

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

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Big picture

- **Limits to political contributions**
 - Campaign finance rules in the U.S. (and elsewhere) limit contributions to prevent those with more resources from gaining greater voice
- **Circumventing individual political contribution limits**
 - Despite limits placed on donations by individual citizens to individual legislators, the Supreme Court has upheld the right to give through various associations, including corporate PACs
- **Amplification of well-resourced individuals' political voice**
 - This potentially gives rise to amplification of well-resourced individuals' voices via multiple PACs, further enabled by *McCutcheon vs FEC* (2014), which lifts any limit on person→PAC contributions

Amplifying political voice

- Multiple channels for amplifying political voice:
 - Bundling
 - Lobbying
 - PACs (post-2014)
- We find evidence suggesting a distinct channel, one that is of particular interest to finance scholars and those interested in corporate governance:

Exploiting equity ownership to influence political giving of portfolio firms' PACs

On ownership, politics, and (mis)governance

“[S]hareholders would be better served if they could weigh in on political contributions made in [Intel's] name, allowing them to assess and protect against threats to shareholder value.”

“[W]ithout effective oversight, excessive or poorly managed corporate political spending may pose risks to shareholders, including the risk that corporate political spending may benefit political insiders at the expense of shareholder interests.”



On ownership, politics, and (mis)governance

- Investors constrain managerial “political” perquisites
 - The most common conception of investors and political influence is that of investors constraining managerial “political” perquisites
 - This view has mostly been put forth by “social investors” arguing that firms should, e.g., restrain giving to anti-LGBT legislators
- Investors may, however, impose their own “political” perquisites by weighing in on political contributions made by portfolio firms
- Trading “managerial” versus “owner” political misgovernance issues
 - Our results will suggest that, more plausibly, one set of political misgovernance issues is traded for another (i.e., managers vs owners)

Main findings

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 - Largely invariant to inclusion of various “two-way” fixed effects
 - This result holds for “passive” acquisitions, and coincides with acquisition event cycle suggesting the link is causal

Main findings

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- This relationship is causal
 - Largely invariant to inclusion of various “two-way” fixed effects
 - This result holds for “passive” acquisitions, and coincides with acquisition event cycle suggesting the link is causal
- It most plausibly reflects firms adjusting to investors’ preferences rather than the other way around
 - Giving of investor is more similar pre vs post acquisition relative to firm
 - Effect is stronger for “political/partisan” investors and private (vs public) investors
 - Board membership predicts giving convergence

Overview

- We will present two main types of analyses
 - pair-congressional district-cycle level analyses
 - pair-cycle analyses
- Our starting point in each case is:
 - **Time:** Congressional election cycles 1980-2016
 - **Investors:** All 13-F ($> \$100M$) investors disclosing quarterly holdings
 - **Firms:** all portfolio firms for our sample of investors
- PAC giving sample:
 - Link ownership data to PAC contribution data
 - Following Bertrand et al. (2020, AER) to construct set of PAC contributions
- We distinguish between two types of acquisitions:
 - First non-index driven (block) acquisition
 - Index inclusion driven (block) acquisition (e.g., first time addition to S&P 500)

Analysis sample

- Investor-firm (i, f) pairs that satisfy:
 - Zero ownership at the start of our sample
 - i acquires at least 1 percent of f 's shares during a single quarter of an election cycle (for the first time)
- Samples:
 - “Ownership-Correlation Sample”
 - “Cosine Similarity Samples”: These collapse the data to a single investor-firm observation per election cycle, or to a single firm or investor observation per election cycle – details to follow

Main variables in the analysis

- **Ownership-correlation analysis:**
 - Log of firm's $PAC_{f,c,t}$: Log of one plus giving by f to representative of congressional district c in election cycle t
 - Log of investor's $PAC_{i,c,t}$: Similar, for investor i 's donations
- **Cosine similarity analysis:**
 - Investor-firm similarity at t
 - Investor similarity between t and $t + 1$
 - Firm similarity between t and $t + 1$
- **Cosine similarity measure:**

$$\text{Cos}(x_{i,t}, x_{f,t}) = \frac{x_{i,t} \cdot x_{f,t}}{\|x_{i,t}\| \|x_{f,t}\|} = \frac{\sum_{c=1}^n x_{i,t,c} \times x_{f,t,c}}{\sqrt{\sum_{c=1}^n x_{i,t,c}^2} \times \sqrt{\sum_{c=1}^n x_{f,t,c}^2}}$$

Ownership and correlation in giving

- Our main estimating equation is as follows:

$$\begin{aligned} \text{Log}(1 + \text{Firm PAC}_{f,c,t}) = & \beta_0 + \beta_1 \text{Log}(1 + \text{Inv. PAC}_{i,c,t}) \times \mathbb{1}(\text{Post}_{i,f,t}) \\ & + \beta_2 \text{Log}(1 + \text{Inv. PAC}_{i,c,t}) + \beta_3 \mathbb{1}(\text{Post}_{i,f,t}) \\ & + \beta_k FE_k + \epsilon_{i,f,c,t} \end{aligned}$$

- Notes:

- $\mathbb{1}(\text{Post}_{i,f,t})$ is an indicator variable denoting the period when the investor acquires > 1%, and later
- The basic formulation includes investor, firm, congressional district, and election cycle fixed effects (we also include more saturated specifications)

Ownership and correlation in giving

Log(Firm PAC)	(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)
Log(Investor PAC) × 1(Post)	0.019*** (0.00158)	0.020*** (0.00157)	0.012*** (0.000807)	0.016*** (0.00103)	0.018*** (0.00145)	0.018*** (0.00134)	0.015*** (0.00157)	0.010*** (0.00054)
Log(Investor PAC)	0.010*** (0.000906)	0.009*** (0.000909)	0.006*** (0.000384)	0.010*** (0.000782)	0.012*** (0.000770)	0.012*** (0.000859)	0.004*** (0.00090)	0.003*** (0.00053)
1(Post)	0.020*** (0.00199)	0.026*** (0.00221)	0.008*** (0.00115)	-0.009*** (0.000398)	0.015*** (0.00185)	0.012*** (0.00206)	0.021*** (0.00198)	-0.002*** (0.00020)
Fixed Effects								
Firm	X				X	X	X	
Investor	X		X	X			X	
Cycle	X	X	X		X			
District	X	X		X		X		
Firm × Investor		X						X
Firm × District			X					X
Firm × Cycle				X				X
Investor × District					X			X
Investor × Cycle						X		X
Cycle × District							X	X

Take away: Magnitude of the increase in political alignment ranges between 90% to 375%

Focusing only on index-based passive acquisitions

- Now, focus on index inclusion driven (block) acquisition by passive institutional investors (e.g., first time addition to S&P 500)
- Re-run main estimating equation as before (but using sub-sample):

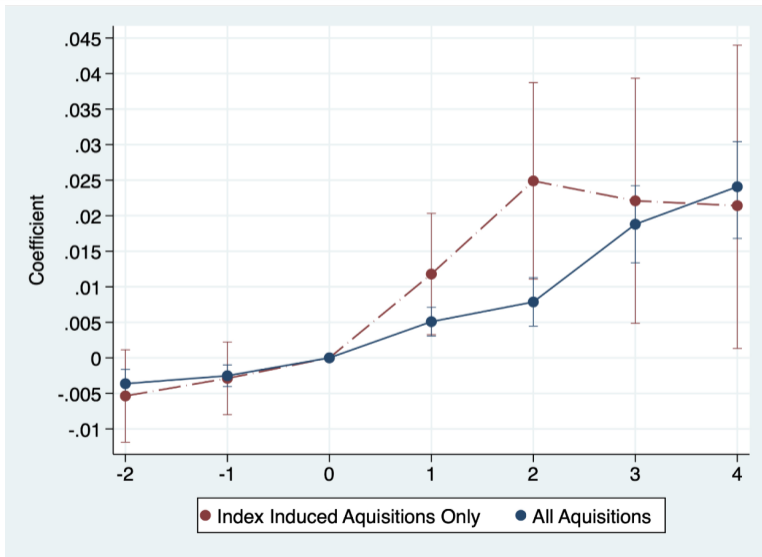
$$\begin{aligned} \text{Log}(1 + \text{Firm PAC}_{f,c,t}) &= \beta_0 + \beta_1 \text{Log}(1 + \text{Inv. PAC}_{i,c,t}) \times \mathbb{1}(\text{Post}_{i,f,t}) \\ &+ \beta_2 \text{Log}(1 + \text{Inv. PAC}_{i,c,t}) + \beta_3 \mathbb{1}(\text{Post}_{i,f,t}) \\ &+ \beta_k FE_k + \epsilon_{i,f,c,t} \end{aligned}$$

Focusing only on index-based acquisitions

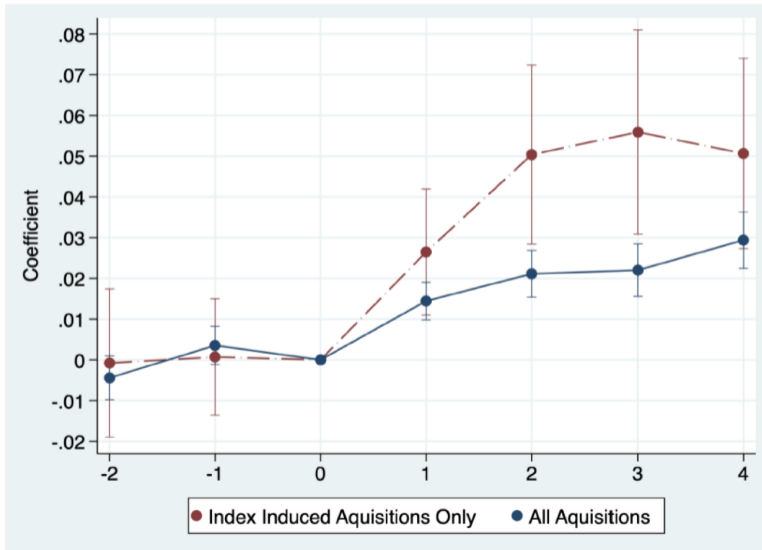
Log(Firm PAC)	(I)	(II)	(III)	(IV)	(V)	(VI)	(VII)	(VIII)
Log(Investor PAC) × $\mathbb{1}(\text{Post})$	0.023*** (0.00493)	0.023*** (0.00495)	0.015*** (0.00275)	0.021*** (0.00376)	0.019*** (0.00463)	0.022*** (0.00455)	0.013*** (0.00494)	0.011** (0.00225)
Log(Investor PAC)	0.005** (0.00212)	0.005** (0.00211)	0.006*** (0.000953)	0.005*** (0.00163)	0.011*** (0.00184)	0.006*** (0.00185)	0.001 (0.00212)	0.0005 (0.00105)
$\mathbb{1}(\text{Post})$	0.069*** (0.0109)	0.073*** (0.0114)	0.032*** (0.00599)	-0.013*** (0.00143)	0.065*** (0.01070)	0.074*** (0.0131)	0.071*** (0.01089)	-0.003*** (0.00097)
Fixed Effects								
Firm	X				X	X	X	
Investor	X		X	X			X	
Cycle	X	X	X		X			
District	X	X		X		X		
Firm × Investor		X						X
Firm × District			X					X
Firm × Cycle				X				X
Investor × District					X			X
Investor × Cycle						X		X
Cycle × District							X	X

Take away: Magnitude of the increase in political alignment is on average 456% higher relative to the level effect

Event plots (based on regression approach)



Event plots (based on cosine similarity)



Heterogeneity by investor type

- Public versus private institutional investors
 - Private institutional investors are more likely to invest their own money and/or face less outside scrutiny
 - Privately-held institutional investor examples: Citadel, Paloma
 - Publicly-held institutional investor examples: BlackRock, Fidelity
- Political: Above-median PAC giving during the sample period (private are more likely to be “political”)
- Partisan: Among “political” investors, above-median skewness in Democratic vs Republican giving composition

Heterogeneity by investor type

	(I) <i>Private Funds</i>	(II) <i>Public Funds</i>	(III) <i>Political Funds</i>	(IV) <i>More Partisan</i>	(V) <i>Less Partisan</i>
Log(Investor PAC) × 1(Post)	0.011*** (0.00108)	0.003*** (0.00065)	0.013*** (0.00282)	0.015*** (0.00347)	0.006 (0.00502)
Log(Investor PAC)	0.003*** (0.00080)	0.002** (0.00067)	-0.002 (0.00353)	-0.007* (0.00440)	0.016** (0.00730)
1(Post)	-0.002*** (0.00020)	-0.002*** (0.00057)	-0.146*** (0.0290)	-0.169*** (0.0358)	-0.062 (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

Take away: Results are stronger for privately-held and politically active partisan investors

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
 - Using a manually constructed CIK-Investor ID link table and a Compustat-BoardEx link table
- About 5 percent of purchases are associated with a post-acquisition board seat

The role of board membership

Log(Firm's PAC Giving)	(I)	(II)	(III)	(IV)	(V)	(VI)
Log(Investor's PAC Giving) × 1 (Board)	0.051*** (0.0122)	0.052*** (0.0120)	0.052*** (0.0121)	0.052*** (0.0120)	0.019*** (0.00625)	0.20*** (0.00622)
Log(Investor's PAC Giving) × 1 (Post)		0.019*** (0.00158)		0.015*** (0.00157)		0.010*** (0.00054)
Log(Investor's PAC Giving)	0.016*** (0.000805)	0.008*** (0.000831)	0.008*** (0.000799)	0.003*** (0.000831)	0.005*** (0.000483)	0.003*** (0.000438)
1 (Board)	-0.019 (0.0121)	-0.020* (0.0121)	-0.019 (0.0121)	-0.021* (0.0121)		
1 (Post)		0.020*** (0.00198)		0.021*** (0.00198)		-0.003*** (0.000202)
Fixed Effects						
Firm	X	X	X	X		
Investor	X	X	X	X		
Congressional Cycle	X	X				
Congressional District	X	X				
Congressional Cycle × 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

Take away: Board membership plays an important role in explaining the convergence in political giving

Who changes its political giving?

- The simple intuition for the following test is that if investor preferences are driving convergence, we should see more disruption to firm giving around acquisition dates, such that:
 - $\text{Cosine}(PAC_{f,t}, PAC_{f,t+1}) < \text{Cosine}(PAC_{i,t}, PAC_{i,t+1})$
 - In other words, if firm preferences shift investor giving, we 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.:
 - $\text{Cosine}(PAC_{f,t}, PAC_{f,t+1}) - \text{Cosine}(PAC_{f,t-1}, PAC_{f,t})$

Who changes its political giving?

	Investors	Firms	Difference in means	<i>P</i> -value of Difference	<i>N</i>
$Cos[x_{j,t}, x_{j,t+1}]$	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

Conclusion

- We show that large acquisitions are associated with *increased similarity* in investor-firm PAC giving
- We argue, on the basis of exogenous index-based purchases, that the effect of acquisition on giving is *causal*
- Since firms shift their post-acquisition giving, while investors do not, we suggest that investors influence firms, but not the other way around
 - In other words, institutional investors influence portfolio firms to amplify their political voice
- We find that board membership may be an important economic channel through which institutional investors influence portfolio firms