Impact of Company-Government Meetings on Market Outcomes: Evidence from the UK

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Abstract

This thesis explores the concept of corporate political activity and firm performance in the UK general elections and the Brexit referendum (2012 to 2019), focusing on the dynamics of political interactions and market outcomes. An event study approach measures performance through Cumulative Abnormal Returns (CARs). Using a one-factor and a three-factor model to estimate abnormal returns, companies interacting with government officials got CARs of 0.63% to 1.71% in the centred three-day event window (-1, +1) and slightly higher returns for those who engage in political activities frequently. However, those meeting the most influential politicians had slightly lower CARs, while those linked with the party that won the election had better positive abnormal returns. Surrounding the Brexit referendum, firms that engaged in political activity with high-ranking politicians got CARs of 2.66% in the Centred three-day event window. However, when tested using the three-factor model, political engagement became less significant around the Brexit referendum.

Keywords: Political Connections, Corporate Political Activity, Abnormal Returns, Event study

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Resumo

Este estudo explora a relação entre as interações que as empresas têm com o governo e o desempenho das mesmas nas eleições gerais do Reino Unido e no *Brexit referendum* (de 2012 a 2019). Focando-se na dinâmica das interações políticas e nos impactos no mercado, utiliza uma abordagem de estudo de eventos para medir o desempenho através dos Retornos Anormais Cumulativos (CARs). As empresas que interagem com o governo revelaram CARs entre 0.63% e 1.71% na janela de evento de três dias (-1, +1) e apresentaram retornos ligeiramente mais elevados para aquelas que se envolveram mais frequentemente em atividades políticas. No entanto, as empresas que se reuniram com os políticos mais influentes obtiveram CARs ligeiramente mais baixos, enquanto aquelas associadas ao partido vencedor das eleições apresentaram retornos anormais positivos. Durante o *Brexit referendum* as empresas que se envolveram em atividades políticas com os políticos mais influentes obtiveram CARs de 2.66% na janela de evento de três dias (-1, +1). Contudo, quando utilizado o modelo de três fatores, os resultados em torno do *Brexit referendum perderam a significância*.

Palavras-chave: Conexões Políticas, Atividade Política Corporativa, Retornos Anormais, Estudo de Eventos

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1. Introduction

Over the years, political connections and corporate political activity have emerged as crucial factors in determining the performance of firms, especially in markets that are influenced directly by government policy and regulation. Business and government have been interacting through meetings, discussions, and lobbying, and the latter has been engaging the former with the help of politicians, policymakers, and regulators. These interactions can significantly affect market outcomes, especially stock returns. Given the increasing role of the government in setting the business environment, this study aims to examine the effect of company-government meetings on the stock returns of firms in the United Kingdom.

The present study aims to analyse the relationship between company-government meetings and abnormal stock returns in the context of political events between 2012 and 2019. The main research question thus seeks to determine whether firms that made contacts with the government realised abnormal returns compared to those that did not make such contacts. Furthermore, this study also aims to establish the impact of political connections, primarily through major political events like elections and Brexit, on stock returns while analysing the short and long-run market response. This study reveals a strong correlation between company-government meetings and market outcomes.

The UK political scenario during the research period offers a unique setting for this analysis. The period between 2012 and 2019 can be described as eventful, with many political activities that positively or negatively impacted the business world. The most significant was the Brexit referendum held in 2016, which raised many questions regarding the UK's relationship with the EU. The market dramatically responded to the political risks and uncertainties, such as government policies, regulatory changes and political decisions, which profoundly impacted the business environment. Therefore, this period is suitable for analysing the relationship between the company-government meetings and the stock market returns, where companies with strong political links were in a vantage position to manage the risks of such critical political events.

With this study, I find that companies interacting with government officials are more likely to experience abnormal returns during political uncertainty or following significant political events, such as general elections. The study also investigates the nature of these returns, finding that firms meeting with winning party politicians experienced more favourable abnormal returns. Additionally, the research explores whether companies with more frequent meetings

with government officials show higher returns, finding that the variable is not always significant, and whether those engaging with more influential politicians also experience greater abnormal returns, which is essential in some cases. Another study's focus is to assess whether industries highly regulated and subject to significant government influence, such as energy, utilities, healthcare, and financial services, demonstrate more substantial returns following company-government meetings. Given the direct impact of government decisions on these sectors, political connections are expected to have a more pronounced effect on their stock performance.

I also analyse whether firms that frequently meet with the government exhibit a lower effective tax rate than firms that do not engage in such political activity. Companies with political connections might benefit from favourable tax treatment, enhancing their financial performance and stock market returns. This potential connection between political ties and tax policy further underlines the importance of understanding how government meetings can influence market outcomes.

The study covers the period from 2012 to 2019, a critical period characterised by many political activities and changes in laws and regulations. In 2015, the Conservative Party went to the polls and won 331 seats; the Labour Party got only 232 seats. This led to the continuation of the austerity plans and other regulatory measures, including cuts in the healthcare and energy sectors.

However, the most significant political event of this period was the Brexit referendum, which was held in 2016. The referendum result generated a level of uncertainty regarding the future of the UK's political and economic system which in turn led to a high level of volatility in the market. Against this background, examining the influence of company-government meetings on abnormal returns becomes essential. I determine whether politically connected firms can enhance their market outcomes even during such conditions or whether the very nature of political connections increases the vulnerability of the firms and the investors' perceptions. Indeed, those companies' gains increased, and these gains were even higher if they met with the most important politicians.

In 2017, an early general election was called in response to the political challenges that arose after the 2015 election and the 2016 Brexit referendum. Prime Minister Theresa May sought a stronger mandate to address the complexities of Brexit negotiations and secure broader support for her vision of the UK's future outside the European Union. The election resulted in a minority government, with the Conservative Party securing 318 seats and the Labour Party 262 seats. This outcome compelled the Conservative Party to form a coalition with the Democratic

Unionist Party (DUP). Given the heightened political instability stemming from this event, it could have been expected to lead to higher abnormal returns. However, contrary to previous research findings, the anticipated return increase due to political instability did not materialise. In 2019, Boris Johnson won the general election and thus gained a majority of 365 seats, while the Labour Party got 202 seats. This victory helped to some extent to consolidate the political situation and bring some predictability regarding the UK's future relations with the EU and its corresponding regulations. This victory also helped reduce political risk. It enhanced the predictability of the future relationship between the EU and the UK, which could have had clear-cut implications for the regulatory environment in the future. The shift in political direction that took place after Boris Johnson's 2019 victory worked in the favour of companies that supported the Conservative Party. This shift had a positive effect on the companies that were associated with the Conservative Party. The period highlighted that political connections are vital as firms with good links with the government benefited from the political risk and policy changes.

With this study, I want to test the hypothesis that the management's meetings with the government affect the firm's stock returns, using abnormal returns around general elections and the Brexit referendum as a measure. The study's research design is an event study that aims to measure the economic value that the market puts on an event through political events, particularly government-company meetings. Thus, the focus on the general elections in the UK will help identify, study and estimate the effects of political activities on the firm performance. The study will also establish different event windows to better understand the market's response. The primary event windows will be [-1, +1], [-1, +3], and [-1, +5], the immediate, short and medium-term reactions, respectively, of the political events on firms' performance. The first window, [-1, +1], reflects the market's response to the election results and government actions. In contrast, the second, [-1, +3], incorporates the adjustments that occur in the short-run as investors respond to the initial actions of the government. The third window, [-1, +5], provides a general view of the market's response over five business days and allows for the inclusion of other political events and policy changes.

I used a simple market model to determine expected returns, using the MRK factor from AQR as a proxy for the market. This model believes that the individual stock returns are linearly related to the market returns, and it will be used to calculate abnormal returns (ARs) for each firm in the sample. To ensure the robustness of the results, I incorporated the Fama-French factors, as computed by AQR for the UK market. These factors were utilised to calculate

abnormal returns using the three-factor Fama-French model, providing an additional layer of validation to the analysis.

This research is relevant given the current focus on political, corporate governance, political lobbying, and government-business relations and their effects on organisational performance. As the government's influence over business continues to evolve, the impact of political connections on firm performance will become increasingly relevant to policymakers, managers, and investors. Thus, this study helps to reveal the financial effects of company-government meetings and the implications of this paper for analysing the connection between politics and business during periods when political changes are clear.

I want to extend the current research on corporate political activity by examining the link between the frequency of company-government meetings and stock returns in the UK. This is against the backdrop of a turbulent political period. I seek to establish how firms can use political connections to their advantage to influence market returns and gain financial gains.

The findings of the study could have implications for corporate strategy, investment decisions, and policy regulation, especially in sectors that are highly exposed to government intervention.

2. Literature Review

2.1. Political Connections and Firm Performance

Studies on the relationships between businesses and politicians have consistently revealed that companies gain advantages from having connections to figures and decision-makers in power positions. A study by Faccio (2006) shows that companies with political connections tend to outperform those without such connections when faced with political or economic uncertainties. This highlights the benefits that political affiliations offer in obtaining backing, favourable regulations, or financial assistance in times of crisis.

Goldman, Rocholl, and So (2009) further explore the value of politically connected boards, finding that firms with politically connected directors experience positive abnormal returns around key political events.

Fisman (2001) illustrates the benefits of political ties by examining the impact on Indonesian companies associated with President Suharto during an event study. The research findings highlight how adverse rumours about Suharto's health decreased stock prices for firms with affiliations, underscoring the importance of nurturing positive relationships with political entities for financial gains.

2.2. Corporate Political Activity (CPA)

Lobbying, campaign contributions, and interactions with government officials are forms of political activity by the corporation and have been demonstrated to produce outcomes for the firm. Cooper, Gulen and Ovtchinnikov (2010) analyse the relationship between political contributions and the performance of firms and find that firms that engage in corporate political activity outperform those that do not engage in such activity. They contend that such contributions are an investment in the "political capital" that the firms may leverage to attain a suitable regulatory or policy environment. This finding aligns with the research focus, where the interactions with government officials are viewed as CPA, aiming to influence the market regulations or receive unique advantages. Nevertheless, the literature has no consensus regarding the effectiveness of CPA. Referring to political contributions, Aggarwal, Meschke, and Wang (2012) state that they result in higher agency costs and thus lower the performance of firms, implying that managers may tend to seek personal political connections at the expense

of shareholders' value. However, Tahoun (2014) demonstrates that political connections, particularly personal ones, enhance firms' sales and contracts, thus supporting the notion that political contacts can be advantageous. As mentioned, lobbying is an example of corporate political activity that includes communicating with government officials to change or shape policies. According to Blanes i Vidal, Draca and Fons-Rosen (2012), hiring ex-government officials as lobbyists helps increase the firm's value due to the political connections. Yu and Yu (2011) discovered that lobbying can effectively stall regulatory actions, particularly in the case of fraud detection among firms.

2.3. Cumulative Abnormal Returns and Political Events

Event study approaches have been extensively applied to measure the effects of political events on companies. Ferguson and Voth (2008) look at the stock returns of firms associated with the Nazi regime in Germany and discover that firms that were affiliated with the regime saw their stocks rise by as much as 8% when the Nazi party came to power. In a similar manner, Jayachandran (2006) conducts an event study to see how firms' stock returns respond to changes in their political connections after a scandal and discovers that the removal of political connections results in negative abnormal returns.

On the other hand, Do et al. (2012) studied the effects of political connections through educational ties between politicians and members of firm boards with the help of a regression discontinuity design to compare firms linked to politicians who won elections closely with those related to politicians who lost closely. The analysis provides unique findings regarding the relationship between these ties and market performance. In particular, they observe that firms linked to the winning politicians have negative cumulative abnormal returns (CARs) due to elections. This counter-intuitive result might be due to what the authors called "political overexposure" at the federal level. Political overexposure means that firms that have close relationships with politicians who have just been elected may attract attention and high expectations, and this may make investors question the performance of the firm in the future. This may take the form of negative CARs, where market participants update their risk perceptions based on the potential for preferential treatment or conflicts of interest associated with these political links. The findings of Do et al. (2012) show a strong connection between politics and business performance, an aspect that has not been well captured by previous

literature. They illustrate that while having ties with political leaders can be advantageous, it also comes with many risks that may discourage investors.

2.4. Regulatory Capture and Influence

The notion of regulation Capture examines how firms can influence policymakers to ensure that specific regulations are implemented. Stigler (1971) and Laffont and Tirole (1991) suggest that firms will try to 'capture' regulators, that is, ensure that the rules of the game serve the interests of the firms rather than the public. This idea is more evident in sectors closely related to government policies, such as finance, energy, and healthcare.

As for empirical support, Ovtchinnikov and Pantaleoni (2012) provide evidence that political contributions aid firms in economically significant industries in establishing proper policies. Also, Faccio, Masulis, and McConnell (2006) discovered that politically connected firms are highly likely to receive government bailouts, particularly during financial crises.

These studies provide a valuable framework for understanding how direct government interactions, such as lobbying or meetings, can affect regulatory outcomes and market performance.

3. Methodology

This research work uses event study methodology to assess the impact of company-government meetings on the performance of UK firms. Event analysis is one of the most common approaches used to measure the effect of certain events on market actions. To examine this effect, I used abnormal returns (AR), where abnormal returns are measured as the differential between realised returns and expected returns that have been estimated with the help of historical data. By aggregating these abnormal returns over defined event windows, the research seeks to isolate and quantify the effect of government interactions on stock prices.

This analysis is based on the UK general elections and Brexit using multiple event windows such as [-1, +1], [-1, +3], and [-1, +5] to capture the immediate and short-term market reactions to the company-government interactions during the election period. The [-1, +1] window shows the immediate response, which shows how investors are reacting to the results of the elections and the expected policies to be undertaken by the government. The [-1, +3] window allows for a slightly delayed market reaction as investors evaluate the government's initial statements and any possible policy changes. Thus, the window extended to [-1, +5] gives a measure of the market's response, with the market responding further as more information is revealed about the composition of the government and its policies and appointments.

The 250-day estimation window before each event builds a stable base for normal return calculations, reflecting one year of stock behaviour compared to the market. This window also enables the inclusion of seasonal and cyclical variations in the market to calculate abnormal returns using each stock's historical returns as a benchmark. The 250-day estimation window before each event was used to set a stable base for normal return calculations, as it coincides with other research in event studies. For example, Brown and Warner (1985) note that a sufficient estimation period is required to reduce noise's effects and better estimate the expected returns that would be realised under normal market conditions. In addition, Campbell, Lo and MacKinlay (1997) suggested that the window for event studies should be at least 250 days. This helps capture the seasonal and cyclical movements in stock returns, making the measurements of abnormal returns more accurate. Thus, adopting these standard procedures, this research can build a strong and reliable model of expected returns, which in turn increases the credibility of the study on the effects of political engagement on firm performance.

First, I used a simple market model to estimate expected returns and compute cumulative abnormal returns (CARs). This model assumes a linear relationship between stock returns and overall market returns.

$$R_{it} = \alpha_i + \gamma_i \cdot MRK_t + \in_{it}$$

Where R_{it} is the return of stock i on day t, MRK_t is the return of the market index on day t, α_i and γ_i are the intercept and sensitivity to the market, respectively. The model's parameters are estimated over the [-250, -1] estimation window preceding each event. Unlike studies that leave a 10 to 20-day gap before the event (-250 to -10), I used the entire pre-event window (-250 to -1), ensuring no data was arbitrarily excluded. This method aligns with MacKinlay's (1997) recommendation to tailor estimation windows to event characteristics, enhancing the reliability of abnormal return measurements.

The abnormal returns (ARs) for each stock are calculated as the difference between actual and expected returns. The CARs are computed by summing the abnormal returns over each event window.

$$AR_{it} = R_{it} - \hat{R}_{it} \qquad CAR_i = \sum_{t=T_1}^{T_2} AR_{it}$$

One potential drawback of the simple market model is the assumption of linearity between stock returns and market returns. This assumption may not always hold, giving rise to endogeneity problems such as reverse causality or omitted variable bias. To this end, I included other factors computed by AQR Capital Management, LLC, to compute the Fama-French three-factor model.

The market factor (MKT) considers general risks by using deflated value-weighted returns of all stocks with the one-month Treasury bill rate as risk-free. This makes it more robust than proxy indexes such as the FTSE 100, which only considers the performance of the biggest companies without considering the overall market trend. The Market factor (MKT) is especially relevant since it measures the returns of firms of different sizes, not only the largest and most successful companies.

I also used regressions based on the Fama-French three-factor model to make the analysis more robust. This model adds the size factor (SMB) and the value factor (HML) to control for variations in stock returns that market returns cannot explain.

$$AR_{it} = \alpha_i + \beta_1 \cdot MRK_t + \beta_2 \cdot SMB_t + \beta_3 \cdot HML_t + \in_{it}$$

The size factor Small Minus Big (SMB) captures the outperformance of small-cap stocks over large-cap stocks. This factor highlights the ability of smaller firms with lower market capitalisation and high growth potential to outperform bigger firms after adjusting for risks. These companies may pose specific threats and opportunities compared to their large-size returns counterparts.

The value factor, High Minus Low (HML), captures the return differential between value stocks and growth stocks. Value stocks, characterised by high book-to-market ratios, often trade at lower market valuations than their book values. In contrast, growth stocks with low book-to-market ratios are often priced higher due to anticipated future earnings potential. HML reflects the observed phenomenon that value stocks tend to deliver higher returns over time than growth stocks, potentially due to their risk profiles and differences in investor sentiment.

Thus, by introducing SMB and HML, the Fama-French model provides a richer model for analysing stock returns, specifically for identifying sources of differences depending on the firm's size and value orientation. This is, therefore, valuable in the analysis since other factors are important in understanding performance dynamics beyond the general market proxy.

This approach increases the reliability of the outcomes and eliminates the possibility of findings that could have been obtained using simpler models. T-tests are applied to CARs to determine the statistical significance of abnormal returns.

4. Data

I turned to the Transparency International UK website to build a comprehensive data set of company-government relations in the UK. Their comprehensive database was a helpful tool that contained information about the lobbying meetings held by UK government ministers since 2012. This data was crucial in understanding the political link between the firms and the government. The database also contains information on other essential features of each meeting, for example, the date, the host and his/ her position, the department that handled the meeting, the purpose of the meeting, and the name of the lobbyist, among others.

I used Refinitiv Eikon's Workspace for market and company performance data. I obtained information on closing stock prices, RIC codes, exchange listings, ratios, accounting information, and sector classifications (including the TRBC Sector and Segment), enabling me to analyse the company's performance in detail over the specified period.

I also incorporated a market factor from AQR Capital Management, LLC, to enhance my analysis. The market factor, MKT, is calculated as the value-weighted return on all the stocks available for trading plus the one-month Treasury bill rate. The portfolios were developed using the work of Fama and French from 1992, 1993, and 1996, Asness and Frazzini from 2013, and Asness, Frazzini, and Pedersen from 2013. The factor portfolios were constructed using weights equally weighted by each country's lagged market capitalisation.

The analysis used the UK general elections between 2012 and 2019 and the Brexit referendum in UK firms. These events were selected because they may affect market returns and firm-government interactions. First, I cleaned the data by simplifying company names and correcting formatting errors to ensure accuracy. I also removed meetings that did not include publicly traded companies, which focused the research on meaningful corporate-government relations. The meeting data was merged with company information from Refinitiv Eikon based on RIC codes, exchange listings, and industry classifications. To make the study more accurate, only companies listed on the London Stock Exchange and domiciled in the UK were considered. After data cleaning, the final data set contained 215 companies that held 3,797 meetings.

The data set was further classified based on industry, the number of meetings, the political affiliation of the political parties and the rank of the political figures. The subsample of companies that met with the winning party consists of those that engaged in meetings with its representatives within the last five years prior to the event. The subsample for companies

meeting with the most influential politicians comprises the meetings scheduled with the Prime Minister, Deputy Prime Minister, Chancellor of the Exchequer and the Secretary of State. To create the list of firms with the most meetings, I ranked the companies by number of meetings and picked the 20 companies with the most meetings in the last five years for each event.

The Financials, Industrials, and Consumer Cyclicals sectors were the most active, with the most meetings (932, 730, and 642, respectively). At the same time, the Banking & Investment Services industry (part of the financial sector) had the most interactions, with 607 meetings (Figure II). This concentration is probably because these sectors are highly regulated and regularly play a significant role in the economy and government.

Figure II - Number of meetings per year.

The figure shows the yearly number of meetings held by companies in the sample from 2012 to 2019. Meeting counts peaked in 2013, with a low in 2017.

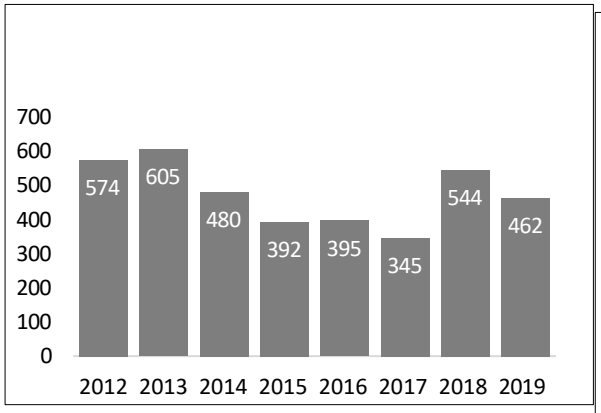
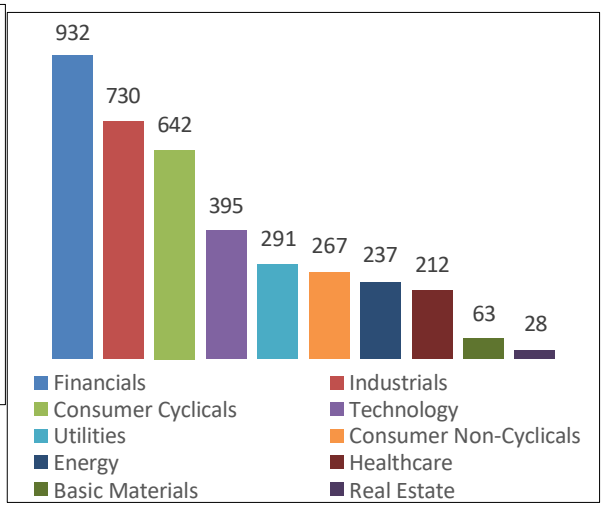


Figure I - Number of meetings by sector.

This figure shows the total number of meetings by sector for companies in the sample from 2012 to 2019. The data highlight differences in meeting frequency across sectors, with some sectors having notably higher engagement.



For the analysis, I removed outliers in variables such as total assets, total debt, ROA, Capex/total assets, and effective tax rates to increase the outcomes' accuracy. More specifically, I eliminated data points less than the 2.5th percentile and greater than the 98.5th percentile, ensuring that the outliers did not influence the results or skew the findings. The number of meetings held each year was not constant. The highest was held in 2013, while the lowest was in 2018 (Figure I). I also noticed that the years surrounding the Brexit referendum had fewer meetings. This could be because of the political instability during this time.

Table I - Accounting data about all the companies on the sample.

Table I presents the accounting data for the companies in the sample from 2012 to 2019. The variables reported include Total Assets (in millions of USD), Total Debt (in millions of USD), Return on Assets (ROA), Capital Expenditures to Assets Ratio (CAPEX/Assets), and the Effective Tax Rate (ETR). Their corresponding standard deviations are in parentheses, measuring the dispersion of the values across the sample of firms.

Year	Total Assets (Millions)	Total Debt (Millions)	ROA	CAPEX/ASSETS	ETR
2012	51 489 (504 744)	10 173 (149 046)	3,02 (6,26)	4,19 (3,15)	0,18 (0,27)
2013	47 573 (464 321)	9 521 (141 685)	1,63 (5,71)	4,40 (3,00)	0,19 (0,32)
2014	47 531 (497 169)	8 131 (113 593)	1,79 (6,17)	4,98 (3,26)	0,16 (0,34)
2015	43 388 (482 445)	5 965 (136 914)	2,52 (5,60)	4,62 (2,63)	0,19 (0,25)
2016	45 096 (496 403)	6 144 (144 697)	0,23 (4,62)	5,14 (3,80)	0,17 (0,31)
2017	45 223 (496 049)	7 010 (149 535)	2,19 (5,23)	4,66 (2,87)	0,13 (0,28)
2018	45 714 (503 112)	7 482 (144 323)	1,08 (4,66)	5,24 (3,40)	0,16 (0,33)
2019	46 030 (529 281)	7 379 (151 133)	0,45 (5,17)	4,94 (2,64)	0,16 (0,33)

For the financials, I looked at the companies' total assets and total debt in the sample. The trends in total assets and debt showed that the two were high in the initial years (2012-2015), then reduced dramatically in 2015 and rose again from 2016 to 2019. Total assets increased by 6.1%, while total debt increased by 23.7%. ROA scored an average of 3% in 2012 and a minimum of 0.23% in 2016 (Table I).

The CAPEX trend as a percentage of total assets grew steadily from 2012 to 2019, with the highest figure being 5.24% in 2018. This means that the uncertainty surrounding Brexit, together with policies that are favourable to investment, may have led to an increase in investment during this time. The energy sector was quite volatile, especially in 2013, while other sectors, including healthcare and technology, grew steadily, which proves their relevance to the industry's general trends.

UK companies with close relations with the government reported the effective tax rate from 2012 to 2019 differently. The rate started at 18.18% in 2012, then rose slightly to 19.18% in 2013, then dropped to 15.66% in 2014. This may have been because the government had to maintain the tax revenue stream after the financial crisis and the era of austerity.

Nevertheless, it was to drop to 13.42% in 2017, which was the lowest within the given period. This suggests that the firms with good ties with the government may have enjoyed special tax breaks or other favourable treatment, especially during the uncertainty surrounding Brexit.

Thus, the effective tax rate averaged below the corporation tax rate for all industries, proving that companies with better government relations had the opportunity to minimise their taxes. (The standard UK corporation tax rate was 24% in 2012 and was reduced to 19% from 2017 to 2019) [1]

The rates differed considerably throughout the sectors. For instance, sectors such as Consumer Non-Cyclicals, Energy, and Financials had high and relatively constant tax rates, which showed that the companies in these sectors paid taxes regularly. On the other hand, sectors such as Technology and Utilities were quite volatile. This could be due to fluctuating government policies or sector-specific grants.

[1] Information retrieved from GOV.UK website. https://www.gov.uk/

5. Hypothesis development

Political uncertainty often intensifies in the lead-up to elections as markets anticipate potential shifts in government policies. Political risk is usually high during elections as the markets wait for changes in government policies. Some firms may have good political contacts, including knowing what might happen in the future from the political arena or receiving preferential treatment.

This study hypothesises that companies meeting with government officials during election periods will likely experience higher abnormal returns. The theory is based on the fact that these meetings provide the company with knowledge of the new policies that the new administration is likely to undertake, hence boosting the value of such political connections in the eyes of investors.

H1: Companies meeting with government officials will likely experience higher abnormal returns.

Another key factor that affects the frequency of company-government interactions is the frequency of such interactions. Organisations with frequent meetings with government officials are expected to have higher abnormal returns than those with fewer meetings. This is because frequent contact enables organisations to develop better political relations, which assist in navigating a better regulatory environment or advancing information on policy change. It is essential during political instability, as the information and ability to influence decision-making can become a critical advantage. As Snyder (1992) points out, the recurring contact with political players helps build up benefits over time, highlighting the significance of continuity in determining positive outcomes.

H2: Firms frequently meeting with government officials will experience higher abnormal returns.

The political personalities involved in these meetings also play a vital role in determining the market's perception of the firm's political ties. Cabinet members or senior policymakers' meetings are likely more persuasive in establishing a firm's political prestige. Hence, firms engaged with the most politically powerful persons are anticipated to have higher abnormal

returns. Such engagements are seen as higher levels of access to power and may be a plus for investors since they could present an edge in the future.

H3: Firms meeting with the most influential politicians will likely exhibit higher abnormal returns.

It also matters who the officials are in these meetings, whether from the government or the opposition. It is anticipated that firms meeting with representatives from the winning party will have better CARs because the new government's policies will likely be favourable to the firms. On the other hand, contacts with members of the opposition party may lead to lower returns as firms associated with such contacts may suffer from increased political risks or loss of political support when the new government comes into power. This concept is vital to the analysis since most of the meetings were made with the politicians from the victorious party.

H4: Firms meeting with representatives from the winning party will experience more positive abnormal returns than those meeting with the losing party.

This research aims to determine whether industry characteristics influence the effectiveness of company-government meetings in terms of abnormal returns. Industries closely regulated or influenced by the government's policies, including energy, utilities, financial institutions, and healthcare sectors, are expected to have better abnormal returns. The government regulates these industries more closely, and the political connection may play a more important role in determining their legal environment and performance in the market.

H5: The focused industries, including energy, utilities, financial services, and healthcare, will have better abnormal returns from company-government meetings.

Based on the hypotheses described above, I want to reveal the relationship between political relations and UK firms' market results. These findings add to the existing knowledge of corporate political strategy by providing an empirical analysis of how firms can effectively use their political capital to manage risk, respond to the changing political environment, and minimise potential losses. These dynamics are essential for policymakers, investors, and corporate strategists who want to determine the effects of political relations on a firm's performance during political risk.

6. Findings and Discussion

Table II - Cumulative Abnormal Returns (CARs) surrounding General Election.

This table presents the average cumulative abnormal returns (CARs) of stock market responses during event windows surrounding meetings with politicians across three UK general elections: 2015, 2017, and 2019 (Panel A, B, and C, respectively). The results are split across four categories: the overall sample, companies that had meetings with the winning party, companies that had meetings with the most important politicians, and companies with the most meetings. Event windows are defined as (-1, +1), (-1, +3), and (-1, +5), where 0 represents the General Election date. Mean cumulative abnormal returns are shown alongside their p-values, which indicate statistical significance. Observations represent the number of firm-event pairs analysed.

Panel A: 2015 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	1,71%	1,08%	1,77%	1,71%	1,09%	1,69%	1,68%	0,88%	1,26%	1,87%	0,68%	0,85%
P-value	0,00	0,01	0,00	0,00	0,01	0,00	0,00	0,06	0,03	0,01	0,39	0,32
Nº of obervations	103	103	103	95	95	95	52	52	52	20	20	20

Panel B: 2017 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	0,67%	1,43%	0,57%	0,70%	1,47%	0,61%	0,58%	1,24%	0,45%	0,73%	1,91%	1,22%
P-value	0,01	0,00	0,16	0,01	0,00	0,14	0,11	0,04	0,50	0,09	0,07	0,31
Nº of obervations	204	204	204	201	201	201	65	65	65	20	20	20

Panel C: 2019 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	1,16%	2,21%	2,36%	1,16%	2,21%	2,36%	0,91%	1,64%	1,89%	1,32%	2,57%	2,91%
P-value	0,00	0,00	0,00	0,00	0,00	0,00	0,02	0,00	0,00	0,09	0,00	0,00
Nº of obervations	126	126	126	126	126	126	83	83	83	20	20	20

6.1. 2015 General Election

The results from the 2015 UK (Table II, panel A) general elections show considerable positive abnormal returns for politically active companies. For the entire sample, cumulative abnormal returns (CARs) during the immediate (-1, +1) event window averaged 1.71%, which is statistically significant. Expanding the window to (-1, +5) showed a slight increase to 1.77%. Using the (-1, +3) window, returns were lower and averaged at 1.08%. This was mainly because the average abnormal return was negative, 0.90% on day +3, on 12/05/2015. This is because the companies in the sample did not perform poorly. After all, the market factor grew by 3.33% on that day.

However, interestingly, the Companies that met with high-ranking politicians had lower CARs of 1.68% in the (-1, +1) window. This means that during the 2015 election, the companies that frequently met or met with High-ranking officials reaped less benefit, as their returns show.

The findings were discussed in detail since the results of the firms meeting with the winning party representatives were similar to the overall results. This is because there was much corporate engagement with the Conservative Party, especially during this time. Of the 3,797 meetings, 3,457 were held with the Conservative officials, showing they were the dominant political contact. This concentration indicates not only the Conservatives' position in government but also the strategies of the firms in placing their contacts with the government, especially the rulers and the shapers of the policy and regulation.

6.2. 2017 General Election.

The 2017 UK general election results were less significant (Table II, panel B). Only positive results at the 5% significance level were seen in the overall sample and the sample of companies that had encounters with the winning party, which is almost similar to the overall sample. The (-1, +1) window revealed an average CAR of 0.67%, while the (-1, +3) window revealed an average CAR of 1.43%, which means that the companies that met with the government realised better returns in this event.

Of all the companies, those with the most interactions with the government provided the best returns, with CARs of 0.73% for the (-1, +1) window and 1.91% for the (-1, +3) window. This suggests that more interaction with the government may positively affect stock returns, but the significance is not high enough to make any conclusion. It may, therefore, mean that companies

which meet with the government more often than others may have positive outcomes, but this cannot be said with certainty since these results were only significant at the 10% level.

6.3. 2019 General Election

The 2019 UK general election results offer a valuable perspective on examining the relationship between corporate political engagement and firms' stock market returns (Table II, panel C). For the entire sample, firms exhibited positive and significant CAR for all windows, and the positive CAR increased from 1.16% for the shortest window to 2.36% for the most extended window (-1, +5). All the companies in the sample had contact with the winning party. Findings also show that firms that held meetings with high-ranking politicians performed well across all windows, with an average CAR of 0.91% in the shortest window (-1, +1) and 1.89% in the most extended window (-1, +5). However, this was lower than the overall sample result, indicating that direct contact with the highest levels of government may not be beneficial compared to other forms of engagement with the government. This suggests that the perceived importance of interactions with top-level government officials regarding stock returns might be overemphasised.

Thus, the companies which met with more government officials achieved an average CAR of 2.91 in the long window. This pattern also supports the notion that political activism benefits firms as it helps obtain important information about the company's environment and increases its profile among decision-makers.

6.4. Overview and Discussion of General Elections

Research has been done where it has been discovered that firms with political connections are more likely to have abnormal returns in close elections, which may be because such connections are valuable in fragile political environments. However, the results indicate a different relationship where larger majorities are linked with better abnormal returns. This suggests that stable election results enhance policy stability and predictability, thus boosting market confidence and outlook and positively impacting politically connected firms to a greater extent. This change in trend shows how political risk has become a key determinant of how investors are likely to respond to the linkage between corporations and government institutions.

These results can be explained by corporate engagement focused on the Conservative Party during this period. Out of the 3,797 meetings recorded, 3,457 involved Conservative officials, thus demonstrating the party's dominance in these meetings. This concentration reflects that the Conservatives were not only in power at the time of analysis but also the smarting by firms to build and cement relationships with the government, especially the party in power, with an eye on future policy.

At elections where the Conservative Party kept or increased its strength in the House of Commons, linked firms made higher returns. Nevertheless, the 2017 election, in which the Conservatives kept power with a more minor majority, resulted in a fragile government and produced a less specific political environment. Yet, companies associated with the Conservatives continued to report positive returns, though these were lower and less significant than in previous elections.

This pattern shows that ties to the winning party generally help firms achieve higher returns, but the degree of victory and the government's consecutive stability is important. A larger majority guarantees a defined policy direction, enhancing investors' perception of firms with political ties. In the 2017 election, the lack of a clear majority may have hindered the realisation of the potential gains that could have been realised from these linkages, thereby affecting the CARs overall.

The high level of meetings with the Conservative Party between 2012 and 2019 can be explained by the following reasons. The Conservative Party was the governing party in the UK at this time, and therefore, it became the focus of companies seeking to shape the policy. Also, the areas of interaction with the highest level of contacts were the Secretary of State, Minister of State, and Parliamentary Under-Secretary, which are positions that members of the ruling party usually occupy. These positions are central to the country's governance, and such appointments are usually made by the Prime Minister from among members of the party in power.

The findings revealed that the companies that engaged with most politicians did not exhibit enhanced outcomes. Their results were more or less similar to those of other firms and, in some cases, even worse. This indicates that such engagements do not necessarily produce the desired effects. It is also worthy of note that the performance of firms involved in high-level political meetings performed worse than the average return computed across the entire sample. This finding disputes the widespread perception that close contact with people in government who are in positions of authority can produce better results than many other types of corporate-government interactions.

Table III - Cumulative Abnormal Returns (CARs) by Industry Surrounding UK General Elections (CARs (-1, +3)).

Table III outlines the average cumulative abnormal returns across various industries in the United Kingdom during the periods surrounding the 2015, 2017, and 2019 general elections, specifically focusing on the CAR (-1, +3) window. This timeframe was selected for its consistent statistical significance across all three elections. P-values are provided in parentheses, and the number of companies is reported as an average across the election cycles.

Industry	Number of firms per industry (Average)	**2015**	**2017**	**201G**
Basic Materials	11	-0,67% (0,86)	0,51% (0,64)	1,14% (0,84)
Consumer Cyclicals	26	**1,37%** (0,02)	0,77% (0,36)	**2,72%** (0,03)
Consumer non-cyclicals	15	**0,84%** (0,04)	0,73% (0,40)	-0,10% (0,61)
Energy	4	-4,32% (0,26)	1,03% (0,86)	-0,15% (0,17)
Financials	24	0,33% (0,11)	0,30% (0,66)	**2,64%** (0,00)
Healthcare	8	2,34% (0,58)	5,51% (0,10)	1,51% (0,71)
Industrials	31	**1,84%** (0,00)	0,60% (0,44)	**3,41%** (0,01)
Real Estate	7	-0,02% (0,78)	-1,41% (0,12)	-2,56% (0,58)
Technology	10	1,53% (0,21)	3,04% (0,15)	1,36% (0,61)
Utilities	5	2,70% (0,21)	0,06% (0,80)	**8,46%** (0,00)

The analysis of CAR (-1, +3) is critical in this research since it produced statistically significant values for every general election (Table III). First, we anticipated that the energy sector would perform even better since it would entail more meetings with government officials. However, it was observed that it had some of the lowest returns. This may be because of the small sample size since the number of companies in this sector was relatively low, which may have influenced the results. As predicted, the utility sector also had some of the highest returns. However, this result may be questionable due to the sample size since the number of firms may not be enough. This was in line with expectations since the healthcare sector had one of the highest returns due to its relationship with government regulation and policies, which enhanced market conditions.

This aligns with the conventional knowledge that sectors that require government intervention or spending and/or those subject to government regulations and/or laws always perform well, especially during times of change, such as elections. The financial sector also had positive abnormal returns, especially in 2019, due to the stability brought about by the general election.

Table IV - Cumulative Abnormal Returns (CARs) surrounding the Brexit referendum.

This table presents the average cumulative abnormal returns (CARs) during event windows surrounding the Brexit period. The results are split across four categories: the overall sample, companies that had meetings with the most important politicians, and companies with the most meetings. Event windows are defined as (-1, +1), (-1, +3), and (-1, +5), where 0 represents the Brexit Referendum. The table reports the mean CARs (in percentages) and their corresponding p-values, which test for statistical significance. The number of firm-event observations analysed is also displayed.

Panel A: Brexit referendum

	Overall sample			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	1,49%	-0,20%	0,89%	2,66%	1,79%	2,78%	3,89%	4,02%	4,93%
P-value	0,03	0,82	0,39	0,00	0,13	0,04	0,02	0,09	0,08
Nº of obervations	98	98	98	55	55	55	20	20	20

Studying the years between 2012 and 2019 is essential to understand the impact of the Brexit referendum, which significantly affected the UK and EU markets.

The findings show a strong correlation between government intervention and cumulative abnormal returns (CARs) (Table IV). For the overall sample within the (-1, +1) event window, the average CAR was 1.49%. Among the companies that interacted with the most influential politicians, the CAR was 2.66%, 1.17% higher than the overall sample average. The returns for firms that met frequently with government officials were even higher at 3.89%, a 2.50% increase from the overall sample.

These findings align with the study's hypotheses, especially H1, H2, and H3. They imply that the management of firms with frequent or higher levels of interaction with government officials was better positioned to manage the risks of Brexit. Such connections have helped the companies insulate themselves from the risks seen in the market, positively affected their stock prices, and highlighted the actual value of such interactions in the volatile environment.

7. Robustness tests

Table V - Robustness Test of Cumulative Abnormal Returns (CARs) Using the Fama-French 3-Factor Model Surrounding General Elections

This table presents robustness test results of cumulative abnormal returns (CARs) for corporate meetings during the 2015, 2017, and 2019 General Elections, estimated using the Fama-French three-factor model (MKT, SMB, and HML). The analysis accounts for market risk (MKT), size (SMB), and value (HML) factors to provide additional perspective on the relationship between political meetings and CARs. The results are split across four categories: the overall sample, companies that had meetings with the winning party, companies that had meetings with the most important politicians, and companies with the most meetings. Event windows are defined as (-1, +1), (-1, +3), and (-1, +5), where 0 represents the General Election date. Mean cumulative abnormal returns (in percentages) are shown alongside their p-values, which indicate statistical significance. The number of observations represents the number of firm-event analyses.

Panel A: 2015 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	1,48%	1,62%	2,54%	1,46%	1,65%	2,48%	1,49%	1,58%	2,22%	1,68%	1,66%	2,17%
P-value	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,01	0,03	0,01
Nº of obervations	103	103	103	95	95	95	52	52	52	20	20	20

Panel B: 2017 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	0,68%	1,44%	0,58%	0,71%	1,47%	0,61%	0,59%	1,25%	0,46%	0,75%	1,97%	1,24%
P-value	0,01	0,00	0,15	0,01	0,00	0,14	0,11	0,04	0,49	0,08	0,07	0,31
Nº of obervations	204	204	204	201	201	201	65	65	65	20	20	20

Panel C: 2019 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	1,36%	2,27%	2,35%	1,36%	2,27%	2,35%	1,21%	1,70%	1,81%	1,64%	2,65%	2,82%
P-value	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,03	0,00	0,00
Nº of obervations	126	126	126	126	126	126	83	83	83	20	20	20

Using the 3-Fama-French factors (MKT, SMB, and HML), the robustness test extended the analysis to compare the relationship results between the corporate meetings and obtained CARs. The following factors enhance the scope of this analysis by introducing the size and value effects not captured by the more straightforward market-based approach described earlier.

In the 2015 election, there was an increase in the stability and statistical significance. The magnitude of CARs reduced slightly to 1.48 % in the (-1, +1) window, while it rose significantly in the other two windows (Table V). Firms that met with high-ranking officials had CARs of 1.49% in the (-1, +1) time interval when using the 3-Fama-French factors, which is closer to 1.71% that was noticed when using the only market factor (MKT) for calculating abnormal returns. Thus, CARs in the windows (-1, +3) and (-1, +5) are 1.62% and 2.54%, respectively, increasing the support level for the findings. The findings for the subsamples are also the same for both models. This is because meeting with the most important politicians is not always advantageous, as the results have shown. However, all models' statistical significance was still significant at all time intervals, showing that the measured relationships are accurate.

For the 2017 election, the 3-Fama-French results provided a better view of the increases in returns for the firms that met with the most important politicians, where CARs were 0.68% in the (-1, +1) window, similar to the 0.46% when the market factor (MKT) was used alone to compute abnormal returns. Companies with more meetings delivered better results. However, these results may be unreliable as the number of companies exhibiting this characteristic is small. The conclusion is the same. This general election also produced the lowest returns and weaker statistical tests than the others.

For the 2019 election, the 3-Fama-French analysis revealed that the results are also stable. In the (-1, +3) window, firms that met more often got CAR of 2.65%, slightly higher than 2.57%, which was realised when using the market factor (MKT) alone to compute abnormal returns. The firms that engaged with high-ranking officials delivered higher returns when evaluated under the 3-Fama-French model (1.21%) than in the previous period (0.91%) but still lower than the overall sample average. The conclusion remained unchanged but now has a slightly bigger amplitude.

These results also support the previous findings and indicate that the results are stable when the 3-Fama-French model is used. Despite these observations, using these extra dimensions helps understand the variations in the returns of companies near high-ranking officials. This indicates that political engagement has positive effects, and while these effects are not constant, they are more substantial and statistically significant when other markets and firm characteristics are considered.

Table VI - Robustness Test of Cumulative Abnormal Returns (CARs) Using the Fama-French 3-Factor Model Surrounding the Brexit Referendum.

This table reports the robustness test results for average cumulative abnormal returns (CARs) of stock market responses during event windows surrounding the Brexit period. CARs are estimated using the Fama-French three-factor model, which accounts for market risk (MKT), size (SMB), and value (HML) factors. The results are split across four categories: the overall sample, companies that had meetings with the most important politicians, and companies with the most meetings. Event windows are defined as (-1, +1), (-1, +3), and (-1, +5), where 0 represents the Brexit Referendum. Mean CARs (in percentages) are reported alongside p-values, which test for statistical significance, and the number of firm-event observations analysed is provided.

Panel A: Brexit referendum

Panel A: Brexit									
	Overall sample			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	0,65%	-1,61%	-0,71%	0,86%	-1,20%	-0,76%	0,98%	-0,77%	-0,81%
P-value	0,29	0,02	0,42	0,31	0,20	0,47	0,52	0,67	0,70
Nº of obervations	98	98	98	55	55	55	20	20	20

The 3-Fama-French model no longer produces statistically significant results around the Brexit referendum. This shift shows that results change when more factors are considered. By incorporating these broader market and firm-level characteristics, the 3-Fama-French model offers a richer analysis, suggesting that the advantages of political engagement during the referendum period might not have been as significant as they appeared.

8. Conclusions and Limitations

This thesis significantly contributes to understanding how corporate political activity interacts with firm performance. It focuses on the UK context, specifically the general elections and the Brexit referendum from 2012 to 2019. The event study approach uses cumulative abnormal returns (CARs) to identify and measure the impact of firm-government interactions on stock returns. Applying the market model along with the Fama-French three-factor model enhances the level of the analysis and its reliability.

The results show a positive relationship between corporate political activity and the returns to shares, where companies that engaged in political activities more often or supported the winning party achieved positive CARs. However, the nature of these returns differed according to the political scenario and market environment. For example, although there was a positive relationship between frequent interactions and ties with the Conservative Party and the returns were positive, the size of these returns hinged on election results and the stability of governments. The 2017 election, which produced a minority government, saw lower and less significant returns than previous elections, indicating that political stability is crucial in building investors' confidence.

This study also shows that dealing with the most powerful politicians does not always generate the best returns. Companies that attended high-level meetings performed worse than their counterparts, indicating that being near power is not necessarily beneficial. This finding alone proves that the correlation between corporate political activity and market returns is not always positive and can be complex.

The cross-industry assessment also adds to the study's findings, with the healthcare and utility industries recording high returns that may be attributed to the policies and regulations of the government. On the other hand, the energy industry presented lower returns, which can be explained by the fact that a small sample size and specific market conditions characterised this industry.

The robustness tests performed with the Fama-French model confirm the robustness of these results while at the same time offering a more refined view of the size and value premium effects in the returns. Interestingly, the importance of political contacts as a factor that affects the results of the analysis during the Brexit referendum was less pronounced than in the case of the application of the basic model, adjusted for size and value, which may suggest that general

movements in the market could have overwhelmed the effects of firms' interactions with the government during this time.

This research generally illustrates how and why political relations are critical for organisations in a political setting. Though such interactions help reduce risks and increase returns, their efficacy depends on the political and economic environment. The findings contribute to the existing literature on corporate political strategy by presenting evidence from a high-risk political system, with implications for both firm management and policymakers regarding the consequences of political strategy.

There are, however, some limitations that could be explored in further research given by the study despite its strong points. First, the analysis is based on the data from the officially held meetings. Thus, not all the interactions and correlations could have been documented, including the informal talks or efforts to influence the decision-making process, which could be crucial. This limitation raises the question of how to accurately measure political engagement and its effects on firms due to the limitations of the data.

Second, even though the overall sample is large, the subsets of data analysed according to factors such as the frequency of interaction and meetings with high-level politicians need more data. These limitations may impact the transferability of the findings, especially in specific situations such as the Brexit referendum or fiercely fought elections. Also, the study is limited to UK companies, which hinders the findings' comparison with other political systems or different economic conditions. The analysis of cross-sectional data could better understand political connections' impact on firms' performance in various countries or regions.

Third, the study assumes that stock prices reflect the value of political connections within the event windows considered. Nonetheless, this approach may ignore potential long-term effects or risks of these ties where political effects may take time to manifest. Future studies might employ longitudinal analyses or use other ways of measuring firm performance, such as market share or profitability changes.

Finally, specific market proxies, such as the MRK factor, have certain methodological limitations. Although the MRK factor provides a higher level of detail, the choice of benchmark may lead to different interpretations. I used the Fama-French three-factor model to reduce this limitation when computing abnormal returns.

Future research can account for these limitations, giving a more detailed and comprehensive view of the correlation between corporate political activities and firm performance in various settings.

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10. List of abbreviations

CPA	Corporate Political Activity
GDP	Gross Domestic Product
S&P	Standard & Poor's
CTA	Corporate Tax Avoidance
RIC	Reuters Instrument Code
AR	Abnormal Returns
CAR	Cumulative Abnormal Return
AAR	Average Abnormal Return
STDEV	Standard Deviation
AQR	Asset Management Firm providing market data
CAPEX	Capital Expenditure
ROA	Return on Assets
ETR	Effective Tax Rate
FTSE	Financial Times Stock Exchange
DUP	Democratic Unionist Party
PM	Prime Minister
MKT	Market Factor (from the Fama-French model, computed by AQR)
SMB	Small Minus Big (size factor from Fama-French, computed by AQR)
HML	High Minus Low (value factor from Fama-French, computed by AQR)
UK	United Kingdom
EU	European Union
α, β, γ	Model Coefficients
$\in$	Error Term

11. Appendix: Results using the FTSE 100 as a market proxy to compute Abnormal Returns.

Table A - Cumulative Abnormal Returns (CARs) Surrounding General Election Using FTSE 100 as a Market Proxy.

This table presents the average cumulative abnormal returns (CARs) of stock market responses during event windows surrounding meetings with politicians across three UK General Elections: 2015, 2017, and 2019 (Panel A, B, and C, respectively). The results are categorized into four groups: the overall sample, meetings with winning candidates, meetings with the most important politicians, and meetings with the most frequent meetings. Event windows are defined as (-1, +1), (-1, +3), and (-1, +5), where 0 represents the General Election date. The table reports the mean CARs (in percentages) and their corresponding p-values, which test for statistical significance. Observations represent the number of firm-event pairs analysed.

Panel A: 2015 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	1,02%	1,47%	1,93%	0,98%	1,49%	1,83%	0,84%	1,26%	1,35%	0,85%	1,16%	0,97%
P-value	0,00	0,00	0,00	0,01	0,00	0,00	0,06	0,01	0,03	0,26	0,15	0,26
Nº of obervations	103	103	103	95	95	95	52	52	52	20	20	20

Panel B: 2017 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	0,25%	1,12%	0,44%	0,28%	1,15%	0,48%	0,24%	1,13%	1,07%	0,31%	1,76%	1,54%
P-value	0,32	0,00	0,27	0,28	0,00	0,24	0,57	0,12	0,19	0,43	0,08	0,17
Nº of obervations	204	204	204	201	201	201	65	65	65	20	20	20

Panel C: 2019 General Election

	Overall sample			Had meetings with winning			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	2,28%	1,98%	1,33%	2,28%	1,98%	1,33%	2,15%	1,36%	0,70%	2,65%	2,34%	1,72%
P-value	0,00	0,00	0,03	0,00	0,00	0,03	0,00	0,01	0,20	0,00	0,01	0,08
Nº of obervations	126	126	126	126	126	126	83	83	83	20	20	20

The 2015 UK general election results show positive abnormal returns for the companies involved in political interactions. The sample produced an average CAR of 1.02% for the event window (-1, +1), thus indicating positive market perception (Table A). Extending the window to (-1, +5), CARs rose to 1.93%, which shows that investors remained hopeful. Hence, companies with more meetings or higher-ranking officials did not benefit from such interactions and recorded lower returns.

As shown in Table A, the statistical significance of the results across the event windows for the 2017 UK general election is not very robust. Only one of the event windows considered was statistically significant for the entire sample, the CAR (-1, +3), where the companies made a return of 1.12%.

The 2019 UK general election results show positive cumulative abnormal returns (CARs) for all the windows when the FTSE 100 is used as a comparator. The shortest window, (-1, +1), has the highest CAR at 2.28%, with significant p-values. Thereafter, the CARs decrease with the duration of the window, from 1.98% for (-1, +3) to 1.33% for (-1, +5).

Table B - Cumulative Abnormal Returns (CARs) Surrounding the Brexit Referendum Using FTSE 100 as a Market Proxy.

This table presents the average cumulative abnormal returns (CARs) during event windows surrounding the Brexit period. The results are split across four categories: the overall sample, companies that had meetings with the most important politicians, and companies with the most meetings. Event windows are defined as (-1, +1), (-1, +3), and (-1, +5), where 0 represents the Brexit Referendum. The market proxy used to compute the abnormal returns was the FTSE 100. The table reports the mean CARs (in percentages) and their corresponding p-values, which test for statistical significance. The number of firm-event observations analysed is also displayed.

Panel A: Brexit

	Overall sample			Most important politicians			Most Meetings		
Event Window:	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)	(-1, +1)	(-1, +3)	(-1, +5)
Mean	-3,23%	-6,31%	-6,38%	-2,50%	-5,26%	-5,30%	-2,42%	-4,61%	-5,10%
P-value	0,00	0,00	0,00	0,00	0,00	0,00	0,16	0,07	0,08
Nº of obervations	98	98	98	55	55	55	20	20	20

Using the FTSE 100 as a proxy market and for robustness was also interesting. The findings indicate that, during Brexit, the firms in the sample suffered a worse performance than the

FTSE100 index (Table B). For the firms, the losses were -3.23% in the (-1, +1) window, and the losses increased by -6.38% in the longer windows (-1, +5) window. Of the companies that met with the most important politicians during this period, these companies had more minor losses, a difference of 0.73% in the short-term window and 1.08% in the longer-term window. These findings indicate that firms' interactions with high-ranking politicians during Brexit were significant. While political connections may not seem to make that much of a difference in general elections, they turned out to be crucial for companies in Brexit. High-ranking officials played a significant role in trade negotiations and changes in the regulations and the overall economic strategies that affected firms. For the companies engaged in the Brexit process, such political connections play a critical role in ensuring that positive outcomes are realised.