



# Political Party Affiliation of the President and its Impact on Corporate Political Activity

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***Abstract:***

English: Evidence shows that corporate political activities, such as lobbying, can influence and change the political environment and its policymaking. However, does the existing political environment conversely also impact the level of corporate political activities? In this paper, I examine the impact of the U.S. presidents' political party affiliation on the intensity of corporate lobbying expenditures using 1001 S&P500 firms over a 22-year period. I find that a Republican U.S. presidency has a positive effect on corporate lobbying expenditures. This effect is further enhanced by corporate ideological alignment and a Republican majority in Congress.

Portuguese: As provas mostram que as actividades políticas das empresas, tais como o lobbying, podem influenciar e mudar o ambiente político e a sua formulação de políticas. No entanto, será que o ambiente político existente também tem, inversamente, impacto ao nível das actividades políticas empresariais? Neste documento, examino o impacto da filiação dos presidentes dos partidos políticos dos EUA na intensidade das despesas de lobbying corporativo utilizando 1001 empresas S&P500 ao longo de um período de 22 anos. Considero que uma presidência republicana dos EUA tem um efeito positivo nas despesas de lobbying corporativo. Este efeito é ainda reforçado pelo alinhamento ideológico das empresas e por uma maioria republicana no Congresso.

***Keywords:*** *CPA, Lobbying Expenditures, Political Ideology*

## 1. Introduction

With the recent presidential election of Joe Biden, a shift in power from a Republican to a Democratic administration in both the White House and Congress has taken place. This is likely to change the entire political environment in the United States of America. Prior research has repeatedly shown that the political ideology of the ruling party influences economic policymaking (Potrafke, 2017, 2018). Such influence on political decisions regarding legislation and policymaking is to be expected given that political parties typically act according to the beliefs and demands of their voters and constitutions to maintain their legitimacy (Potrafke, 2017). This is consistent with the partisanship theory, which argues that a democratic government adopts more expansionary policies than a republican government and those parties receive support from different social classes (Lunati et al., 1996). It remains unclear, however, if corporate strategies and tactics regarding political involvement similarly change depending on the ideology of the ruling party. According to Brandt et al. (2014), an increasing degree of intolerance between opposing political ideologies has been observed recently, making it even more essential to investigate the impact of the political partisan structures of the government on the nature and intensity of corporate political activities.

According to the institutional and resource dependence theory, corporations are dependent on the external environment, have to respond to changes in order to be competitive, and seek to obtain stability and security (Hillman et al., 2009). Therefore, in order to reduce uncertainty and achieve favorable policy outcomes, firms get involved in political activities. Modern empirical research defines corporate political activity (CPA) as a strategic tool to increase company value, to communicate and push company interests, and to achieve a competitive advantage, in return for campaign donations and information (e.g. lobbying) (Hill et al., 2013; Mathur & Singh, 2011). Notably lacking from this literature, however, is explicit attention to the strategic behaviors that organizations employ in direct response to changes in the political environment. If government ideology influences policymaking and organizations are dependent on the external environment, one may expect companies that view one party as being more beneficial to corporate interests to strategically increase their political activities and intensify their investments when that party comes to power. Indeed, Drutman (2015) states that the political activities of a company are based on the neoclassical view of the firm. This means that a company's political engagement is dependent on internal, but also external,

factors; companies react strategically to political opportunities when they arise, under the assumption that their investments will pay off and improve their profitability. This suggests that changes in government structures and party affiliations should result in changes in corporate political activities. In other words, if the political agenda changes, lobbying activities should change as well.

In this thesis, I investigate this issue and ask the following research question: Do companies intensify their corporate political engagement significantly if the political environment is favorable to do so? In addressing this question, I analyze over 20 years of lobbying expenditures from over 1000 S&P 500 companies in the United States and find significant evidence demonstrating that it indeed makes a difference which political entity controls the Federal government. Specifically, I argue and find that firms spend more on lobbying under a Republican, rather than Democratic President, and that this amplification of lobbying is greater both for firms with a conservative political ideology, and when Republicans hold more power in Congress, respectively.

The rest of the thesis is organized as follows: Chapter 2 summarizes and presents the existing literature on CPA, partisan politics, and their corresponding theories in order to explain and establish the assumptions and hypothesis of this work. Chapter 3 presents the research design of the empirical study, the sample, and the data preparation process in detail. It describes the composition of the sample, the chosen time frame for the analysis, and how the dependent and independent variables were identified and generated. Chapter 4 deals with the main analysis of the data and explains the regression method used. Part 5 discloses the corresponding results and responds to the hypotheses. Subsequently, these are further discussed in section 6 and the resulting limitations of the thesis are presented. Finally, a conclusion and an outlook for further research questions in this direction is given.

## **2. Literature Review**

### **2.1 Corporate Political Activity**

In the last decades, research on corporate political activity (CPA) has gained increasing interest. CPA is a component of a firm nonmarket strategy and broadly defined as a corporate strategy to influence political members and shape government policy (Hillman et al., 2004). According to, resource dependence theory, CPA is a way for organisations to reduce environmental interdependence and uncertainty stemming from the political environment (Hillman et al., 2009). CPA includes appointing politicians to corporate boards, making campaign contributions to politicians via political action committees (PACs), and investing in business-government relations through lobbying (Baysinger, 1984; Hersch et al., 2008). CPA is researched primarily in order to explain corporate success and performance, with the majority of those findings suggest a positive relationship (Hadani et al., 2017; Hill et al., 2013; Hillman et al., 2004). Besides an increased firm performance, resulting benefits of CPA to the firm include reduced political uncertainty and transaction costs, and increased long-term sustainability (Hillman et al., 1999), which may also explain how organizations obtain a competitive advantage by obtaining valuable, rare, non-substitutable, and imitable resources from the external environment (Hillman et al., 2009).

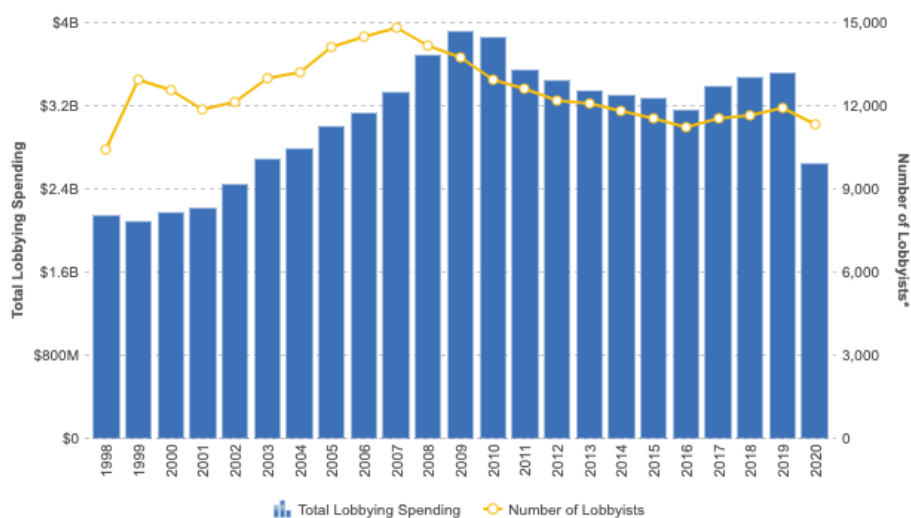
Existing research also evaluates the triggers and reasons for corporate political activities. Some scholars for example show that companies increase their CPA (lobbying expenditures) if they are more dependent on politics, such as firms operating in heavily regulated industries (Hillman et al., 2004), when there exists political and economic uncertainty, as well as to block and thereby avoid unfavorable regulations before they materialize (Bonardi et al., 2005; Meznar & Nigh, 1995). Contrary to that, Drutman (2015) argues that lobbying is a rather proactive approach to change the status quo and advance firm-friendly regulations. The major issues in both financial services (Gramm-Leach-Bliley Act) and telecommunications (Telecommunications Act of 1996) industry for example were successful changes of the regulatory rules in those industries.

## 2.2 Corporate Lobbying

According to the literature, the most well established and widely used CPA approaches in the United States entail the supply of politicians with information (lobbying) or support through financial assistance (campaign contributions) (Bonardi et al., 2005; Hillman & Hitt, 1999). But this does not mean they are substitutes. As Hersch et al. (2008) find out, more than half of the companies engaged in political activities invest in both areas (contributions and lobbying). Whereas political contributions are mainly designed to support politicians for a short-term period to assist them in the election or re-election process, lobbying is a tool to provide information and create a long-term relationship between companies and politicians while they are serving in office. Thus, political contributions can be seen as an access card to the political domain, whereas lobbying can influence how politicians act. In addition, lobbying expenditures can be more effectively used to target certain company issues. This makes lobbying much more interesting for this study, since it is not the influence of CPA on the political environment that is being tested, but rather the opposite impact of the political environment on corporate political investments.

As Drutman (2015) points out in his study, lobbying expenditures are continuously increasing over the last decades and especially since the mid-1990s after the Republicans took control over the congress. Moreover, lobbying expenditures outperformed direct political donations, which are limited to \$5,000 USD per election and politician, after companies had realized the benefits of effective lobbying (Unsal et al., 2016). As shown in Figure 1, lobbying expenditures steadily increased from 1999 onwards and had their peak in 2009 with \$3.91 billion USD.

Figure 1. Total Lobbying Expenditures & Lobbyists



Note: This figure shows the total number of registered lobbyists per year as well as total registered lobbying expenditures. The figures on this page are calculations by the Center for Responsive Politics. More information can be drawn from: <https://www.opensecrets.org/>. The numbers are adjusted for inflation.

On the basis of Choi et al. (2015) and Drutman (2015), empirical literature on lobbying has focused primarily on understanding the rationale for lobbying expenditures, its effectiveness as well as its financial results. For example, Hill et al. (2013) note that lobbying firms are larger and located in more concentrated industries. They also find empirical evidence that firms that lobby most actively emerge with greater potential profits from favorable policy and regulation. Furthermore, Ridge et al. (2017) studied the relationship between lobbying breadth and firm outcome and find supporting results that firms benefit most from effectively targeting their lobbying expenditures. In other words, the more and broader lobbying expenditures are not always the better, instead they have to be applied in a focused approach in order to obtain the greatest possible benefits. Nonetheless, hardly any studies exist that examine how companies strategically adapt their lobbying expenditures to the changing political environment.

### 2.3 Republican Presidency

In theory, since lobbying is intended to influence policymaking by supporting political office holders, such politicians should be willing and able to do so. Therefore, organizations have to select politicians who support their positions and are sympathetic to them. Due to the reason that Republicans are known to be more business-friendly and tend to intervene less in the

economy than their Democratic opponents (Potrafke, 2017), it may make more sense for companies and interest groups to lobby if the government is led by Republicans. On the other hand, one might argue that it is more appropriate for firms to lobby when a Democrat is holding the presidency. Democrats are known to be more active in policymaking by issuing more bills than their Republican counterparts (Grossman et al., 2016), and companies are known to invest in lobbying in order to respond to governmental threats (Hillman et al., 2009). Despite, to define which political structure is preferable for lobbying expenditures, it is important to understand the underlying nature of both Republican and Democratic administrations.

Democratic politicians want to be seen as responsive to social problems. Thereby, they must respond to constantly changing amounts of information from the broad public and address newly emerging social problems or past policy failures (Grossman et al., 2016). Conversely, Republicans are less likely to change their positions on an issue in response to new information because they are in fact often based on ideological principles (Grossman et al., 2016). Since Democrats deal with a broader range of public issues (unemployment, income inequality, etc.) (Potrafke, 2017), corporate interests may often fall on the wayside as they compete with many other issues on the agenda. Consequently, despite a heavy effort and high lobbying expenses, other rather social concerns, would probably still be more likely to prevail. Therefore, it may make more sense to invest during a U.S. Republican presidency, as companies sense an opportunity to leverage their lobbying expenditures and allocate them more successfully, because interests are clear, fluctuate little, and are seen as supportive to corporate welfare. Through increased lobbying efforts, firms can push forward more policies that are favorable to them and difficult for Democrats to reverse. However, companies have to compete with multiple other industries and firms to present and prioritize their issues, since a Republican term might be relatively short, and one wants to accomplish the maximum possible before Democrats regain power.

Additionally, according to Sabherwal et al. (2017), CPA in the business sector (favored by Republicans) amounts to more than 88% and the labor sector (favored by Democrats) accounts for much less, with 1.48%. Combined with the knowledge of Nalick & Kuban (2019) that political dissonance has a rather negative impact on CPA and companies specifically support politicians that are ideologically aligned with their own interests, those

findings provide compelling indications to suppose that lobbying expenditures will rise during a U.S. republican presidency. Hence the first Hypothesis is the following:

*H1: Lobbying expenditures will be positively related to a U.S. republican presidency.*

Since ideological dissonance is negatively related to lobbying expenditures, the opposite, that ideological alignment is positively related to lobbying expenditures, should be expected as well. By lobbying opposing politicians or open seats, organizations may face more risk and are less certain to be successful.

## **2.4 Corporate Ideological Alignment**

As Hall & Deardorff (2006) indicate in their study, lobbying is not a strategy to change the attitude and policies of politicians, but rather to promote those who already support the company's own interests in order to leverage investments as well as knowledge for policymaking. Taking into account that lobbying is not simply a form of influence, but rather a long-term relationship of information exchange, it can be argued that companies who are ideologically aligned with the President have increased reasons to invest in the White House. Empirical evidence suggests that indeed may be the case. For example, Furnas et al. (2019) find that companies that have the same ideological orientation as the party that controls the White House gain higher revenues and conversely suffer losses if this party loses control. Ideological consistency between organisations and presidential members has also been found to be relevant to obtain access to White House representatives (Holyoke, 2004). Thus, in order to establish a connection as cost-efficient and successful as possible, like-minded partners are advisable. Correspondingly, Grier & Munger (1993) note that political members charge much less if the ideological preferences of their supporters and organisations are aligned with their goals and interests. This is linked to the implications of Unsal et al. (2016), that lobbying activity is determined by the respective costs, and corporate political engagement is considered attractive when the benefits outweigh the resulting costs (Lux et al., 2011). This may also indicate that corporations are more likely to engage in lobbying if they sense an opportunity in the political arena, which is the case for most Republican-oriented corporations when Republicans control the White House, and the cost-benefit ratio of lobbying seems more rational and efficient. Combined, these studies seem to suggest that to achieve a favorable outcome, firms are better off by putting their resources to the party which

they are sure has the same ideology and goals. Considering the above-mentioned arguments and building on Hypothesis 1, it can be expected that the impact on lobbying expenditures during a U.S. republican presidency is even stronger for the firms who are ideologically aligned.

*H2: The positive relationship between a U.S. republican presidency and corporate lobbying expenditures will be stronger for firms with a conservative organisational ideology.*

Corporations and business associations invest in lobbying for favorable policy outcomes, as well as against taxes and laws. But, even though the President of the United States has the power to appoint politicians and represents the executive, it is the legislatures and not the executives that write and enforce policies. Hence, it is favorable for companies and business organisations to engage in lobbying across all political entities. (Constantelos, 2018)

## **2.5 Majority in Congress**

Although it would also make sense to assume that CPA spending intensifies when there is more competition between parties, because organisations and interest groups need to increase efforts with both governing and opposition parties, I expect the exact opposite. Building on the arguments for Hypothesis 1, interest groups require more than just the President acting on their behalf in order to successfully implement new policies. To pass as many favorable policies as possible, they need total legislative power in the government. Thereby, possible legislative gridlocks caused by opposing positions can be avoided (Binder, 1999). In a divided government structure, policies may be blocked or delayed until there is a change of power (Binder, 1999). Choi et al. (2015) come to similar results and find that a split government is negatively associated with policy outcome. Additionally, Sabherwal et al. (2017) show that it is more difficult for a Republican presidency to influence the economy or policymaking if the Democrats control both chambers in Congress. But, the influence of the Presidency increases if the Republicans also control at least one of the two chambers in Congress. Therefore, significant policy changes are more difficult to achieve under conditions of divided government.

This leads to the suggestion that a presidency without corresponding power in Congress would promise the least success. More promising is an additional force in at least one

chamber of Congress, since blocking initiated policies of the Democrats and securing the status quo is already a success for Republicans (Grossman et al., 2016). However, they also want to achieve favorable policies that are difficult to revise, which is most promising with a majority in Congress. Therefore, they have to push their own concerns against many other issues and industries within a limited time frame, which is why I expect a positive association between a corresponding majority in Congress and lobbying expenditures. Since I anticipate, as described in chapter 2.3, that lobbying will be more intense during a U.S. republican presidency, and a majority in Congress improves the potential for a rewarding lobbying investment, I thereby suggest that lobbying expenditures will be even stronger if the Republicans also have a majority in Congress.

*H3: The positive relationship between a U.S. republican presidency and lobbying expenditures will be stronger under a more Republican-controlled Congress*

### **3. Methodology & Sample**

In this paper, I examine the relationship between political party affiliation of the U.S. President and the level of corporate lobbying expenditures, to understand whether companies adapt their strategy to the present political environment in terms of political activities. Specifically, I investigate whether the political party affiliation of the president, the majority in Congress, and organisational ideologies influence this decision while controlling for company-specific characteristics. A long-term study of 1001 companies in the U.S. over a period of 22 years is used to analyze this. Therefore, specifically created data sets are utilized to analyze the assertions made before. These consist of data on all companies in the S&P 500 during the years 1998-2019, their lobbying expenditures, the corresponding CEOs, as well as their donations to U.S. politicians. In addition, data is collected on U.S. presidencies, their party affiliation, and which party controls the majority in Congress during this period. Finally, company and industry-specific control parameters such as firm size, firm performance, and regulated industries are included to ensure reliable and representative results. For this purpose, the databases of Compustat, the FEC, and CRP are used, which are thoroughly searched, merged, and cleaned up. These data sets and the applied procedures are described in more detail below. Also, a general overview of the data, and some summary statistics on it will be provided.

### 3.1 Firm-level Data

In order to achieve a satisfactory amount of data and to provide a meaningful representation of the companies in the U.S., all companies that were part of the S&P 500 at any point during the period 1998-2019 are included in this study. This data is taken from Compustat<sup>1</sup>, which provides specific financial and statistical market data. The extracted sample consists of 1098 companies. After checking for duplicates and identical companies with the added suffix (-old), 1038 companies remain. For each of those companies, the company name, their SIC code and the time included in the S&P 500 are taken.

Bonardi et al. (2005) and Hill et al. (2013) have found that lobbying expenditures are closely correlated with the size and performance of a company which indicates that larger and more successful firms are more likely to invest in lobbying. Therefore, the control parameters company size, measured by the total assets of the company and the relative performance, measured by the calculated ROA<sup>2</sup>, are added to the data set. Moreover, Bonardi et al. (2005) found out that companies invest more in CPA when they are heavily regulated. Grier & Munger (1993) also find increased contributions for organizations in more regulated industries. As lobbying activities might be more important to firms in industries that are more closely tied to government and interventions, industry regulation will be added to the dataset as well. Hence, I follow the example of Roberts & Werner (2015) and draw on their work to measure industry regulation. In order to do so, I transform the companies Standard Industrial Classification (SIC) code into Fama & French code 48 and classify each company regulated or not, based on the industry it belongs to<sup>3</sup>. Based on this classification 42.4% of the firms in the sample operate in regulated industries and the remaining 57.6% in unregulated industries.

The data on lobbying expenditures, the dependent variable of this study, is taken from the Center of Responsive Politics (CRP)<sup>4</sup> database. The Lobbying Disclosure Act (LDA) of 1995

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<sup>1</sup> For further information about Compustat and the here used S&P 500 database, see S&P/Compustat. Retrieved from Wharton Research Data Service, <http://wrds-web.wharton.upenn.edu/wrds/>.

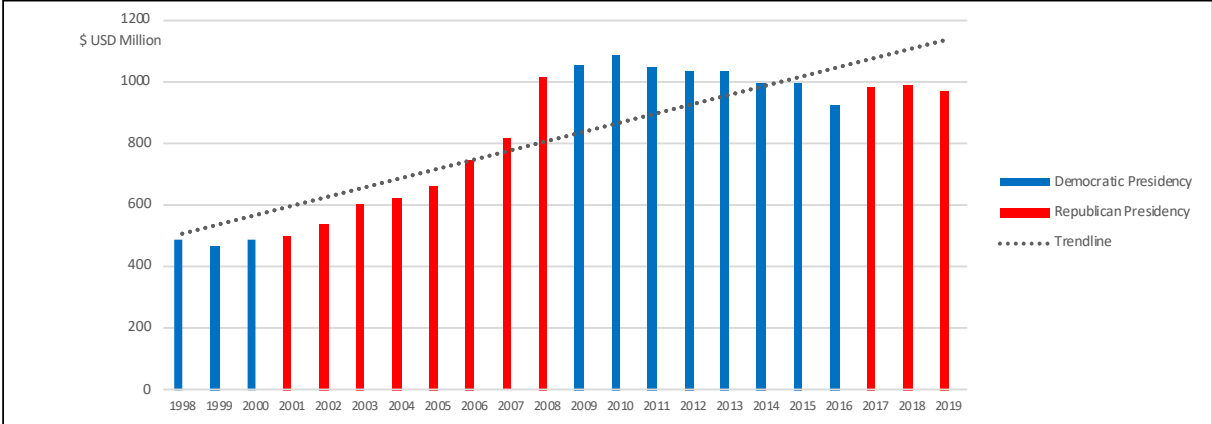
<sup>2</sup> The Return on Assets is calculated using the example of WWU Muenster. Retrieved from [https://www.wiwi.uni-muenster.de/uf/sites/uf/files/2017\\_10\\_12\\_wrds\\_data\\_items.pdf](https://www.wiwi.uni-muenster.de/uf/sites/uf/files/2017_10_12_wrds_data_items.pdf).

<sup>3</sup> Regulated Industries: Beer & liquor; Tobacco products; Pharmaceutical products; Shipbuilding & railroad; Defense & guns; Precious metals; Petroleum & natural gas; Utilities; Communication; Transportation; Banking; Insurance; Trading.

<sup>4</sup> For further information about Corporate Lobbying expenditures, see Home/Influence & Lobbying/ Lobbying. Retrieved from Center for Responsive Politics, <https://www.opensecrets.org/federal-lobbying/>.

requires companies to disclose their lobbying activities in semi-annual reports. The followed Honest Leadership and Open Government Act of 2007 even insists on quarterly reports on the disclosure of lobbying activities from 2008 onwards. When comparing the two databases, it is noticeable that a vast number of companies have different company spellings, company names have changed over time, or abbreviations are used (e.g. U S Bancorp instead of US Bancorp; RS Legacy Corp instead of Radio Shack; Electronic Data Systems instead of EDS; Twenty First Century Fox instead of 21st Century Fox; Dillard's Inc instead of Dillards Inc; Andeavor instead of Tesoro; etc.). To provide the best possible conformity of companies and to assure that the data is presented correctly, each company is separately extracted and manually reviewed from the CRP database. Thereafter, each company is checked for name changes, abbreviations, acquisitions, mergers and other spelling differences, before being added to the final database. After reviewing the companies in the S&P 500 of 1998-2019 and removing those where no 100% confident match could be found, 1001 of the 1038 companies remain. Of these 1001 companies, 171 had no lobbying expenditures reported. Since lobbying activities are regulated by law such that any company involved in lobbying activities must declare its lobbying expenses, it can be assumed that those companies with no registered expenses have none. Accordingly, these companies are assigned the value zero for the given time frame. Following, the semi-annual data from 1998-2007 and from 2008 onwards the quarterly lobbying data is summed up and shown as the total for each year. As shown in Figure 2, the total lobbying expenses of the sample firms increased from \$488 Million USD in 1998 to \$964 Million USD in 2019; an increase of almost 100%.

Figure 2. Total Lobbying Expenditures (1998-2019)



Note: This figure displays the total lobbying expenditures of the created sample from 1998-2019. The years are clustered by the Party affiliation of the U.S. Presidency including a general trendline for the whole period.

An indicated trend in lobbying expenditures towards a republican preference can already be observed in the illustration. Table 1 provides detailed statistics on the lobbying expenditures and activities of the sample companies over the entire period. The minimum number of companies that lobby in a given year is 398 in 1998 and the maximum number increases to 503 companies in 2010. The general increasing trend in lobbying activities can also be seen in column 3 in the percentage increase of active lobbying companies. The increase corresponds to a growth of 19% between 1998 and 2019 of companies who engage in active lobbying in this sample. The numbers also indicate an increase in total spending on lobbying, as already noted. In column 4 the annual lobbying expenditures of the sample companies are represented. In addition to the above-mentioned doubling of lobbying expenditures, the total lobbying expenditures over the entire period of investigation amount to over \$18 billion USD.

Table 1. Lobbying Statistics of the Sample Firms

<b>Year</b>	<b>Akt. Lobbying Firms</b>	<b>In %</b>	<b>Total lobbying expenditures (million \$)</b>
1998	398	39,8%	487,7
1999	419	41,9%	468,8
2000	409	40,9%	487,3
2001	419	41,9%	498,1
2002	435	43,5%	538,8
2003	467	46,7%	601,7
2004	477	47,7%	622,9
2005	471	47,1%	663,8
2006	478	47,8%	745,3
2007	488	48,8%	813,8
2008	499	49,9%	1006,3
2009	502	50,1%	1047,2
2010	503	50,2%	1076,3
2011	493	49,3%	1037,9
2012	483	48,3%	1022,4
2013	483	48,3%	1025,7
2014	489	48,9%	989,1
2015	494	49,4%	988,1
2016	471	47,1%	917,3
2017	480	48,0%	977,1
2018	483	48,3%	983,9
2019	473	47,3%	963,9
<b>Total</b>	<b>1001</b>	<b>100%</b>	<b>18656,7</b>

### 3.3 Presidency and Majority in Congress

Data on the U.S. President and which party is in control of the Senate, and the House of Representatives for the given time frame is gathered from the official government websites of each governmental body<sup>5</sup>. Measuring government ideology is pretty straight forward. The president was assigned the respective party with which he or she ran for the presidency. In the Senate and House of Representatives, the majority was given to the party that held > 50% of the seats in the respective chamber. In case of a tie in the vast part of a 2-year period, the term was marked as "TIE". Table 2 lists all presidential election terms, the elected president, his political party affiliation, and the majorities in Congress from 1998 to 2020.

Table 1. Lobbying Statistics of the Sample Firms

Term	President	Party Affiliation	Subperiod	Majority in Senate	Majority in House
1997–2000	William J. Clinton	Democratic	1997–1998	Republican	Republican
			1999–2000	Republican	Republican
2001–2004	George W. Bush	Republican	2001–2002	Tie	Republican
			2003–2004	Republican	Republican
2005–2008	George W. Bush	Republican	2005–2006	Republican	Republican
			2007–2008	Tie	Democratic
2009–2012	Barack Obama	Democratic	2009–2010	Democratic	Democratic
			2011–2012	Democratic	Republican
2013–2016	Barack Obama	Democratic	2013–2014	Democratic	Republican
			2015-2016	Republican	Republican
2017-2020	Donald J. Trump	Republican	2017-2018	Republican	Republican
			2019-2020	Republican	Democratic

During the mentioned period, a Republican President inhabited the oval office for 11 years as well as a Democratic President for the same period. Hence, the sample is evenly split. In Congress, the distribution is somewhat different. During the sample period the Republicans held the majority in the Senate for 12 years (7 during a Republican presidency), the Democrats only 6 (all during a Democratic presidency). For the remaining 4 years, the seats were evenly allocated. In the House of Representatives, the Republicans had the majority for 17 years (8 during a Republican presidency) and the Democrats for 5 years (2 during a Democratic presidency).

<sup>5</sup> For further Information on Majorities in Congress visit United States Senate website and the History, Art & Archives website. Retrieved from <https://www.senate.gov/history/partydiv.htm> & <https://history.house.gov/Institution/Party-Divisions/Party-Divisions/>

### 3.4 Corporate Political Ideology

To determine the political leaning of the companies, the political orientation of the CEOs of each company are examined. The political ideology of the company is determined by the political orientation of the CEOs since the CEOs have the most decision-making power and are also seen by shareholders as the driving force of the company. (Bebchuk & Jackson, 2010; Cohen et al., 2019) In order to analyze the CEOs of the 1001 companies in the sample, another dataset was created, listing all CEOs during the 22 years from 1998-2019. As many companies have changed their CEO during this period, many more than once, at the end of the process the database contains 2213 individuals who served as CEOs of a company in the S&P 500. To identify the political orientation of the CEOs, political contributions made by a CEO during his or her time as CEO are considered. The data on political contributions is publicly available and can be extracted from the Federal Election Commission (FEC)<sup>6</sup> database. Assigning the contributions made to the appropriate CEOs and the firm creates the same problem as before with the allocation of lobbying expenses. The difficulty is that many times abbreviations of names are used, the middle name is included, or an add-on like Jr. is used (e.g. Steve instead of Steven; Robert B. Shapiro instead of Robert Shapiro). Although the database displays the home address and employer etc., those are missing or incomplete in many reports. Thus, to identify which of these donations are made by CEOs of S&P 500 companies, I cross-check the FEC database with my CEO database. To achieve the highest possible match rate here as well and to avoid errors, the employer is included in the matching process in addition to the first, middle and last name. In particular, a match is found if all attributes correspond. In addition, to consider nicknames and missing middle names, a match will also be found if only the last name, the first 3 letters of the first name and the employer match. If the company name is missing, a hit is only given if the first, middle and last name match.

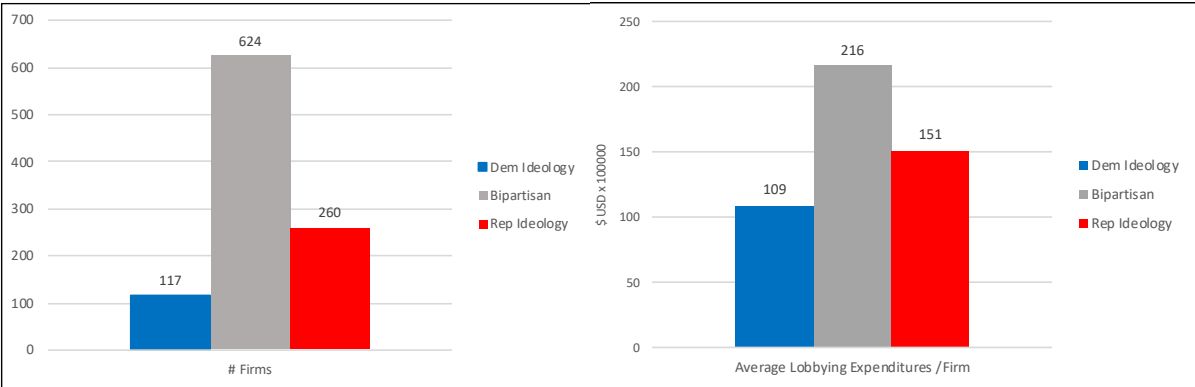
As Furnas et al. (2019) find out in their study, in which they compared lobbyists' campaign contributions with fixed measurements and variable measurements over time, companies have highly consistent party affiliations over the years. Therefore, in order to assign a specific

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<sup>6</sup> Data on political contributions can be downloaded from the following webpage of the FEC: <https://classic.fec.gov/finance/disclosure/ftpdet.shtml>.

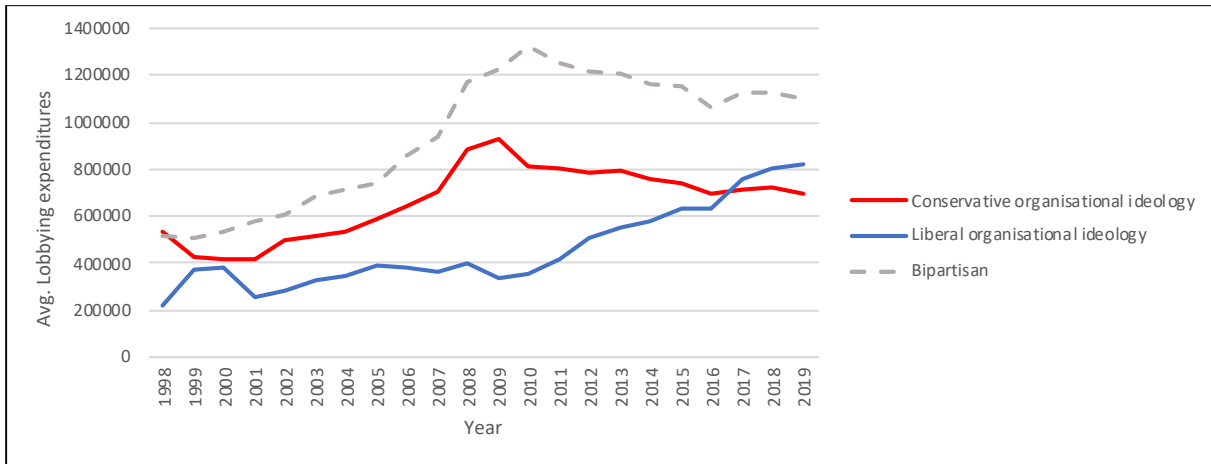
political ideology to each company, the CEOs' contributions of each firm are summed up by party affiliation and the company is assigned a corresponding ideology. Hereby I follow the example of Cohen et al. (2019) who use different thresholds (66.7% and 75%) for assigning specific party affiliations. In this case, to set a comparable benchmark, the threshold 70% is chosen in this study. Hence, if more than 70% of the total contributions of the companies' CEOs between 1998 and 2019 are made to one party, the company will be assigned that political ideology. If less than 70% of the contributions go to one party, the company is considered indifferent. As a result of the process, no ideology can be assigned to 190 companies. For these companies, either none of the CEOs made a contribution during the period described, or the matching process could not find a match between the names. Accordingly, these companies are classified as "Bipartisan". As shown in figure 3, 260 companies were found to have a strong conservative organisational ideology as reflected in the allocation of the vast majority of their CEOs political contributions to Republicans.

Figure 3. Number of Firms & Average Lobbying Expenditures (clustered by ideology)



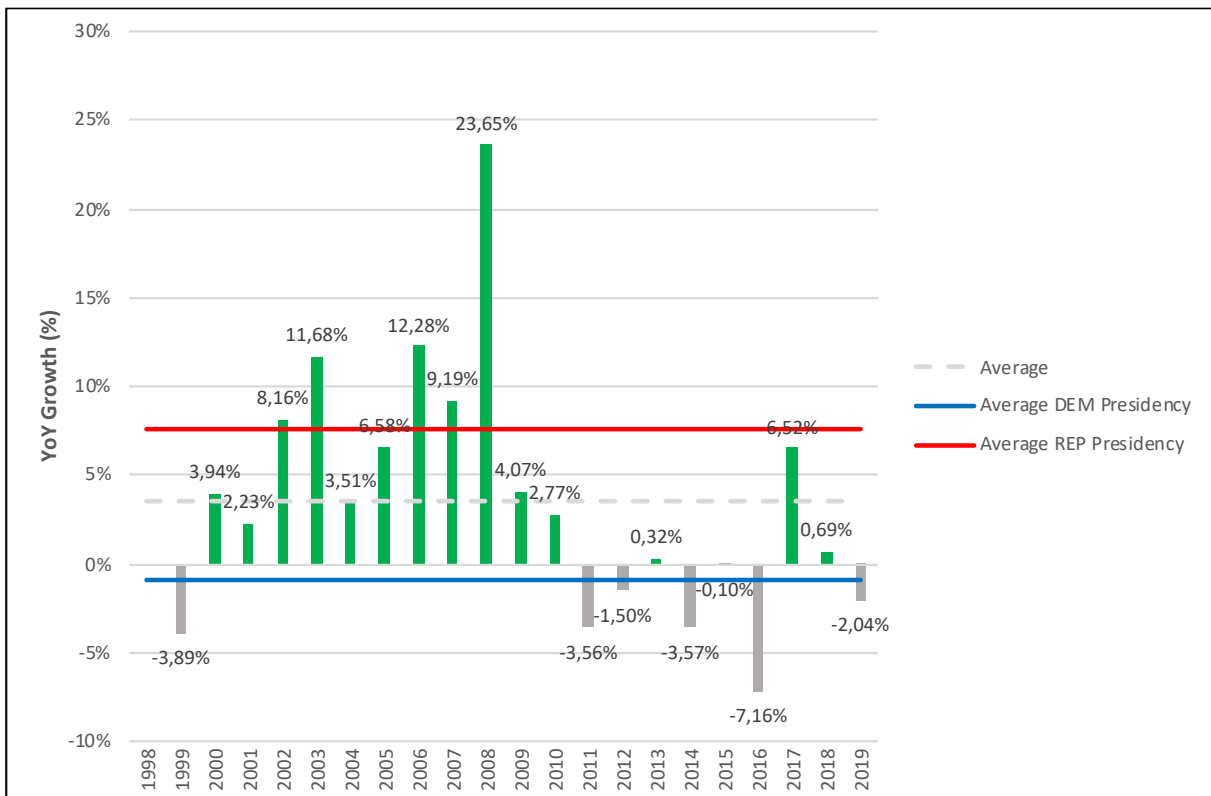
This is more than twice as many companies as the 117 firms that pursue a rather liberal organizational ideology and spend most of their contributions to Democrats. However, 624 companies donate to both parties and are therefore considered bipartisan. Even more insightful, companies with conservative organizational ideologies have on average substantially higher lobbying expenses (\$151 million) than those with democratic ideologies (\$109 million). The greatest lobbying expenditure, though, is spent by the companies that donate to both groups (\$216 million). Besides, figure 4 already highlights a trend that indicates that companies with republican organisational ideologies lobby more intensively during a republican presidency and that their lobbying expenditures decrease during a democratic presidency. A similar relationship can be seen between democratic organisational Ideology and a democratic presidency.

Figure 4. Average Lobbying Expenditures clustered by Firm Ideology (1998-2019)



It is also interesting to note in Figure 5 that the average YoY-change in lobbying expenditures over the entire evaluation period is 3.55%, but a clear distinction can be seen when considering the different presidential terms. The average YoY-growth during a Republican presidency is 7.55%, while the YoY-growth rate during a Democratic presidency is actually negative, at -0.87%. In addition, throughout the Republican administration, almost all years show positive developments and an upward trend, while during the Democratic administration nearly all years show negative performance and a downward trend.

Figure 5. YoY-Growth of Lobbying Expenditures clustered by U.S. Presidency (1998-2019)



## 4. Analysis & Regression

The impact of a U.S. republican presidency, a conservative organizational ideology, and a Republican majority in Congress on the intensity of lobbying activity is analyzed as a multivariate model, with repeated non-varying statements for years. Using data from 22 years and 1001 companies, the final panel dataset is strongly balanced with 22022 cases in the sample. As shown in table 3, due to missing data for firm size and firm performance, the regression analysis includes 16455 observations.

Table 3. Descriptive Statistics of the Study Sample

Variable	Descriptive Statistic				
	Obs	Mean	Std. Dev.	Min	Max
Company	22,022	501	288.970	1	1001
Year	22,022	2008.5	6.344	1998	2019
Lobbying expenditures (in \$ millions)	22,022	.816	2.160	0	45.51
U.S. Presidency	22,022	.5	.500	0	1
U.S. Congress	22,022	.659	.380	0	1
Conservativ organisational Ideology	22,022	.259	.438	0	1
Firm size (nat. log total assets)	16,544	3.937	.697	.602	6.534
Firm performance (ROA)	16,455	.046	.394	-5.778	46.45
Regulated industry	22,022	.423	.494	0	1
Liberal organisational Ideology	22,022	.117	.321	0	1

*Note:* This table shows descriptive statistics of the variables used in the regression analysis. Time frame 1998-2019. Missing observations for firm size and firm performance resulting in (N=16455) observations.

Prior to performing the regressions, it must be examined whether fixed or random effects are present in the panel data. Since I believe that differences between items have some influence on the dependent variable (lobbying expenditures), it is appropriate to use the random effects model. (Hun, 2011; Torres-Reyna, 2014) Another advantage of the model of random effects is that time-invariant variables can be included (e.g. regulated industry, organizational ideology). In the fixed effects model these variables would be absorbed by the intercept. (Torres-Reyna, 2014) In order to support this presumption, the F-test for fixed effects model, the Breusch-Pangan LM test for random effects model and eventually the Hausman test were applied to examine which model fits the data most. (Hun, 2011) The corresponding findings show that random effects model is suitable and more appropriate. Therefore, a one-way random effects model with fixed year dummies is conducted with the option to control for heteroskedasticity.

The following basis regression model is applied to test the previously made Hypotheses:

$$le_{it} = \beta_0 + \beta_1 presi + \beta_2 repfirm + \beta_3 congress + \beta_4 logta + \beta_5 roa + \beta_6 regulated + \beta_7 demfirm + \varepsilon_{it},$$

As the dependent variable to measure the level of CPA, as previously stated and explained, the *lobbying expenditures* of each company is used. Lobbying expenses are given in \$USD / 1 million. The independent variable used to test Hypothesis 1 is *Republican Presidency*. For each year a dummy variable is created with the value = 0 if the U.S. president is a Democrat and with the value = 1 if the U.S. president is a Republican, respectively. To test Hypothes 2 and 3, the independent variables *Conservative organisational ideology* and *Republican Congress* are generated. For *Conservative organisational ideology*, each company is assigned the dummy value = 1 if the company has a conservative organisational ideology and the value = 0 otherwise, meaning that not only all companies with a liberal organizational ideology are assigned the value = 0, but also all bipartisan companies. For *Republican Congress*, a dummy value = 0 is given each year if the Republicans do not have a majority in either of the two congress chambers, the value = 0.5 if the Republicans have a majority in either one of the two chambers and the value = 1 if they have a majority in both, the Senate and the House of Representatives.

The control variables include *Firm size*, *Firm performance*, *Regulated industry* and *Liberal organisational ideology*. The variable *Firm size* reflects the natural log of total assets for each firm. Total assets are transformed into the natural log to achieve normal distribution. The variable *Firm performance* provides the respective return on assets for each firm and the industry dummy variable *Regulated industry* assigns the value = 0 if the firm is operating in an unregulated industry and the value = 1 if the industry is regulated. As a complement to the independent variable *Conservative organisational ideology* the control variable *Liberal organisational ideology* is given the value = 1 if the company has a liberal organizational ideology and the value = 0 otherwise. Further, for the purpose of eliminating the generally ascending trend of lobbying spending over the years, a dummy variable *Year* is created to control for the existing time trend.

A total of five models were conducted to analyze the influences on the level of lobby expenditures. A control model excluding the *Republican Presidency* variable, model 1 including the *Republican Presidency*, model 2 with an added interaction of *Republican Presidency* and *Conservative organizational ideology*, model 3 with an added interaction of *Republican Presidency* and *Republican Congress*, and model 4 including both added interactions.

## 5. Results

Table 4 presents the cross-sectional mean values, the standard deviations as well as the pairwise correlations over the entire sample period. Correlations between lobbying expenditures and firm size, as well as regulated industry are moderately positive. All remaining correlations are close to zero.

Table 4. Descriptive Statistics and Correlations

Variables	Mean	SD	1	2	3	4	5	6	7	8
1. Lobbying expenditures	815704.7	2160420	–							
2. Republican Presidency	0.5	0.500	-0.0238	–						
3. Republican Congress	0.659	0.381	-0.0473	0.0597	–					
4. Conservative organisational ideology	0.259	0.439	-0.0415	0.0000	-0.0000	–				
5. Liberal organisational ideology	0.116	0.321	-0.0593	-0.0000	-0.0000	-0.2155	–			
6. Firm size	3.937	0.698	0.4768	-0.0061	-0.0491	-0.0484	-0.1362	–		
7. Firm performance	0.046	0.394	0.0084	0.0001	0.0135	0.0160	-0.0042	-0.0217	–	
8. Regulated industry	0.423	0.494	0.1640	-0.0000	0.0000	0.0040	-0.1105	0.3787	-0.0296	–

Table 5 provides the results of the regression analysis for all 5 models. The control model shows that several control variables have a significant impact on firms lobbying expenditures. As estimated, the parameters *Firm size* and *Regulated industry* are highly significant at the 0.01 level ( $p < 0.01$ ) and have a positive association with lobbying expenditures. This outcome is in line with the findings of Hill et al. (2013) and Hillman et al. (2004), who also identify firm size and industry regulation as determinants of CPA. The fact that *Firm performance* is not statistically significant could be explained by the assumption that companies are more likely to take advantage of other investment opportunities in times of economic upswing and financial strength (Hadani & Schuler, 2013). The first Hypothesis states that lobbying expenditures are significantly higher during a U.S. republican presidency.

Table 5. Regression Estimates for Models with Lobbying Expenditures as the Dependent Variable

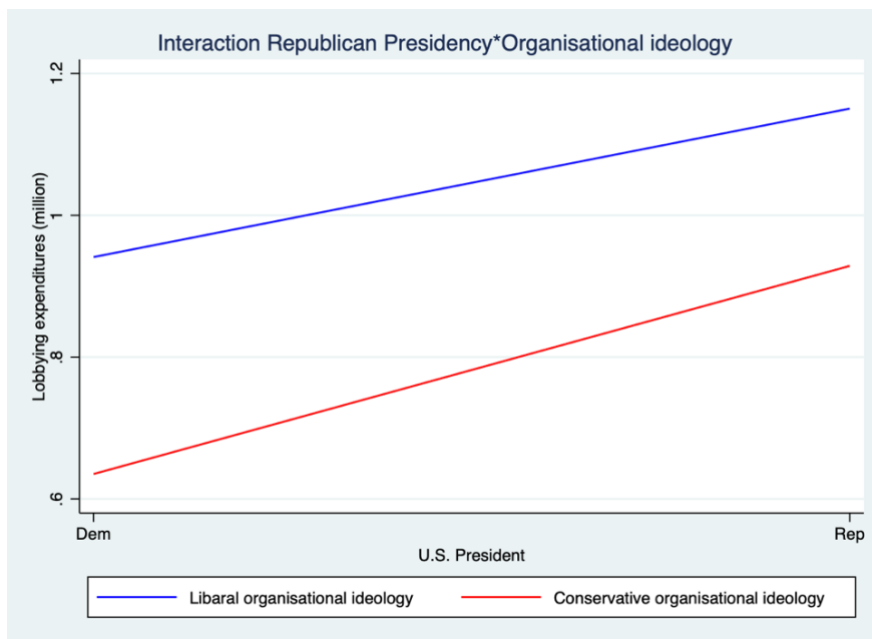
Model	Lobbying Expenditures				
	Control	Model 1	Model 2	Model 3	Model 4
Year (dummies)					
Firm size	0.803** (0.038)	0.803** (0.038)	0.804** (0.038)	0.803** (0.038)	0.804** (0.038)
Firm performance	0.024 (0.026)	0.024 (0.026)	0.024 (0.026)	0.024 (0.026)	0.024 (0.026)
Regulated industry	0.0387** (0.109)	0.0387** (0.109)	0.0387** (0.109)	0.0387** (0.109)	0.0387** (0.109)
Liberal organisational ideology	-0.244 (0.167)	-0.244 (0.167)	-0.244 (0.167)	-0.244 (0.167)	-0.244 (0.166)
Conservative organisational ideology	-0.265* (0.122)	-0.265* (0.122)	-0.306* (0.124)	-0.265* (0.122)	-0.306* (0.124)
Republican Congress	-0.416* (0.147)	0.051 (0.140)	0.051 (0.140)	-0.490** (0.135)	-0.490** (0.135)
Republican Presidency		2.33** (0.71)	2.09* (0.72)	-3.07* (1.53)	-3.32* (1.53)
Republican Presidency*Conservative organisational Ideology			0.084* (0.042)		0.084* (0.042)
Republican Presidency*Republican Congress				0.541* (0.194)	0.541* (0.194)
Constant	-1.969** (0.232)	-2.436** (0.212)	-2.427** (0.212)	-1.896** (0.219)	-1.886** (0.219)
Observations (N)	16445	16445	16445	16445	16445
$\sigma^2(u)$	1.596	1.596	1.594	1.596	1.594
$\sigma^2(v)$ ; SEE	1.215	1.215	1.215	1.215	1.215
Theta ( $\theta$ )	0.8398	0.8398	0.8396	0.8398	0.8396

*Note:* This table reports GLS estimates of the impact of a U.S. republican presidency, a Republican organisational ideology and a Republican Congress on lobbying expenditures. Robust standard errors (clustered by firm) are presented in the parenthesis under the coefficient estimates. \* and \*\* indicate the regression coefficients are significantly different from zero at the 5% and 1% level, respectively. \*\*  $p < 0.01$ , \*  $p < 0.05$ .

Model 1 tests the first Hypothesis, which predicts that lobbying expenditures are significantly higher during a U.S. republican presidency. Controlling for *Firm size*, *Firm performance*, *Regulated industry* and time trend *Year*, I find that a U.S. republican presidency is indeed positively associated with lobbying expenditures and statistically significant at the 0.01 significance level ( $p < 0.01$ ). As shown in Table 5, the coefficient  $\beta = 2.33$  is positive for model 1, indicating an expected positive impact of a U.S. republican presidency on Lobbying expenditures. Consequently, the results confirm Hypothesis 1.

Hypothesis 2 suggests that this positive effect will be even stronger for companies that have a more conservative organizational ideology. I also find evidence and support for this Hypothesis. As shown in Table 5 (Model 2), the interaction between a U.S. republican presidency and a conservative organizational ideology is positive at the 0.05 significance level ( $p < 0.05$ ). The coefficient for the interaction is  $\beta = 0.084$ . The results are also consistent in the full model, model 4, which incorporates all interaction terms.

Figure 6. Interaction Effect between U.S. Presidency and Firm Ideology on Lobbying Expenditures

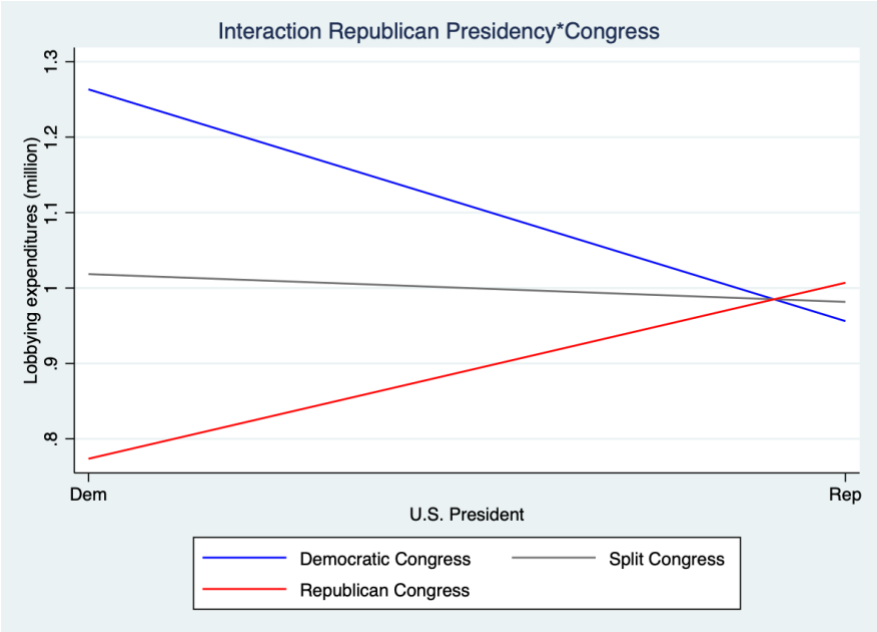


Note: This margin plot graphically displays the interaction effect of a U.S. republican presidency and a conservative organisational ideology on lobbying expenditures (in \$ million). The x-axis represents the U.S. presidency with the value = 0 for Democratic (Dem) and the value =1 for Republican (Rep).

Figure 6 graphically demonstrates the positive moderating of a conservative organizational ideology on the relationship between a U.S. republican presidency and firms lobbying expenditures. As can be seen, the interaction slope is steeper for conservative-leaning firms which explains a stronger positive relationship between lobbying spending and a U.S. republican presidency for firms with conservative organisational ideologies. Hence, conservative organizational ideology does positively moderate the relationship between a U.S. republican presidency and lobbying expenditures, which confirms Hypothesis 2. Thereby, the interaction should not be misunderstood. Figure 6 could erroneously indicate that companies with liberal organisational ideologies have higher lobby expenses than companies with conservative organisational ideologies. That is however not compellingly the case, but rather the opposite. As already described and as can be seen in Figure 3 and Figure 4, lobbying firms with conservative organizational ideologies have on average significantly higher lobbying expenditures than liberal firms. In the analysis, however, all firms that do not have clearly conservative organizational ideologies are associated as liberal firms (also bipartisan firms). Consequently, the impression is created that companies with liberal ideologies lobby more, regardless of the party affiliation of the President which cannot be concluded.

Similar to Hypothesis 2, Hypothesis 3 tests the impact of a moderator on Hypothesis 1 and suggests that the relationship between lobbying expenditures and a U.S. republican presidency is positively enhanced by a more Republican-controlled Congress. Supporting evidence for this assumption can also be found (model 3 & model 4). The coefficient of the interaction between a U.S. republican presidency and a republican majority in Congress is significant at the 0.05 level ( $p < 0.05$ ;  $\beta = 0.534$ ) which means that there is a significant difference related to the majority in Congress during a U.S. republican presidency.

Figure 7. Interaction Effect between U.S. Presidency and Firm Ideology on Lobbying Expenditures



Note: This margin plot graphically displays the interaction effect of the U.S. President party affiliation and majority in Congress on lobbying expenditures (in \$ million). The x-axis represents the U.S. presidency with the value = 0 for Democratic (Dem) and the value =1 for Republican (Rep). The lines represent Democratic majority in both chambers (blue), divided Congress (grey) and Republican Majority in both chambers (red).

According to Figure 7, a Republican-controlled Congress does positively moderate the relationship between a U.S. republican presidency and lobbying expenditures. However, firms lobby most when there is a Democratic-controlled Congress combined with a U.S. democratic presidency. They lobby less during a Republican-controlled Congress combined with a U.S. republican presidency, followed by a Democratic-controlled Congress combined with a U.S. republican presidency. Least lobbying expenditures are recorded during a Republican-controlled Congress combined with a U.S. democratic presidency. Additionally, under a split Congress, lobbying expenditures do not appear to be affected by the party affiliation of the U.S. President, which indicates that the real target of lobbying expenditures and the driving

force in policymaking lies in the U.S. Congress. Still, under a split Congress, it can be noticed that firms lobby slightly more when a Democrat holds the presidency.

Overall, it appears that all the Hypotheses can be confirmed based on the results obtained in the analysis. A U.S. republican presidency combined with conservative political elements is stimulating increased interest for companies to engage in political activities and invest in lobbying.

## **6. Discussion**

For decades, extensive research with multiple theories has been conducted to understand and identify the determinants as well as the potential benefits of firms' political engagement (Hadani & Schuler, 2013; Hillman et al., 1999, 2004; Lux et al., 2011). Whether it is financial improvements due to more favorable tax laws or less regulation and intervention. And yet, researchers often struggle to provide a comprehensive answer to this question, and a clear explanation of whether lobbying is lucrative and worthwhile often remains unanswered, as to many factors influence this relationship or outcome.

The contradictory question however, whether companies align their political activities and engagement according to the constantly changing political environment, often remains untreated among researchers. Yet, as demonstrated in this study, several findings can be drawn from the variability of lobbying spending patterns observed over a longer period of time. The findings highlight that the present political structures, especially the political affiliation of the ruling party in a country can have a strong influence on the extent to which companies see an opportunity to invest in politics. In this context, the ruling party's position towards economic issues, as well as its perceived role regarding policymaking is particularly relevant.

Partisanship theory states that the contrasting extremes of party ideologies also have divergent approaches to policymaking, and that liberal-minded Democrats in particular have a tendency to intervene more in the economy and impose regulations on it, whereas conservative Republicans prefer to stay out of the economy by deregulating it (Potrafke, 2017). The resource dependency theory also states, besides other aspects, that especially in times of uncertainty companies seek proximity to the government and invest more money in CPA.

Therefore, the combination of these two theories would imply that in times of a democratic regime in power, which is said to be more pro-regulation, political uncertainty for firms increases and companies increase their lobbying expenditures in response to the threat they encounter. Conversely, it can be argued that companies are proactive in their investment in lobbying and are more likely to see it as a tool to change the status quo as well as to establish and maintain a long-term relationship with the government. Since this would be more feasible under a more business-friendly administration, one would expect lobbying investments to thus increase during a Republican Presidency.

My results based on 1001 S&P 500 companies over the time period of 22 years and many different government constellations reinforce the latter prediction and demonstrate that companies indeed see lobbying as an opportunity rather than a threat. Specifically, corporate lobbying expenditures are higher under Republican, rather than Democrat, Presidencies. As such, this study supports the findings of Drutman, (2015) who argues that companies first encounter in CPA as a response to a perceived threat from policymakers, but subsequently do not reduce their investment in lobbying afterwards. They rather continue to exploit them, once they realize the benefits and build up long-term relationships.

Although the regression analysis does not show a positive relationship between conservative organisational ideology and lobbying expenditures by itself, it is exciting to note, as shown in figure 4 that the behavior of lobbying spending correlates strongly with a U.S. republican presidency. In fact, this correlation is also true for a liberal relationship, but the effect is not as strong as for a conservative relationship, as can be seen in Figure 6. However, this may be due to the inclusion of bipartisan firms among liberal firms. Figure 4, in which the three parties are sorted, shows that strongly Democratic-leaning firms also tend to increase lobbying expenditures during presidential administrations of the same ideology. This in turn would explain that companies prefer politicians with the same political ideologies and perceive increased chances for successful cooperation. The results are also consistent with the conclusions of (Nalick & Kuban, 2019), who support the proposition that CEOs avoid ideological dissonance. This makes sense as it does not require great cost and persuasion.

Likewise, the significant positive interaction between a powerful conservative Congress and a U.S. republican presidency is apparently a reflection of the business-friendly policies of conservative entities. Sabherwal et al., (2017) provide a similar explanation for this effect.

The more conservative political power a system holds, the greater the opportunities to achieve its own firm interests. Figure 6 shows that the positive effect of a unified congress on lobbying expenditures holds under both a Democratic and a Republican president. Lobbying expenditures are higher with a corresponding majority in Congress of the same party as the President. Nevertheless, lobbying expenditures are highest under a Democratic combination of U.S. President and Congress. This can be explained by the assertion that Democrats are more likely to lobby for policy change since any change is less conservative (Grossman et al., 2016). Combined with the fact that the implementation of policy change is more promising with full force also in Congress because legislative gridlock is easier to avoid (Binder, 1999), firms might have to intensify their lobbying expenditures in order to block as many new initiated policies as possible.

Still, the firm's tendency to increase investments in lobbying activities during a U.S. republican presidency is further illustrated by Figure 5, which shows that the YoY-growth is substantially higher when Republicans are in office and negative during periods of liberal leadership. The general positive relationship between conservative orientations and lobbying expenditures is thus most probably due to a combination of multiple factors that come together. This can be described as a causality loop that is made up of the four Interrelations: 1. There are more conservative-oriented companies than liberal ones. 2: They prefer to donate to conservative politicians who share the same interests. 3. There are more conservative politicians with power when there is a Republican president and a Republican majority in Congress. 4. Those conservative politicians are more pro-business and easier to convince. Furthermore, conservative companies in my sample are greater in firm size and have been in business for a longer period, which can be another catalyst. Besides, relationships between companies and like-minded politicians are often built up over several years. Yet, when these politicians are deposed due to a change of power, companies lose their connection to the government. It is then very challenging to build new relationships, especially with politicians of the opposing party. (Holyoke, 2004; Nalick & Kuban, 2019) If the preferred regime comes back to power, old relationships can continue without new costs.

## **6.1 Limitations**

One of the common limitations in research, which also applies to this study, is missing or incomplete data. Since the data acquisition in this study was dependent on data from other organisations, not all data could be found. In particular, the observations for firm size and firm performance are not complete for each firm due to missing data in the Compustat database. As a result, companies with missing data for these variables could not be included in the analysis. Furthermore, the classification process of firm ideologies required some trade-offs. Firstly, not all firms could be assigned an accurate political ideology because some CEOs could not be precisely identified in the FEC database and others did not carry out any contributions. Consequently, these firms were automatically classified to a bipartisan organisational ideology. Secondly, companies that donated more than 70% of their contributions to one party were assigned to that party, respectively. In the course of the work, a different approach was considered more reasonable but could not be pursued any further due to time constraints and the enormous investment to acquire the data. Accordingly, no detailed classification about the strength of a firms' party affiliation could be made. An approach that is more appropriate would be to provide a percentage scale for each company which takes into account the degree of party affiliation. This would have eliminated the need for a binary bipartisan breakdown and might have led to more nuanced results. This approach could be reproduced in a future study. Furthermore, despite 22 years of data, the time frame to test the influence of the president's party affiliation on lobbying expenses is somewhat short, as only 4 different presidents were in office during this period. A study over an extended period of time would make the results in this study more accountable.

## **7. Conclusion & Future Research**

Based on the empirical results of this study, a clear trend of conservative superiority in the lobbying activities can be observed. Conservative tendencies within the government structure as well as within the corporate structure have a positive impact on the level of lobbying expenditures. Studies that focus on long term analysis in order to test the impact of political structures on the strategic decision of companies to adjust their political activities are still rare. The analysis of 1001 S&P 500 companies over the period 1998 - 2019 already provides a strong basis for further research in this direction. A further approach would be to review the political ideologies of the firms and determine whether this effect of split ideologies on CPA

is more pronounced in different industries or whether differences exist at the state level. In contrast to Sabherwal et al. (2017), who take a deeper look at conservative-leaning industries, it may be interesting to take a look at the tech or renewable energy sector and see if these rather liberal sectors prefer democratic structures.

Moreover, a possible trend can be identified, which could change the discovered statements in the future. There is an increasing number of liberal-oriented companies and also a growing number of companies that donate to both parties. From 1998 to 2019, the number of liberal-leaning companies engaged in active lobbying in my sample more than doubled, while the number of conservative-leaning companies with active lobbying expenditures remained almost unchanged. This may also be due to the fact that not only companies from regulated industries have recognized the advantages of lobbying and a rather proactive than reactive approach exists. An increasing bipartisan effect could be due to the fact that companies seek to build a foundation in both camps in order to avoid the costs of establishing new connections or even to discontinue lobbying as soon as there is a shift in power.

Also, in this context, it is very interesting to look at the connections between economic ups & downs and CPA. According to Blinder & Watson (2016), the economy grows more strongly under a Democratic term of office than under a Republican one. Nevertheless, lobbying expenditures do not increase to the same extent. It would be interesting to see if this effect of fewer lobbying activities during Democratic administrations has to do with economic security and because the economy is stronger. Therefore, there are better and more lucrative investment opportunities and there is no economic uncertainty that would explain rising lobbying spending. In this context, it could also be tested how the current power shift from Republicans to Democrats affects CPA over the next year.

Another potential issue that could not be included in this work is the current development of the Covid-19 pandemic. This kind of uncertainty has not been tested so far and is an extremely attractive possibility to test CPA behavior of firms. It would be interesting to see whether companies are increasing their lobbying expenses despite economic uncertainties and financial constraints in order to benefit from possible government measures.

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