-0.003	-0.003	0.001	0.001	0.020	0.020
<i>ROA_t</i>	-0.125 [0.001]***	-0.126 [0.001]***	-0.142 [0.001]***	-0.141 [0.001]***	-0.112 [0.001]***	-0.115 [0.001]***	-0.126 [0.001]***	-0.125 [0.001]***
<i>HHI_t</i>	0.005	0.005	0.013	0.013	-0.001	-0.001	0.003	0.002
<i>Ln(FirmAge)_t</i>	0.265 [0.001]***	0.286 [0.001]***	[0.048]** [0.001]***	[0.061]* [0.001]***	0.811 [0.001]***	0.926 [0.001]***	0.719 [0.001]***	0.815 [0.001]***
<i>Constant</i>	-0.012 [0.001]***	-0.012 [0.001]***	-0.011 [0.001]***	-0.012 [0.001]***	-0.011 [0.001]***	-0.011 [0.001]***	-0.015 [0.001]***	-0.015 [0.001]***
<i>Industry & Year Fixed</i>	0.209 [0.001]***	0.214 [0.001]***	0.206 [0.001]***	0.211 [0.001]***	0.208 [0.001]***	0.214 [0.001]***	0.219 [0.001]***	0.223 [0.001]***
<i>Num.Cluster</i>	YES	YES	YES	YES	YES	YES	YES	YES
<i>N</i>	2,009	2,009	1,159	1,159	1,318	1,318	663	663
<i>R²</i>	17,774	17,774	6,868	6,868	7,743	7,743	3,163	3,163
	37.0%	37%	38%	38%	37%	38%	38%	38%

Table 10 reports an analysis of the effect of lobbying activity on stock return volatility. The dependent variable is $STDEV_{t+1}$ which is the standard deviation of stock returns calculated using monthly returns in year $t+1$ following the lobbying act in year t . Columns show different political ideologies of CEOs, which are Republican ($CPID > 0$), Apolitical ($CPID = 0$) and Democrat ($CPID < 0$). The independent variable $Bills$ used in columns 1, 3, 5 and 7, is a binary variable and equal to one if a company is lobbying in given calendar year, zero otherwise. The independent variable $Ln(Lobbying Amount)$ used in columns 2, 4, 6 and 8, is log transformation of lobbying expenditure spent by the firm in given calendar year. The definitions of all other control variables are in the appendix. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

In our last set of tests, we use an instrumental variables regression framework to address any possible endogeneity issues. We instrument $Cpid$ with the characteristics of the managers and their firms which predict political orientation, but have no correlation with their lobbying activity. This set of instruments includes three variables, $City$, $Country\ of\ Employment$, and $Minority$. The $City$ variable is collected from the U.S. Census Bureau in which cities are ranked, based on their population and the degree of economic and social integration. We match the cities and firms, and define $CityI$ as a binary variable, which is equal to 1 if the headquarters of the firm is located in a geographical region with a relatively high population density (e.g. New York, Dallas, Los Angeles) and zero otherwise. $Country\ of\ Employment$ and $Minority$ are collected from RiskMetrics and other internet sources. $Country\ of\ Employment$ determines whether the CEOs are foreign or domestic. It is defined as a binary variable and is equal to one if the CEO's primary employment is a U.S. company (domestic CEO) and zero otherwise (foreign CEO). $Minority$ is equal to one if the CEO is a minority (non-white) and zero otherwise. These instrumental variables play a role in the firm-manager matching process, but they cannot be altered after the hiring, whereas lobbying activity may change over time according to the needs of the firm. As a result, the instrumental variables we use predict the political orientation of the managers; however, they do not have an effect on firm lobbying activities, which is a dynamic decision, depending on the firm's needs over time. The first stage estimation of the IV regression is reported in Table 11, column (1). CEO political ideology is negatively related to the $City\ I$ variable, which shows that the CEOs of firms located in urban areas are more Democrat-leaning. Furthermore, CEOs who are employed from a domestic company are more Republican-leaning, since the coefficient is positive. Conversely, we report a negative $Minority$ variable, where the CEOs who are minorities are less likely to be Republican-leaning, and all of the coefficients are statistically significant. Our results are consistent with the general survey on the geographic tilt of the Republican versus Democratic parties. Finally, we use predicted $Cpid$ from the first stage regression as the key explanatory variable in the second stage regressions, where the dependent variables are the two lobbying measures. We report our findings from the second stage regression in columns (2) and (3). The results show that, as expected, the predicted $Cpid$ has a positive coefficient for both regressions when firms lobby at least one bill ($Bills_i$), and report lobbying expenditure ($Amoun_i$). Based on our findings from the endogeneity tests, we conclude that seeking political favors is not the main reason for the estimated

Table 11
Instrumental Variable Estimates

Panel A: First Stage Regression	Panel B: Second Stage Regression	Panel C: Second Stage Regression	
Dependent Variable:	<i>CPID</i>	<i>Bills</i>	<i>Amount</i>
	(1)	(2)	(3)
<i>CPID_t</i>		1.067 [0.001]***	0.935 [0.011]**
<i>City_t</i>	-0.084 [0.001]***		
<i>Country of Emp.</i>	0.150 [0.034]**		
<i>Minority</i>	-0.185 [0.001]***		
<i>CONTROLS</i>	YES	YES	YES
Industry & Year Fixed	YES	YES	YES
N	22061	22061	22061
R ²	3%	18%	20%

Table 11 reports the two stage least square estimation of the instrumental variable estimation. In the first stage of Panel A, dependent variable is CPID (CEO Political Ideology), and instruments are *City*, *Country of Emp.* and *Minority* variables. In panel B, dependent variable is lawsuit and equal to one if firm lobbied at least one bill in given calendar year, zero otherwise. In Panel C, dependent variable is amount and equal to one if firm has a lobbying expenditure in given calendar year, zero otherwise. In Panel B and Panel C, *predicted CPID* is independent variable. Controls refer to firm-specific control variables used in previous tables, but coefficients are omitted. All definitions of variables used in this table are in the appendix. Numbers in parentheses are p-values. *, **, and *** indicate statistically significance at the 10%, 5%, and 1% levels, respectively

relation between political orientation and lobbying activity. The empirical results reported in Table 11 are more consistent with our main hypothesis, which assumes that managers with a certain political ideology are more likely to apply corporate policies, such as lobbying, based on their political orientation.

6. Conclusion

In this paper, we investigate the relationship between corporate lobbying and firm performance to understand whether firms receive proportionate benefits from lobbying activities. Specifically, we study whether and how CEO political orientation is a determinant of corporate lobbying, while controlling for firm-specific characteristics. First, we establish a new dataset consisting of the political donations made by the CEOs of publicly traded firms during the U.S. election cycles from 2000 to 2012. Using this new database, we form a simple proxy variable to identify CEO political ideology, which is calculated from the amount they spend on donations. Then, we construct a second dataset of lobbying indicators at the firm-year level, including the lobbying expenditure, number of bills/issues lobbied, and the number of lobbyists employed. In our analyses, we document a link between the lobbying activities and the political orientation of top executives. Our study shows that firms with Republican-leaning CEOs tend to spend larger amounts on lobbying, make larger corporate political donations, lobby a larger number of bills, and employ a larger number of lobbyists. Next, we analyze the CEO and board characteristics of lobbyist firms for potential agency conflict and test whether lobbying efforts are driven by manager self-interest. On average, we find that lobbying CEOs tend to enjoy greater compensation and managerial incentives, compared to their non-lobbying peers. In addition, weak governance is also associated with lobbying firms. In terms of firm performance, Republican-oriented firms experience higher agency costs, while Democrat-leaning and Apolitical firms do not exhibit significant agency costs from lobbying activities. This finding may be due to the large amount of lobbying expenditures spent by Republican-leaning managers. Lobbying reduces Tobin's Q for Republican and Apolitical firms, but does not impact the Tobin's Q of Democrat firms. The magnitude of the value decrease is different across the political orientation of managers; Republican CEOs are exposed to the highest decrease in Tobin's Q, while the decrease is not statistically significant for Democrat CEO led firms.

Moreover, all lobbying firms experience positive abnormal stock returns; however, the abnormal returns for Republican-leaning firms are lowest. Our tests show that Democrat CEO led firms achieve the highest abnormal returns, followed by Apolitical CEO led firms, while Republican CEO led firm experience the lowest increase.

We conclude that firms appear to be driven to lobby based on the political ideologies of CEOs rather than to gain some economic benefit. However, the results show that Democrat-leaning lobbying firms experience slight increases in firm value. It seems as though Democrat-leaning firms do experience some benefits from lobbying, while the excess returns seen by Republican-leaning lobbying firms come at the cost of lower firm value. This is not surprising, given that Republican-leaning firms are shown to have higher political engagement. Perhaps there is an optimal amount of political lobbying, whereby the firm will receive lobbying benefits up until the point where the lobbying expenditure makes the lobbying ineffective, or perhaps the greater lobbying expenditure of Republican-leaning firms is offsetting the potential lobbying benefits.

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Chapter 2

Corporate Lobbying and Labor Relations:

Evidence from Employee-Level Litigations

1. Introduction

This paper investigates the lobbying effort of US corporations and examines whether sponsoring labor- and employment-related bills ultimately protects shareholder value when firms are facing employee litigations. Lobbying is defined as a firm-level strategic action that aims at changing policy proposals on behalf of firms' and/or industries' interest, which may increase the value of the firms in the long run. In this paper, we examine the effect of lobbying from a different dimension, where firms engage in political lobbying to reduce potential harm from lawsuits that are filed by their own employees against the parent firms.

Employee-related lawsuits are the fastest growing types of civil cases in the United States. Almost 25% of all litigations in the federal court system involves employment allegations.¹¹ In 2015, approximately 89,000 discrimination charges were filed against US firms (while a firm may face multiple charges).¹² Most common litigations are filed based on discrimination (retaliation, race, harassment, disability, sex, age, national origin, religion, color, equal act pays, etc.), benefits, wage/tipping policy, layoffs, and union allegations. In 2015, US firms faced 12% chance of receiving an employment allegation, where 19% of the disputes resulted in defense and settlement costs averaging a total of \$125,000.¹³ Given the nature of lawsuits, a legal action is likely to generate direct costs (i.e. attorney fees and court fees, settlements and/or judgments) and indirect costs (i.e. CEO turnover, reputational loss), which may eventually affect the firm performance. In this paper, we seek to understand the effect of lobbying on lawsuits by asking the following questions: Is there a systematic link between corporate lobbying and employee lawsuits? Are lobbying firms favored in the judicial process? And is there a bias in favor of lobbying firms that are involved in a lawsuit?

¹¹ "Human Relationship Failures: Understanding Your Exposures to Employment Litigation" by Catherine A. Asaro 2005

¹² US Equal Employment Opportunity Commission, <https://www.eeoc.gov/eeoc/statistics/enforcement/charges.cfm>

¹³ 2015 Hiscox Guide to Employee Lawsuits, <http://www.hiscox.com/shared-documents/The-2015-Hiscox-Guide-to-Employee-Lawsuits-Employee-charge-trends-across-the-United-States.pdf>

Firm involvement in politics is defined as an advantage whereby lobbying spending, CEO-level contributions and/or firm-level contributions (Political Action Committee), raise political capital that benefits to the firm's value. (Goldman et al. 2009; Johnson and Mitton 2003; Boubakri et al. 2012; Hill et al. 2013; Faccio 2006; Niessen and Ruenzi 2009 Cooper et al. 2010; Blau et al. 2013; Kroszner and Stratmann 1998; Stratmann 1995; Chen et al. 2015). In our work, we investigate the motivation behind the specific lobbying decision in labor topics. The prior literature provides some insights of why firms choose to lobby. Lobbying decision may be motivated by corporate tax-related issues (Richter et al. 2009; Angela et al. 2013) or lobbying may be inspired by market power and firm size (Stephen 2012; Georgiou and Roberts 2004). The pressure from industry peers may drive firms into lobbying (Koh 2011), as well as the cost and benefit factors may also play a role in lobbying decision (Kim 2013). In addition, lobbying may be motivated by accounting-related issues (Adere 2011), such as financial statement effect (Ndubizu et al. 1993), compliance costs (Hochberg et al. 2009), or disclosure proprietary costs (Sutton 1988; Hill et al. 2002; Katselas et al. 2011). As lobbying strategies affect both firm performance and legal processes (Yu and Yu 2012), therefore we hypothesize that employee lawsuits, workplace disputes, and other complaints could also explain the entry decision to lobbying activities, as well as the amount of involvement in lobbying itself.

One possible explanation between lobbying and litigation is that the successful lobbying may change the policies at the work place, which could save lobbying firms from further allegations or charges. Moreover, lobbying ties may help firms to better prepare and react to incoming policy changes. Certainly, firms are subjected to litigations regardless of their lobbying status, and the number of allegations are increasing over the years. However, our work is to understand if lobbying firms are protected by the political capital they built in exchange for regulatory favors. Therefore, we focus on case outcome, and we investigate if lobbying targets the judicial system for favorable results. In this case, the litigation outcome is expected to be different for lobbying firms compared to non-lobbying rivals that are facing similar employee allegations in the work place.

The relative importance of lobbying on employee relations and firm value has not been explicitly investigated at the firm level in previous studies. We fill this gap in the literature by empirically testing a) why firms with a greater number of employee litigations sponsor more bills in labor

topics, b) what the lobbying characteristics of firms involved in employee litigations are, c) if there is a bias in favor of lobbying firms measured as case outcome, and d) whether political connections matter in employee allegations. Our study represents an initial analysis of a new panel dataset of employee-related litigations, complaints, and investigations, as well as various types of CEO- and firm-level political contributions. First, we analyze whether employee-related litigation is a determinant of corporate lobbying activity. Second, we investigate if politically connected firms have an advantage in employee litigations against firms that are not politically connected. Third, we examine whether the litigation outcome is different for lobbying firms that may ultimately contribute to shareholder wealth maximization.

Our sample consists of 2,798 unique firms and 5,207 distinct CEOs from between 2000 and 2014, and we find strong evidence that firms with a greater number of litigations tend to sponsor bills in labor and employment topics. Initially, we find that firms with employee lawsuits are more likely to be lobbying, have larger lobbying expenditure, sponsor more bills in labor topics, and overall are involved in greater lobbying activity. In other words, our findings show that firms may resolve their employee disputes through the lobbying.

We then examine the case characteristics in our sample. We document that lobbying firms obtain more dismissals by court and more withdrawals by charging parties compared to non-lobbying peers. We address the potential explanations of how lobbying influences the legal processes. First, we document that duration of the lawsuits (between the opening date and the decision date) is longer for lobbying firms that may force charging parties' (union or individual) withdrawal from the cases. We report that lobbying makes a significant difference for case duration; lobbying firms have a significantly lower hazard rate, which lengthens the case time-to-resolution. In this case, the plaintiff (employee or union) who does not have financial power to fund the litigation may drop the case, which would yield a biased outcome in favor of lobbying firms.

We also investigate how firms respond to employee lawsuits. First, we find that the changes in the number of total litigations are positively related to the changes in number of labor-related bills. In other words, a greater number of labor bills may be driven by the changes in the number of lawsuits. Second, our results show that lawsuit firms face more volatile sponsored bill flows. And third, decline in the number of litigations has a positive relationship with decline in sponsored

bills. Hence, our results confirm that lobbying activity in labor topics align in the same direction of employee lawsuits.

There are various ways for firms to be connected to politics. Firms not only incur significant lobbying expenditures (Chen et al. 2015; Hill et al. 2013) but also make PAC contributions (Cooper et al. 2010) or hire former politicians on the corporate board (Goldman et al. 2009). Following that, we examine whether our results remain the same if other strategies are implemented by the firms. Consistent with expectations, we find that firms with a greater number of employee disputes have more firm- (Political Action Committee [PAC]) and CEO-level donations, relatively larger lobbying expenditures, and employ a higher number of lobbyists (including former members of the US Congress). Our paper provides additional evidence on whether firms may influence labor-related enforcements through political expenditures.

We further examine how firms build effective lobbying channels for regulatory favors. We believe that lobbying to politicians sitting on responsible committees may be more effective, since they occupy the position of power and are able to cater to certain interest groups. Our results show that a greater number of employee litigations increases the number of labor-related bills sponsored in the Department of Labor, Department of Justice, and National Labor Relations Board. Additionally, we find that more employee litigation leads to hiring more lobbyists who are linked to those specific agencies. Our findings may reveal the fact that lawsuits may motivate firms to target certain agencies that are related to judicial and labor issues, which may ultimately affect the case outcomes. We show that lobbying through lobbyists linked to specific government agencies may increase the effectiveness of lobbying due to the superior “skill” of linked lobbyists.

We then investigate whether lobbying contributes to shareholder wealth. We measure firm value in two ways. First, we determine the days where labor-related bills are introduced, passed in the US Senate and US House of Representatives, and finally become law. We conduct an event study and report that lobbying firms receive positive cumulative abnormal returns (CAR) during announcement dates. Our results exhibit that market participants value successful lobbying activity where lobbying increases firm value in terms of stock returns.

Finally, we investigate the economic effects of litigation. Firms may face economically meaningful losses once they are involved in allegations at court. Lawsuits may generate direct costs (fines,

penalties, prohibitions on commercial practices, etc.) and indirect costs (reputation effects) upon the filing of a suit. We show that litigation has no effect on lobbying firms, while non-lobbying firms suffer from reduced Tobin's Q. We document that litigations yield negative Tobin's Q for non-lobbying firms, while firms backed by lobbying do not suffer from litigations. We find that lobbying firms who sponsor more bills in labor topics seem to benefit from lobbying, while litigation comes at the cost of reduced value for non-lobbying firms.

Our findings make three main contributions. First, we employ the first large-sample evidence on the impact of political connections in employee-related allegations, including unique hand-collected employee disputes data, along with various types of political donations. Second, this paper provides potential answers for the motivation behind entry decision to lobby in labor-related issues. Third, our study adds to the growing evidence of the benefits that political spending provides to the firms.

The paper proceeds as follows. We provide a summary of existing literature on firm-level political involvement in Section 2. Section 3 describes our methodology and research hypotheses. In Section 4, we present the data. In Section 5, we discuss our findings, and we conclude in section 6.

2. Literature Review

Prior studies report significant negative effect of lawsuits on firm performance (e.g. Bhagat and Romano [2002]; Viscusi and Hersch [1990]), as well as causing executive officers' and directors' turnovers (Humphery-Jenner [2012]; Cheng, Huang, Li, and Lobo [2010]; Karpoff, Lee, and Martin [2008]; Ferris, Jandik, Lawless, and Makhija [2007]; Fich and Shivdasani [2007]), increasing corporate direct/indirect cost (Autore, Hutton, Peterson, and Smith [2014]), which lowers the firm performance in the long run. Hutton et al. (2015) documented that the litigation has a greater negative impact on the firm value if the CEO is more Republican leaning. While many of these studies focus on class action-related lawsuits between managers and shareholders, there is little evidence on employee lawsuits. Therefore, our work is an initial study of employee allegations on firm performance.

Lobbying is a firm-level political strategy where corporations are spending their resources to influence government officials. By 2014, lobbying expenditure in the US measured approximately \$3.26 billion¹⁴. By 2015, approximately 110 organizations spend more than \$45 million on labor-related issues by employing 422 lobbyists¹⁵. Since individual donations are limited to \$5,000 per candidate during election cycles¹⁶, lobbying spending was nine times larger than individual political campaign donations (Kerr et al. 2011) and doubled between 1999 and 2006 (Blanes i Vidal et al. 2012). Firms are found to increase or decrease their lobbying spending based on the political geography shifts and based on the “political color” of the US President (Antia et al. 2013).

A large number of studies in corporate finance document the effect of lobbying on firm performance. Lobbying may provide high excess returns when the agency costs resulting from lobbying expenditures are low (Mathur et al. 2013; Borghesi and Chang 2012).

The main goal of lobbying is to modify legislative proposals and to gain favor from the American political system (de Figueiredo and Richter 2013). Therefore, lobbying may influence firm-level operational characteristics such as revenue, sales, and other expenditures by providing tax benefit (Richter et al. 2009; Alexander et al. 2009), regulating visa or trade policy (Kerr et al. 2011), or even deferring corporate fraud detections by regulators (Yu and Yu 2012).

Lobbying is also related to better firm performance and increases shareholder wealth, as well as providing accounting conservatism (Chen et al. 2015; Hill et al. 2013; Kong et al. 2013; Agrawal and Knoeber 2000). In our work, we also document that lobbying influences legislative actions that protect the firm value from potential losses from litigations, and the importance of effective lobbying is also found to benefit firms for providing bailout assistance (Duchin and Sosyura 2012) and increases the likelihood to receive more TARP (Trouble Asset Relief Program) funds (Blau et al. 2013), which overall suggests the contribution of lobbying to firm performance. However, firm-level engagement in politics may also provide potential agency cost problems where managers may exploit firm resources for their own benefits. Lobbying activity and its effect on the firm performance may not be fully observable (Richter et al. 2009). Lobbying may have no influence on Tobin’s Q (Hersh et al. 2008) or even may be derived from unethical practices (Borisov et al.

¹⁴ <http://www.opensecrets.org/lobby/>

¹⁵ <https://www.opensecrets.org/industries>

¹⁶ <http://www.fec.gov/pages/brochures/contriblimits.shtml>

2014), which lowers firm performance. Managers from lobbying firms may earn greater compensation compared to non-lobbying peers (Skaife et al. 2013). Firm-level political involvement could yield to lower cumulative abnormal returns (Aggarawal et al. 2012) or political contributions to become a channel to serve CEOs' and other executives' interest (Unsal et al. 2016; Bebchuk and Jackson 2010), resulting in higher agency costs.

While building political capital for better operating performance may drive firms into engaging lobbying strategies, our work highlights the potential benefit of lobbying in terms of legal actions faced by corporations. Our paper is the first of which we are aware to empirically investigate how corporate lobbying affects employee relations. Our research is similar to Yu and Yu (2012), who document the value of lobbying during corporate fraud detection, but we differ from them by using employee litigations, labor violations, discrimination cases, and wage allegations on lobbying efforts, as well as other political spending and contributions. Similar to other major empirical findings between lobbying effort and firm performance, we conclude that lobbying action protects shareholder wealth from reduced firm value.

3. Data Description

3.1) Firm Data

Our study contains two main databases. First, we employ COMPUSTAT database to identify the publicly traded firms. We merge COMPUSTAT with ExecuComp database to identify the CEO names for personal donations and contributions from S&P 1500 companies. Our sample includes 2,798 unique firms and 5,207 distinct CEOs. In our sample, we gather 730 unique lobbyist firms, 1,718 donor CEOs, and 698 different politically active firms (PAC). To measure firm performance, control variables are gathered from COMPUSTAT and the Center for Research Security Prices. We include industries and group them by their Fama-French 12 Industry classification and generate twelve industry binary variables, such as Consumer Nondurables, Manufacturing, Oil-Gas and Coal Extraction Products, Wholesale, and Retail.

3.2) Event Study

We use CRSP daily returns for event study tests, as well as Value Weighted Market index as benchmark return.

3.3) Litigation Data

We hand collect a unique litigation data from The National Labor Relations Board (NLRB)—an independent federal agency that protects the rights of private sector employees, with or without a union, to improve their wages and working conditions. For lawsuits, NLRB provides information called “Disposition of Unfair Labor Practice Charges,” which includes complaints, litigations, and decisions.¹⁷ The NLRB dataset contains the charging party, the legal issue in question, the party that is on the opposite side, and the case outcome. The first complaint issued in the dataset was recorded in 1976. We match case name with firms in the COMPUSTAT database by name and year between 2000 and 2014.

3.4) Violations, Inspections, and Other Disputes

We assume that labor-related bills may be driven not only by lawsuits but also other type of violations, inspections, and complaints. In addition to litigations, we also gather unique hand-collected labor enforcement datasets from the US Department of Labor.¹⁸ First, we collect Occupational Safety and Health Administration enforcement data to identify the work-place safety inspections and violations. Second, we employ Wage and Hour Compliance Action Data for wage-related allegations, including civil penalties. Third, we collect Employee Benefits and Security Enforcement Data for the benefit-related disputes that result in penalty assessments. Finally, we collect discrimination lawsuits that are filed against firms by employees from Bloomberg’s BNA Employment Discrimination Verdicts and Settlements database.¹⁹

¹⁷ For NLRB Litigation-Case data <http://www.nlr.gov/opengov/nlr-data-datagov>

¹⁸ US Department of Labor Enforcement Data: http://ogesdw.dol.gov/views/data_catalogs.php

¹⁹ <https://www.bna.com/>

3.5) Lobbying Information

Lobbying information is gathered from the Center for Responsive Politics (CRP).²⁰ The data contain US firms that are lobbying in a given calendar year. We calculate the expenditure amount spent on lobbying, the number of bills lobbied, and the topic of the bills using the CRP database. We match the CRP data with our firms in the COMPUSTAT database by company name and year to find publicly traded firm contributions between 2000 and 2014. The CRP database also allows us to count the number of lobbyists employed by firms, including lobbyists who were former members of the US Congress. We also use the Congressional Bills Project database²¹ to track the lobbied bills that are passed in both the Senate and House of Representatives.

3.6) CEO Political Contribution

We obtain the ExecuComp database to identify CEO names for our sample firms. We then gather CEO donation amounts from the Federal Election Committee (FEC) web page²². The campaign contributions to political parties, candidates, and committees are reported to the FEC and are publicly available. The financial contribution files include the donor name as well as occupation, year, and amount of money contributed. We use a computer algorithm to match the executive names from ExecuComp with the FEC campaign data to obtain CEO-level personal donations. Since most of the CEOs report their current employment position in the FEC contribution files, we also hand collect our results by name, firm, surname, and suffix (i.e. Mr., Mrs., Jr., II, etc.).

3.7) Firm Political Contribution: Political Action Committee (PAC)

We gather firm-level political contributions from the Center for Responsive Politics (CRP).²³ We match our publicly traded firms from COMPUSTAT with Political Action Committee reports and calculate total donations from the corporations to campaigns during election cycles.

Table 1 shows the descriptive statistics for our sample at firm level. As shown in Panel A, over the fourteen-year span of our sample period, average lobbying expenditure is more than \$298,000. In

²⁰ www.opensecrets.org/lobbying

²¹ <http://www.congressionalbills.org/>

²² <http://www.fec.gov/data/DataCatalog.do>

²³ www.opensecrets.org

addition, 14% of the firms in our sample are defined as lobbyists. Firms lobby a maximum of 232 bills, while 30 bills may be sponsored specifically in labor-related issues.

Panel B of Table 1 represents lawsuit characteristics. The average number of litigations in our sample is 1.00, while firms could, at maximum, face litigation up to 235 filings. Following that, 15% of the firms in our sample face litigation that is initiated by their own employees. We also report summary statistics for case outcomes. We document that most litigation cases are either dismissed by court or more likely, are withdrawn by the charging party. Our sample includes a greater number of dismissals and withdrawals compared to settlements or closures with decision.

Table 1**Summary Statistics**

Variables	N	Mean	Std.	Min	Max
Panel A. Lobby Characteristics					
Total Lobbying Expenditure	27,896	298,634.00	1,466,836.00	0.00	45,500,000.00
%Lobby	27,896	0.14	0.35	0.00	1.00
Num. of Bill Lobbied	27,896	1.88	8.71	0.00	232.00
Num. of Labor Introduced Bill	27,896	0.08	0.60	0.00	30.00
Total Labor Bill Become Law	27,896	0.03	0.19	0.00	4.00
Labor Bill: Labor Market Development	27,896	0.01	0.06	0.00	3.00
Labor Bill: Worker Safety	27,896	0.01	0.11	0.00	7.00
Labor Bill: Employment Training	27,896	0.01	0.15	0.00	4.00
Labor Bill: Employee Benefit	27,896	0.04	0.39	0.00	22.00
Labor Bill: Labor Unions	27,896	0.01	0.18	0.00	7.00
Labor Bill: Fair Labor Standards	27,896	0.00	0.08	0.00	3.00
Labor Bill: Benefits and Other Issues	27,896	0.00	0.04	0.00	3.00
Panel B. Political Contributions					
CEO Political Contribution	27,896	2,698.78	13,855.60	0.00	543,402.00
Firm PAC Contribution	27,896	20,713.34	237,393.40	0.00	22,400,000.00
Num. of Lobbyist Employed	27,896	11.89	36.37	0.00	807.00
Num. of Lobbyist: Former Congressman	27,896	0.34	1.59	0.00	36.00
Panel C. Lawsuit Characteristics					
Num. of Litigation	27,896	1.00	6.04	0.00	235.00
%Litigation	27,896	0.15	0.36	0.00	1.00
Total Case Opened by Individual	27,896	0.32	2.65	0.00	153.00
Total Case Opened by Union	27,896	0.62	3.93	0.00	157.00
Num of. Dismissal	27,896	0.26	1.81	0.00	77.00

Num. of Withdrawal	27,896	0.63	4.04	0.00	154.00
Num. of Settlement	27,896	0.06	0.53	0.00	29.00
Num. of Decision Complete	27,896	0.01	0.22	0.00	15.00
%(Dismissal/Total Litigation)	27,896	0.04	0.16	0.00	1.00
%(Withdrawal/Total Litigation)	27,896	0.09	0.26	0.00	1.00
Coercive Actions	27,896	0.03	0.60	0.00	66.00
Coercive Statement	27,896	0.11	0.86	0.00	46.00
Bad Faith Bargaining	27,896	0.05	0.48	0.00	42.00
Changes in Working Condition	27,896	0.15	1.39	0.00	118.00
Discharge	27,896	0.17	1.32	0.00	64.00
Discipline	27,896	0.09	0.98	0.00	72.00
Refusal to Furnish Information	27,896	0.16	1.49	0.00	110.00
Changes in Working Contract	27,896	0.10	0.80	0.00	53.00
Onerous Assignment	27,896	0.01	0.13	0.00	5.00
Concerted Activities	27,896	0.07	0.61	0.00	35.00
Unilateral Changes	27,896	0.07	0.61	0.00	35.00
Fair Representation	27,896	0.02	0.30	0.00	13.00
Union Issues	27,896	0.02	0.21	0.00	9.00
Harassment	27,896	0.01	0.15	0.00	7.00
Other Issues	27,896	0.18	1.50	0.00	62.00
Panel D. Inspections and Violations					
Inspections	27,896	1.02	4.46	0.00	189.00
Num. of Wage Complaints	27,896	35.20	327.16	0.00	5,307.00
Total Wage Penalty	27,896	3,697.08	205,071.50	0.00	33,300,000.00
%(Complaint/Lawsuit)	27,896	0.03	0.38	0.00	41.00
Complaints: Employee Benefits & Salary	27,896	0.20	1.44	0.00	80.00
Panel E. Firm Characteristics					
Ln(#Employee)	27,189	1.49	1.78	-6.91	7.70

Book Leverage	26,203	0.24	0.94	0.00	120.94
ROA	27,621	0.03	0.53	-33.00	46.45
Tangibility	26,572	0.25	0.23	0.00	0.98
Tobin's Q	27,213	1.87	1.83	-0.99	147.35
Herfindahl Index	27,633	0.22	0.19	0.01	1.00
Ln(#FirmAge)	27,633	3.06	0.71	0.00	4.17
Free Cash Flow	26,180	0.03	0.38	-33.00	1.27
% Industry Unionization	27,633	6.55	6.33	0.60	30.70
High Tech Firms	27,896	0.21	0.41	0.00	1.00
Union Membership Growth	25,952	0.02	1.26	-8.50	6.40
Pension Expenses	27,896	0.13	12.95	-235.43	2,005.74
% State Unionization	27,262	13.22	6.20	1.90	26.70
Personal Intensity	27,189	26.34	177.07	0.01	10,277.91
Property, Plants and Equipment	25,111	0.30	1.94	0.00	105.45

Table 1 exhibits the summary statistics at firm level. Our sample consists of 2,812 unique firms between 2000 and 2014. Panel A represents the lobbying characteristics, spending and sponsored bills at firm level. Panel B represents litigation characteristics filed by both employees and labor unions. Panel C represents the firms level control variables used in the study. Panel D represent case specific outcomes and charging parties grouped by Fama and French 12 industry classification.

Panel F. Lawsuit Characteristics at Industry Level

Industries	Total Case (1)		Case Outcome (2) - (5)			Charging Party (6)-(7)	
	(1) #TotalCase	(2) #Dismissal	(3) #Settle	(4) #Withdrawal	(5) #Completed	(6) #Individual	(7) #Union
Consumer NonDurables	2,861	694	201	1,815	21	811	1,983
Consumer Durables	1,405	616	58	686	53	415	980
Manufacturing	4,606	1,231	210	2,955	186	1,578	2,855
Oil, Gas, and Coal Extraction	902	221	33	581	29	153	688
Chemicals and Allied Products	799	198	35	520	44	181	584
Business Equipment	1,255	273	59	826	52	345	908
Telephone and Television Transmission	3,651	845	181	2,475	176	798	2,758
Utilities	962	174	29	660	31	277	650
Wholesale, Retail,	4,542	1,097	389	2,762	356	1,499	3,032
Healthcare, Medical Equipment	511	107	44	325	37	133	377
Finance	349	70	31	181	11	143	195
Service, Hotels, Business, Entertainment	5,951	1,601	332	3,672	285	2,391	3,499
Total	27,794	7,127	1,602	17,458	1,281	8,724	18,509

We also identify lawsuit reasons and show that changes in working conditions, refusal to furnish information, discharge, changes in working contract, and coercive actions are some of the most frequent litigation types. Panel C of Table 1 reports results regarding the control variables used in the study. Panel D reports the litigation frequency at industry level based on Fama and French classification. Our final sample consists of 27,794 unique cases with 27,468 case outcomes filed by 27,233 charging parties.²⁴ In column (1), we report litigation occurrence across industries. From column (2) to (5), we document case outcome. In column (6) and (7), we report charging party characteristics. Our results show that the largest number of filing against firms is located in the Service, Hotels, Business, and Entertainment industry, followed by lawsuits initiated against firms in the Manufacturing industry, followed by the Wholesale and Retail industry, respectively.

4. Methodology

4.1) Litigation, Lobbying, and Firm Performance

Our main goal is to understand the motivation behind lobbying decisions in labor-related issues (bills) for US firms. We use employee litigations, as well as other complaints and violations, to examine the consequences of lobbying to adjust policy proposals. To estimate parameters in our empirical models, the litigation indicators are the main explanatory variables. We calculate two separate litigation indicators; *Lawsuit* is a binary variable and equal to one if firm has at least one litigation initiated by their employees, zero otherwise. We use the *Lawsuit* variable to conduct univariate tests to compare lobbying activities across firms in our sample. Our second indicator is $Ln(\#Litigation)$, which is the log transformation of the total number of lawsuits filed by employees. We use $Ln(\#Litigation)$ to determine whether a greater number of employee allegations persuades firms to involve more in lobbying. For this reason, we hypothesize that;

H.1: All other things equal, a greater number of employee litigations increases firm-level lobbying activity. ($\beta_1 > 0$)

$$\bullet \text{Lobbying Activity} = \beta_0 + \beta_1 Ln(\#Litigation) + \sum \beta_s \text{Controls} \quad (1)$$

²⁴ Our data include 326 missing case outcomes, since some cases are still ongoing. We also failed to obtain 561 charging parties due to missing observations in the data.

We measure lobbying activity in several ways. First, we measure log transformation of the total number of bills sponsored by firms, which is defined as $Ln(TotalBills)$. Second, we specifically calculate log transformation of the total number of labor-related bills, which is $Ln(LaborLobby)$. We then divide labor-related bills by total number of all bills and calculate %LaborRatio. We generate log transformation of the total lobbying expenditure as $Ln(LobbyExpense)$. We also create a binary variable *Lobbydum*, which is equal to one if firm has lobbying activity in given year, zero otherwise. We regress lobbying indicators on $Ln(\#Litigation)$ and other firm-specific control variables to understand whether a greater number of allegations increases the lobbying activity at firm level. Our set of control variables is as follows. We first use log transformation of the number of employees to proxy for firm size. Second, we use a set of firm characteristics as book leverage, ROA, tangibility, Tobin's Q, Herfindahl index, log transformation of firm age, and free cash flow. The third set of control variables is defined as labor-related variables to reduce omitted variable issues such as % of industry unionization, high tech firm indicator, union membership growth at industry level, pension expenses, % of state-level unionization rate, personal intensity, and property, plants, and equipment. We estimate the model by running a fixed effect panel regression.²⁵

While our goal is to analyze the underlying reason of lobbying decisions in labor-related issues, we believe that corporate lobbying activities may benefit the firms by influencing the legal processes (Yu and Yu 2012). In such case, we hypothesize that lobbying firms may obtain different case outcomes compared to non-lobbying rivals based on the political capital they built over the time.

H.2: All other things equal, lobbying influences the litigation outcome. ($\beta_1 > 0$)

$$\bullet \text{ Case Outcome} = \beta_0 + \beta_1 \text{LobbyingIndicators} + \sum \beta_s \text{Controls} \quad (2)$$

Case outcome is calculated in two ways: a) the total number of dismissals in a given year and b) the total number of withdrawals in a given year. Dismissal outcome refers to the situation where the court rejects the case after the initial hearing. Withdrawal outcome is the case where the charging party (employee or union) does not further carry on their claims. We also divide total dismissals by overall total number of cases to obtain %Dismiss, as well as total withdrawal divided

²⁵ Std. Errors are clustered at firm-level.

by total cases to calculate *%Withdrawal* as a percentage of the sample. To measure the effect of lobbying on case outcome, we introduce a set of lobbying indicators in our analysis. First, we employ log transformation of lobbying expenditure as $Ln(LobbyExp)$. Second, we create $Ln(\#LaborLobby)$, which is the log transformation of the total number of labor-related bills. Third, we obtain $Ln(\#Law)$ as the log transformation of the total number of labor-related bills that became law. We generate *Law* binary variable, and it is equal to one if the firm has at least one labor bill that became law, zero otherwise. We also generate another binary variable as *More Law*, and it is equal to one if the firm has more bills that became law compared to bills that failed to become law. We use the same set of control variables to understand if the lobbying influences the enforcement outcome.

We believe that lobbying may influence the case outcome for different reasons. First, lobbying firms may change practices in the work place, which would yield to more dismissals for future allegations and litigations. Second, political connections, contributions, and spending are defined as strategic action that aims at altering policy proposals on behalf of firms' and/or industries' interest that allows firms to be able to evade the violations, inspections, and investigations. And third, lobbying and other policy changes may increase the duration of the case where the charging parties (union and/or individual employee) may face difficulties to fund the costly litigations. In this case, we would observe more withdrawals by charging parties (union and/or individual employee) as a final case outcome. To understand whether lobbying influences the litigation process, we hypothesize;

H.3: All other things equal, lobbying increases the case duration. ($\beta_1 > 0$)

$$\bullet \text{ Days} = \beta_0 + \beta_1 \text{LobbyingIndicators} + \sum \beta_s \text{Controls} \quad (3)$$

Since each case has a different duration, we run a cross-sectional analysis to analyze the relationship between lobbying and duration at case level. Our dependent variable *Days* is calculated as the log transformation of the number of days between *Closing Date* minus the *Opening Date* of the cases. We regress *Days* on lobbying indicators, including lobbying expenditure and number of sponsored bills, to determine whether lobbying influences case duration, which may ultimately affect the outcome.

If lobbying in labor issues is motivated by employee-level litigations, we expect that the political engagement should provide some benefit for those firms that spend resources on establishing

political connections. In other words, lobbying may create firm value if the litigation has little or no effect on the firm performance of responsible firms. We measure the effect of lobbying on firm performance in two different ways. First, we conduct an event study of successful lobbying process. We collect as many days where labor-related bills became law and/or passed in the US House and Senate to measure the market reaction.

H.4: All other things equal, lobbying positively affects the firm performance in terms of changing in Cumulative Abnormal Returns (CAR).

To measure the market reaction of bill becoming law, we employ the event study CAPM method:

Where $R_{i,t}$ is the actual return over day t , $r_{f,t}$ is a risk-free return, and $R_{M,t}$ is the return of a selected market index (we use Value Weight index from CRSP).

$$R_{i,t} - r_{f,t} = \alpha_i + \beta_{i,M}(R_{M,t} - r_{f,t}) + \epsilon_{i,t} \quad (4)$$

We use different event windows around announcement dates, $CAR[-t, +t]$, where we introduce the null hypothesis that cumulative abnormal return is equal to zero:

$$H_0: CAR = 0 \quad (5)$$

In addition to market reaction, we follow Gande and Lewis (2009) and convert the daily abnormal returns into an estimate of the economic dollar effect for each event in our sample. We calculate that the dollar effect for firm j at date t is computed as

$$DE_{jt} = P_{jt-1} \times AR_{jt} \quad (6)$$

where P_{jt-1} is the market capitalization of firm and AR_{jt} is the daily abnormal return computed as the actual return minus the market benchmark return (Value Weight index from CRSP). We then calculate cumulative daily economic dollar effects over the event window. For example, cumulative economic effect CEE_{ij} for firm j and bill i over event window $[\tau_1 \tau_2]$ is computed as:

$$CEE_{ij}[\tau_1 \tau_2] = \sum_{s=t_i+\tau_1}^{t_i+\tau_2} DE_{jt} \quad (7)$$

Our second analysis is to show that successful lobbying activity protects firms from litigation effects. In this case, we use Tobin's Q as a dependent variable and test the effect of litigation for our sample firms.

H.5: All other things equal, lobbying affects firm performance. ($\beta_1 > 0$)

$$\bullet \text{ Firm Performance} = \beta_0 + \beta_1 \text{Litigation} + \sum \beta_s \text{Controls} \quad (8)$$

Firm performance is measured by Tobin's Q, and it is regressed on litigation, which is defined as $\ln(\# \text{Litigation})$. In brief, we examine if the political engagement in lobbying would protect firms from lawsuit outcomes that may hurt the shareholder wealth. We split our sample between lobbyist and non-lobbyist firms and test the effect of litigation on Tobin's Q. Then, we compare coefficients from two separate regressions to show not only visually but also statistically that there exists a difference between samples. We first use all our samples to identify the effect of litigation on firm performance. We then create a matched sample between our firms and document the benefit of lobbying.

4.2) Robustness Check

For robustness check, we perform different approaches to confirm that our results hold when we change the sample or the explanatory variables. First, we perform propensity score matching to compare lawsuit characteristics at firm level. We match our firms based on the number of employees, book-to-market, year, and industry. We split our sample into two groups: the *Treatment* group, which includes lobbying firms, and the *Control* group, which includes non-lobbying firms. In our propensity score matching, we use a) total dismissals, b) total withdrawals, c) cumulative dismissals, and d) cumulative withdrawals over a sample period span.

Second, in addition to lawsuits, we also gather unique hand-collected labor enforcement datasets from the US Department of Labor. We obtain Occupational Safety and Health Administration Enforcement data, Wage and Hour Compliance Action data, and Employee Benefits and Security Enforcement data to identify the inspections, penalties, and violations at firm level. We also hand collect discrimination lawsuits filed by employees from Bloomberg's BNA Employment Discrimination Verdicts and Settlements database. To eliminate unobserved or omitted variable bias, we assume that labor-related bills may be driven by not only lawsuits but also other types of employee allegations and violations. Our results quantitatively remain the same when we introduce additional work-related disputes.

Third, our study includes different types of political connections rather than lobbying spending. While lobbying may be the most effective way to change policy proposals, firms may choose other

strategies to be politically connected. In other words, we examine whether our results remain same if other political actions are implemented by the firms. We gather unique hand-collected CEO-level political contribution data to identify donor CEOs. Similarly, we also hand collect firm-level Political Action Committee (PAC) data to determine politically connected firms. In addition to that, we employ detailed lobbying data to identify the number of lobbyists employed by firms, as well as lobbyists who were former members of the US Congress.

Fourth, we measure litigation impact on firm value by dividing our data into two samples. In the first step, we examine how litigation influences firm value for the whole sample. In the second step, we perform *matched sample* methodology by assigning each lobbying firm to a non-lobbying firm based on the number of employees, book-to-market, year, and industry. In addition to regression outcomes, we test the litigation coefficient from two separate regressions to show not only visually but also statistically the significant difference between two samples.

Fifth, we perform a difference-in-difference approach to determine the effect of lobbying following the sponsored labor-related bills becoming law. Since we hypothesize that lobbying influences the case outcome, we estimate the following equation:

$$Case\ Outcome = \beta_0 + \beta_1 Treatment + \beta_2 PostYears + \beta_1 Treatment \times Post\ Years + \sum \beta_s Controls$$

$$(\beta_1 > 0) \quad (9)$$

Case Outcome is defined as the total number of dismissals and the total number of withdrawals, respectively. We define *Treatment* group as lobbying firms and is equal to one, zero otherwise. *Post Years* is equal to one for years after labor-related bills become law, zero otherwise. *Treatment x Post Years* is the interaction term of two variables.

And finally, to address whether there are other determinants (variables) that may drive the lobbying and litigation relationship, we control for firm-specific and employee-specific variables in our regressions. While Agrawal and Knoeber (2000) find that lobbying increases firm performance operating in heavily regulated industries, we assume that some industries also tend to be unionized to a greater degree. It is therefore essential to consider to what extent lobbying simply self-selects into traditionally unionized industries.²⁶ We gather industry unionization data that contain private and public sector labor union memberships, coverage, and density estimates. We map union

²⁶ Barry Hirsch (Andrew Young School of Policy Studies, Georgia State University) and David Macpherson (Department of Economics, Trinity University), created the Union Membership and Coverage Database, which is available at www.unionstats.com

coverage at the industry level to Fama and French industry classification by one-to-one at year level and control in our regressions. Furthermore, we create a binary variable for *high tech firms*,²⁷ which are employing high-skilled labor and may be more likely to face litigation—because of employee awareness—and lobby more—because of fast innovation and an active legislative agenda. We also control for *growth at union membership* at industry level, *pension expenses*, *state unionization rate* that is based on the headquarters of the firm located, *personal intensity* (total assets normalized by the number of employees), and *property, plants, and equipment* (normalized by the number of employees). In addition, we use perform firm-year fixed effects to eliminate unobserved firm heterogeneity. Overall, our results confirm earlier expectations where we document that labor-related allegations increase lobbying activity by targeting the judicial system, which may ultimately affect case outcome.

5. Empirical Results

5.1) Lobbying Activity and Labor Relations

Table 2 is designed to compare the sample means of two groups. Our main objective is to investigate the motivation behind lobbying decision; therefore, we first split our sample into two subgroups: firms with employee lawsuits and firms without employee lawsuits. In Panel A, we compare subgroups to understand the relation between firm-level political spending and litigation concepts. First, we find that firms with lawsuits have a greater amount of lobbying spending compared to non-lawsuit firms. In other words, employee litigation is associated with systematically higher levels of lobbying expense. They also lobby more bills and sponsor more issues in specifically labor-related subjects. Proportionally, we have more firms that are lobbying and are sued by employees compared to non-lobbyist firms. We then compare our firms based on additional political spending. We find that firms with employee lawsuits perform to higher Political Action Committee (PAC) contributions. In the same manner, CEOs from lawsuit firms personally donate more money to political parties compared to non-lawsuit rivals. In addition to political spending, we document that firms with employee lawsuits hire more lobbyists and employ more lobbyists who were former members of the US Congress.

²⁷ The industries (by three-digit SIC code) are 283, 357, 366, 367, 382, 384, and 737.

Table 2
Univariate Analysis

Variable	Lawsuit [1]	Non-Lawsuit [2]	Difference [1]-[2]	T-statistics
	N=4,190	N=23,706		
<u>A. Lobbying Characteristics</u>				
Total Lobbying Expenditure	968,683.400	180,203.700	788,479.700	[32.68]***
%Lobby	0.280	0.110	0.170	[30.17]***
%LaborLobby	0.090	0.020	0.070	[22.21]***
Num. of Bill Lobbied	4.890	1.340	3.550	[24.58]***
Num. of Labor Introduced Bill	0.190	0.060	0.130	[13.51]***
Num. of Lobbyist Employed	30.960	8.520	22.440	[37.73]***
Num. of Lobbyist Employed: Congress	0.930	0.238	0.692	[26.41]***
Annual PAC Contribution	68,496.100	12,267.810	56,228.290	[14.18]***
Annual CEO Contribution	3,522.587	2,547.912	974.675	[3.99]***
Total Labor Bill Become Law	0.070	0.010	0.060	[17.22]***
Labor Bill: Labor Market Development	0.006	0.002	0.004	[4.05]***
Labor Bill: Worker Safety	0.012	0.004	0.008	[4.49]***
Labor Bill: Employment Training	0.037	0.009	0.028	[11.46]***
Labor Bill: Employee Benefit	0.082	0.031	0.051	[7.78]***
Labor Bill: Labor Unions	0.042	0.007	0.035	[11.53]***
Labor Bill: Fair Labor Standards	0.010	0.003	0.007	[5.10]***
Labor Bill: Benefits and Other Issues	0.002	0.001	0.001	[2.20]**
<u>B. Firm Characteristics</u>				
Ln(#Employee)	3.036	1.205	1.83	[65.66]***
Book Leverage	0.297	0.232	0.06	[3.97]***
ROA	0.037	0.023	0.01	[1.67]
Tangibility	0.339	0.227	0.11	[28.72]***
Tobin's Q	1.653	1.907	-0.25	[-8.22]***
Herfindahl Index	0.254	0.208	0.05	[14.67]***
Ln(#FirmAge)	3.424	2.992	0.43	[37.44]***

Free Cash Flow	0.042	0.025	0.02	[2.64]***
% Industry Unionization	9.117	6.090	3.03	[28.91]***
High Tech Firms	0.069	0.237	-0.17	[-24.80]***
Union Membership Growth	0.001	0.021	-0.02	[-0.90]
Pension Expenses	0.597	0.046	0.55	[2.54]**
% State Unionization	13.315	13.200	0.12	[1.10]
Personal Intensity	8.766	29.506	-20.74	[-6.95]***
Property, Plants and Equipment	0.233	0.310	-0.08	[-2.29]**

Propensity Score Matching	Treatment (Lawsuit) [1]	Control (Non-Lawsuit) [2]	Difference [1]-[2]	T-statistics
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C. Matched Sample

Total Lobbying Expenditure	1,528,778.03	736,193.61	792,584.42	[9.30]***
Num. of Bill Lobbied	7.669	5.539	2.130	[4.56]***
Num. of Labor Introduced Bill	0.301	0.231	0.070	[2.62]***

Table 2 reports the univariate analysis between our sample firms. In column (1), we define lawsuit group if the firm is facing at least one labor related allegation. In column (2), non-lawsuit refers to firms with no labor litigation. In column (1)-(2), we report the differences in means of given variables and T-test results. In Panel A, we compare sample means based on lobbying activity. In Panel B, we compare firms by control variables used in this study. In Panel C, we generate match sample based on year, industry, size (#employee) and book-to-market and report the difference between treatment and control groups. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

In next step, we investigate topics in labor-related bills and responsible issues. We find that firms that are facing employee lawsuits sponsor more bills in topics such as labor market development, worker safety, employment training, labor unions, fair labor standards, and benefits with other issues. Our results may indicate that employee litigation may prompt firms to lobby more in labor-related issues. For robustness of our results, we also perform propensity score matching and report our results in Panel C. We match our firms based on the number of employees, book-to-market, industry, and year. We confirm our early findings where firms with employee disputes have greater involvement in lobbying activities.

Overall, our univariate analyses report a more profound involvement in lobbying activity for firms that are facing litigation. While lobbyist firms are less likely to be caught for corporate fraud (Yu and Yu 2012) or lobbying may be driven from unethical practices (Borisov et al. 2015), we report that the firms that are frequently sued by their employment perform generous lobbying engagement.

5.2) Association between lobbying and litigation risk

In Table 3, we test our first hypothesis and estimate equation (1) to determine the relation between litigation and lobbying activity. We describe litigation as the log transformation of the total number of litigations in a given year and define it as $Ln(\#Litigation)$. Our dependent variables are lobbying indicators. In column (1) and (2), our dependent variable is $Ln(\#TotalBills)$, which is the log transformation of all the bills sponsored by the firms. In column (3), our dependent variable is log transformation of labor-related bills defined as $Ln(\#LaborLobby)$. In column (4), we employ $\%LaborRatio$ as a dependent variable, which is the total number of labor-related bills divided by all the bills sponsored by firms. In column (5) and (6), we use log transformation of total lobbying expenditure— $Ln(LobbyExpense)$ —as a dependent variable. And in column (7), our dependent variable is $Lobbydum$ and equal to one if firm has lobbying activity, zero otherwise. We perform industry-and-year fixed effects, as well as firm-and-year fixed effects to eliminate unobserved firm heterogeneity.

Table 3
Litigation and Lobbying Activity

Dependent Variable	Ln(TotalBill) _{t+1}		Ln(LaborLobby) _{t+1}	%LaborRatio	Ln(LobbyExpense) _{t+1}		Lobbydum
Sample	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Ln(#Litigation)	0.166	0.033	0.030	0.004	0.912	0.208	0.302
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Ln(#Employee)	0.190	0.051	0.029	0.004	1.103	0.426	0.776
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.057	0.002	-0.013	-0.002	-0.272	0.045	-0.064
	[0.001]***	[0.823]	[0.001]***	[0.012]**	[0.001]***	[0.462]	[0.492]
ROA	0.019	0.016	0.005	0.000	0.103	-0.001	0.813
	[0.496]	[0.544]	[0.418]	[0.804]	[0.526]	[0.997]	[0.001]***
Tangibility	-0.112	0.351	-0.015	0.001	-0.403	1.425	0.209
	[0.139]	[0.001]***	[0.275]	[0.687]	[0.370]	[0.001]***	[0.542]
Tobin's Q	0.022	-0.004	0.003	0.000	0.131	-0.021	0.103
	[0.001]***	[0.275]	[0.001]***	[0.142]	[0.001]***	[0.357]	[0.001]***
Herfindahl Index	0.076	-0.410	0.011	0.004	0.518	-2.125	0.253
	[0.313]	[0.001]***	[0.464]	[0.135]	[0.211]	[0.001]***	[0.350]
Ln(#FirmAge)	0.047	-0.535	0.005	0.001	0.279	-2.495	0.178
	[0.025]**	[0.001]***	[0.307]	[0.169]	[0.024]**	[0.001]***	[0.055]*
Free Cash Flow	-0.200	0.035	-0.048	-0.007	-0.906	0.353	-0.720
	[0.001]***	[0.420]	[0.001]***	[0.001]***	[0.001]***	[0.170]	[0.148]
% Industry Unionization	-0.008	0.001	-0.002	0.000	-0.012	0.035	0.015
	[0.156]	[0.708]	[0.182]	[0.641]	[0.687]	[0.061]*	[0.590]
High Tech Firms	0.175	0.155	0.024	0.001	0.659	1.190	0.446
	[0.001]***	[0.375]	[0.001]***	[0.805]	[0.066]*	[0.250]	[0.107]
Union Membership Growth	0.008	0.000	0.001	0.000	0.016	-0.023	-0.002
	[0.035]**	[0.925]	[0.392]	[0.560]	[0.436]	[0.292]	[0.898]
Pension Expenses	-0.001	0.000	-0.001	0.000	-0.002	0.001	-0.001
	[0.001]***	[0.773]	[0.001]***	[0.001]***	[0.264]	[0.471]	[0.376]

% State Unionization	0.001 [0.520]	-0.002 [0.730]	-0.001 [0.914]	0.000 [0.568]	0.006 [0.657]	-0.010 [0.703]	0.001 [0.925]
Personal Intensity	0.001 [0.094]*	0.001 [0.015]**	0.001 [0.396]	0.001 [0.244]	0.001 [0.078]*	-0.001 [0.001]***	0.001 [0.230]
Property, Plants and Equipment	0.020 [0.022]**	0.011 [0.015]**	0.002 [0.036]**	0.001 [0.109]	0.116 [0.029]**	0.062 [0.016]**	0.065 [0.001]***
Constant	-0.589 [0.001]***	1.343 [0.001]***	-0.075 [0.001]***	-0.009 [0.174]	-3.640 [0.001]***	5.945 [0.001]***	-7.233 [0.001]***
Year/Industry Fixed	YES	NO	YES	YES	YES	NO	YES
Year/Firm Fixed	NO	YES	NO	NO	NO	YES	NO
N	22,187	22,187	22,187	22,187	22,187	22,187	22,187
R ²	25%	15%	9%	3%	24%	13%	28%

Table 3 reports the multivariate regression results between litigation and lobbying. In column (1) and (2), our dependent variable is log transformation of total number of sponsored bill. In column (1), we perform OLS with year and industry fixed effects. In column (2), we perform OLS with year and firm fixed effects. In column (3), our dependent variable is log transformation of total number of labor related bills. In column (4), dependent variable %LaborRatio refers to total labor related bills divided by all the bills sponsored by firms. In column (5) and (6), our dependent variable is log transformation of total lobbying expenditure. In column (5), we perform OLS with year and industry fixed effects. In column (6), we perform OLS with year and firm fixed effects. In column (7), our dependent variable is lobbydum and equal to one if firm lobbied at least one bill about labor issues, zero otherwise. Std. errors are clustered at firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Our results are presented in Table 3. We find a positive relationship between the total number of litigations and the lobbying activity. Simply put, we find that a greater number of litigations yields to higher lobbying involvement at firm level. In column (1) and (2), we document that, all other things constant, increase in the number of employee litigations increases the number of bills sponsored in our sample. Similarly, in column (3), we find that employee disputes increase the number of “labor-related” bills. In column (4), we show that a higher number of litigation increases the labor-related bills as a portion of all bills sponsored by firms. In column (5) and (6), we find a positive relationship between the number of litigations and lobbying expenses. And finally in column (7), we find that litigation increases the likelihood of being a lobbying firm. Taken together, our results illustrate that employee litigations may drive firms into lobbying activities. Our findings are interesting given the fact that firms may feel threatened by the large number of litigations each year, therefore taking measures to adopt new laws by sponsoring labor-related bills. Findings from Table 3 are consistent with both our research motivation and our univariate analysis where we report a positive relationship between employee lawsuits and lobbying engagement for our sample firms. We document that litigations may be the driver of lobbying efforts for the firms that are seeking favorable treatment when things get bad.

5.3) Association between lobbying, litigation outcome, and firm performance

For further investigation of lobbying and litigation, we analyze how lobbying protects the shareholder wealth. In the first step, we obtain the days where the sponsored bills are introduced and/or become law and/or are passed in the House and Senate. The Congressional Bills database allows us to collect as many days as available in the data. While one bill can include several topics in it, we keep all the bills that include labor and employment topics. Since the main goal of our study is to focus on labor and lobbying relations, we drop bills coded in other issues if they do not include any labor topic in it.²⁸

To identify the market reaction for the lobbyist firms, we conduct an event study and measure the cumulative abnormal return (CAR) for bills that are introduced. We test the market reaction as

²⁸ Such as defense, tax, medical, transportation, etc.

Table 4
Event Study: Bill Passed & Become Law

Panel A.	#N	Lobbyist Firm	T-Stat	Prob
[0,1]	1,627	0.87%	11.61	[0.001]***
[-1,1]	1,627	0.85%	9.27	[0.001]***
[0,2]	1,627	0.76%	8.33	[0.001]***
[-2,2]	1,627	0.62%	5.25	[0.001]***
[0,3]	1,627	0.76%	7.22	[0.001]***
[-3,3]	1,627	0.69%	4.92	[0.001]***
[-4,4]	1,627	0.90%	5.69	[0.001]***

Panel B.	#N	Δ in Market Value (\$mil)	T-Stat	Prob
-10	1,627	-40.12	-1.97	[0.975]
-9	1,627	-50.84	-1.80	[0.964]
-8	1,627	-39.88	-1.06	[0.855]
-7	1,627	-31.99	-0.80	[0.788]
-6	1,627	-26.60	-0.52	[0.700]
-5	1,627	-32.20	-0.57	[0.715]
-4	1,627	-38.68	-0.61	[0.728]
-3	1,627	0.07	0.00	[0.499]
-2	1,627	-6.41	-0.09	[0.534]
-1	1,627	-4.78	-0.06	[0.525]
0	1,627	128.96	1.80	[0.036]**
+1	1,627	122.05	1.71	[0.043]**
+2	1,627	166.42	2.14	[0.016]**
+3	1,627	168.24	2.11	[0.017]**
+4	1,627	170.59	2.08	[0.019]**
+5	1,627	148.32	1.77	[0.038]**
+6	1,627	143.50	1.65	[0.050]**
+7	1,627	158.69	1.76	[0.039]**
+8	1,627	160.02	1.75	[0.040]**
+9	1,627	171.78	1.83	[0.033]**
+10	1,627	172.67	1.75	[0.039]**

Table 4 represents the event study results from sponsored labor bills introduced and passed in U.S. legislative bodies. In Panel A, we conduct the event study CAPM method where $R_{i,t}$ is the actual return, $r_{f,t}$ is a risk free return, and $R_{M,t}$ is the return of a selected market index (Value Weight index from CRSP).

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

Days refer to the announcement days surrounding the bills becoming law. #N refers to the number bills (announcement) sponsored by firms. Lobbying Firm column is defined as cumulative abnormal returns (CAR) obtained by lobbying firms. In Panel B, we report changes in market value over selected event window. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

$H_0: CAR = 0$. We define event period -60 days before the event, and estimation period of -20 before the event. We calculate different days of announcement once the bills are signed into law.

Our findings are represented in Table 4. In our sample, based on data availability, we collect 1,627 announcement dates where the bill passed in the House and the Senate and became law between 2000 and 2014. In Panel A, we report a significant market reaction for lobbyist firms around several event windows such as [-1,+1], [0,+1], [0,+3], etc. In this case, we suggest that market participants may perceive lobbying as successful, since the lobbied bill by the firm finally became law. Our results from Panel A of Table 4 show that lobbying firms receive positive market reaction once the labor-related bill is introduced and passed in the US legislative bodies. We find that lobbying positively affects the firm performance in terms of changing in Cumulative Abnormal Returns (CAR). Following that, in Panel B of Table 4, we estimate the cumulative economic effects of lobbying activity. During the three-day announcement period [-1,+1], there is an average gain of \$246.68 million in shareholder wealth. In the one-week period [0,+10] preceding the announcement date, lobbying provides additional gain to shareholder wealth measured as the changes in market value of the firm.

Further, we analyze the relation between lobbying and lawsuit characteristics. We aim to understand the reason of lawsuits, the charging party, and the outcome of cases. While some scholars view firm political engagement as a strategic investment that benefits firms and industries (Goldman et al. 2009; Johnson and Mitton 2003; Boubakri et al. 2012; Hill et al. 2013; Faccio 2006; Niessen and Ruenzi 2009; Cooper et al. 2010; Blau et al. 2013; Kroszner and Stratmann 1998; Stratmann 1995; Chen et al. 2015), we study whether lobbying firms have different case characteristics and if so, how the lobbying influences the possible outcome of litigation for responsible firms. Table 5 is designed to compare lawsuit characteristics between two group of firms: a) firms with lobbying activity and b) firms without lobbying activity. Table 5 also shares information of the origin and outcome of employee lawsuits that are filed against corporations. Each lawsuit has a unique case number with section codes and the types of violations. We identify each case by determining the reason of the lawsuit, the charging party, and the outcome and then match with our firms from COMPUSTAT.

Table 5
Univariate Analysis

Panel A.	Lobby [1]	Non-Lobby [2]	Difference [1]-[2]	T-statistics
	N=3,941	N=23,995		
<u>Lawsuit Characteristics</u>				
Coercive Actions	0.158	0.012	-0.012	[14.30]***
Coercive Statement	0.291	0.075	-0.075	[14.65]***
Bad Faith Bargaining	0.172	0.034	-0.034	[16.62]***
Changes in Working Condition	0.544	0.087	-0.087	[19.82]***
Discharge	0.470	0.120	-0.120	[15.45]***
Discipline	0.331	0.051	-0.051	[16.75]***
Refusal to Furnish Information	0.567	0.095	-0.095	[18.52]***
Changes in Working Contract	0.335	0.061	-0.061	[20.09]***
Onerous Assignment	0.019	0.007	-0.007	[5.14]***
Concerted Activities	0.224	0.047	-0.047	[16.93]***
Unilateral Changes	0.224	0.048	-0.048	[16.91]***
Fair Representation	0.054	0.019	-0.019	[6.85]***
Union Issues	0.048	0.016	-0.016	[8.98]***
Harrasment	0.021	0.008	-0.008	[5.15]***
Other Issues	0.409	0.141	-0.141	[10.43]***
<u>Charging Party</u>				
Union	1.570	0.465	1.105	[16.40]***
Individual	0.943	0.217	0.726	[16.03]***
<u>Case Outcome</u>				
Settlement	0.112	0.098	0.014	[1.03]
Closure	0.007	0.003	0.004	[0.96]
Dismissal _t	0.679	0.187	0.492	[15.85]***
Dismissal _{t+1}	0.656	0.198	0.458	[13.73]***
Dismissal _{t+2}	0.652	0.202	0.450	[12.62]***
Dismissal _{t+3}	0.633	0.208	0.425	[11.01]***
Cumulative Dismissal	7.877	1.073	6.804	[28.94]***
Withdrawal _t	1.751	0.445	1.306	[18.88]***

Withdrawal _{t+1}	1.750	0.461	1.289	[17.48]***
Withdrawal _{t+2}	1.772	0.472	1.300	[14.46]***
Withdrawal _{t+3}	1.763	0.489	1.274	[14.87]***
Cumulative Withdrawal	18.161	2.408	15.753	[31.66]***

Panel B.	More Law [1]	More Fail [2]	Difference [1]-[2]	T-statistics
	N=424	N=27,472		
Dismissal _t	1.238	0.242	0.996	[11.26]***
Dismissal _{t+1}	1.122	0.250	0.872	[9.16]***
Dismissal _{t+2}	0.890	0.255	0.635	[6.48]***
Dismissal _{t+3}	0.966	0.253	0.713	[7.11]***
Cumulative Dismissal	14.708	1.842	12.866	[19.06]***
Withdrawal _t	3.294	0.59	2.704	[13.71]***
Withdrawal _{t+1}	2.828	0.612	2.216	[10.51]***
Withdrawal _{t+2}	2.454	0.624	1.830	[8.40]***
Withdrawal _{t+3}	2.353	0.632	1.721	[7.71]***
Cumulative Withdrawal	33.821	4.189	29.632	[20.51]***

Table 5 reports the univariate analysis between our sample firms. In Panel A of column (1), lobby refers to the firms that sponsored at least one bill in labor issues. In column (2), non-lobby refers to the firms with no lobbying activity. We compare lobbying and non-lobbying firms in terms of case reasons, charging parties and case outcomes. In Panel B, more law refers to the firms that obtains more bills become law in labor issues compared to firms with no lobbying activity. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

In Panel A, we examine the reasons of lawsuits. We find that lobbying firms are sued more in every topic compared to non-lobbying rivals and the difference is statistically significant. We note that lobbying firms are more likely to be sued for coercive actions, coercive statement, bad faith bargaining, changes in working condition, discharge, discipline, refusal to furnish information, changes in working contract, onerous assignment, concerted activities, unilateral changes, fair representations, union issues, harassment, and other issues. These results may help us to understand why lobbying firms with a greater number of lawsuits sponsor specifically labor-related bills.

In Panel B, we investigate the charging party on charge. We find that lobbying firms are sued more by labor unions. We also find that lobbying firms are sued more by individual employees, compared to non-lobbying firms, and the difference is statistically significant.

In Panel C, we compare lobbyist and non-lobbyist firms in terms of litigation outcome. In our first set of tests, we find that a greater number of settlements is associated with lobbying firms compared to non-lobbyist peers; however, the result is statistically not significant. Our results may have two potential explanations. First, lobbying firms may not choose to settle, since they would realize the fact that sponsored bills may protect them in the future by changing policy proposals. Second, lobbying benefits the firms in terms of “settlement cost.” Since corporations spend millions of dollars as lobbying expenditure, they are not obligated to spend extra resources as settlement amounts, which would reduce financial burden and firms may avoid legal fees.

In the second step, we focus on dismissed cases and withdrawn cases. Our findings state that more lawsuits are dismissed by court and more lawsuits are withdrawn by charging parties for lobbying firms compared to non-lobbying firms, and the result is statistically significant. We find that lobbying firms that face litigation obtain a greater number of dismissals and withdrawals for t , $t+1$, $t+2$, and $t+3$ years, respectively. We also find that lobbying firms have a greater number of cumulative dismissals and cumulative withdrawals overall in our sample period.

For additional robustness check, we also split our sample into two groups: a) lobbying firms that have more bills become law in labor topics and b) lobbying firms that have more bills fail to

become law, or firms with no lobbying activity at all. We find that successful lobbying firms have larger dismissals and withdrawals if they have more bills become law in labor and employment topics.

Our results from Table 5 have important implications. We believe that lobbied bills protect firms by altering the case outcome. In this case, lobbyist firms are better off where allegations are dropped against the defendant (corporations). This may be due to the fact that the charging party (individual or labor union) decides to drop off their claims, acknowledging the political protection that is gained by lobbyist firms. At this point, we can discuss the benefit of corporate lobbying, where changing policy proposals would give firms comparative advantage in legal issues. Thus, the univariate results of all four court cases are in favor of lobbyist firms, releasing the firm from subsequent legal costs.

For further analysis, we carry our test to the multivariate analysis. We calculate the total number of dismissals and the total number of withdrawals for firms that are subjected to litigation. In Panel A of Table 6, our dependent variable from column (1) to (5) is the log transformation of the total number of dismissals obtained by the firms. In column (6), we divide the total number of dismissals by the total number of cases to find what percentage of dismissals are a part of overall outcome. We regress our dependent variable on lobbying indicators in the following ways: a) we use log transformation of lobbying expenditure, $Ln(LobbyExp)$; b) we use log transformation of labor-related bills, $Ln(\#LaborLobby)$; c) we use log transformation of the total number of bills that became law, $Ln(\#Law)$; d) we introduce the binary variable *Law* and equal to one if firm has at least one bill that became law in labor topics, zero otherwise; and e) *Morelaw* is a binary variable and equal to one if firms have more bills that became law in labor issues compared to lobbying firms that have a greater number of failed bills, zero otherwise.

Our results shown in Panel A of Table 6. We document a positive relationship between lobbying and the number of case dismissals. Our results show that an increase in lobbying activities increases the total number of dismissed cases. In the same manner, we report that lobbying increases proportional dismissals as a percentage of all the cases. Our results document that the lobbying decision may not only be motivated by the number of litigations but also by the possibility

of influencing case outcomes. Our results are similar to Firth et al. (2011) and Lu et al. (2011), who document that politically connected firms are favored in the judicial process.

Table 6
Litigation and Lobbying Outcome

Panel A. Dismissal						
Dependent Variable	Ln(Dismissal) _{t+1}					%(Dismissal)
Sample	(1)	(2)	(3)	(4)	(5)	(6)
Ln(LobbyExp)	0.018 [0.017]**					0.002 [0.001]***
Ln(#LaborLobby)		0.101 [0.032]**				
Ln(#Law)			0.611 [0.001]***			
Law				0.518 [0.001]***		
MoreLaw					0.525 [0.023]**	
Ln(#Employee)	0.231 [0.001]***	0.231 [0.001]***	0.243 [0.001]***	0.245 [0.001]***	0.242 [0.001]***	0.018 [0.001]***
Book Leverage	-0.020 [0.642]	-0.019 [0.647]	-0.021 [0.630]	-0.021 [0.626]	-0.021 [0.631]	0.001 [0.442]
ROA	-0.095 [0.020]**	-0.094 [0.020]**	-0.095 [0.020]**	-0.096 [0.020]**	-0.095 [0.020]**	-0.004 [0.227]
Tangibility	0.401 [0.027]**	0.405 [0.027]**	0.404 [0.027]**	0.401 [0.027]**	0.403 [0.027]**	0.027 [0.001]***
Tobin's Q	0.020 [0.453]	0.020 [0.451]	0.021 [0.435]	0.021 [0.434]	0.021 [0.435]	-0.001 [0.772]
Herfindahl Index	0.265 [0.238]	0.266 [0.234]	0.272 [0.228]	0.269 [0.233]	0.270 [0.230]	0.018 [0.082]
Ln(#FirmAge)	0.030 [0.390]	0.030 [0.386]	0.033 [0.345]	0.033 [0.345]	0.032 [0.352]	0.010 [0.001]***
Free Cash Flow	-0.070 [0.226]	-0.070 [0.224]	-0.073 [0.218]	-0.074 [0.217]	-0.073 [0.219]	-0.004 [0.259]
% Industry Unionization	0.035 [0.165]	0.035 [0.158]	0.034 [0.169]	0.034 [0.172]	0.034 [0.169]	0.001 [0.512]
High Tech Firms	0.092 [0.203]	0.086 [0.221]	0.095 [0.198]	0.097 [0.192]	0.094 [0.197]	0.003 [0.622]

Union Membership Growth	-0.019 [0.158]	-0.019 [0.147]	-0.018 [0.160]	-0.018 [0.162]	-0.018 [0.164]	0.000 [0.794]
Pension Expenses	0.005 [0.001]***	0.005 [0.001]***	0.005 [0.001]***	0.005 [0.001]***	0.005 [0.001]***	-0.001 [0.420]
% State Unionization	0.002 [0.756]	0.002 [0.759]	0.002 [0.739]	0.002 [0.735]	0.002 [0.735]	0.001 [0.032]**
Personal Intensity	0.001 [0.275]	0.001 [0.262]	0.001 [0.227]	0.001 [0.228]	0.001 [0.226]	0.001 [0.426]
Property, Plants and Equipment	0.018 [0.001]***	0.018 [0.001]***	0.020 [0.001]***	0.020 [0.001]***	0.020 [0.001]***	0.001 [0.001]***
Constant	-0.695 [0.070]**	-0.699 [0.069]**	-0.727 [0.061]**	-0.730 [0.060]**	-0.724 [0.061]**	-0.012 [0.510]
Year/Industry Fixed	YES	YES	YES	YES	YES	YES
N	22,497	22,498	22,498	22,498	22,498	22,498
R ²	7%	7%	7%	7%	7%	7%

Table 6 reports the multivariate regression results between lobbying and case outcome. In Panel A, from column (1) – (5), our dependent variable is log transformation of total dismissal obtained by firms at year t+1. In column (6), dependent variable %Dismiss refers to total dismissals divided by the total number of litigation. In Panel B, from column (1) – (5), our dependent variable is log transformation of total withdrawals obtained by firms at year t+1. In column (6), dependent variable %Withdrawal refers to total withdrawals divided by the total number of litigation. Std. errors are clustered at firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel B. Withdrawal						
Dependent Variable	Ln(Withdrawal) _{t+1}					% (Withdrawal)
	(1)	(2)	(3)	(4)	(5)	
Sample						
Ln(LobbyExp)	0.059 [0.001]***					0.004 [0.001]***
Ln(#LaborLobby)		0.343 [0.001]***				
Ln(#Law)			1.628 [0.001]***			
Law				1.385 [0.001]***		
MoreLaw					1.345 [0.013]**	
Ln(#Employee)	0.506 [0.001]***	0.504 [0.001]***	0.551 [0.001]***	0.557 [0.001]***	0.551 [0.001]***	0.037 [0.001]***
Book Leverage	-0.060 [0.472]	-0.058 [0.480]	-0.063 [0.451]	-0.064 [0.446]	-0.063 [0.450]	0.004 [0.103]
ROA	-0.243 [0.001]***	-0.240 [0.001]***	-0.245 [0.001]***	-0.247 [0.001]***	-0.245 [0.001]***	-0.008 [0.136]
Tangibility	1.146 [0.001]***	1.158 [0.001]***	1.149 [0.001]***	1.143 [0.001]***	1.147 [0.001]***	0.089 [0.001]***
Tobin's Q	0.041 [0.423]	0.041 [0.424]	0.045 [0.389]	0.045 [0.387]	0.045 [0.389]	-0.002 [0.080]*
Herfindahl Index	0.540 [0.235]	0.545 [0.230]	0.568 [0.215]	0.559 [0.222]	0.562 [0.218]	0.025 [0.220]
Ln(#FirmAge)	0.029 [0.767]	0.030 [0.762]	0.040 [0.680]	0.040 [0.680]	0.039 [0.687]	0.019 [0.001]***

Free Cash Flow	-0.131	-0.129	-0.142	-0.145	-0.142	-0.008
	[0.276]	[0.273]	[0.262]	[0.260]	[0.262]	[0.188]
% Industry Unionization	0.099	0.101	0.098	0.097	0.098	0.003
	[0.132]	[0.125]	[0.136]	[0.138]	[0.136]	[0.136]
High Tech Firms	0.087	0.065	0.101	0.107	0.100	-0.006
	[0.647]	[0.728]	[0.607]	[0.586]	[0.607]	[0.695]
Union Membership Growth	-0.037	-0.038	-0.036	-0.036	-0.036	-0.003
	[0.208]	[0.190]	[0.216]	[0.219]	[0.221]	[0.141]
Pension Expenses	0.032	0.032	0.032	0.032	0.032	0.001
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***
% State Unionization	0.013	0.013	0.013	0.013	0.013	0.002
	[0.481]	[0.485]	[0.465]	[0.461]	[0.462]	[0.001]***
Personal Intensity	0.001	0.001	0.001	0.001	0.001	0.001
	[0.236]	[0.219]	[0.175]	[0.177]	[0.175]	[0.001]***
Property, Plants and Equipment	0.033	0.033	0.038	0.038	0.038	0.001
	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.001]***	[0.071]*
Constant	-1.696	-1.709	-1.823	-1.831	-1.818	-0.033
	[0.086]*	[0.085]*	[0.071]*	[0.070]*	[0.071]*	[0.318]
Year/Industry Fixed	YES	YES	YES	YES	YES	YES
N	22,497	22,497	22,497	22,497	22,497	22,497
R ²	9%	9%	9%	9%	9%	9%

For further investigation, we also test the relationship between the number of withdrawals and the lobbying effort. We realize that the majority of the cases in our study are withdrawn by the charging parties (unions or individuals). Therefore, we first investigate the impact of lobbying on withdrawals. Then, we try to explain why charging parties may be more likely to withdraw from cases.

In Panel B of Table 6, our dependent variable from column (1) to (5) is the log transformation of the total number of withdrawals as a case outcome. In column (6), we divide total withdrawals by total cases to find what percentage of withdrawals are a part of the overall outcome. We present our results in Panel B. Our results are consistent with earlier expectations: we document that increases in lobbying indicators lead to increases in the number of withdrawals by charging parties.

As reported in Table 6, we find that lobbying may influence case outcomes. These findings raise significant implications. Firms with lobbying activities may face different case outcomes compared to non-lobbying rivals (Lambert 2015). Therefore, we investigate alternative hypotheses that might otherwise explain the difference between firms that do generous lobbying spending and those that do not. To test the case characteristics and lobbying, we analyze the case duration. We believe that if the duration of the litigation is longer, the charging parties (unions or individuals) may find it costly to fund their allegations. This implies that if lobbying firms can delay resolution of the case long enough, they could potentially alter the case outcome. Our dataset allows us to calculate case duration by taking the difference between the decision date minus the opening date measured in number of “*Days*.”

In Table 7, we use log transformation of the number of *Days* as a dependent variable. Since each case has a different duration, we run cross-sectional analysis and report our findings. We regress the number of days on lobbying indicators, including lobbying expenditures, lobbying status, and the total number of labor bills sponsored. Our aim is to identify whether lobbying has an impact on case duration, which may ultimately affect the outcome.

Table 7**Lobbying and Duration: Cross Sectional Analysis**

Dependent Variable	Days		
	(1)	(2)	(3)
Sample			
Ln(LobbyExp)	0.028		
	[0.001]***		
Ln(#LaborLobby)		0.133	
		[0.001]***	
Lobbydum			0.388
			[0.001]***
Ln(#Employee)	0.594	0.598	0.598
	[0.001]***	[0.001]***	[0.001]***
Book Leverage	0.054	0.056	0.053
	[0.228]	[0.215]	[0.237]
ROA	-0.231	-0.230	-0.231
	[0.083]**	[0.083]**	[0.083]**
Tangibility	0.965	0.976	0.960
	[0.001]***	[0.001]***	[0.001]***
Tobin's Q	-0.024	-0.025	-0.023
	[0.323]	[0.300]	[0.338]
Herfindahl Index	0.169	0.176	0.178
	[0.539]	[0.521]	[0.516]
Ln(#FirmAge)	0.083	0.085	0.082
	[0.319]	[0.300]	[0.319]
Free Cash Flow	-0.087	-0.088	-0.089
	[0.483]	[0.477]	[0.476]
% Industry Unionization	0.016	0.018	0.014

	[0.298]	[0.239]	[0.332]
High Tech Firms	-0.122	-0.140	-0.123
	[0.577]	[0.536]	[0.578]
Union Membership Growth	-0.012	-0.015	-0.013
	[0.313]	[0.197]	[0.302]
Pension Expenses	0.001	0.001	0.001
	[0.001]***	[0.001]***	[0.001]***
% State Unionization	0.010	0.011	0.010
	[0.130]	[0.121]	[0.124]
Personal Intensity	0.001	0.001	0.001
	[0.120]	[0.115]	[0.117]
Property, Plants and Equipment	0.021	0.021	0.021
	[0.046]**	[0.044]**	[0.039]**
Constant	0.503	0.467	0.502
	[0.175]	[0.204]	[0.173]
Year/Industry Fixed	YES	YES	YES
N	38,567	38,567	38,567
R ²	48%	48%	48%

Table 7 reports the cross-sectional multivariate regression results between lobbying and case duration. Our dependent variable Days refer to the case duration between closing days minus opening day of the lawsuit. Std. errors are clustered at firm level (by GVKEY).*, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

In Table 7, our results show a positive relationship between lobbying and case duration for responsible firms. We find that higher lobbying expenditure ($\ln[\text{LobbyExp}]$) leads to longer duration. Similarly, we also find a positive and significant coefficient for total number of labor-related bills ($\ln[\#\text{LaborLobby}]$), which indicates longer case duration given the increased number of bills. We also find that lobbying firms (Lobbydum) have longer duration compared to non-lobbying rivals. Our results implicate that lobbying engagement at firm level may influence case duration, which may eventually force charging parties to withdraw from the cases.

If lobbying firms can evade shorter case durations, we believe the charging parties may change their position over time. Using the data on case outcomes and duration, we employ survival analysis to examine whether lobbying firms have a higher probability of evading shorter case duration than firms that do not lobby. For our survival analysis, we run two separate regressions. In Table 8, we employ case duration (Days) as a dependent variable in column (1) and (2) and use two main explanatory variables: a) log transformation of lobbying expenditure and b) union binary variable equal to one if the case is opened by union, zero otherwise. Our first objective is to understand if lobbying may provide longer case duration for firms that may manipulate the case outcome. Our second objective is to understand if union-filed cases have longer duration compared to individually (employee) filed cases, which may eventually influence the plaintiffs' claims against the parent firm.

Our results are presented in Table 8. We report the cox survival analysis based on case duration. In column (1), negative coefficient on lobbying expenditure indicates a significantly lower hazard rate where lobbying firms may evade shorter case duration. Specifically, lobbying firms have longer case duration, which suggests that they would terminate the cases slower. In column (2), we document a significant negative coefficient for union binary variable. We find that if the case is opened by a labor union, they have a longer case duration. We interpret these results as union-filed cases will be decided in the court slower. In column (3) and (4), we only keep the cases that result in withdrawals. Our concern is to explain why we have more withdrawals in our sample compared to dismissed or settled cases. Results in column (3) and (4) confirm our earlier expectations where we find that lobbying firms have a significantly lower hazard rate, which refers to longer case duration as a final withdrawal outcome. In the same manner, union-filed cases also obtain longer case durations for withdrawals.

Table 8**Lobbying and Case Duration: Survival Analysis**

Dependent Variable	Cox Regression			
	Days		Days to Withdrawal	
	(1)	(2)	(3)	(4)
Ln(LobbyExp)	-0.011		-0.002	
	[0.032]**		[0.001]***	
Uniondum		-0.053		-0.049
		[0.001]***		[0.001]***
Ln(#Employee)	-0.035	-0.036	-0.042	-0.050
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Book Leverage	-0.100	-0.109	-0.066	-0.064
	[0.001]***	[0.001]***	[0.219]	[0.254]
ROA	-0.018	0.000	0.156	0.161
	[0.822]	[0.997]	[0.127]	[0.120]
Tangibility	0.003	0.006	-0.043	-0.031
	[0.949]	[0.893]	[0.436]	[0.581]
Tobin's Q	-0.030	-0.033	-0.018	-0.021
	[0.001]***	[0.001]***	[0.148]	[0.096]*
Herfindahl Index	0.341	0.356	0.351	0.368
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Ln(#FirmAge)	0.028	0.035	0.016	0.023
	[0.016]**	[0.001]***	[0.270]	[0.113]
Free Cash Flow	-0.109	-0.125	-0.324	-0.370
	[0.452]	[0.397]	[0.067]*	[0.041]**
% Industry Unionization	-0.015	-0.015	-0.021	-0.020

	[0.001]***	[0.001]***	[0.001]***	[0.001]***
High Tech Firms	0.158	0.154	0.037	0.027
	[0.001]***	[0.001]***	[0.601]	[0.714]
Union Membership Growth	0.009	0.009	0.009	0.008
	[0.061]*	[0.070]*	[0.137]	[0.161]
Pension Expenses	-0.001	-0.001	-0.001	-0.001
	[0.461]	[0.609]	[0.420]	[0.483]
% State Unionization	-0.001	0.000	-0.001	-0.001
	[0.548]	[0.940]	[0.365]	[0.606]
Personal Intensity	-0.001	-0.001	0.000	0.000
	[0.001]***	[0.001]***	[0.001]***	[0.001]***
Property, Plants and Equipment	-0.069	-0.067	-0.083	-0.080
	[0.001]***	[0.001]***	[0.021]**	[0.025]**
Year/Industry Fixed	YES	YES	YES	YES
N	27,455	27,455	17,112	17,112
Prob> χ^2	0.000	0.000	0.000	0.000

Table 8 reports the hazard ratio for Cox regression from column (1) to (4) where our dependent variable is case duration (Closing date minus Opening date) measured by days. In column (1) and (2), we employ all sample for our tests. In column (3) and (4), we only keep the cases where the outcome is Withdrawal. Std. errors are clustered at firm level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

The evidence between lobbying and case duration has meaningful suggestions. First, our results may help to understand whether lobbying lengthens the case duration (time-to-resolution), which may force charging parties to review or reconsider their claims. Given the nature of lawsuits, a legal action is likely to generate direct costs (i.e. attorney fees and court fees, settlements and/or judgments), which may create a cumulative financial burden over the time. Therefore, the plaintiff (employer or union) who lacks financial resources to fund the litigations may drop the case, which would yield a favorable outcome for lobbying firms. Second, we document that lobbying firms may realize the effectiveness of lobbying during legal actions. If political spending from lobbying firms help delay enforcement outcomes by increasing time-to-resolution, the longer case duration may provide a mechanism through which lobbying activities eventually affect the severity of penalties from litigations (Fulmer et al. 2017).

Our results suggest that effective lobbying activity may skew the enforcement process in ways that benefit the firms. If the lobbying is effective to influence case characteristics, we believe that firms may increase or decrease their lobbying activities as a response to allegations. Therefore, change in litigation frequency may lead to changes in lobbying in labor-related topics. We run sets of analysis and document the firm-level response to employee litigations. In Table 9, we measure the relationship between lobbying and litigation occurrence. In column (1) and (2), our dependent variable is $\Delta LaborBills$, which refers to change in the number of labor-related bills between year t and $t-1$. In column (3) and (4), our dependent variable is $abs(\% \Delta LaborBills)$, which is the absolute value of changes in labor-related bills to capture the net flow (or volatility) of lobbying. We also calculate the *Decline in Labor Bills*, which is the change in labor-related bills between year t and $t-1$ where the positive values are replaced by zero.

Our results are reported in Table 9. In column (1), we find that a greater number of employee litigations leads to positive changes in total number of labor-related bills. In column (2), we find a positive and significant relationship between changes in number of litigation and changes in labor-related bills. In column (3), we document that litigation leads to positive changes in the absolute value of labor bills. To put it simply, litigations affect variation in year-over-year lobbying activity. In column (4), we report that volatility in the number of litigation leads to higher volatility in labor-related bill flows. We may reasonably assume that if the number of lawsuits increases because firms are facing employee disputes, then this increase in lawsuits may lead to the net flows in

Table 9
Lobbying and Change in Litigation Frequency

Dependent Variable	Δ LaborBills	Δ LaborBills	$\text{abs}(\% \Delta \text{ Labor Bills})_t$	$\text{abs}(\% \Delta \text{ Labor Bills})_t$	Decline in Labor Bills _t
Sample	(1)	(2)	(3)	(4)	(5)
Ln(#Litigation)	0.008 [0.001]***		0.029 [0.001]***		
Δ # Litigation		0.017 [0.001]***			
abs (% Δ # Litigation)				0.021 [0.001]***	
Decline in Litigation					0.030 [0.001]***
CONTROLS	YES	YES	YES	YES	YES
Year/Industry Fixed	YES	YES	YES	YES	YES
N	23,221	23,221	23,221	23,221	23,221
R ²	3%	3%	3%	3%	3%

Table 9 exhibits the relation between litigation and lobbying activity at firm level. In columns (1)-(2), our dependent variable is change in total labor related bills sponsored between year t and t-1 at the firm level. In column (3), the dependent variable is $\text{abs}(\% \Delta \text{ Labor Bills})_t$, the absolute value change in total labor related bills sponsored between year t and t-1 at the firm level. In column (5), we employ the dependent variable % Decline in Labor Bills, which is the change in total labor related bills sponsored where positive values are replaced by zero. Std. Errors are clustered at the firm level. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

lobbying for responsible firms. Lastly, in column (5), we find a positive relationship between the decline in the number of lawsuits and decline in labor-related bills. Briefly, our results indicate that the changes in litigation frequency may drive the firm-level lobbying activity in labor issues. Consistent with the overall evidence, firms may adjust their lobbying activity based the frequency of allegations. While we believe that litigations may drive firm into lobbying activity, we gather additional unique hand-collected employee level disputes and violations for the robustness check. In Table 10, we test the relation between lobbying and employee rights violations to understand if more complaints motivate firms to sponsor labor-related issues. In Table 10, our dependent variable is log transformation of labor-related bills. To conserve space, we report results from the total number of bills. Our results quantitatively remain the same when we employ log transformation of lobbying expenditures. We regress the total number of labor-related bills on several employee complaints and examine whether an additional number of employee disputes persuade firms into lobbying decisions.

In column (1), we find a positive relationship between occupational safety and health inspection investigations and the number of labor-related bills. For this reason, more investigation leads to more bills sponsored by firms. In column (2), we document that wage-related complaints increase the number of labor bills lobbied in the US legislative bodies. In column (3), we use the total amount of wage-related penalties (in US dollars) given to firms and report that a greater amount of penalties increases the number of sponsored bills. In column (4), we divide the number of health-and-safety-related concerns by the total number of lawsuits filed by employee. We again find a positive relationship between complaint/lawsuit ratio and the number of labor-related bills. In column (5), we use the total number of employee benefits and salary violations data and document that more violations lead to more labor-related bills. Finally, in column (6), we document that discrimination lawsuits against the parent firms increase the lobbying activity in labor topics. Our results from Table 10 imply that additional disputes, complaints, discriminations, and violations may motivate firms to sponsor bills to protect themselves from further allegations or reduce the potential harm resulting from investigations. However, there are other ways for firms to be involved in political actions. Firms not only incur significant lobbying spending (Chen et al. 2015;

Table 10
Other Disputes: Complaints, Violations, Penalties and Lobbying

Dependent Variable Sample	Ln(LaborLobby)t+1					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Ln(Inspection)</i>	0.016 [0.012]**					
<i>Ln(WageComplaint)</i>		0.033 [0.001]***				
<i>Ln(WagePenalty)</i>			0.003 [0.021]**			
<i>%(Complaint/Lawsuit)</i>				0.012 [0.001]***		
<i>Ln(Employee Benefit & Salary)</i>					0.076 [0.041]**	
<i>Ln(Discrimination)</i>						0.089 [0.001]***
CONTROLS	YES	YES	YES	YES	YES	YES
Year/Industry Fixed	YES	YES	YES	YES	YES	YES
N	22,187	22,187	22,187	22,187	22,187	22,187
R ²	9%	9%	9%	9%	9%	9%

Table 10 exhibits the relation between litigation and lobbying activity at firm level. In columns (1)-(6), our dependent variable is total number of labor related bills sponsored at firm level. Std. Errors are clustered at the firm level for robustness check. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Hill et al. 2013) but also make PAC contributions (Cooper et al. 2010) or hire former politicians on the corporate board (Goldman et al. 2009). In the next step of analysis, we examine whether firms with a greater number of employee litigations have additional political connections. We believe that firms may build political connections to receive advantageous decisions from government officials. To confirm that, we calculate different sets of political connection variables and report our findings in Table 11.

In Table 11, we examine if firms with employee litigations are overall more politically connected. In the first column, our dependent variable is CEO-level personal donation. We employ unique hand-collected CEO donation data and regress on the total number of litigations. We find that a greater number of lawsuits leads to more CEO contributions in our sample. In the second column, we document that litigations also lead to a greater amount of firm-level Political Action Committee (PAC) contributions. In the third column, our dependent variable is the total number of lobbyists employed by firms. We show that litigations increase the number of employed lobbyists. In the last column, we find that litigations lead to a higher number of employed lobbyists who were former members of the US Congress. Since 1998, approximately 250 former Congress members have become lobbyists (Yu and Yu 2012). We believe that employing those lobbyists may sustain connection to politicians and provide better access to legislators in the case of litigations. Therefore, the motivation behind political spending may not be only receiving business benefits but also obtaining favorable government permissions.

Our findings have two important conclusions. First, it is reasonable to assume that firms with lobbying activities also tend to have additional donations or contributions to extend their political connections. Second, we document that litigation may motivate firms not only to lobby but also drive them into additional political activities to gain full benefit from building political capital. Similar to Fulmer et al. (2017), who document that the political action committee (PAC) and chief executive officer (CEO) contributions influence the Security Exchange Commission enforcement outcomes, we also assume that any contribution to politicians in a strong position may put pressure on government agencies that impose enforcement actions.

Table 11
Litigation and Political Connections

Dependent Variable				
Sample	Ln(CEO Contribution) _{t+1}	Ln(Total PAC Contribution) _{t+1}	Ln(#Total Lobbyist) _{t+1}	Ln(#Total Lobbyist: Former Congressman) _{t+1}
	(1)	(2)	(3)	(4)
Ln(#Litigation)	0.014 [0.001]***	1.066 [0.001]***	0.407 [0.001]***	0.116 [0.001]***
CONTROLS	YES	YES	YES	YES
Year/Industry Fixed	YES	YES	YES	YES
N	22,166	22,166	22,166	22,166
R ²	9%	9%	9%	9%

Table 11 exhibits the relation between litigation and political connections at firm level. In column (1), our dependent variable is CEO level political contribution. In column (2), our dependent variable is firm level Political Action Committee donations. In column (3), our dependent variable is total number of lobbyist employed by firms. In column (4), our dependent variable is total number of lobbyist employed by firms who used to be the former member of the Congress. Std. Errors are clustered at the firm level. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Our study further examines if firms are able to influence the case outcome by directly lobbying the responsible government agencies. Lobbying to politicians sitting on responsible committees may be more effective since they occupy the position of power, as well as being familiar with Congress. Particularly, lobbying to specific agencies by putting pressure on regulatory committees may influence Congress, which may favor specific legislations that develop favorable policies to certain interest groups. CRP database allows us to identify the firms that lobby certain bureaucratic agencies. In the first step, we identify the firms that are lobbying the following agencies: a) the Department of Labor, b) Department of Justice, and c) National Labor Relations Board. Indeed, lobbying in such agencies can allegedly incentivize the regulators to implement favorable treatment when it comes to reinforce the regulations. Therefore, we examine the potential reasons of why and how firms choose to lobby those agencies. In the second step, we calculate the total number of lobbyists hired by firms that are linked those agencies described above. Our results are presented in Table 12.

Panel A of Table 12 investigates the efficiency of the lobbying actions. In column (1) to (3), we calculate log transformation of the total number of labor-related bills lobbied at the Department of Labor, Department of Justice, and National Labor Relations Board, respectively. In Panel B from column (4) to (6), we calculate the number of lobbyists employed by firms who are linked to those given committees, respectively.

Our results show that a greater number of employee litigations increases the number of labor-related bills sponsored in specific bureaucratic agencies. Similarly, more employee litigations lead to a higher number of lobbyists who are linked to those agencies. Our findings may help us to understand how lawsuits may motivate firms to target specific agencies related to judicial and labor issues that may ultimately affect the case outcomes. We believe that former employees of federal agencies (such as the Department of Labor or Department of Justice) can often find good positions as lobbyists, exploiting the connections that they built while serving in public service. For example, a Department of Labor administrator may go on to lobby his former colleagues on labor-related issues.

Table 12
Litigation, Lobbying Agency and Revolving Doors

Panel A. Agency		Agency		
Dependent Variable	Ln(#Dept.Labor)t+1	Ln(#Dept.Justice)t+1	Ln(#NLRB)t+1	
Sample	(1)	(2)	(3)	
Ln(#Litigation)	0.084 [0.001]***	0.051 [0.001]***	0.001 [0.022]**	
CONTROLS	YES	YES	YES	
Year/Industry Fixed	YES	YES	YES	
N	22,187	22,187	22,187	
R ²	15%	15%	15%	

Panel B. Lobbyist		#Lobbyist		
Dependent Variable	Ln(#Dept.Labor)t+1	Ln(#Dept.Justice)t+1	Ln(#NLRB)t+1	
Sample	(1)	(2)	(3)	
Ln(#Litigation)	0.009 [0.001]***	0.006 [0.001]***	0.001 [0.010]**	
CONTROLS	YES	YES	YES	
Year/Industry Fixed	YES	YES	YES	
N	22,187	22,187	22,187	
R ²	3%	2%	1%	

Table 12 reports the relationship between litigation and lobbying agency for. From column (1) to column (3), we calculate total number of bills lobbied at responsible government agencies. In column (1), our dependent variable is Ln(#DeptLabor) which is the log transformation of number of bill lobbied at the U.S. Department of Labor. In column (2), our dependent variable is Ln(#DeptJustice) calculated as the total number of bill lobbied at the U.S. Department of Justice. In column (3), dependent variable is Ln(#NLRB) calculated as the total number of bill sponsored at the National Labor Relations Board (NLRB). In Panel B, from column (1) to (3), we calculate the number of lobbyist employed by firms which are linked to responsible government agencies. In column (1), our dependent variable is Ln(#LobbyistLabor) which is the log transformation of total number of lobbyist employed by firms linked to Department of Labor. In column (2), our dependent variable is Ln(#LobbyistJustice) defined as the log transformation of total number of lobbyist employed by firms which are linked to Department of Justice. In column (3), our dependent variable is Ln(#LobbyistNLRB) defined as log transformation of total number of lobbyist employed by firms which are linked to National Labor Relations Board (NLRB). Std. errors are clustered at firm level (by GVKEY).*, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

The act of public servants switching to careers as lobbyists (and back again) come from agencies (such as the Department of Labor, Department of Justice, etc.) defined as “the revolving door,” which usually have powerful and well-connected employees. Our findings indicate that firms may employ former lobbyists who are linked to specific agencies to cater certain interest groups. We suggest that lobbying through lobbyists linked to specific government agencies may increase the effectiveness of lobbying due to the superior “skill” of linked lobbyists. Therefore, in the long run, we expect that lobbying firms may alter policy proposals easily, which may protect the firm value.

Prior literature documents the benefit of lobbying for shareholder wealth (Chen et al. 2015; Hill et al. 2013). In our study, we investigate the possible reasons of why firms sponsor bills in labor-related issues. And then, we analyze the consequences of lobbying activity. We first find that lobbying firms obtain different case outcomes compared to non-lobbying rivals. This may be due to the fact that lobbying may influence case characteristics such as duration. However, the issue remaining unsolved is whether corporate lobbying does benefit firm performance. To understand the relationship between litigation and possible reduced firm value, we employ a series of tests to measure Tobin’s Q of firms in our sample. Our goal is straightforward: we aim to show that lobbying firms that alter case results and outcomes may possibly gain protection that would eliminate potential loss to shareholder wealth. To illustrate that, we split our sample into two groups of firms based on their lobbying status and measure the lawsuit effect on firm performance. Our hypothesis is whether litigations have an impact on firm performance reflected in Tobin’s Q.

Table 13 is designed to show the relation between lawsuits and Tobin’s Q after the employee allegations. We divide our sample in two groups: lobbying firms and non-lobbying firms. In column (1) and (2), we compare whole sample firms based on their lobbying activity. In column (3) and (4), we perform matched sample analysis. If a firm sponsors at least one bill in labor-related topics, we consider it a lobbying firm. Then, we find a non-lobbying firm that has similar employee size, book-to-market, year, and industry. We regress Tobin’s Q on a number of litigations while controlling for other firm-level control variables. We also test the lawsuit coefficients from two different regressions to show that there is not only a visual but also a statistical difference between samples.

Table 13
Litigation and Firm Performance

Dependent Variable Sample	All Sample		Matched Sample	
	Tobin's Q t+1		Treatment	Control
	Lobby	Non-Lobby	Lobby	Non-Lobby
	(1)	(2)	(3)	(4)
Ln(#Litigation)	0.005 [0.746]	-0.040 [0.001]***	0.071 [0.126]	-0.038 [0.001]***
CONTROLS	YES	YES	YES	YES
Year/Industry Fixed	YES	YES	YES	YES
All Sample: Ln(#Litigation)Lobby = Ln(#Litigation)Non-Lobby			chi2(1) = 4.52	Prob>chi2 =0.033
Matched Sample: Ln(#Litigation)Lobby = Ln(#Litigation)Non-Lobby			chi2(1) = 19.26	Prob>chi2 =0.001
N	3,348	18,801	4,001	4,001
R ²	35%	44%	39%	38%

Table 13 exhibits the relation between litigation firm performance. In column (1) and (2), our dependent variable is Tobin's Q. We divide our sample based on lobbying activity of the firms in our sample. We report the difference of Litigation coefficient with chi2 statistics and significance. In column (3)-(4), our dependent variable is Tobin's Q and we use matched sample methodology for our firms. We match our lobbying and non-lobbying firms based on size (#employee), book-to-market, year and industry. We report the difference of Litigation coefficient with chi2 statistics and significance. Std. Errors are clustered at the firm level. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Our findings are presented in Table 13. For all samples, we find that a lawsuit lowers the Tobin's Q for non-lobbying firms, while it has no effect on firm performance for lobbying firms. We document that an increase in the number of employee disputes lowers the Tobin's Q for firms with no lobbying activity. On the other hand, we report an insignificant coefficient on the number of lawsuits for lobbying firms. While our results represent a visual difference between two samples, we also test two coefficients from two regressions to document that there is also a statistical difference. Furthermore, in column (3) and (4), we examine the effect of lawsuits on the matched sample. Consistent with previous findings, we find that there is a negative relationship between lawsuits and Tobin's Q for non-lobbying firms. However, litigation has no significant impact on Tobin's Q for lobbying corporations. Our results imply impressive findings for lobbying firms. First, we find that lobbying firms have more dismissals and more withdrawals as a case outcome. Then, we find that litigation has no effect for the firm performance of lobbying firms, while non-lobbying peers suffer from reduced firm value in terms of Tobin's Q. As a final step of providing a portfolio of evidence for our research question, we employ a robustness check and introduce difference-in-difference (DiD) analysis to document the relation between lobbying and case characteristics. We introduce three sets of variables for DiD regression. Our *Treatment* variable is equal to one if firm lobbies at least one bill in labor-related issues, zero otherwise. The second variable, *Post Years*, is equal to one for all the years after the labor-related bill becomes law, zero otherwise. The last variable is *Treatment x Post Years*, which is the interaction term. We use the total number of withdrawals and the total number of dismissals as dependent variables and report our findings in Table 14. In Table 14, we report the difference-in-difference regression results. In the first column, our dependent variable is log transformation of total dismissals. We document a positive and significant interaction term, which represents more dismissals over the time for lobbying firms when the labor-related bills become law. In the second column, our dependent variable is log transformation of total withdrawals. Consistent with our expectations, we document a positive relationship between lobbying and the total number of withdrawals for responsible firms. While litigations could be dismissed or withdrawn regardless of the firms' lobbying status, our tests document that lobbying firms receive a greater number of dismissals and a greater number of withdrawals by possibly altering policies and regulations at the work place.

Table 14**Litigation and Lobbying Outcome: Difference-in-Difference Analysis**

Dependent Variable	Ln(Dissmissal)	Ln(Withdrawal)
Sample	(1)	(2)
Treatment * Post Years	0.080 [0.012]**	0.101 [0.025]**
Treatment	0.053 [0.001]***	0.104 [0.001]***
Post Years	0.012 [0.684]	0.044 [0.297]
CONTROLS	YES	YES
Year/Industry Fixed	YES	YES
N	23,659	23,659
R ²	15%	15%

Table 14 exhibits the difference-in-difference test to document the relationship between lobbying and case outcome. In column (1), our dependent variable is total number of dismissal obtained by firms. In column (2), our dependent variable is total number of withdrawals obtained by the firms in our sample. Treatment refers to the lobbying firms which sponsors at least one bill about labor issues. Post Years refers to years after labor bills become law. Treatment*Post Years is the interaction term of Treatment and Post Years variables. Std. Errors are clustered at the firm level. Numbers in parentheses are p-values. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

6. Conclusion

In this study, we investigate whether lobbying firms are favored in the judicial process. We provide the first large-sample documentation of the relation between employee disputes and firms' lobbying efforts. First, we find that firms with employee lawsuits are more likely to be lobbying, have larger lobbying expenditure, sponsor more bills in labor topics, and overall engage in other types of monetary political connections.

We then examine whether there is a bias in favor of lobbying firms that are involved in a lawsuit. We analyze the case characteristics of the firms in our sample. We document that lobbying firms receive more dismissals by court and more withdrawals by charging parties compared to non-lobbying peers. This finding may be due to the fact that lobbying yields to longer case duration. Therefore, the plaintiff (employee or union) who does not have financial power to fund the litigation may drop the case, which would result in a biased outcome in favor of lobbying firms.

We also explore how firms build effective lobbying channels for regulatory favors. We believe that lobbying to politicians sitting on responsible committees may be more effective since they occupy the position of power and are able to cater to certain interest groups. Our findings show that a greater number of employee litigations increases the number of labor-related bills sponsored in the Department of Labor, Department of Justice, and National Labor Relations Board. Additionally, we also document that more employee litigation leads to hiring more lobbyists who are linked to those specific agencies. We show that lobbying through lobbyists linked to specific government agencies may increase the effectiveness of lobbying due to the superior "skill" of linked lobbyists. Finally, we investigate whether lobbying contributes to shareholder wealth. Firms may face economically meaningful losses once they are involved in allegations at court. Lawsuits may generate direct costs (fines, penalties, prohibitions on commercial practices, etc.) and indirect costs (reputation effects) upon the filing of a suit. We show that litigation has no effect on lobbying firms, while non-lobbying firms suffer from reduced Tobin's Q. We document that litigations yield negative Tobin's Q for non-lobbying firms, while firms backed by lobbying do not suffer from litigations. We find that lobbying firms may gain advantage against firms that are not politically connected during the allegation process.

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Appendices

Appendix A: Definition of Variables

Variables	Definition	Source
<i><u>Panel A. Political characteristic at CEO level</u></i>		
Annual Donation	Amount of money donated by individual CEO each year	FEC
CPID	CEO Political Ideology (Contributions to REP - Contributions to DEM) / Total contributions (Hutton et al. (2011))	FEC
Donation to REP. Party	Total contribution made to Republican Party by a CEO per year.	FEC
Donation to DEM. Party	Total contribution made to Democrat Party by a CEO per year.	FEC
Repdum	Binary variable and equal to one if cpid>0, else zero. Represents Republican managers.	FEC
<i><u>Panel B. Control Variables</u></i>		
Firm Size	Firm's quarter ending market value of common equity [PRCC_C*CSHO]	COMPUSTAT
Ln(Firm Size)	Log transformation of firm size	COMPUSTAT

Tobin's Q	Market value of assets divided by book value of assets $[(PRCC_F * CSHO + at - CEQ) / at]$	COMPUSTAT
Book Leverage	Debt in current liabilities plus long-term debt divided by assets $[(dlc + dlta) / at]$	COMPUSTAT
Free Cash Flow	The firm's free cash flows in year t divided by its assets in year t. Free cash flow is the operating cash flow less expenditures on interest, tax, and capex $(oibdp - xint - txt - capx)$	COMPUSTAT
Agency costs	FCF times Poor growth; Poor growth is a dummy equals 1 if Tobin's Q is less than 1 and otherwise 0.	COMPUSTAT
ROA	Earnings before interests and taxes divided by assets $[ib / at]$	COMPUSTAT
Tangibility	Ratio of fixed assets to book assets $[ppent / at]$	COMPUSTAT
Herfindahl Index	Industry concentration by summing the squared market shares of the firms in the industry.	COMPUSTAT
ER(VW) (t+1,t+2,t+3)	Buy-and-hold abnormal returns over year t+1, t+2, and t+3, respectively. Each stock's return is adjusted by subtracting the buy and-hold value weighted market return.	CRSP
ER(EW) (t+1,t+2,t+3)	Buy-and-hold abnormal returns over year t+1, t+2, and t+3,	CRSP

respectively. Each stock's return is adjusted by subtracting the buy and-hold equally weighted market returns.

STDEV	Standard deviation of a firm's returns over year t+1, t+2, and t+3, respectively.	CRSP
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Panel C. CEO and Board Characteristics

Log(Firm Age)	The natural log of the number of firm's age	COMPUSTAT
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Log(CEO Compensation)	The natural log of composition of the financial compensation and other non-financial awards received by CEOs.	ExecuComp
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Log(CEO Compensation inc. options)	Total Compensation (Salary + Bonus + Other Annual + Restricted Stock Grants + LTIP Payouts + All Other + Value of Options Exercised)	ExecuComp
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Log(CEO Salary)	The dollar value of the base salary earned by the named executive officer during the fiscal year	ExecuComp
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Log(CEO Cash)	CEO base salary + bonus earned by the named executive officer during the fiscal year	ExecuComp
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CEO Ownership	CEO's ownership of stock shares (shrown_excl_opts) divided by firm shares outstanding (csho).	ExecuComp
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Log(CEO Age)	The natural log of CEO age.	ExecuComp
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Log(BoardSize)	Total number of directors given a board.	RiskMetrics
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Busy Board	Proportion of board members who holds more than 3 outside seats to the total board size.	CRP
Minority	Binary variable and equal to one if CEO is non-white, zero otherwise	RiskMetrics
Country of Emp.	Binary variable and equal to one if the last primary employment of the CEO is USA, zero otherwise	RiskMetrics
City 1	Binary variable and equal to one if the headquarter of the firm is located in population dense cities.	USA Census Bureau
<i><u>Panel D. Determinants of Lobbying</u></i>		
Total Bills	Total number of bills lobbied including all topics	CRP
Total Amount	Total amount spent in lobbying activities in USD	CRP
Total Number of Issue	Total number of issue lobbied including all topics	CRP
Log(Number of Bills)	Log transformation of total bills lobbied in given calendar year	CRP
Log(Lob.Amount)	Log transformation of lobbying expenditure in USD spent by firms	CRP
Lobbydum	Binary variable and equal to one if firm lobbied at least one bill, zero otherwise	CRP
Number of Bills Lobbied at Senate	Total number of bills lobbied at U.S. Senate	CRP

Number of Bills Lobbied at House	Total number of bills lobbied at U.S. House of Representatives	CRP
Number of Bills Passed at House	Total number of bills passed at U.S. Senate	CRP
Number of Bills Passed at Senate	Total number of bills passed at U.S. House of Representatives	CRP
Number of Bills Became Law	Total number of bills become law	CRP
Number of Lobbyist Emp.	Total number of lobbyist employed by firms	CRP
Number of Lobbyist Emp. as Congressman	Total number of lobbyist employed who were used to be former Congressman	CRP

Appendix B: Definition of Variables

Variables	Definition	Source
<u>Panel A. Lobbying Variables</u>		
Ln(LobbyExpense)	Log transformation of total Lobbying Expenditure	CRP
Ln(TotalBill)	Log transformation of total Num. of Bill Lobbied	CRP
Ln(LaborLobby)	Log transformation of total Num. of Labor Introduced Bill	CRP
%LaborRatio	Number of labor related bill divided by total number of bill sponsored	CRP
Lobbydum	Binary variable equal to one if firm has lobbying activity, zero otherwise.	CRP
Ln(#Dept.Labor)	Number of bill sponsored at Department of Labor	CRP
Ln(#Dept.Justice)	Number of bill sponsored at Department of Justice	CRP
Ln(#NLRB)	Number of bill sponsored at National Labor Relations Board	CRP
Ln(#LobbyistLabor)	Number of lobbyist employed by firms linked to Dept. of Labor	CRP
Ln(#Lobbyist.Justice)	Number of lobbyist employed by firms linked to Dept. of Justice	CRP
Ln(#LobbyistNLRB)	Number of lobbyist employed by firms linked to NLRB.	CRP
Ln(#Total Lobbyist)	Number of total lobbyist employed by firms	CRP
Ln(#Total Lobbyist: Former Congressman)	Number of total lobbyist employed by firms who were member of former Congress.	CRP
Ln(CEO Contribution)	Total amount of CEO donation	FEC
Ln(Total PAC Contribution)	Total amount of Political Action Committee (PAC) contribution	FEC
Ln(#Law)	Log transformation of number of labor related bill become law.	congressionalbills.org
Law	Binary variable and equal to one if firm has at least one labor related bill become law, zero otherwise.	congressionalbills.org
MoreLaw	Binary variable and equal to one if firm has more labor related bill become law compared to failed bills, zero otherwise.	congressionalbills.org
<u>Panel B. Litigation Variables</u>		
Ln(#Litigation)	Total number of employee litigation.	NLRB
Union	Binary variable equal to one if litigation is filed by labor union	NLRB
Individual	Binary variable equal to one if litigation is filed by individual employee	NLRB
Settlement	Total number of settlement decision as case outcome.	NLRB
Closure	Total number of closure as case outcome.	NLRB
Dismissal	Total number of dismissal as case outcome.	NLRB
Withdrawal	Total number of withdrawal as case outcome.	NLRB
%(Dismissal)	Total number of dismissal divided by total number of case.	NLRB
%(Withdrawal)	Total number of withdrawal divided by total number of case.	NLRB
Days	Case duration measured as closure date minus opening date.	NLRB

Days to Withdrawal	Case duration for withdrawn cases measured as closure date minus opening date.	NLRB
<u>Panel C. Other Employee Disputes</u>		
Ln(Inspection)	Log transformation of total number of Occupational Safety and Health Administration inspections.	Dept. of Labor
Ln(WageComplaint)	Log transformation of total number of concluded Wage and Hour Division compliance actions	Dept. of Labor
Ln(WagePenalty)	Log transformation of amount of civil penalty from Wage and Hour Division compliance actions	Dept. of Labor
%(Complaint/Lawsuit)	Total number of employee litigation divided by number of wage related complaints	Dept. of Labor & NLRB
Ln(Employee Benefit & Salary)	Log transformation of total number of employee benefit and salary violations resulted in penalty assessment.	Dept. of Labor
Ln(Discrimination)	Log transformation of total number of discrimination cases filed against the firm	Bloomberg BNA
<u>Panel D. Control Variables</u>		
Ln(#Employee)	Log transformation of number of employee.	COMPUSTAT
Book Leverage	Debt in current liabilities plus long-term debt divided by assets	COMPUSTAT
ROA	Earnings before interests and taxes divided by assets	COMPUSTAT
Tangibility	Ratio of fixed assets to book assets	COMPUSTAT
Tobin's Q	Market value of assets divided by book value of assets	COMPUSTAT
Herfindahl Index	Industry concentration by summing the squared market shares of the firms in the industry.	COMPUSTAT
Ln(#FirmAge)	The natural log of the number of firm's age	COMPUSTAT
Free Cash Flow	The firm's free cash flows in year t divided by its assets in year t. Free cash	COMPUSTAT
High Tech Firms	Binary variable and equal to one if firm is located in the industries (by three-digit SIC code) are 283, 357, 366, 367, 382, 384, and 737.	COMPUSTAT
Pension Expenses	Pension expense divided by the product of beginning share price and common shares outstanding.	COMPUSTAT
Personal Intensity	Number of employee normalized by total asset.	COMPUSTAT
Property, Plants and Equipment	Natural logarithm of net property, plant and equipment divided by the number of employees.	COMPUSTAT
% Industry Unionization	Percentage of union membership at industry level	www.unionstats.com
Union Membership Growth	Union membership growth at industry level	www.unionstats.com
% State Unionization	Percentage of union membership at firms headquarter state.	www.unionstats.com

Vita

The author was born in Istanbul, Turkey in February 1989. He received his Bachelor of Arts degree in Economics from Yildiz Teknik University in Istanbul, Turkey in 2011. He received Master in Business Administration degree from Western Michigan University in June 2013. He joined the University of New Orleans (UNO) Financial Economics graduate program to pursue his Ph.D. in August, 2013. He received his Master of Science in Financial Economics from UNO in May, 2015 and became an active teaching assistant at the university. He obtained his Ph.D. in Financial Economics from UNO in May, 2017.