Investing in Influence: Investors, portfolio firms, and political giving

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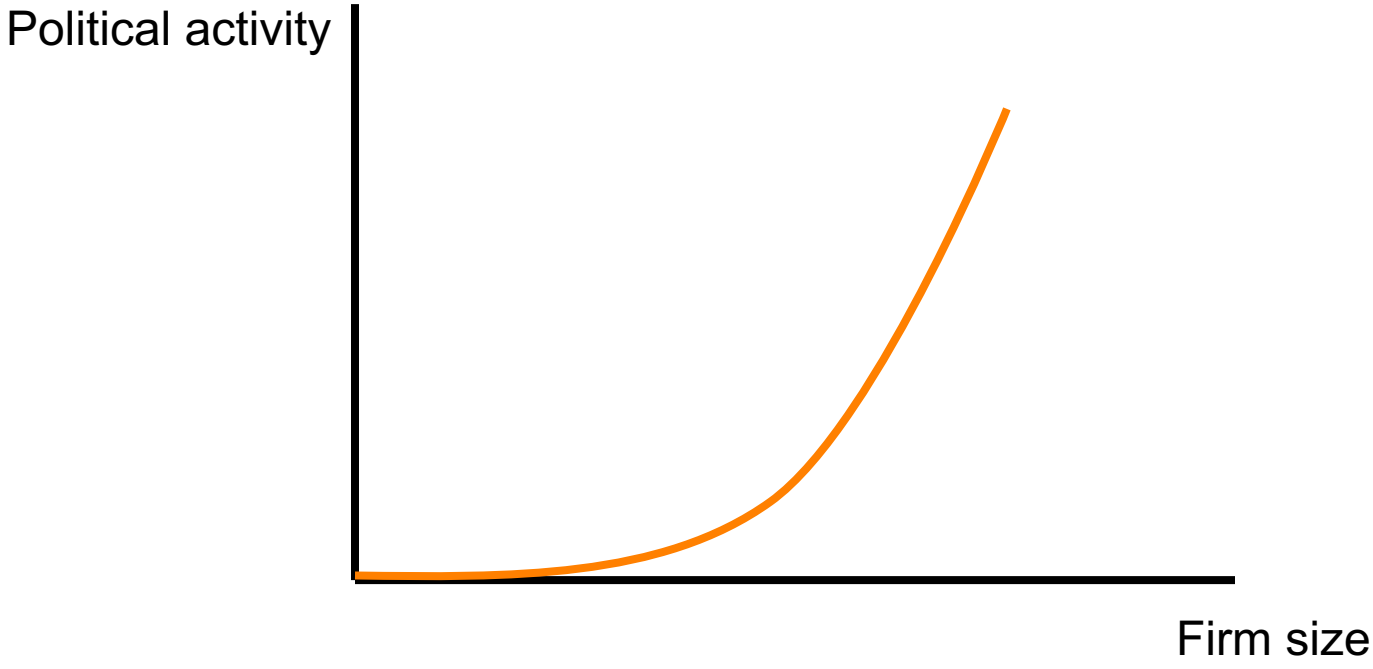
The Politics of Mega-Firms

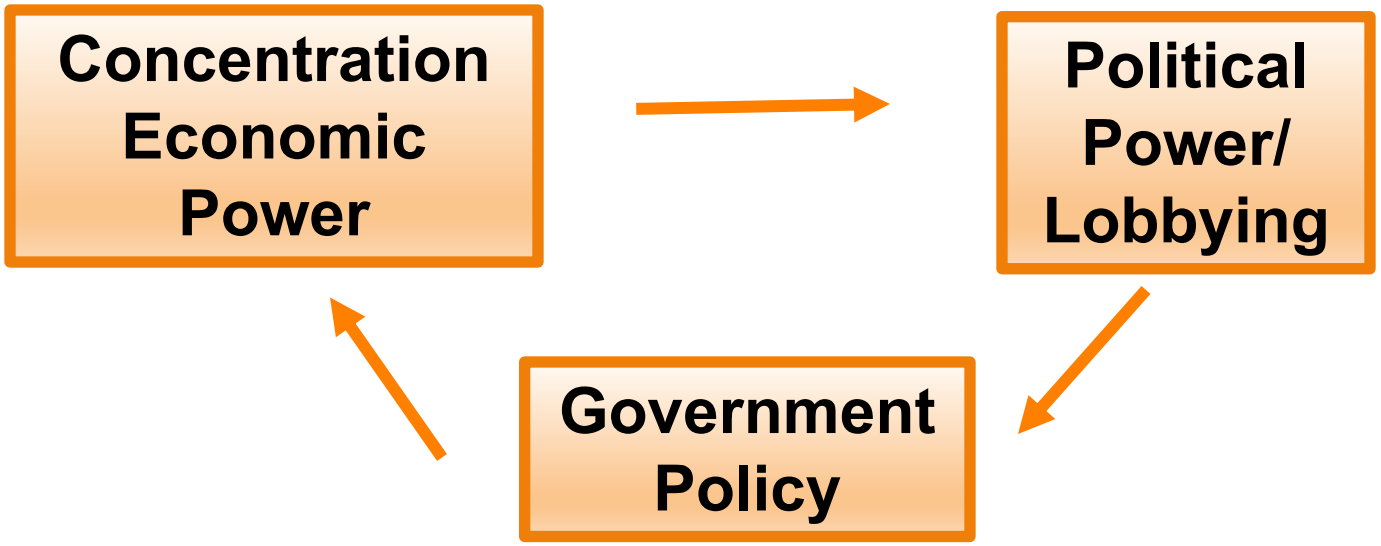
Why should we care about the political activity of mega-firms?

Reason #1



Convexity: charitable foundations, bundling, setting up PACs and SuperPAC's (independent expenditure), retaining lobbying firms, internal lobbyists, etc.

Reason #2


Concentration Economic Power
Political Power/ Lobbying
Government Policy

This paper

We document a distinct amplification channel: Exploiting ownership to influence political giving of portfolio firms' PACs

Political spending patterns of investor firms and of the firms they acquire

Punchline: post-acquisition firms start giving more like their investor, amplifying the investor's political footprint

Investing in influence: Main results

- The PAC giving of investors and portfolio firms are more correlated after large (>1%) block purchases

- This relationship is causal. Exogenously generated acquisitions due to index inclusion (S&P500, Russell 2000 Index, etc.) produce sharper alignments of political giving

- It most plausibly reflects firms' donations adjusting to investors' preferences rather than a common strategic goal:
  1. Investor's giving is stable pre vs post acquisition, while the firm's changes
  2. Effect is stronger for "political/partisan" investors & private (vs public) investors
  3. Board membership of investor post acquisition predicts additional convergence in political giving between investor & firm

Data: Overview

- Data:
  - Time: Congressional election cycles 1980-2016
  - Investors: All 13-F (>$100M) investors disclosing quarterly holdings
  - Firms: all portfolio firms for our sample of investors

- Analysis:
  - Investor-firm pair x congressional district x electoral cycle level
  - 88,315 investor-firm pairs x 435 congressional districts x 19 election cycles
    - Also (Investor-firm pair x election cycle) analysis

Measuring ownership

- Investors and firms are linked via quarterly-updated Thomson-Reuters ownership data
- We distinguish between two types of acquisitions: Indexed versus non-indexed purchases (addition to S&P500, etc…)
- …and several types of investors:
  - Politically active vs inactive based on campaign donations (Stratmann 2005)
  - Partisan vs 'balanced' (Bonica 2014)
  - Private (e.g., Citadel) vs publicly owned (e.g., Black Rock)

Ownership and correlation in giving

- Our main estimating equation is as follows:

$$\log(1 + firm\ PAC_{ftc}) = \beta_1 \log(1 + invPAC_{itc}) \times Post_{ift} + \beta_2 \log(1 + invPAC_{itc}) + \beta_3 Post_{ift} + FE + \epsilon_{iftc}$$

- Notes:
  - $Post$ is an indicator variable denoting the period when the investor acquires > 1%, and later
  - FE indicates a saturated set. The basic formulation includes investor, firm, congressional district, and election cycle fixed effects (we also include even more saturated specifications)

Ownership and correlation in giving

Depend. Var.: **Log of firm's PAC**								
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Log of investor's PAC × 𝟙(Post)	0.019***	0.020***	0.012***	0.016***	0.018***	0.018***	0.015***	0.010***
	(0.00158)	(0.00157)	(0.000807)	(0.00103)	(0.00145)	(0.00134)	(0.00157)	(0.000541)
Log of investor's PAC	0.010***	0.009***	0.006***	0.010***	0.012***	0.012***	0.004***	0.003***
	(0.000906)	(0.000909)	(0.000384)	(0.000782)	(0.000770)	(0.000859)	(0.00090)	(0.000537)
𝟙(Post)	0.020***	0.026***	0.008***	-0.009***	0.015***	0.012***	0.021***	-0.002***
	(0.00199)	(0.00221)	(0.00115)	(0.000398)	(0.00185)	(0.00206)	(0.00198)	(0.00020)
Fixed Effects								
Firm	X				X	X	X	
Investor	X		X	X			X	
Congressional Cycle	X	X	X		X			
Congressional District	X	X		X		X		
Firm × Investor		X						X
Firm × Congressional District			X					X
Firm × Congressional Cycle				X				X
Investor × Congressional District					X			X
Investor × Congressional Cycle						X		X
Congressional Cycle × District							X	X
N	402,689,395	402,689,395	402,664,359	402,689,395	402,400,554	402,689,395	402,689,395	402,376,127
R^2	0.139	0.142	0.550	0.182	0.159	0.141	0.145	0.586

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. *Standard Errors* are in parentheses.

Ownership and correlation in giving

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Fixed Effects								
Firm	X				X	X	X	
Investor	X		X	X			X	
Congressional Cycle	X	X	X		X			
Congressional District	X	X		X		X		
Firm × Investor		X						X
Firm × Congressional District			X					X
Firm × Congressional Cycle				X				X
Investor × Congressional District					X			X
Investor × Congressional Cycle						X		X
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Magnitudes

- We get roughly comparable coefficients in a specification in which we use discrete giving variables

- Interpretation: If an investor gives to politician in district *d* in cycle *t*, there is a 1 to 2 percentage point increase in the likelihood a firm gives to the same politician, after an acquisition, relative to a base rate probability of just under 4 percentage points

- 25-50% increase in political giving alignment post investment relative to baseline

Ownership-giving correlation: interpretation

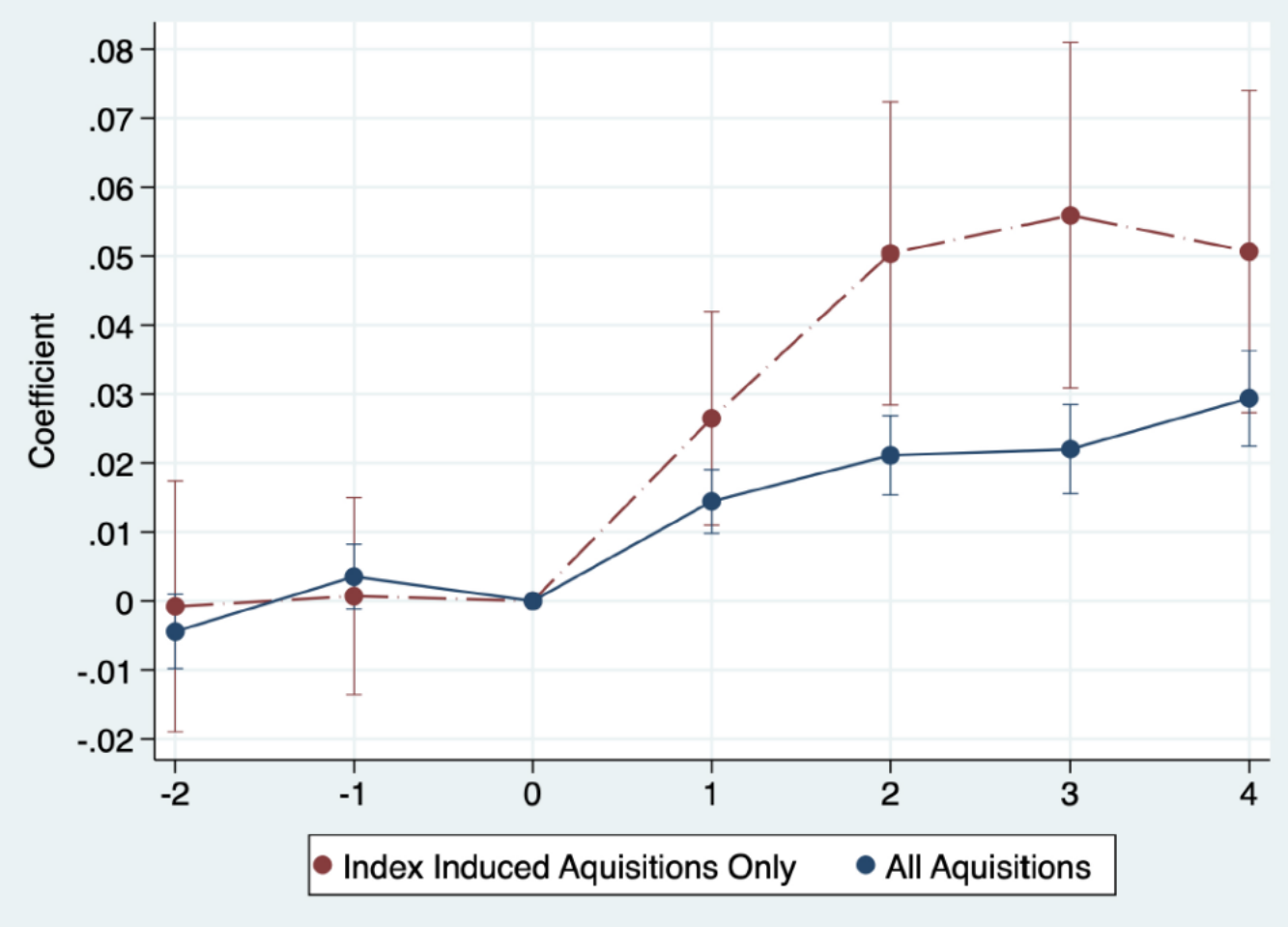
- Is there simply time-varying unobserved changes in firm and investor preferences?
- Do investors influence firms, or firms influence investors?
- If investors influence firms, are they simply imparting a new common strategic goal?

Only Index-based Acquisitions: Stronger Effect

Depend. Var.: **Log of firm's PAC**								
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Log of investor's PAC × 𝟙(Post)	0.027***	0.028***	0.030***	0.029***	0.028***	0.023***	0.016***	0.013**
	(0.00749)	(0.00858)	(0.00863)	(0.00753)	(0.00758)	(0.00718)	(0.00477)	(0.00684)
Log of investor's PAC	0.021***	0.024***	0.021***	0.018***	0.021***	0.010***	0.011***	0.001
	(0.00266)	(0.00307)	(0.00293)	(0.00256)	(0.00289)	(0.00230)	(0.00188)	(0.00220)
𝟙(Post)	0.241***	0.279***	0.120***	0.062***	0.068***	0.070***	0.036**	0.071***
	(0.03275)	(0.036916)	(0.03895)	(0.02683)	(0.02756)	(0.02758)	(0.01541)	(0.02759)
Fixed Effects								
Firm	X			X	X	X		X
Investor		X	X		X	X		X
Congressional Cycle			X	X	X	X	X	
Congressional District						X		
Firm × Congressional District							X	
Investor × Congressional District							X	
Congressional Cycle × District								X
Clustering								
Firm	X	X	X	X	X	X	X	X
N	41,072,881	41,072,881	41,072,881	41,072,881	41,072,881	41,072,881	41,072,881	41,072,881
R^2	0.121	0.018	0.019	0.123	0.124	0.142	0.544	0.550

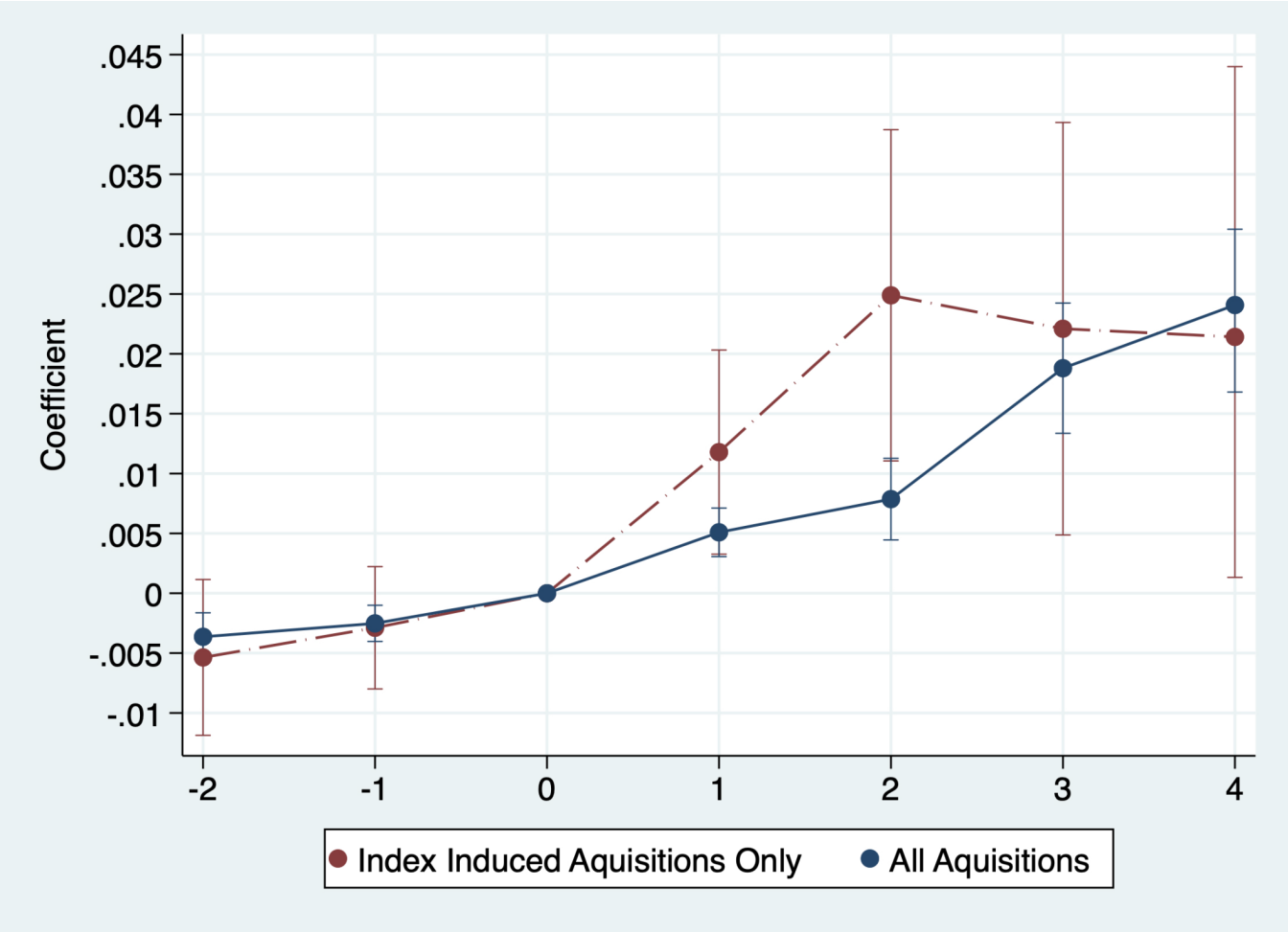
Event plots (cosine similarity)

$$Cos(x_{i,t}, x_{f,t}) = \sum_{s=-1}^{4} \beta_s Political\ Election\ Cycle(s)_{i,f,t+s} + \upsilon_i + \omega_f + \phi_t + \epsilon_{i,f,t}$$



Event plots of similarity in giving

$$Log(1 + PAC_{f,c,t}) = \sum_{t=-2}^{4} \beta_t \, Cycle_t \times Log(1 + PAC_{i,c,t}) + \alpha_i + \gamma_f + \tau_{t,c}$$



Heterogeneity by investor type

1. Public versus Private
   - Private investors are more likely to invest their own money and/or face less outside scrutiny
   - Private examples: Citadel, Paloma
   - Public examples: Blackrock, Fidelity
2. Political: Above-median PAC giving investor during the sample period (private are more likely to be “political”)
3. Partisan: Among “political” investors, above-median skewness in *D* vs *R* composition

Heterogeneity by investor type

Depend. Var.: **Log of firm's PAC**	(1) *Private Funds*	(2) *Public Funds*	(3) *Political Funds*	(4) *More Partisan*	(5) *Less Partisan*
Log of investor's PAC × 𝟙(Post)	0.011***	0.003***	0.013***	0.015***	0.006
	(0.00108)	(0.00065)	(0.00282)	(0.00347)	(0.00502)
Log of investor's PAC	0.003***	0.002**	-0.002	-0.007*	0.016**
	(0.00080)	(0.00067)	(0.00353)	(0.00440)	(0.00730)
𝟙(Post)	-0.002***	-0.002***	-0.146***	-0.169***	-0.062
	(0.00020)	(0.00057)	(0.0290)	(0.0358)	(0.0522)
Fixed Effects					
Firm × Investor	X	X	X	X	X
Firm × Congressional District	X	X	X	X	X
Firm × Congressional Cycle	X	X	X	X	X
Investor × Congressional District	X	X	X	X	X
Investor × Congressional Cycle	X	X	X	X	X
Congressional Cycle × District	X	X	X	X	X
N	320,971,472	81,318,607	3,781,161	2,735,692	911,962
R^2	0.579	0.605	0.717	0.723	0.753

The role of board membership

- A board connection provides perhaps the readiest channel through which an investor might influence firm behavior
- We link investors to portfolio firms' boards via BoardEx database
- About 5 percent of all purchases are associated with a post-acquisition board seat

Post-Investment Board Membership

Depend. Var.: **Log of firm's PAC**						
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Log of investor's PAC × 𝟙(Board)	0.051***	0.052***	0.052***	0.052***	0.019***	0.20***
	(0.0122)	(0.0120)	(0.0121)	(0.0120)	(0.00625)	(0.00622)
Log of investor's PAC × 𝟙(Post)		0.019***		0.015***		0.010***
		(0.00158)		(0.00157)		(0.00054)
Log of investor's PAC	0.016***	0.008***	0.008***	0.003***	0.005***	0.003***
	(0.000805)	(0.000831)	(0.000799)	(0.000831)	(0.000483)	(0.000438)
𝟙(Board)	-0.019	-0.020*	-0.019	-0.021*		
	(0.0121)	(0.0121)	(0.0121)	(0.0121)		
𝟙(Post)		0.020***		0.021***		-0.003***
		(0.00198)		(0.00198)		(0.000202)
Fixed Effects						
Firm	X	X	X	X		
Investor	X	X	X	X		
Congressional Cycle	X	X				
Congressional District	X	X				
Congressional Cycle × District			X	X	X	X
Firm × Investor					X	X
Firm × Congressional District					X	X
Firm × Congressional Cycle					X	X
Investor × Congressional District					X	X
Investor × Congressional Cycle					X	X

Cosine similarities around acquisitions

- The simple intuition for the following test is that if investor preferences are driving convergence, we should see more change in firm giving around acquisition dates, so $Cos(x_{ft}, x_{ft+1}) < Cos(x_{it}, x_{it+1})$; if firm preferences shift investor giving, we should get the converse.

- We also look at a further layer in differences to net out general consistency in giving for firms versus investors, i.e.,

$$Cos(x_{ft}, x_{ft+1}) - Cos(x_{ft-1}, x_{ft})$$

Firms are the ones that change their vectors of donations

	Investors	Firms	Difference in means	*P*-value of Difference	*N*
$Cos[x_{j,t}, x_{j,t+1}]$	0.7455 (0.00239)	0.5446 (0.00276)	0.2008*** (0.00360)	0.000	6,084
$Cos[x_{j,t}, x_{j,t+1}] - Cos[x_{j,t-1}, x_{j,t}]$	0.07804 (0.00139)	−0.0022 (0.00281)	0.0802*** (0.00314)	0.000	5,346
$Cos[x_{j,t}, x_{j,t+2}]$	0.5487 (0.00189)	0.4093 (0.00267)	0.1394*** (0.00321)	0.000	5,346
$Cos[x_{j,t}, x_{j,t+2}] - Cos[x_{j,t-2}, x_{j,t}]$	0.0568 (0.00814)	−0.0535 (0.00786)	0.1104*** (0.01115)	0.000	864

Concluding thoughts (1)

- Is the political power exerted more than proportional to the investor control? Corporate governance/"Political tunneling?"

- Does common ownership increase collusion in regulatory influence? We have firms' commenting in rulemaking (Bertrand, Bombardini, Fisman, Hackinen and Trebbi 2020)

Concluding thoughts (2)

- None of this is illegal, but this and other types of amplification go against basic “one person, one vote” logic
- Direction recently taken by Supreme Court (McCutcheon vs FEC 2014, Citizens United vs FEC 2010) relaxing constraints on total PAC giving and independent expenditures may exacerbate issue