

Foreign MNCs' Utilization of Domestic Political Endowments Inherited from Cross-border M&A

Jieun Lee



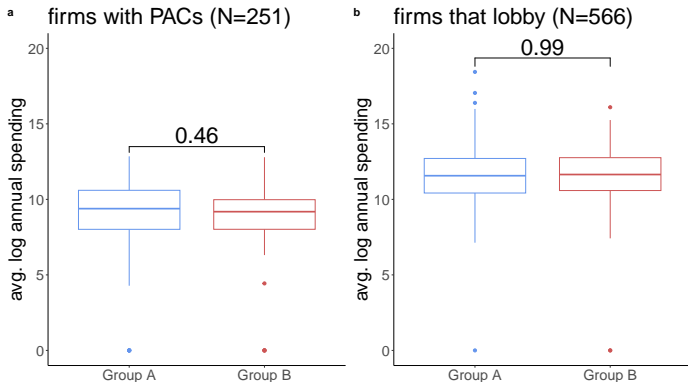
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politically active U.S. firms and M&A

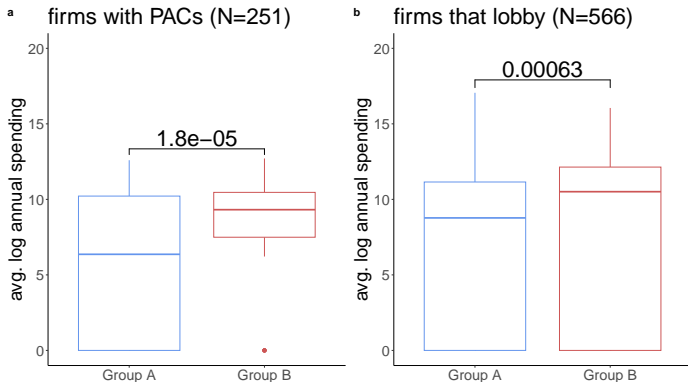
politically active U.S. firms and M&A

● Pre-M&A: NO significant differences



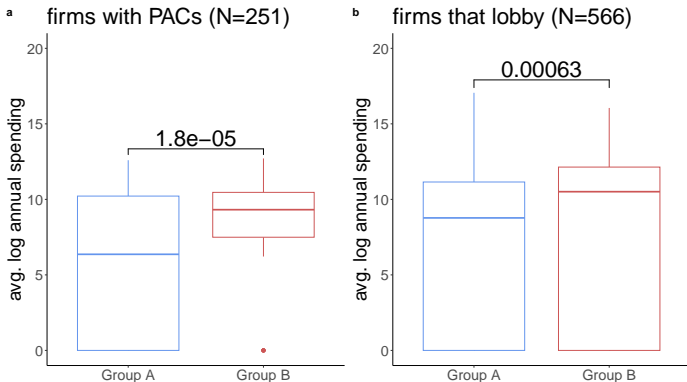
politically active U.S. firms and M&A

● Post-M&A: significant differences



politically active U.S. firms and M&A

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A: Domestic acquiror **B: Foreign acquiror (Cross-border M&A)**

research agenda

Do foreign MNCs utilize the domestic political endowments inherited from cross-border M&A and why?

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Scope of investigation:

- M&A deals with a **politically active US firm**

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- M&A deals with a **politically active US firm**
- **Post-M&A choice** of inheriting and utilizing an acquired firm's Political Action Committee (PAC) or lobbying relations

contributions

1. **MNC and politics of FDI literature**

MNCs may manage their relationship with host governments post-investment by utilizing political endowments of domestic firms

2. **Interest group and nonmarket strategies literature**

Using novel panel datasets, illuminate the role of foreign ownership on corporate political activities in the United States

theory

Foreign MNCs lack host country-specific political endowments (e.g., interacting with the U.S. government in the ‘American way’).

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- Host country-specific
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- Host country-specific
- Firm-tailored
- Readily available

theory (cont'd)

The added benefits of obtaining domestic political influence mechanisms from an M&A are likely to be unique to foreign acquirors.

- Domestic acquirors are not foreign to the U.S. political system
- Added costs > added benefits for domestic acquirors that are already politically active (e.g., 'affiliated committees' under FECA)

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Foreign (vs. domestic) acquirors are more likely to inherit and utilize the political influence mechanisms of their acquired firms post-M&A.

hypotheses

When foreign (vs. domestic) acquired, the 'post-M&A' state of a firm expected to be associated with:

1. Greater maintenance of pre-existing PAC/lobbying activities
2. Maintenance/increase in PAC/lobbying spending
3. Changes in issue focus reflecting foreign MNCs' interests

political activities and M&A data

- Firms sponsoring an active PAC (1998-2018 election cycles)
 - Source: FEC, Opensecrets
 - Identified sponsoring firm of each PAC; Assigned Orbis BvDID; Domestic vs. foreign-connected PAC
- Firms filing lobbying reports (1999-2017)
 - Source: LobbyView
 - Updated Orbis BvDID; Domestic vs. foreign firm
- Completed M&A deals with a U.S. firm (1998-2020)
 - Source: Zephyr
 - Domestic vs. cross-border M&A

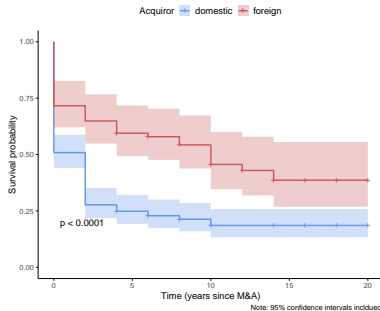
novel panel datasets

	Total
<hr/>	
PAC Panel (PAC-election cycle): 1998-2018 election cycles	
Firms acquired while connected PAC is active	251 firms
- Domestic	178
- Cross-border	73
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Lobby Panel (firm-year): 1999-2017	
Firms acquired while filing lobbying reports	566 firms
- Domestic	399
- Cross-border	167
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changes in PAC activities post-M&A

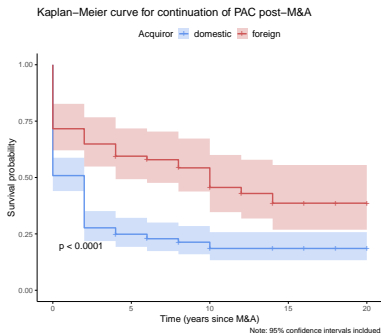
- Significant differences in **PAC survival**

Kaplan–Meier curve for continuation of PAC post-M&A



changes in PAC activities post-M&A

● Significant differences in **PAC survival**

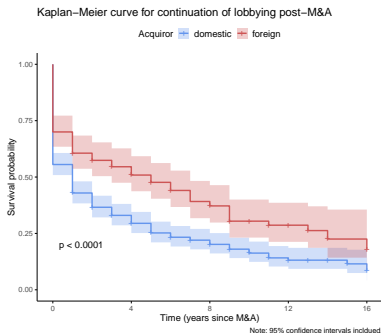


● Significant differences in **PAC spending within firm**

- 'Post-cross-border' (vs. pre-M&A) state associated w/ **no change**;
- 'Post-domestic' state associated w/ a 700% reduction
- Similar results using alternative model specifications; *Not* driven by multinationality of foreign acquirors

changes in lobbying activities post-M&A

● Significant differences in **lobbying survival**



● Significant differences in **lobbying spending within firm**

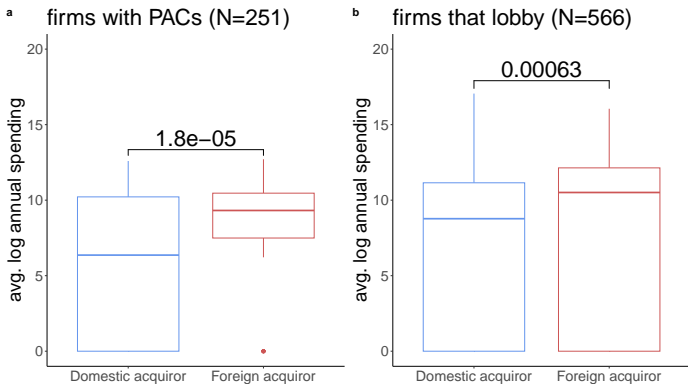
- ‘Post-cross-border’ (vs. pre-M&A) state associated w/ **43-45% increase**; ‘Post-domestic’ state associated w/ no change
- Similar results using alternative model specifications; *Not* driven by multinationality of foreign acquirors

changes in lobbying issue focus post-M&A

- Significant differences in **issue-specific lobbying spending**
 - Firm's focus **changes as result of M&A**: Foreign acquisition associated w/ more spending: e.g., trade, tax, telecom
 - Firm's focus **diverges based on ownership**: Foreign (vs. domestic) acquisition associated w/ more (vs. less) spending on trade

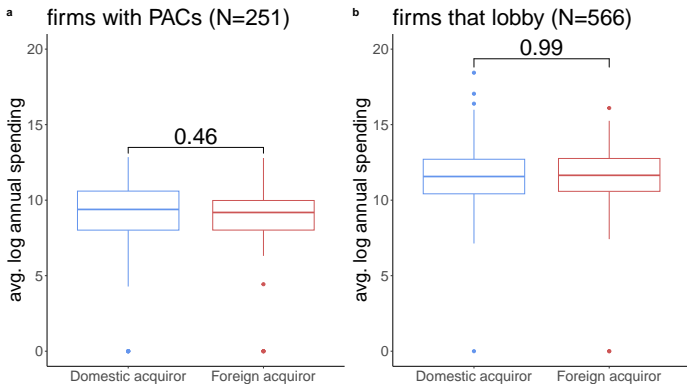
results *not* driven by differences in firms' political history

● Post-M&A: Significant differences



results *not* driven by differences in firms' political history

- Pre-M&A: NO significant differences**



conclusion

Summary:

1. Foreign MNCs tend to inherit and better utilize the political influence mechanisms of acquired firms.
2. Post-M&A differences are driven by characteristics of acquirors, not acquired firms'.

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Implications:

- Foreign MNCs may gain political leverage in other countries by acquiring politically active domestic firms.
- Added benefits of cross-border M&A may apply to contexts beyond the United States (e.g., personal connections; non-democracies).

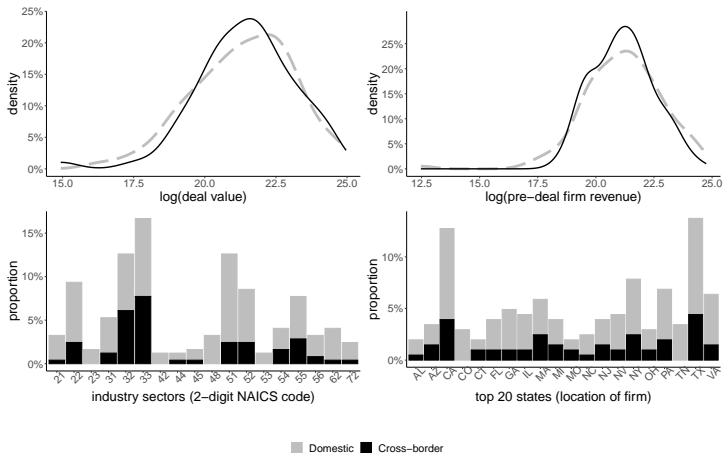
Thank you!

Jieun Lee: jlee286@buffalo.edu

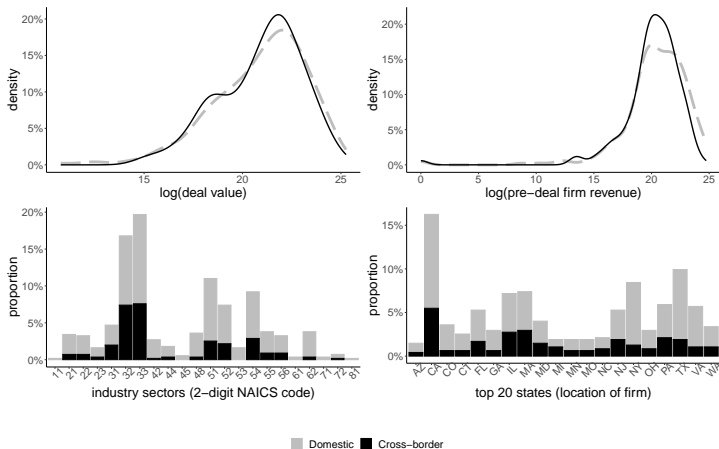
appendix content

- acquired firms with active PACs (N=251)
- acquired firms that lobby (N=566)
- home countries of cross-border M&A (PAC)
- home countries of cross-border M&A (lobby)
- political history of acquired firms (binary)
- political history of acquired firms (intensity)

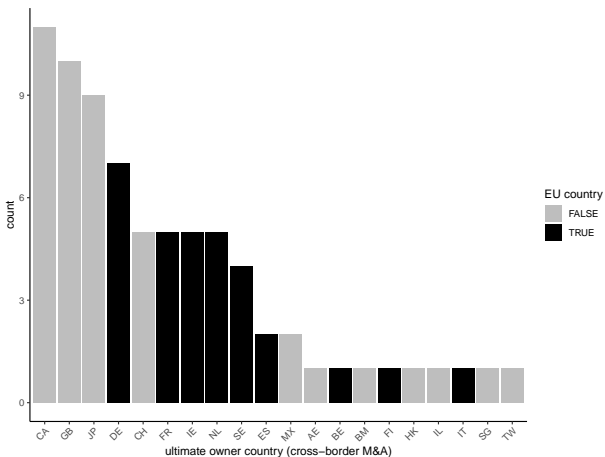
acquired firms with active PACs (N=251) Appendix

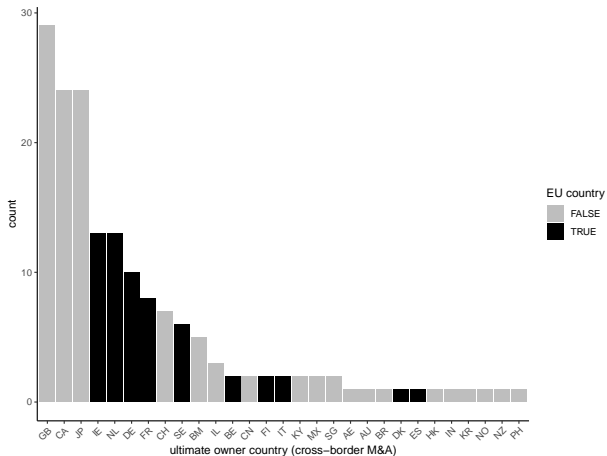


acquired firms that lobby (N=566) Appendix



home countries of cross-border M&A (PAC) Appendix



home countries of cross-border M&A (lobby) Appendix

political history of acquired firms (binary) Appendix

Table 1: Cross-border mergers and acquisitions and PAC/lobbying history of acquired firm

	<i>PAC/lobbying history of acquired firm</i>			
	binary indicator of PAC history		binary indicator of lobbying history	
	Model 1	Model 2	Model 3	Model 4
cross-border M&A	-0.26 (0.23)	-0.37 (0.29)	-0.38* (0.17)	-0.50* (0.22)
industry regulations (log)		0.09* (0.05)		0.08* (0.04)
deal value (log)		0.79*** (0.04)		0.77*** (0.03)
Num.Obs.	77 897	20 335	77 897	20 335
Deal completion year strata	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

political history of acquired firms (intensity) Appendix

Table 2: Cross-border mergers and acquisitions and past PAC/lobbying intensity of acquired firm

	<i>past PAC/lobbying intensity of acquired firm</i>			
	avg. log PAC spending per cycle		avg. log lobbying spending per year	
	Model 1	Model 2	Model 3	Model 4
cross-border M&A	-0.007 (0.004)	-0.02* (0.01)	-0.02** (0.007)	-0.07*** (0.02)
industry regulations (log)		0.007* (0.003)		0.02** (0.007)
deal value (log)		0.05*** (0.005)		0.13*** (0.009)
Num.Obs.	77 897	20 335	77 897	20 335
Deal completion year FE	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$