Do lobbying expenses and contributions to US political parties affect the future profitability of companies?

Master Thesis in Finance

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Abstract

Corporate lobbying aims to influence legislators and have an impact into what policies and laws are being introduced while contributions reflect amounts to political action committees to influence a federal election. The objective of this study is to examine and shed light into whether there is still a positive correlation between corporate lobbying expenses and contributions to US political parties (CPA) and the future profitability of companies for the time period 2001 – 2020 as the amounts for total lobbying and contributions have significantly shoot up these last years and this may lead a different outcome. Given related evidence suggesting diminishing the returns of CPA we argue that excessive spending may actually have mitigated the positive relation documented in prior research. Consistent with this, results show that although a positive correlation holds between the lobbying expenses and contributions and the profitability of the S&P 500 companies in the future years for the time period 2001 – 2020, this relation is significantly weaker for excessively large amounts indicating that the benefits of CPA activities diminish over time.

Keywords: Lobbying, Campaign Contributions, US political parties, PAC, Political Party Committees, Future Profitability

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Β Ε Β Α Ι Ω Σ Η

Βεβαιούται ότι ο μεταπτυχιακός φοιτητής Ιωάννης Καραγιάννης ολοκλήρωσε με επιτυχία την προφορική υποστήριξη της διπλωματικής του μελέτης σε εξέταση που έλαβε χώραν ενώπιον διμελούς εξεταστικής επιτροπής, στις 21 Δεκεμβρίου 2022. Παρέδωσε την διπλωματική του μελέτη στις 22 Δεκεμβρίου 2022.

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Contents

1. Introduction

There are two main types of activities with the purpose of influencing political decisions. One is lobbying that generally refers to amounts spent to influence political decisions through the legislative process and the other is contributions to the campaigns of candidates through political action committees. For ease of reference we refer to both of these activities as corporate political activities (CPA). Although lobbying is misinterpreted or criticized as bribery, it is not. Lobbying is the practice and the attempt by individuals or organizations to legally influence the actions, policies and decisions of government officials. One of the most effective lobbying techniques is personally meeting with the government officials who have power to decide whether government will take the action desired.

According to Figueiredo and Richter (2014) lobbying is defined as the transfer of information in private meetings and venues between interest groups, politicians, their staffs and agents. Generally, lobbying expenses are any expenditure that reflects the intention to influence governmental action. Campaign contributions aim is to give the voters the information they need to select among the competing candidates, these expenses enable candidates and political parties to present their views to the voters and influence their decisions' and overall influence the elections of public officials and the approval or rejection of ballot measures. It is considered that campaign contributions "open doors" and enables corporations to get "access" to elected officials and to present personally information and arguments that support the lobbyists' positions and arguments on legislative issues.

This shows that there is an important link between the lobbying expenses and the campaign contribution expenses as the latter expenses can be used to support and advance lobbying goals (Richard Briffault 2008). Lobbying and campaign finance are subject to different statutory regimes and different rules and enforcement bodies. Campaign finance for the federal level is regulated mainly by

the Federal Election Campaign Act and lobbying is subject to the Lobbying Disclosure Act.

Both campaign finance and lobbying practices require considerable disclosure. Regarding lobbying entities must publicly disclose, how, at whom and in what amount they lobbied. Contributions to political campaigns are regulated more extensively as more information and more frequent reports are required and also have direct restrictions on the provision and use of campaign money. For example there is a limit on the amount of the donations made by parties and political committees to candidates which is $ 5,000 to candidate committee per election, $ 15,000 annually to any national party committee and $ 5,000 to any other PAC

Over, the years, the total lobbying spending and the numbers of lobbyists in United States have significantly increased. In year 2001, for example the total lobbying spending was $ 16.30 million with 11851 lobbyists and in year 2020 the amount of total lobbying spending more than double to reach $ 35.28 million, with the number of lobbyists amounting to 12136. **(Figure 1)**

The total contributions to political parties have also increased substantially since the election cycle of 2000 to the election cycle of 2020. Based on the data, total contributions to political parties both democrats and republican have shoot up from $ 287.459.883 in the election cycle of 2000 to $ 563.413.313 in the election cycle of 2020. There is an overall increase of 195.99% in the course of 20 years or 10 election cycles. With the total contributions in year 2000 to Democrats being $ 139.570.904 and to Republicans $ 147.888.979 growing up to $ 289.440.792 (207.37% increase) and $ 273.972.521 (185.25% increase) respectively for the political parties for the year 2020. **(Figure 2)**

Corporate campaign contributions cannot be given directly to political parties, as this is prohibited by the Tillman Act (1907). Contributions are made only through **Political Action Committees (PAC)**. PACs are political committees with the purpose of aiding, promoting and supporting the candidates of their preference during a campaign election.

Most PACs represent businesses, labor or ideological interests, A PAC must register with the Federal Election Commission (FEC) within 10 days of its formation and the organization must receive or spend

more than $ 1,000 for the purpose of influencing a federal election to be registered as a PAC and PACs may receive up to $ 5,000 from any one individual.

The aim of this research paper is to analyze if there is a positive relationship between lobbying expenses and campaign contributions with the future profitability of companies that are involved in lobbying or make these political contributions. It is of a great importance to have the knowledge on how these expenses and contributions might affect the financial performance of companies in the following years. Knowing that an expense / investment will affect positively the financial performance of the firm the following years is valuable and a great incentive to go forward and engage with lobbying and political contributions. In this study we stay away from assessing the ethical implications and moral legitimacy of such actions and only focus on measuring their effect on future profitability.

Lobbying and contributions to political parties are expected to have a relation with the future financial performance of the firms' for the reason that valuable political connections are being created and maintained and this can benefit the firms that have financially assisted political parties and politicians. In return the elected politicians can pass regulations and bills to laws that will have an important influence on the future financial performance of firms.

In this paper, I examine the association between lobbying expenses and political contributions with the future financial performance of 85 US firms that belong in the S&P 500 during the years 2001 - 2020.

Results suggest that lobbying expenditures and total contributions still exhibit a positive relationship with the future returns and performance of firms. Importantly however, their effect on profitability is reduced as the amounts spent increase. This is corroborated with the evidence showing a reduced effect in recent years when expenditures show a dramatic increase. The results of this research should thus be important to corporations aiding their decision to contribute to political activities and importantly on the optimal amount that should be spent.

2. Literature and Hypotheses

Based on previous literature and research analysis a large number of papers support the notion that lobbying has positive returns and that overall lobbying can be beneficial in many ways. Firms that lobby and contribute to political parties appear to enjoy a better treatment through various policies, regulations and laws.

Prior literature has examined the incentives that prompt firms to engage in such activities as corporate lobbying and contributions to political parties are mainly the firm size, investment opportunities and industry effects. Agrawal and Knoeber (2001) suggest that for larger companies there is an increased political oversight, which makes politics CPA even more important for them.

Investment opportunities are another determinant, because lobbying can benefit firms with a greater potential to grow to greater extent. Hill, Kelly and Van Ness (2013) suggest that industry membership is also a determinant of lobbying and that the value of lobbying and contributions can vary by how much the firm relies on the government as a customer. Specifically their results indicate that firms in more regulated industries are more prone to make contributions in an attempt to influence government purchases, trade policies and environmental regulations. (Hill, Kelly and Van Ness 2013). Additionally, lobbying- firms can benefit through policies on the international trade, tariffs, customs, classifications and dumping determinations.

Previous research suggests that firms that contribute money to politicians appear to enjoy more frequent and better quality access to politicians and that the connections firms have with political parties and political figures is important as these firms can get favorable judicial confirmations and are more likely to get government bailouts and get help with leverage resulting into achieving higher revenues, profitability and increase of the firm's value.

A second stream of literature examines the effects of such activities where it appears that firms due to contributions and lobbying can get a larger slice of government budget and contracts (Evans 1996). It is also shown that firms that lobby are more likely to pay lower income taxes to the US federal government (Richter et al. 2009). Moreover lobbying helps firms to avoid fraud detection as it is suggested that lobbying may directly or indirectly affect economic agents who are designed to uncover fraud (Frank Yu and Xiaoyun 2011). Specifically, it is found that firms that lobby have a significant lower risk of being detected and evade fraud on average 117 days longer than non-lobbying firms and they are 38% less likely to be detected by regulators.

Firms that lobby and give contributions to political parties tend to be in advantageous positions, capturing private favors by politicians, benefiting from convenient policies and legislations. Chen, Yang and Parsley (2012) support that on average lobbying is positively related to accounting and market measures of financial performance and that portfolios of firms with the highest lobbying and total contributions to political parties significantly outperform their benchmarks in the three years following portfolio formation.

Another paper that reinforces the idea that lobbying expenditures and total contributions affect positively future profitability is the paper from Cooper, Gulen, and Ovtchinnikov,(2006) which came to the conclusion that after controlling for factors known to influence firm-value, results indicate the value contribution of an additional dollar of lobbying is roughly $ 200.

However, in the latest years lobbying expenses and contributions have increased noticeably and this might have an inverse effect on the documented positive relationship with future financial performance.

For example there are studies which show that firms that overly engage in corporate political activities (CPA) such as lobbying and campaign contributions to political parties are most likely to be diverting internal resources non-efficiently and having political pursuits instead of other more fitting market activities and strategies that may lead to more profitable results. In this way if corporate political

activities are not handled and controlled appropriately, CPA can act as a substitute and not as complementary to market strategies that have the potential of adding value to the firm. (Bonardi 2008).

In addition there are also opportunity costs and social welfare losses when there are excessive political investments when other investments could be made in technology, human resources and research development. On top of that, it is shown that politically active firms took unwarranted risks compared with less politically active firms positing that these firms anticipate governmental assistance if their risky decision fail to materialize. (Faccio, 2006). There this can lead the more politically active firms to take risky decisions that fail to materialize and where the governmental assistance is not effective enough to counter the adverse effects on profitability.

Furthermore, firms where managers spend increasingly substantial amounts in lobbying and other political activities with the motive mainly to strengthen their own political connections they may overly focus on complex, uncertain political processes that could stretch for long periods without bringing any tangible benefits to the firm, resulting in negative consequences and adverse impact the future profitability of firms. (Cao 2018)

My objective and contribution is to use more recent data and information to examine and verify if firms that partake in lobbying activities and also make contributions to political parties continue and still have a positive correlation with future profitability even if the figures for these activities have risen up substantially. The reason lobbying expenditures and contributions are tested separately is because both have distinctive differences between them that may have a different effect on the future profitability of the firms. Lobbying expenditures are expenses made to hire lobbyists in order to influence regulatory, legislative or administrative decisions and contributions to political parties on the other hand is anything of value given, loaned or advanced to support and promote a campaign of the preferred political party and politicians because of the policies and regulations they advocate. Based on the discussion I formulate the following hypotheses:

Hypothesis 1 (H1): Lobbying expenses have a positive correlation with future financial performance (ROA)

Hypothesis 1a (H1a): There is a change in the positive relation between lobbying expenses and future financial performance in recent periods

Hypothesis 2 (H2): Contributions to political action committees have a positive correlation with future financial performance (ROA)

Hypothesis 2a (H2a): There is a change in the positive relation between contributions to political action committees and future financial performance in recent periods

3. Variables Description

3.1 Models

To provide evidence on H1 we run the following model:

Model 1

AvROA = b0 + b1*Lob/TA + b2*LnTA + b3*Lev + b4*CapExp/TA + b5*IntExp/TA + Year Fixed Effects + Industry Fixed Effects.

Where:

AvROA: Is the main dependent variable that is going to be used for the multiple linear regression models and is the average return on assets of the next three years. Return on assets is the operating

income / loss after depreciation divided by total assets.

Lob: The amount of dollars spent on corporate lobbying for the period of a fiscal years scaled by total assets

TA: Total assets at the end of the fiscal year

LnTA: Is the natural logarithm of the total assets at the end of the fiscal year. The distribution is more likely to behave like a normal distribution and therefore provide a better regression analysis.

Lev: Is the total debt divided the total assets of the company. This shows in what degree companies use debt (borrowed funds) to invest and generate returns. Leverage is a control variable used for our study.

CapExp/TA: Capital expenditures are the expenses that are being used to acquire, maintain and improve fixed assets. Capital expenditures divided by total assets is a control variable used for our study.

IntExp/TA: Interest expense refers to the cost that occurs by borrowing funds and is a non-operating expense. Interest expense divided by total debt is a control variable used for our study.

Year Fixed Effects: Based on the fiscal year

Industry Fixed Effects: Based on the 1st digit of the Standard Industry Classification Code (SIC code)

To examine whether contributions to political action committees have a positive correlation with future financial performance (H2).We run the model below:

Model 2

AvROA = b0 + b1*TotCon/TA + b2*LnTA + b3*Lev + b4*CapExp/TA + b5*IntExp/TA + Year Fixed Effects + Industry Fixed Effects.

Where:

TotCon: The amount of dollars spent on aiding of going against a candidate's campaign for election

scaled by total assets. All other variables are as defined above.

To examine whether the association between lobbying expenses and future profitability is affected by the magnitude of lobbying (H1a) we run three different models:

Model 3a

AvROA= b0 + b1*AboAvLob + b2*LnTA + b3*Lev + b4*CapExp/TA + b5*IntExp/TA + Year Fixed Effects + Industry Fixed Effects.

Model 3b

AvROA = b0 + b1*AboAvLob + b2*Lob + b3*AboAvLob*Lob + b4*LnTA + b5*Lev + b6*CapExp/TA + b7*IntExp/TA + Year Fixed Effects + Industry Fixed Effects

Model 3c

AvROA = b0 +b1*Lob + b2*Lob^2+ b3*LnTA + b4*Lev + b5*CapExp/TA + b6*IntExp/TA + Year Fixed Effects + Industry Fixed Effects

Where AboAvLob takes the value 1 if lobbying expenses of the company are greater than the average lobbying expenses of all companies in our sample and 0 otherwise. All other variables are as defined above. If the magnitude of expenditures makes the relation between lobbying and future profitability stronger then the coefficient b1 in model 3a, b3 in model 3b, and b2 in model 3c should be positive. On the other hand if excessive spending on lobbying activities actually weakens the relation these coefficients will be negative.

To provide more direct evidence on whether over time the positive relation between lobbying and profitability has changed we run the following model:

Model 3d:

AvROA = b0 + b1*RecYears + b2*Lob + b3*RecYears*Lob + b4*LnTA + b5*Lev + b6*CapExp/TA + b7*IntExp/TA + Year Fixed Effects + Industry Fixed Effects.

RecYears variable is a dummy variable that takes value (1) for year 2010 and afterwards, otherwise (0). If indeed the effect of lobbying on future profitability has increased (decreased) overtime the coefficient on B3 in model 3d should be positive (negative)

To examine whether the association between contributions to political action committees and future profitability is affected by the magnitude of these contributions (H2a) we run the following three different models:

Model 4a

AvROA= b0 + b1*AboAvTotCon + b2*LnTA + b3*Lev + b4*CapExp/TA + b5*IntExp/TA+ Year Fixed Effects + Industry Fixed Effects.

Model 4b

AvROA = b0 + b1*AboAvTotCon + b2*TotCon + b3*AboAvTotCon*TotCon + b4*LnTA + b5*Lev + b6*CapExp/TA + b7*IntExp/TA + Year Fixed Effects + Industry Fixed Effects.

Model 4c

AvROA = b0 +b1*TotCon + b2*TotCon^2 + b3*LnTA + b4*Lev + b5*CapExp/TA + b6*IntExp/TA + Year

Fixed Effects + Industry Fixed Effects.

Where, AboAvTotCon takes the value 1 if contributions to PAC are greater than the average of our sample and 0 otherwise. All other variables are as defined above. If the magnitude of expenditures makes the relation between political contributions and future profitability stronger then the coefficient b1 in model 4a, b3 in model 4b, and b2 in model 4c should be positive. On the other hand if excessive spending on political contributions weakens the relation these coefficients will be negative.

Finally, to provide more direct evidence on whether over time the positive relation between political contributions and profitability has changed we run the following model:

Model 4d

AvROA = b0 + b1*RecYears + b2*TotCon + b3*RecYears*TotCon + b4*LnTA + b5*Lev + b6*CapExp/TA + b7*IntExp/TA + Year Fixed Effects + Industry Fixed Effects.

If indeed the effect of lobbying on future profitability has increased (decreased) overtime the coefficient on B3 in model 4d should be positive (negative).

4. Dataset

Data for 85 random US companies were collected that they have lobbying expenditures and also engage with contributions to political parties and are listed in the S&P 500, using a random number generator for the time period of the fiscal years 2001 – 2020. The information regarding the amount of lobbying expenses and total contribution from the companies to democrat or republican political parties were obtained from Opensecret.org and followthemoney.org

The data for the amount of total contributions are given for every election cycle every two years hence the observations are less than the observations for corporate lobbying expenses which can be made every year. The financial information such as operating profits, total assets, total debt, interest and related expenses and capital expenditures were gathered from Compustat.

Table 1 presents descriptive statistics of all variables used in the analyses.

Lobbying and Total Contributions variables are presented in $ millions and the mean is higher for lobbying with 3.75 $ million where for Total Contributions is only 1.98 $ million. However the standard deviation is higher for Total Contributions and this is visible from the maximum value of Total Contributions which is 109.0695 $ million and for Lobbying it is just 39.29 $ million. Lob and TotCon are Lobbying and Total Contributions scaled by TA. We also present descriptive data for the control variables LnTA, Leverage, Capital Expenditures (CapExp/TA, Interest Expenses (IntExp/TA).

The profitability of the firms of the dataset on average is 6676.928 $ millions. The leverage the firms use on average is 0.221988. For the value of Total Assets of the firms there is a relatively high standard deviation of 406018.5 indicating the different sizes of the firms in the sample. Starting with the smallest in "size" 39.673 $ millions and the highest 3386071 $ millions.

An important insight for the dataset used for the analysis is that from the total 1650 firm-year observations in the sample for 1162 fiscal years, the lobbying was zero. From the overall observations 488 record a lobbying expenditure that is above average. For total contributions from the 828 observations 165 observations were above average and 663 below average.

The correlation matrix **Table 3** shows that the correlation between the lobbying and total contributions scaled by total assets is positive and significant however the correlation is 0.060. The Average Returns on Assets in the future 3 years is significant and positively correlated 0.182 with the lobbying variable, the same holds for the variable Total Contribution where there is a positive and significant correlation of 0.108. The other control variables which are significantly correlated and can be taken into consideration are Capital Expenditures / Total Assets and Interest Expenses / Total Assets which have also a positive correlation to the future profitability. LnAssets has an inverse relationship with the AverageROA variable.

Both total contributions and lobbying expenditures have a positive correlation with financial leverage of the firms, suggesting that firms with higher risk are more likely to attempt to influence policies possibly to reduce their risk exposure. Also the dummy variables above average for lobbying and contributions show have a positive correlation to AvROA variable.

5. Empirical Results

Panel A model (1) presents the result of multiple linear regression model where the control variables are the natural logarithm of assets, leverage, capital expenditures / total assets, interest expense / total debt, industry fixed effects and year fixed effects. The key variable Lobbying Expenses / Total Assets is statistically significant (0.000***) and is indicating that an increase of 1 unit of Lobbying Expenses / Total Assets will be associated with an increase of **46.32695** on the Average ROA of the next three following fiscal years. This supports H1 that *Lobbying expenses have a positive correlation with future financial performance (ROA)*.

Results in **Panel B** show that Total Contributions with a significance level of (0.023**). This suggests that an increase of 1 unit of the key variable there will be an increase of **42.25648** for the Average ROA of the next three following fiscal years. This supports (H2) that *Contributions to political action*

committees have a positive correlation with future financial performance.

In table 6 we examine if the positive relation documented above is affected by the magnitude of lobbying expenditures. **Panel A** supports the result shown in panel A of table 5. Specifically the key variable AboAvLob which classifies observations in high and low expenditures based on our sample average is positively associated with the future profitability. The coefficient on AboAvLob is statistically significant (0.001***) suggesting that event firms that have lobbying expenditures above the average still have a positive effect in future performance.

 Panels B-D examine whether the magnitude of lobbying expenditures affects the positive relation. With the exception of **Panel B,** results in panels C and D provide strong support to the conclusion that when the magnitude of lobbying expenditures is high the positive relation with future profitability is weakened. Specifically **Panel C** shows that the coefficient on Lob^2 is both negative and statistically significant (0.000***) suggesting that the relation between lobbying and future profitability in concave. Similarly, in **Panel D** the coefficient on RecYears*Lob is negative and significant (0.021**) which indicates that excessive spending in lobbying activities in the most recent years decreases the benefit of lobbying on the future profitability of the firms. Overall the results suggest that for higher magnitudes of lobbying expenses, which is also the case of the latest years of our review period, the positive relation between lobbying and future profitability is significantly weakened in support of hypothesis **1a (H1a)**.

 Table 7 similarly shows whether the relation between future profitability and political contributions is non-linear i.e., whether the association between contributions to political action committees and future profitability is affected by the magnitude of the contributions. In **Panel A (4a)** the coefficient on our key variable AboAvTotCon is significant (0.00***) and positive, suggesting that even firms with political contributions above the average value in our sample still have positive effect on future performance . The next two panels do not provide evidence that the magnitude of political contributions affects the positive relation documented in **Panel B** of **table 5,** although in panel C, the coefficient on TotCon^2 is

negative and not significant (P-value = 0.114)

Interestingly, Panel D of table 7 shows that the relation between political contributions and future profitability is weakened in the recent part of our period. Given that this period is also characterized by higher expenditures, we conclude that the effect of campaign contributions is lower for high magnitudes and support of **Hypothesis 2a (H2a).**

CapExp/TA coefficient in the models appears to be negative and this is because capital expenditure are the funds that are used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. This shows that the more firms engage with these expenses the less are going to spend for lobbying or contributions, it is visible that there is an inverse relationship.

6. Additional Analysis

Finally, in **table 8** we examine whether the positive effect of political contributions to future profitability is related to the political idiosyncrasy of the party. The table shows that this effect is mostly driven by contribution to the Republican Party, as contributions to the Democratic Party do not have any significant correlation to the firm's future financial performance. This may indicate that democratic politicians are less likely to take political actions to benefit their contributors compared to their Republican counterparts.

Additional analysis is also made in **Panel L (6)** where the dummy variable Abo3rdQuartileLob takes the value (=1) for Lobbying above the 75th percentile, otherwise (=0) and classifies observations in high and low expenditures and with the interaction variable Abo3rdQuartileLob*Lob we examine for even higher magnitude compared to the **model 3b**. The results after we test again for robustness if higher magnitude of expenditures makes the relation between political contributions and future profitability stronger or weakens the relationship we find that the relation actually weakens as the coefficient for the

variable Abo3rdQuartileLob*Lob is negative (-148.972) with significance (0.081*).

The same additional analysis is made for the contributions to political parties and the results in **Panel M (7)** are not statistically significant. The significance for Abo3rdQuartileTotCon*TotCon which tests the relation for higher magnitude of contributions and the future profitability is (0.120)

Lastly, an analysis is made to test even the more recent years. Where the dummy variable RecYears2016 takes the value (=1) for lobbying expenses and contributions that being made in year 2016 and onwards, otherwise (=0). Both models in **Panel N (8)** and **Panel O (9)** show to not have statistical significance and do not provide evidence that the positive correlation to future profitability has been impacted positively or negatively for the last years 2016 and afterwards where CPA for the firms are higher when compared to the previous years.

7. Conclusion

In conclusion, the results of this study show that there is a positive correlation between lobbying / contributions to political parties and the future profitability of firms and supports the conclusions and results of previous literature. Although lobbying expenditures and total contributions to political parties have been continually growing the latest years especially for time-period 2010 – 2020

Based on the models we can conclude that lobbying above average can still have a positive outcome for the financial performance of the next three years. But there can be an inverse effect meaning that there will be a lesser and lesser positive impact with having excessive expenditures and contributions, therefore firms should not overdo it and be cautious.

For total contributions have also a positive correlation with future performance even for values above the average. From the models there was not any significant result for the relation of the magnitude and future performance, but there were results indicating that total contributions effect on the last years has

decreased. Lobbying expenses show to have greater influence to the future profitability and to be more beneficial in comparison to Total Contributions.

Overall, the results show that firms do still enjoy the positive outcome that come will lobbying expenses and contributions to political parties / politicians even if the figures have risen up for the last years but there will not be the same case if lobbying expenses and contributions increase exponentially and have a greater magnitude. This shows that firms should be careful on how they make lobbying expenses and contributions and having clear policies and procedures on how they can manage these "investments" effectively in order to benefit from them in the best way possible.

8. Suggestion for Further Study

Corporate governance is the mechanisms / procedures and activities employed by a company in order to ensure that the assets are managed in a way that serves the best interests of its shareholders. Through the appropriate and well executed corporate governance a better supervision, reduction of information of asymmetry and transparency can be achieved.

Therefore, for further study it could be explored on what is the relationship and what are the main effects that corporate governance and governance mechanisms have on the lobbying expenditures of the companies and the contributions to political parties.

What is the relationship and effect of governance policies that encourage internal controls and auditing with the objective to detect and prevent risks and also improve the way the assets and financial resources of the company are allocated to lobbying expenditures and to the contributions to political parties. What is the outcome and return in investment from lobbying and contributions between firms

that have better governance mechanisms / policies and from firms that do not. This is something extremely interesting and worth of further investigation.

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Figure 1 – Total Lobbying Spending in million $ 2001 - 2020
(Source: OpenSecrets.org)

Total Lobbying Spending in millions $

Year	Value
2020	35.28
2019	35.10
2018	34.60
2017	33.76
2016	31.55
2015	32.24
2014	32.55
2013	32.36
2012	32.97
2011	33.15
2010	35.03
2009	34.96
2008	33.03
2007	28.68
2006	26.26
2005	24.34
2004	21.82
2003	20.51
2002	18.26
2001	16.30
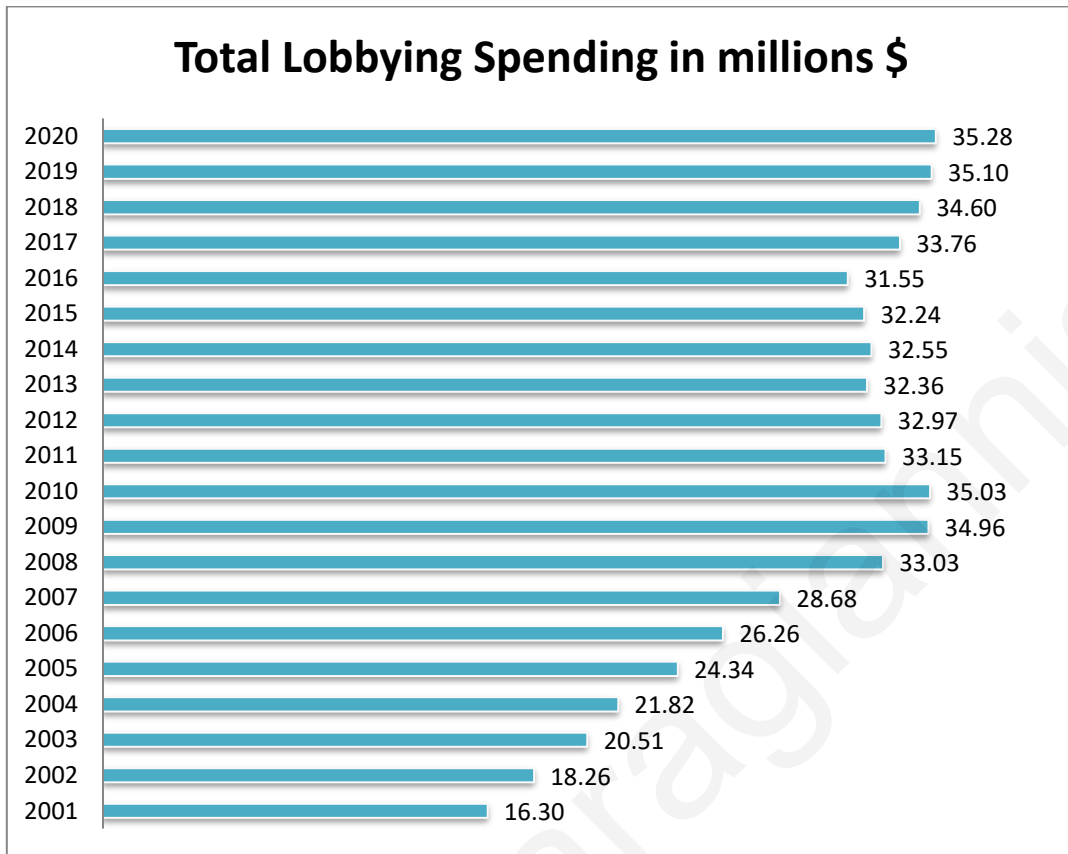
Figure 2 – Total Contributions from election cycle 2000 to election cycle 2020 in millions $
(Source: OpenSecrets.org)

Total Contributions in million $

Legend: Repbs (red), Dems (blue). Election cycles: 2000, 2002, 2004, 2006, 2008, 2010, 2012, 2014, 2016, 2018, 2020.

23
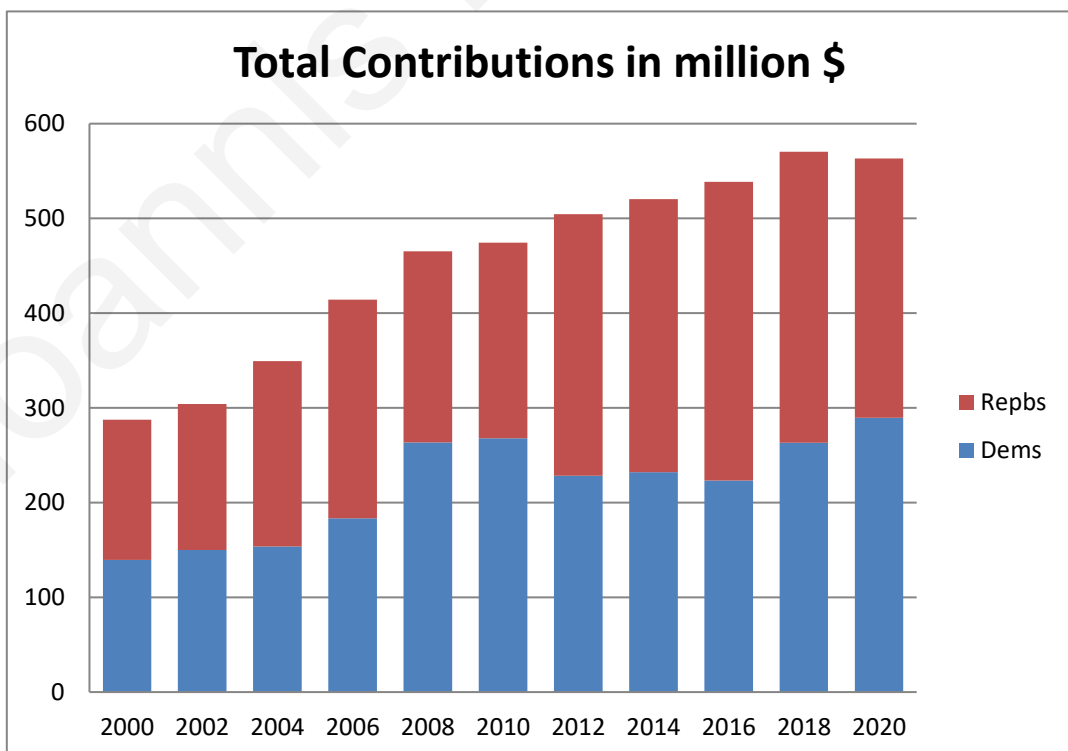
Table 1 – Descriptive Statistics

Descriptive Statistics for independent and dependent variables:

Descriptive Statistics							
	Obs (N)	Minimum	Maximum	Mean	Median	Std. Deviation	Description
AvROA	1,395	-0.13245	0.366783	0.0994929	.0883802	0.071294	Number
Lobbying ($ millions)	1,650	0	39.29	3.753698	1.741869	4.997517	Number
Total Contributions ($ millions)	828	0	109.0695	1.982826	.6738775	5.576214	Number
Lob	1,650	0	0.002928	0.0000774	.0000353	0.00015	Number
TotCon	828	0	0.005242	0.0000463	.0000153	0.000238	Number
LnTA	1,646	3.680671	15.03518	10.31253	10.40572	1.868833	Number
Lev	1,646	0	1.440358	0.2219879	.1960341	0.190853	Number
CapExpTA	1,646	0	0.330851	0.0384973	.0262676	0.039152	Number
IntExpTA	1,463	0	106	0.2024497	.0512217	3.037306	Number
Profitabily ($ millions)	1,646	-28387	66290	6676.928	2285.5	10733.47	Number
TA ($ millions)	1,646	39.673	3386071	159605.8	33048	406018.5	Number
AbAvLob	1,650	0	1	0.2957576	0	0.456521	Dummy
AboAvTotCon	827	0	1	0.1995163	0	0.399879	Dummy
RecYearsLob	1,650	0	1	0.5642424	1	0.496006	Dummy
RecYearsTotCon	827	0	1	0.6142684	1	0.487062	Dummy

Lobbying and Total Contributions variables absolute values where Lob and TotCon are scaled by TA

Table 2 – Descriptive Statistics (Lobbying / Contributions)

Descriptive statistics for the number of observations of the fiscal years for lobbying and contributions.

Descriptive Statistics		
	Lobbying observations	Contributions Observations
Initial number of observations	1650	828
Positive for Lobbying / Contributions	1343	809
No Lobbying or Contributions	307	19
Above Average	549	248
Below Average	794	561

Table 3 Correlation Matrix

	AvROA	LobTA	TotConTA	LnTA	Lev	CapExpTA	IntExpTA	AboAvLob	AboAvTot	RecYearsLob	RecYearsTot
AvROA	1										
LobTA	0.1824	1									
	0										
TotConTA	0.1082	0.0603	1								
	0.0054	0.0828									
LnTA	-0.3465	-0.1289	-0.0629	1							
	0	0	0.0709								
Lev	0.0318	0.0802	0.15	-0.1543	1						
	0.2355	0.0011	0	0							
CapExpTA	0.1109	-0.0081	0.081	-0.2485	0.1849	1					
	0	0.7427	0.0198	0	0						
IntExpTA	0.0858	0.0153	-0.0026	-0.0171	-0.067	-0.0083	1				
	0.0026	0.5592	0.9435	0.5131	0.0103	0.7498					
AboAvLob	0.302	0.5668	0.0141	-0.092	0.0554	0.0138	0.0504	1			
	0	0	0.6847	0.0002	0.0247	0.5769	0.0538				
AboAvTot	0.1916	0.3185	0.2746	-0.1184	0.142	0.1568	0.0568	0.3009	1		
	0	0	0	0.0007	0	0	0.1237	0			
RecYearsLob	-0.0122	-0.0245	0.0523	0.1888	0.1572	-0.0813	-0.0595	-0.0732	0.0239	1	
	0.6482	0.3205	0.1325	0	0	0.001	0.0229	0.0029	0.4927		
RecYearsTot	0.0002	-0.0114	0.0522	0.1861	0.1388	-0.0865	-0.072	-0.0801	0.0232	1	1
	0.9962	0.78438	0.1333	0	0.0001	0.0129	0.051	0.0212	0.5064	0	

Table 4: Lobbying Expenditures and Total Contributions scaled to Total Assets from

Year	Lob/TA	TotCon/TA
2001	0.0059	
2002	0.0051	0.0025
2003	0.0060	
2004	0.0057	0.0027
2005	0.0070	
2006	0.0069	0.0019
2007	0.0065	
2008	0.0077	0.0026
2009	0.0079	
2010	0.0073	0.0019
2011	0.0065	
2012	0.0060	0.0050
2013	0.0060	
2014	0.0079	0.0028
2015	0.0080	
2016	0.0082	0.0055
2017	0.0058	
2018	0.0051	0.0051
2019	0.0043	
2020	0.0039	0.0083

Results Table 5

Panel A (Eq. 1): Multilinear Regression Model with dependent variable AvROA and independent variable Lob. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

Coefficients				
AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.1564856	.0488077	3.21	0.001***
Lob	46.32695	10.98219	4.22	0.000***
LnTA	-.0099048	.001214	-8.16	0.000***
Lev	-.0377837	.0105477	-3.58	0.000***
CapExp/TA	-.1357713	.0493527	-2.75	0.006***
IntExp/TA	.0017203	.000541	3.18	0.002***
R Square = 0.2484				
Number of observations: 1,230				

Panel B (Eq. 2): Multilinear Regression Model with dependent variable AvROA and independent variable TotCon. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

Coefficients				
AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.1781914	.0523838	3.40	0.001***
TotCon	42.25648	18.49666	2.28	0.023**
LnTA	-.0107168	.0017471	-6.13	0.000***
Lev	-.0433196	.0152512	-2.84	0.005***
CapExp/TA	-.1684257	.0724983	-2.32	0.021**
IntExp/TA	.0013675	.000557	2.45	0.014***
R Square = 0.2479				
Number of observations: 581				

Table 6: Lobbying (Models 3a – 3d)

Panel A (Eq. 3a): Multilinear Regression Model with dependent variable AvROA and independent variable AboAvLob. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

Coefficients				
AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.1513187	.0478714	3.16	0.002***
AboAvLob	.0324978	.0011876	8.0	0.000***
LnTA	-.0097897	.0011876	- 8.24	0.000***
Lev	-.0339656	.0103479	-3.28	0.001***
CapExp/TA	-.0941635	.0487618	-1.93	0.054**
IntExp/TA	.0015313	.0005313	2.88	0.004***
R Square = 0.2767				
Number of observations: 1,230				

Panel B (Eq. 3b): Multilinear Regression Model with dependent variable AvROA and independent variables AboAvLob, Lob and AboAvLob*Lob .Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.2163977	.0223652	9.68	0.000***
AboAvLob	.0359242	.0058551	6.14	0.000***
Lob	102.1782	101.7829	1.00	0.316
AboAvLob*Lob	-104.5431	103.5493	-1.01	0.313
LnTA	-.01012	.001236	-8.19	0.000***
Lev	-.0323917	.0104842	-3.09	0.002***
CapExp/TA	-.0916767	.0488745	-1.88	0.061*
IntExp/TA	.0015373	.0005317	2.89	0.004***

Coefficients

R Square = 0.2773

Number of observations: 1,230

Panel C (Eq. 3c): Multilinear Regression Model with dependent variable AvROA and independent variables Lob and Lob^2 .Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.1525372	0.0477507	3.19	0.001***
Lob	163.8758	19.17469	8.55	0.000***
Lob^2	-71158.03	9614.229	-7.4	0.000***
LnTA	-0.0099768	0.0011877	-8.4	0.000***
Lev	-0.0306503	0.0103635	-2.96	0.003***
CapExp/TA	-0.1083592	0.0484227	-2.24	0.025**
IntExp/TA	0.0016355	0.0005294	3.09	0.002***

Coefficients

R Square = 0.2813

Number of observations: 1230

Panel D (Eq. 3d): Multilinear Regression Model with dependent variable AvROA and independent variable RecYears, Lob and RecYears*Lob .Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

Coefficients				
AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.1910721	.0227218	8.41	0.000***
RecYears	-.0343913	.0441827	-0.78	0.436
Lob	- 89.05515	21.53754	4.13	0.000***
RecYears*Lob	-57.02136	24.74037	-2.30	0.021**
LnTA	-.0099115	.0012118	-8.18	0.000***
Lev	-.0368604	.0105364	-3.50	0.000***
CapExp/TA	-.126372	.0494326	-2.56	0.011**
IntExp/TA	.0016883	.0005402	3.13	0.002***
R Square = 0.2517				
Number of observations: 1,230				

Table 7: Contributions (Models 4a - 4d)

Panel A (Eq. 4a): Multilinear Regression Model with dependent variable AvROA and independent variables AbovAvTotCon, TotCon and AboAvTotCon*TotCon. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

Coefficients				
AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.1537254	.051996	2.96	0.003***
AboAvTotCon	.0313951	.0068348	4.59	0.000***
LnTA	-.0103331	.0017255	-5.99	0.000***
Lev	-.0401605	. .014995	-2.68	0.008***
CapExp/TA	-.1757546	.0714827	-2.46	0.014**
IntExp/TA	.0012645	.0005494	2.30	0.022**
R Square = 0.2684				
Number of observations: 581				

Panel B (Eq. 4b): Multilinear Regression Model with dependent variable AvROA and independent variables AbovAvTotCon, TotCon and AboAvTotCon*TotCon. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.1502446	.0521651	2.88	0.004***
AboAvTotCon	.0333824	.0083587	3.99	0.000***
TotCon	262.0186	255.6868	1.02	0.306
AboAvTonCon*TotCon	-245.1619	256.2648	-0.96	0.339
LnTA	-.0104652	.0017311	-6.05	0.000***
Lev	-.0400613	.0151122	-2.65	0.008***
CapExp/TA	-.1732769	.0717619	-2.41	0.016**
IntExp/TA	.0013016	.0005502	2.37	0.018**
R Square = 0.2708				
Number of observations: 581				

Coefficients

Panel C (Eq. 4c): Multilinear Regression Model with dependent variable AvROA and independent variables TotCon and TotCon^2. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.1669499	.052794	3.16	0.002***
TotCon	126.2005	56.19002	2.25	0.025**
TotCon^2	-40794.27	25788.98	-1.58	0.114
LnTA	-.0103717	.0017583	-5.90	0.000***
Lev	-.044256	.0152422	-2.90	0.004***
CapExp/TA	-.1740225	.0724875	-2.40	0.017**
IntExp/TA	.0013814	.0005564	2.48	0.013**
R Square = 0.2512				
Number of observations: 581				

Coefficients

Pane D (Eq. 4d): Multilinear Regression Model with dependent variable AvROA and independent variables RecYears, TotCon and RecYears*TotCon. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	.2217011	.0275305	8.05	0.000**
RecYears	-.062885	.044193	-1.42	0.155
TotCon	-68.81601	66.48754	-1.04	0.301
RecYears*TotCon	- 118.2136	67.94722	1.74	0.082*
LnTA	-.0109192	.0017509	-6.24	0.000***
Lev	-.0422904	.0152652	-2.77	0.006***
CapExp/TA	-.1574594	.073015	-2.16	0.031**
IntExp/TA	.0013483	.0005566	2.42	0.016**

Coefficients

R Square = 0.2508

Number of observations: 580

Additional Analysis – Table 8

Panel K (5) Multilinear Regression Model with dependent variable AvROA and independent variables TotConRep, TonConDem. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

Dependent Variable: Average ROA t+1,t+2,t+3	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.150	0.051	2.90	0.004***
TotConRep	0.000164	0.0000666	2.46	0.014**
TotConDem	- 0.0000872	0.0001525	- 0.57	0.568
LnAssets	- 0.010	0.001	- 5.87	0.000***
Lev	- 0.032	0.015	- 2.06	0.039**
Cap/IntExp	- 0.207	0.073	- 2.81	0.005***
IntExp/TA	0.001	0.000	2.62	0.009***

Coefficients

R Square = 0.2517

Number of observations: 570

Panel L (6) Multilinear Regression Model with dependent variable AvROA and independent variables Abo3rdQuartileLob, Lob and Abo3rdQuartileLob*Lob .Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

Coefficients				
AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.148948	0.047734	3.12	0.002***
Abo3rdQuartileLob	0.04274	0.006073	7.04	0.000***
Lob	136.65	83.36838	1.64	0.101
Abo3rdQuartileLob*Lob	-148.972	85.24982	-1.75	0.081*
LnTA	-0.01005	0.001224	-8.21	0.000***
Lev	-0.0321	0.010428	-3.08	0.002***
CapExp/TA	-0.09201	0.048662	-1.89	0.059*
IntExp/TA	0.001458	0.00053	2.75	0.006***
R Square = 0.2808				
Number of observations: 1230				

Panel M (7) Multilinear Regression Model with dependent variable AvROA and independent variables Abo3rdQuartileTotCon, TotCon, Abo3rdQuartileTotCon*TotCon. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

Coefficients				
AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.148525	0.051407	2.89	0.004***
Abo3rdQuartileTotCon	0.027025	0.007997	3.38	0.001***
TotCon	515.122	314.5953	1.64	0.102
Abo3rdQuartileTotCon*TotCon	-490.581	315.2612	-1.56	0.120
LnTA	-0.01076	0.001741	-6.18	0.000***
Lev	-0.03942	0.015199	-2.59	0.010***
CapExp/TA	-0.16385	0.072235	-2.27	0.024**
IntExp/TA	0.001357	0.000553	2.46	0.014**
R Square = 0.2632				
Number of observations: 581				

Panel N (8) Multilinear Regression Model with dependent variable AvROA and independent variables RecYears16, TotCon and RecYears16*Lob. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.193803	0.022837	8.49	0.000***
RecYears16	-0.01414	0.044369	-0.32	0.75
Lob	59.484	30.13707	1.97	0.049**
RecYears16*Lob	-15.0462	32.0929	-0.47	0.639
LnTA	-0.0099	0.001214	-8.15	0.000***
Lev	-0.03799	0.01056	-3.6	0.000***
CapExp/TA	-0.13391	0.049529	-2.7	0.007***
IntExp/TA	0.001713	0.000541	3.16	0.002***

Coefficients

R Square = 0.2485

Number of observations: 1230

Panel O (9) Multilinear Regression Model with dependent variable AvROA and independent variables RecYears16, TotCon and RecYears*TotCon16. Control Variables are LnTA, Lev, CapExp/TA and IntExp/TA

AvROA	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.218166	0.027448	7.95	0.000***
RecYears16	-0.06156	0.044222	-1.39	0.164
Lob	31.23041	24.12064	1.29	0.196
RecYears16*TotCon	26.48849	36.08533	0.73	0.463
LnTA	-0.0107	0.001747	-6.12	0.000***
Lev	-0.04259	0.015257	-2.79	0.005***
CapExp/TA	-0.18339	0.07344	-2.5	0.013**
IntExp/TA	0.001361	0.000557	2.44	0.015**

Coefficients

R Square = 0.2205

Number of observations: 580

* The House of Representatives and the Senate are two distinct groups and together they constitute the U.S Congress. Both groups are responsible for providing government oversight and balancing against the power of the elected president. The groups propose and enact laws that govern the United States. The senate has 100 members where the House of Representatives has more. The Senate has exclusive powers that the House of Representatives has not. For a example the authority to approve or reject presidential nominations to executive and judicial offices.

***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.