
Political Attitudes, Partisanship, and Merger Activity

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Origins



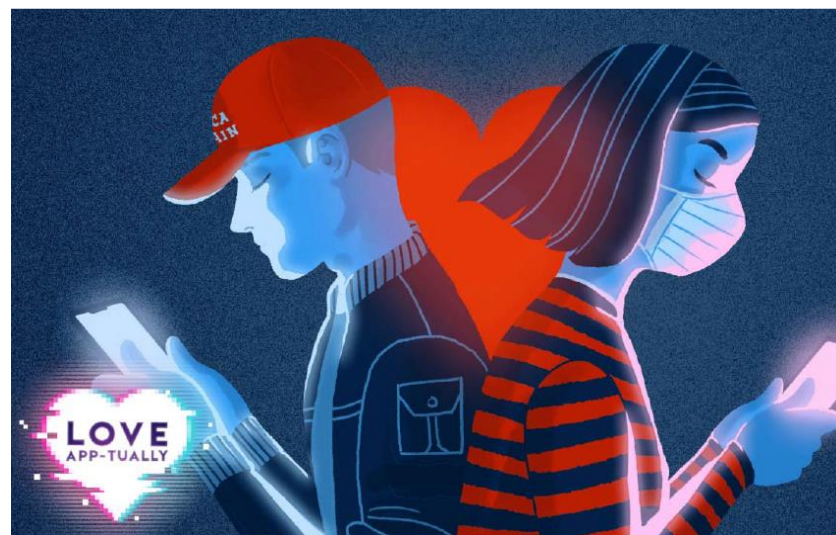
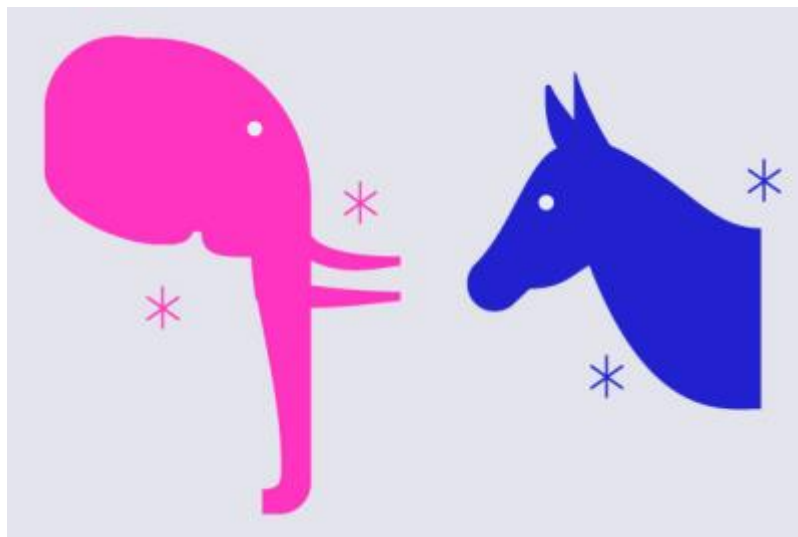
Origins



My wife, Democrat
My father, Republican
Thanksgiving, tense.

Setting

- **Mergers ↔ Matchmaking**
- Partisanship plays an increasingly important role in spouse selection
- Match's 2020 Singles in America survey
 - 1/2 won't date a person of the opposite party – up from 1/3 in 2012
 - 76% say it's important to share political beliefs — up 25% 2017
- OkCupid Surveys
 - 64% of nearly 2 million users preferred a date that shared their political views (2021)
 - 60% of 5 million users (2020) reported they “could not date someone with strong opposing political views”.



Motivation

- Mergers and Acquisitions
 - Among the most important decisions firms make
 - Determinants and consequences still not fully understood
- Predominant theories center on **matching & synergies**
 - Static equilibrium models (e.g., Jovanovic and Braguinsky (2004))
 - Dynamic search models (e.g., Matsusaka (2001))
- How should we think about the matching between firms in the real asset market?

This paper: The role of political ideology in matching and synergies.

Literature on Political Partisanship

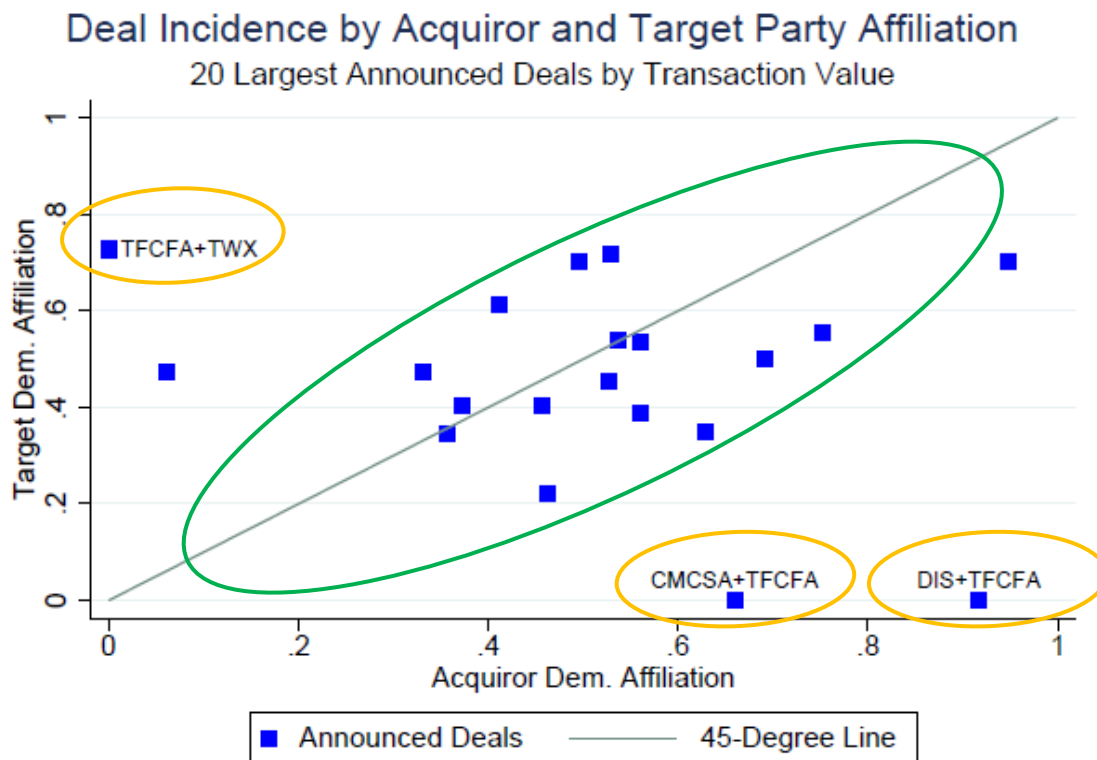
- Prior work
 - **Unilateral** decisions
 - **Households** (Mian et al. (2018); Meeuwis et al. (2018); Makridis (2020))
 - **Credit analysts** (Kempf and Tsoutsoura (2021))
 - **Bankers** (Dagostino, Gao, and Ma (2021))
 - **Discrete measure**
 - perceptions & economic outlook influenced by President's party
- This paper
 - **Bilateral** corporate decisions
 - **Political differences (i.e. distance)** -
 - Partisanship measured directly across the two counterparties

Data

- **Individual campaign contributions data from the FEC**
 - Note, not FIRM donations, so likely to reflect ideology rather than influence.
 - Individuals who donate are influential; tend to promote political beliefs to peers (Rosenstone and Hansen, 1993; Ansolabhere et al., 2003).
 - Data has *self-reported* employer name and zipcode
 - We match to CRSP names using fuzzy matching (bigram).
 - Then hand check near matches.
- **CRSP/Compustat**
 - Match 15 million donations, ~1600 donations per firm.
- Mergers from SDC Platinum
- Azzimonti's Partisan Conflict Index (2018 paper + Fed website)
- US House of Representatives voting records (Congressional Website)

Measuring Political Distance

- **Democratic Affiliation** = number of employee donations to Democrats divided by total number of donations.
 - Idea: Measures political ideology at an organizational level (attrition/selection, managers, etc.)
- **Political Distance** = absolute value of the difference between acquirer's and target's Democratic Affiliation



Disney & 21st Century Fox



Research Questions

1. Does the political distance between firms affect the likelihood of merger formation?
2. How does partisan conflict between the two major political parties moderate these effects?
3. What are the potential channels?
4. What are the implications of political distance for merger negotiations, announcement returns, and post-merger integration and performance?

Merger Likelihood

Empirical Challenge:

- Selection - We only observe the mergers that are announced.
 - If political differences hamper negotiations, those mergers won't be announced.
 - If managers are aware of the costs of political differences, then would still only pursue mergers where benefits exceed costs.
- Looking at announced deals, in isolation, would obscure the effects of political distance.

Sample Construction

(to test announcement likelihood)

- We follow Bena and Li (2014) and match the acquirer and target from the announced deals with alternative companies that COULD have been the counterparties:

| Company1 | Company2 | Deal Announced |
|------------------|----------------|----------------|
| Acquirer | Target | 1 |
| Acquirer | Pseudo-Target1 | 0 |
| Acquirer | Pseudo-Target2 | 0 |
| ... | ... | ... |
| Pseudo-Acquirer1 | Target | 0 |
| Pseudo-Acquirer2 | Target | 0 |
| ... | ... | ... |

- Industry, size, and book-to-market matched sample. Up to 1800 announced deals from covering period from 1986 – 2021.

Likelihood of Merger Announcements

■ Industry, Size, B/M Matched sample

| Model | (1) | (2) | (3) | (4) |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Political Distance | -0.621*** (-6.75) | -0.337*** (-3.30) | -0.313*** (-2.96) | -0.347*** (-3.06) |
| Acquirer Democratic Affiliation | 0.082 (1.07) | -0.010 (-0.13) | -0.072 (-0.88) | -0.051 (-0.58) |
| Target Democratic Affiliation | 0.091 (1.27) | 0.216*** (3.33) | 0.214*** (3.07) | 0.236*** (3.17) |
| Controls? | No | Yes | Yes | Yes |
| Industry×Year FEs? | No | Yes | Yes | Yes |
| Deal FEs? | No | No | Yes | Yes |
| Includes Hostile Bids? | Yes | Yes | Yes | No |
| Observations | 19,704 | 17,892 | 17,516 | 15,399 |
| Pseudo R ² | 0.004 | 0.098 | 0.146 | 0.143 |

- σ increase in Political Distance reduces merger likelihood by 0.59-1.34 percentage points (6.4% to 14.6% relative to mean pseudo-likelihood)
- Results hold after controlling for Acq. and Tgt. time-varying attributes, geographical distance, and industry, year, and deal heterogeneity

Political Polarization

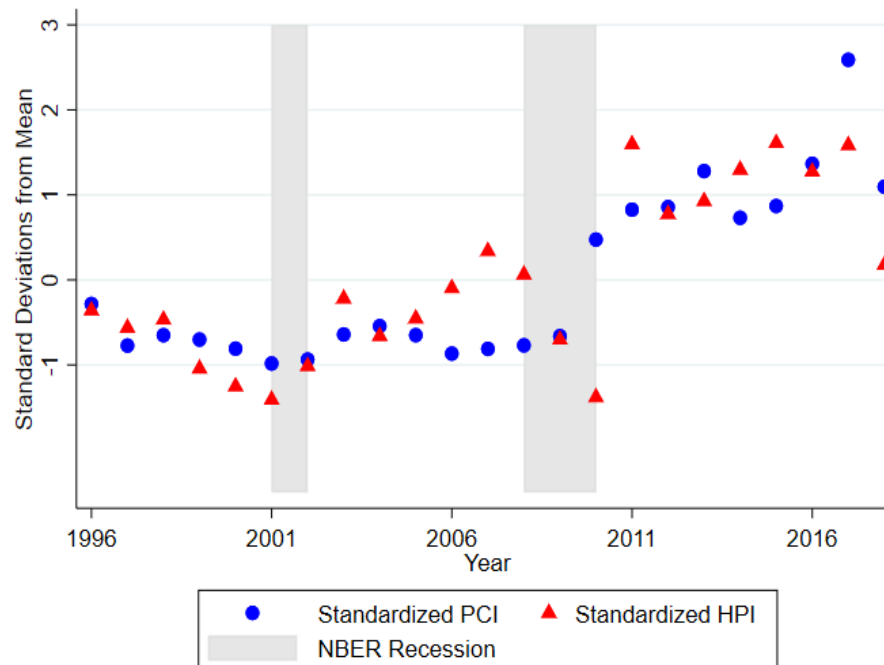
Partisan Conflict / Polarization

- **Time-varying degree of disagreement between Democrats and Republicans**

- Clinton 1996 : 31% of Republicans approve, 91% of Democrats
- Biden 2022: 6% of Republicans approve, 85% of Democrats.

- **Two measures of polarization**

- Partisan Conflict Index (**PCI**) = frequency of newspaper articles reporting political disagreement about policy scaled by total number of articles (Azzimonti (2018))
- House Partisanship Index (**HPI**) = average difference in House votes between Republicans and Democrats



Merger Likelihood & Polarization

| Model | Low PCI (1) | High PCI (2) | Difference (2)-(1) | Low HPI (3) | High HPI (4) | Difference (4)-(3) |
|------------------------------------|-------------------|----------------------|-----------------------|-------------------|----------------------|-----------------------|
| Political Distance | -0.241 (-1.49) | -0.691*** (-3.57) | -0.450* (-1.78) | -0.208 (-1.26) | -0.726*** (-3.85) | -0.518** (-2.07) |
| Acquirer Democratic Affiliation | 0.072 (0.55) | -0.185 (-1.24) | | 0.050 (0.37) | -0.182 (-1.24) | |
| Target Democratic Affiliation | 0.218** (2.03) | 0.209* (1.73) | | 0.219** (2.07) | 0.208* (1.68) | |
| Controls? | Yes | Yes | | Yes | Yes | |
| Industry×Year FEs? | Yes | Yes | | Yes | Yes | |
| Deal FEs? | Yes | Yes | | Yes | Yes | |
| Observations | 7,893 | 5,654 | | 7,905 | 5,642 | |
| Pseudo R-squared | 0.173 | 0.116 | | 0.168 | 0.120 | |

- The negative effects of political distance strengthen when polarization is higher
- Results hold for both measures of polarization
- Weaker effects during recessions -> Mergers of necessity.

Channels

1. Integration – Search of 10ks
2. Could it be culture?
3. Hostile Deals and Deal Completion

Integration

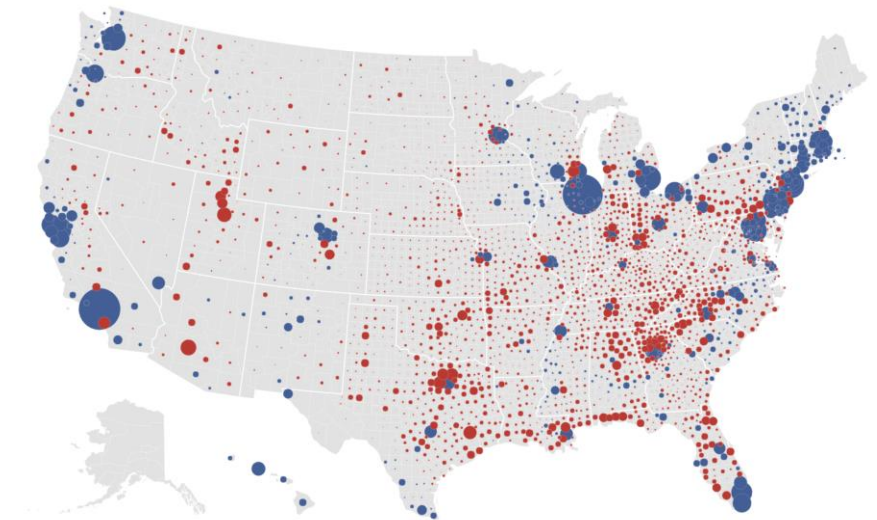
- Political differences in the workforce should matter more when operations and teams will be **integrated** together.
 - Not as simple as vertical vs horizontal mergers.
- Approach: Deals made with the intent of integrating will mention integration in financial statements.
 - Search 10-Ks and 10-Qs after announcement for “integrate” and related words.
 - Split sample of announced deals based on median number of mentions, match and test.

Intent to Integrate

| | Below Median Integration Mentions | Above Median Integration Mentions | Difference |
|---------------------------------|---|---|-------------------|
| Model | (1) | (2) | (2)-(1) |
| Political Distance | -0.523 (-1.62) | -1.174*** (-2.99) | -0.650 (-1.28) |
| Acquirer Democratic Affiliation | 0.087 (0.35) | -0.075 (-0.22) | |
| Target Democratic Affiliation | 0.253 (1.14) | 0.185 (0.76) | |
| Controls? | Yes | Yes | |
| Industry×Year FEs? | Yes | Yes | |
| Deal FEs? | Yes | Yes | |
| Observations | 2,222 | 2,249 | |
| Pseudo R-squared | 0.235 | 0.229 | |

Could it be culture?

- Challenge: What do we mean by culture? How do politics and culture overlap and interact?
- City folk vs country folk?
 - But politically, a West Virginia coal miners might vote for a NYC billionaire.
- Li, Mai, Shen, and Yan (2020) use machine learning to identify aspects of corporate culture.



Subsample Analysis of Corporate Culture

- Measures of corporate culture

| Model | (1) | (2) | (3) | (4) | (5) | (6) |
|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Political Distance | -0.130** (-2.21) | -0.129** (-2.18) | -0.130** (-2.20) | -0.130** (-2.20) | -0.129** (-2.19) | -0.130** (-2.21) |
| Innovation Distance | | -0.075 (-1.18) | | | | |
| Integrity Distance | | | -0.064 (-0.99) | | | |
| Quality Distance | | | | -0.114 (-1.53) | | |
| Respect Distance | | | | | -0.049 (-0.77) | |
| Teamwork Distance | | | | | | 0.108* (1.94) |

➤ Estimates unaffected by these controls for corporate culture

Hostile Deals and Deal Completion

Hostile Deals and Deal Completion

- Analysis so far: Announcements!
- Conditional on an announcement
 - **Do political differences influence the likelihood of deal hostility?**
 - Hostile deals, by nature, are not agreements.
 - **What about the likelihood of completion?**

Hostility and Withdrawals

| Model | Hostile | | Withdrawn | |
|---------------------------------|----------------------|---------------------|-------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| Political Distance | 0.523** (2.02) | 0.543** (2.08) | 0.480** (2.14) | 0.440* (1.94) |
| Acquirer Democratic Affiliation | 0.133 (0.58) | 0.153 (0.65) | 0.438** (2.20) | 0.430** (2.10) |
| Target Democratic Affiliation | -0.550*** (-2.64) | -0.452** (-2.09) | -0.238 (-1.32) | -0.136 (-0.73) |
| Controls? | Yes | Yes | Yes | Yes |
| Year Fixed Effects? | No | Yes | No | Yes |
| Observations | 2,016 | 2,016 | 2,016 | 2,016 |
| Pseudo R ² | 0.119 | 0.106 | 0.081 | 0.079 |

- Deals with higher political distance are **more likely to be hostile** and **more likely to be withdrawn**.

Merger Outcomes

CARs, ROA, BHARs

CARS

| Event Window | [-1, 1] | | [-1, 5] | |
|--------------------|---------------------|---------------------|---------------------|--------------------|
| Model | (1) | (2) | (3) | (4) |
| Political Distance | -0.016** (-2.31) | -0.015** (-2.16) | -0.017** (-2.00) | -0.015* (-1.82) |

3-year Average ROA and BHARs

| Variable | 3-year Industry-adjusted ROA | | 3-year BHAR | |
|--------------------|------------------------------|---------------------|---------------------|--------------------|
| Model | (1) | (2) | (3) | (4) |
| Political Distance | -0.025** (-2.53) | -0.021** (-2.15) | -0.480** (-2.37) | -0.356* (-1.76) |

- CARS: σ increase in Political Distance \rightarrow a decrease of 34.8 to 42.9 basis points
- ROA: σ increase in Political Distance \rightarrow a decrease of 0.56% to 0.67% in average ROA.
- BHARs: σ increase in Political Distance \rightarrow a decrease of 9.5% to 12.8% in 3-year BHARs.

Conclusion

- Differences in political attitudes between firms play an important role in merger decisions and outcomes
 - Firms with similar political attitudes more likely to announce & complete mergers
 - Role of partisanship more pronounced when political polarization is greater and firms plan to integrate operations.
 - Announcement returns & performance stronger for politically similar firms

Partisanship & Political Polarization affect the allocation of real assets in the economy

What's Next?

- Rank and File Employees vs Managers
 - Approximately 8% of donations come from VP rank and above.
 - Rank and file employees dominated by professional workers (engineers, accountants, attorneys)
- Political Companies vs Apolitical Companies
“Politics in the workplace” vs “No politics in the workplace”

An Example

PHYCOR
The Physicians' Corporation



MedPartners
an AMN Healthcare company

- 1998 Merger: “Create a national giant managing physician practices”
- **Political Distance: 0.833 (92nd percentile of announced mergers)**
- Larry House, MedPartners’ chairman and CEO: “In discussions over several months, it became obvious that the firms’ business philosophies and practices were incompatible.”

- Los Angeles Times

An Example



- A 2007 \$3.8 billion Merger between two computer hardware companies
- **Political Distance: 0.773 (90th percentile of announced mergers)**
- “...the proposed merger would enable us ... to *integrate* our workforces to create opportunities to achieve cost savings...

One year later...

- “...the integration of its business and people has been [a] ... time-consuming process for us.”
 - LSI Logic 10ks before and after merger completion.

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One year later...

- “...the integration of its business and people has been [a] ... time-consuming process for us.”
 - LSI Logic 10ks before and after merger completion.
- **Announcement Combined CARs: -2.87%**
- **3-year BHAR: -8.20%**