

**THE ‘BANG FOR THE BUCK’ OF POLITICAL STRATEGIES: EVIDENCE FROM
PROFIT PERSISTENCE***

RUNNING HEAD: POLITICAL STRATEGIES AND PROFIT PERSISTENCE

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ABSTRACT

Are all firm political strategies equally effective at sustaining performance advantages? We compare the effects of lobbying, campaign contributions, and board political connections on profit persistence. Although theoretically analogous as they operate through similar mediating persistence mechanisms, these three leading forms of corporate political activity (CPA) exhibit significant empirical differences. Using data on nearly 3000 firms headquartered in the US and a combination of identification methods, we estimate how different political strategies are associated with firm-specific, time-varying profit persistence and volatility measures. In our sample, the baseline regression-to-the-mean of firm profits takes 7.26 years. Contributions to political campaigns is the most effective non-market intervention to prolong firm advantages, delaying performance convergence by 9.57 months. Corporate lobbying and board political connections yield more modest benefits, prolonging profit persistence by 6.33 and 6.18 months, respectively. Campaign contributions is also the only political strategy that statistically curbs the volatility of firm performance over time, in about 14.10%. A novel, composite measure of firms' total investment in CPA produces qualitatively similar results. These findings suggest that corporate political capital in the US is over twice more effective at helping firms sustain performance advantages than in 13 other industrialized nations and emerging economies with democratically elected governments (based on estimates for board political connections). Yet, these non-market interventions may offer less durable advantages than mainstream market interventions such as investments in R&D and skilled labor, as reported in prior literature.

Table 1: Stage 2 Doubly Robust Estimation – Board Political Connections

DV: Persistence	Duration windows					
	4 years	5 years	6 years	7 years	8 years	9 years
Board Political Connections	0.0139 (<i>p</i> = 0.000)	0.0187 (<i>p</i> = 0.000)	0.0180 (<i>p</i> = 0.000)	0.0228 (<i>p</i> = 0.000)	0.0188 (<i>p</i> = 0.000)	0.0240 (<i>p</i> = 0.000)
Number of observations (raw)	22,323	19,285	16,629	14,141	11,858	9,720
Number of observations (matched)	22,323	19,285	16,629	14,141	11,858	9,720
Treated	11,140.5	9,609.8	8,278.2	7,040.9	5,907.3	4,847.3
Control	11,182.5	9,675.2	8,350.8	7,100.1	5,950.7	4,872.7
Mean (politically unconnected)	0.672	0.666	0.666	0.669	0.671	0.675

NB: Estimated using the Stata *teffects ipwra* [], *atet* command; Board Political Connections is denoted by *polcap*_[*y*] in the code (and [*y*] is the duration window)

Table 2: Stage 2 Doubly Robust Estimation – Campaign Contributions

DV: Persistence	Duration windows					
	4 years	5 years	6 years	7 years	8 years	9 years
Campaign contributions	0.0213 (<i>p</i> = 0.000)	0.0245 (<i>p</i> = 0.000)	0.0281 (<i>p</i> = 0.000)	0.0339 (<i>p</i> = 0.000)	0.0367 (<i>p</i> = 0.000)	0.0386 (<i>p</i> = 0.000)
Number of observations (raw)	35,475	31,099	27,192	23,456	20,361	17,334
Number of observations (matched)	35,475	31,099	27,192	23,456	20,361	17,334
Treated	17,602.9	15,426.6	13,500.9	11,631.0	10,111.5	8,581.6
Control	17,872.1	15,672.4	13,691.1	11,825.0	10,249.5	8,752.4
Mean (politically unconnected)	0.669	0.666	0.665	0.669	0.670	0.671

NB: Estimated using the Stata *teffects ipwra* [], *atet* command; Campaign Contributions is denoted by *polcap*_[*y*] in the code (and [*y*] is the duration window)

Table 3: Stage 2 Doubly Robust Estimation – Corporate Lobbying

DV: Persistence	Duration windows					
	4 years	5 years	6 years	7 years	8 years	9 years
Corporate Lobbying	0.0152 (<i>p</i> = 0.000)	0.0188 (<i>p</i> = 0.000)	0.0196 (<i>p</i> = 0.000)	0.0229 (<i>p</i> = 0.000)	0.0215 (<i>p</i> = 0.000)	0.0211 (<i>p</i> = 0.000)
Number of observations (raw)	35,475	31,099	27,192	23,456	20,361	17,334
Number of observations (matched)	35,475	31,099	27,192	23,456	20,361	17,334
Treated	17,746.5	15,540.6	13,585.9	11,710.3	10,153.8	8,638.3
Control	17,728.5	15,558.4	13,606.1	11,745.7	10,207.2	8,695.7
Mean (Politically unconnected)	0.67	0.66	0.66	0.66	0.67	0.67

NB: Estimated using the Stata *teffects ipwra* [], *atet* command; Corporate Lobbying is denoted by *polcap*_[*y*] in the code (and [*y*] is the duration window)

Table 4: Stage 2 Doubly Robust Estimation – Total Political Spending

DV: Persistence	Duration windows					
	4 years	5 years	6 years	7 years	8 years	9 years
Total Political Spending	0.0098 (<i>p</i> = 0.000)	0.0131 (<i>p</i> = 0.000)	0.0132 (<i>p</i> = 0.000)	0.0172 (<i>p</i> = 0.000)	0.0139 (<i>p</i> = 0.000)	0.0155 (<i>p</i> = 0.000)
Number of observations (raw)	23,403	20,163	17,312	14,735	12,514	10,444
Number of observations (matched)	23,403	20,163	17,312	14,735	12,514	10,444
Treated	11,772.0	10,086.7	8,648.5	7,359.4	6,245.8	5,213.8
Control	11,681.0	10,076.3	8,663.5	7,375.6	6,268.2	5,230.2
Mean (politically unconnected)	0.677	0.674	0.673	0.678	0.682	0.683

NB: Estimated using the Stata *teffects ipwra* [], *atet* command; Total Political Spending is denoted by *polcap*_[*y*] in the code (and [*y*] is the duration window)

Table 5: Hausman Test – Board Political Connections versus Campaign Contributions

DV	Board Political Connections	Campaign Contributions	Difference	Chi-sq	p > Chi-sq
Persistence	0.0098 (<i>p</i> = 0.063)	0.0174 (<i>p</i> = 0.001)	-0.0075	36.43	0.000

NB: Estimated using the Stata *hausman* command (representative results for five-year duration windows)

Table 6: Hausman Test – Campaign Contributions versus Corporate Lobbying

DV	Campaign Contributions	Corporate Lobbying	Difference	Chi-sq	p > Chi-sq
Persistence	0.0174 (<i>p</i> = 0.001)	0.0150 (<i>p</i> = 0.000)	0.0024	0.31	0.581

NB: Estimated using the Stata *hausman* command (representative results for five-year duration windows)

Table 7: Hausman Test – Board Political Connections versus Corporate Lobbying

DV	Board Political Connections	Corporate Lobbying	Difference	Chi-sq	p > Chi-sq
Persistence	0.0098 (<i>p</i> = 0.063)	0.0150 (<i>p</i> = 0.000)	-0.0051	1.27	0.260

NB: Estimated using the Stata *hausman* command (representative results for five-year duration windows)

Code for Tables 5-7: the estimated coefficients associated with the effects of Board Political Connections, Corporate Lobbying, and Campaign Contributions on profit persistence are denoted in the code by *persistenceihat_polcap5_[s]* where [s] is “bp”, “lb”, and “cc”, respectively.