The corporate value of (corrupt) lobbying

Alexander Borisov, Eitan Goldman, and Nandini Gupta*

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ABSTRACT

Using an event study, we examine whether the stock market considers corporate lobbying to be a value-enhancing activity. On January 3, 2006, lobbyist Jack Abramoff pleaded guilty to bribing politicians, which generated intense scrutiny of lobbyists, limiting their political influence. Using this event as a negative exogenous shock to the ability of firms to lobby, we show that a firm that spends $100,000 more cumulatively on lobbying in the three years prior to 2006, experiences a loss of about $1.2 million in value around the guilty plea. We also find suggestive evidence that part of the value from lobbying may arise from potentially unethical practices.

Keywords: Lobbying, shareholder value, corporate social responsibility, corruption, political connections.

JEL Classification: G14, G18, G38, D72

* Borisov is at the University of Cincinnati, Goldman and Gupta are at the Kelley School of Business, Indiana University. Email: alexander.borisov@uc.edu, eigoldma@indiana.edu, nagupta@indiana.edu. We are grateful to N.K. Chidambaram, Ray Fisman, Andrew Lo, Pedro Matos, Michael Hertzel, Nagpurnanand Prabhala, and Saumya Prabhat for valuable comments. We also thank seminar and conference participants at the 2013 International conference on Corporate Finance at City University of Hong Kong, University of Gothenberg, Hebrew University, Indian School of Business, the Kelley School of Business, Indiana University, the Norwegian School of Economics, the 8th Annual Corporate Finance conference at the Olin School of Business, Washington University – St. Louis, the 2011 Tel Aviv University Finance conference, and the 2011 Northern Finance Association meetings for helpful comments. All remaining errors are our own.

I. Introduction

Although corporations and special interest groups spend billions of dollars annually to lobby Congress and federal agencies (Center for Responsive Politics, 2012), there is an absence of robust evidence on corporate returns to lobbying. The main empirical challenge in examining this issue is that the decision to lobby is likely to be endogenous to observable and unobservable firm characteristics. We examine whether the stock market considers lobbying expenditures to be value-enhancing using several events that may affect the ability of firms to lobby, but are exogenous to their characteristics and prior lobbying decisions. We also examine the channels through which lobbying may create value for firms.

The main event we focus on occurred on January 3, 2006, when the prominent Washington D.C. lobbyist Jack Abramoff pleaded guilty to bribing government officials in exchange for favorable decisions made on issues related to his clients' interests. Described as the "biggest public corruption scandal in a generation," ("Case bringing new scrutiny to a system and a profession," *The Washington Post*, January 4, 2006), the guilty plea generated intense public and media scrutiny of the lobbying process, making it damaging for politicians to be associated with lobbyists, thereby limiting the latter group's political access and influence.[1] Using Mr. Abramoff's guilty plea as an exogenous negative shock to the ability of firms to lobby, we examine the market reaction to this event to investigate whether lobbying creates value for the shareholders of firms that lobby.

The theoretical literature has shown that one of the main channels through which lobbying may add value is by allowing firms and interest groups to communicate their specialized knowledge of particular issues to uninformed or overburdened policy makers; see Grossman and Helpman (2001) and

[1] Describing the response to the Abramoff guilty plea one lobbyist noted: "In the short run, members of Congress will get allergic to lobbyists…They'll be nervous about taking calls and holding meetings, to say nothing of lavish trips to Scotland. Those will be out." ("Case Bringing New Scrutiny to a System and a Profession," *The Washington Post*, January 4, 2006).

Gregor (2011) for surveys.[2] However, the lobbying process is viewed less benignly in the public sphere, where it is commonly assumed that lobbyists use unethical means to influence politicians.[3] In this paper, we examine whether lobbying mainly adds value by allowing communication with lawmakers, or if it also adds value by influencing policy makers through potentially unethical means.[4]

To investigate whether lobbying adds value, we start by examining the market response to Jack Abramoff's guilty plea to bribery and corruption, on January 3, 2006. This event is exogenous to firms' characteristics and prior lobbying decisions, and heightened expectations of a decrease in the influence of lobbyists.[5] The rationale behind our empirical strategy is as follows: If lobbying adds value, firms that spend more on lobbying should experience a greater decrease in value in response to a potential decrease in the influence of lobbyists. To implement the test, we use data on all firms included in the S&P 500 index between 2000 and 2008, and examine their cumulative abnormal returns in a 3-day window around the date of Mr. Abramoff's guilty plea.

Since we have a single event date, which affects all firms at the same time, the standard errors may be biased due to contemporaneous correlation of the returns, and thus, the association between cross-sectional variation in lobbying by firms and abnormal returns may be attributable to other regularities. To address this possibility, we use a portfolio time-series regression methodology based on

[2] Policy makers may discount the information of interest groups if the groups have a reason to be biased and the information is unverifiable. However, by sending a signal through lobbying, even biased experts may credibly communicate with policy makers (Crawford and Sobel (1982), Austen-Smith (1993, 1994), and Chakraborty and Harbaugh (2010)).

[3] A Gallup Poll survey of public perceptions regarding the honesty and ethical standards of different professions places lobbyists at the bottom of the ranking, considerably below car salesmen ("Lobbyists Debut at Bottom of Honesty and Ethics List," Gallup, December 10, 2007).

[4] The theoretical underpinning of this type of rent seeking activity is analyzed in Krueger (1974), who considers the welfare implications of having economic rents due to trade restrictions, and the competition between firms over these rents. Part of our goal is to come up with a lower bound estimate of the rents obtained by firm from lobbying.

[5] Although the practices of Jack Abramoff's lobbying firm came under scrutiny earlier, the 2006 guilty plea was a major event because Mr. Abramoff provided evidence against several government officials as a condition of the plea. This event triggered special investigations, led to legislation passed by the U.S. Congress targeting corruption in lobbying, and focused public attention on the influence of lobbyists. In Section II we show that the news coverage of the Abramoff scandal peaked in the immediate aftermath of the guilty plea.

Sefcik and Thompson (1986), which provides unbiased estimates of the coefficients along with standard errors that account for cross-sectional heteroskedasticity and cross-security dependence.

The results show that firms that spend more on lobbying experience a significantly greater decrease in value in response to the guilty plea. To illustrate, for the sample of firms with positive lobbying activity, we find that a standard deviation increase in average lobbying expenditures (about $6.8 million) prior to the event year, is associated with an average decrease in abnormal returns of 0.19%, or about $49.2 million, in the 3-day window around the event. Since the guilty plea potentially limited lobbyists' political access, the observed decrease in firm value associated with lobbying expenditures in response to the plea is consistent with the view that lobbying creates value for shareholders. It is important to note that since the Abramoff event potentially restricts firms' ability to lobby but does not eliminate lobbying activity, these results capture a lower bound estimate of the corporate value of lobbying.

We also investigate the channels by which lobbying may add value, namely, whether the value comes mainly from allowing firms to communicate with policy makers about specialized issues, or whether it partly arises from potentially unethical arrangements between firms and politicians. To investigate the latter mechanism we undertake two tests. First, since data on unethical lobbying activities are not directly observable, we hypothesize that firms that are more likely to be involved in unethical business practices may also be more likely to engage in unethical lobbying, and investigate whether these firms are differently affected by the guilty plea. Second, we examine investors' response to a bill aimed at restricting corrupt lobbying practices.

We use several variables to identify a firm's propensity to engage in unethical behavior. First, we examine whether firms that have an enforcement action brought against them by the Securities and Exchanges Commission (SEC) for violating SEC rules against bribery, insider trading, and accounting

fraud among other things, are more affected by the plea. The results suggest that in response to Mr. Abramoff's guilty plea, a firm that spends more on lobbying experiences a greater loss in value if it has been charged with a SEC violation in the five years prior to this event. For example, firms with a SEC action experience a 0.32% greater decrease in value around the guilty plea in response to an increase in lobbying expenditures, compared to firms without any charges.

As an alternative measure of the likelihood that firms may engage in unethical behavior, we investigate whether firms that have a strong policy against bribery and corruption, i.e. code of ethics, respond differently to the guilty plea.[6] The results show that in the 3-day event window around the guilty plea, the decrease in value associated with lobbying is significantly greater for firms without a strong code of ethics.

Using the corporate social responsibility (CSR) rankings produced by Kinder, Lydenberg and Domini (KLD), which ranks firms along a number of dimensions, we find that in response to the guilty plea, the decrease in value associated with lobbying is significantly more pronounced for companies with a worse CSR reputation.[7] Taken together, these results suggest that the lobbying-related decrease in firm value in response to possible restrictions on the influence of lobbyists is greater for firms that are more likely to be involved in unethical business practices.

The guilty plea by Jack Abramoff focused attention on corrupt policy makers, and the ensuing public pressure spurred legislative efforts to address corruption in the lobbying process. To test the value from potentially unethical lobbying practices we consider the market response to the first lobbying-related bill voted on by the U.S. Congress following the guilty plea, the "Lobbying Transparency and Accountability Act of 2006". This bill targeted corruption in lobbying by increasing disclosure and

[6] Our measure for firms' code of ethics is based on proprietary data collected by EIRIS, a non-profit organization, which conducts research on the ethical codes of publicly traded firms around the world.

[7] Hong, Kubik, and Scheinkman (2012) also use KLD scores as an empirical measure of "corporate goodness". Since the CSR rankings may be closely related to industry characteristics, we include Fama-French 49 industry dummies in all specifications.

penalties for lobbyists who violate lobbying rules, and curbing *quid pro quo* arrangements between lobbyists and government officials, such as revolving door practices.

The results indicate that firms that spend more on lobbying experience a greater decrease in market value in response to the introduction of this bill in the U.S. Senate. For example, a standard deviation increase in lobbying expenses is associated with a decrease in market value of $26.2 million on average in the 3-day window around the introduction of the bill. Since firms that only engage in legitimate lobbying are less likely to be affected by restrictions on corrupt lobbying practices, this result further supports the view that part of the value from lobbying may arise from potentially unethical arrangements with policy makers. We note that the stock price reaction may partly reflect the increased cost of complying with stricter lobbying regulation.

We also consider the lobbying-related scandal involving the prominent lobbying firm the PMA Group, which involved alleged *quid pro quo* campaign contributions made by the PMA Group to Representative John Murtha, then chairman of the House Defense Appropriations Subcommittee. On November 25, 2008, the FBI raided the offices of the PMA Group, although this event was only reported in the national media in February 2009. The PMA Group raid did not directly implicate any politicians, making it less newsworthy than the Abramoff event. Examining the market response to the November 2008 raid we do not find a significant difference in returns for firms that lobby. We do however observe a significant decrease in the market value of firms based on their lobbying activity following the news reports of the raid in February 2009.

Theory suggests that lobbying may facilitate the communication of expert information to uninformed and/or overburdened policy makers. To explore the informational value of lobbying, we consider whether firms characterized by a greater degree of information asymmetry derive more value from lobbying. Using firm-specific measures of opaqueness, including asset intangibility, R&D

expenditures, and accounting transparency, we do not find robust evidence that more opaque firms benefit more from lobbying. However, since our empirical framework examines the market reaction to events that potentially limited corrupt lobbying practices, and not legitimate communications with policy makers, this result does not imply that lobbying has no informational value.

We conduct several robustness checks. First, we show that firms that employed members of Jack Abramoff's team as lobbyists experience a greater decrease in value in response to the guilty plea, corroborating that we are capturing the effects of the guilty plea, and not concurrent events. Second, to further address the endogeneity of lobbying expenditures, we perform a matched sample analysis by matching non-lobbying firms to firms that lobby, and also use a generalized propensity score methodology (to account for the continuous nature of lobbying expenditures), to match similar firms with different levels of lobbying activity. The results are robust to using both of these approaches. We also show that our results are not driven by confounding factors such as calendar time effects. Examining the market reaction on the same date as the guilty plea, but in the years prior to and after 2006 (the year of the plea), we do not find a significant association between lobbying expenditures and market returns.

Firms that seek to influence politicians may also do so by contributing to electoral campaigns, or through political connections. For example, the lobbying firms in our sample contributed about $0.5 million to electoral campaigns on average, compared to $3.9 million spent on lobbying during the sample period. We show that the lobbying results retain their sign and statistical significance after controlling for campaign contributions, suggesting that lobbying is not a proxy for contributions. We also find that the impact of lobbying on firm value remains statistically significant after controlling for the political connections of corporate board members, indicating that lobbying is not a proxy for partisan

preferences. Lastly, we show that our results are robust to controlling for standard measures of industry competition and regulation.

To the best of our knowledge, this is the first paper to use an exogenous shock to identify the shareholder value of corporate lobbying, and to provide evidence suggesting that part of this value may be attributed to unethical practices that are likely to bias politicians rather than simply inform them. In two related studies, Chen, Parsley, and Yang (2010) find that firms that lobby have better financial and accounting performance relative to non-lobbying firms; and, Hill, Kelly, and Van Ness (2011) find that the annual excess returns of lobbying firms are higher than those of non-lobbying firms. Our paper differs from these studies in the following ways: First, our event study approach mitigates some of the identification issues that arise regarding endogeneity of the lobbying decision. Second, we investigate channels through which lobbying may add value.

Another related strand of literature examines the impact of campaign contributions on firm value.[8] Jayachandran (2006) uses Senator Jim Jeffords' switch in party affiliation, which shifted control of the Senate to the Democratic party, to show that contributions create value; Claessens, Feijen, and Laeven (2008) find that Brazilian firms that contribute to election campaigns experience higher stock returns; and, Cooper, Gulen, and Ovtchinnikov (2010) show that campaign contributions by U.S. firms are positively related to future returns. We find that lobbying expenditures are not a proxy for campaign contributions. Since the majority of campaign contributions often come from individuals, the extant literature has argued that they are a means for political participation, rather than a primary channel for influencing policy (Chappell (1982), and Ansolabehere, de Figueiredo, and Snyder (2003)).[9] In contrast, lobbying expenditures are undertaken by firms, industry, and interest groups, are often targeted to

[8] See Stratmann (2005) for a recent survey.
[9] For instance, Ansolabehere, de Figueiredo, and Snyder (2003) document that after controlling for constituent and legislator effects, there is little relationship between contributions and legislator votes.

specific policies, and involve larger amounts. For instance, lobbying expenditures in 2006 were over $2.59 billion, compared to $345 million in campaign contributions (Bombardini and Trebbi, (2009)).

Examining policy outcomes of lobbying, De Figueiredo and Silverman (2006) find that the returns to lobbying by universities for educational earmarks are larger when the university is located in the state (district) of a Senate (House) Appropriations Committee member; Kang (2012) shows that lobbying expenditures by the energy sector yield average returns of 102% to 113%; Richter, Samphantharak, and Timmons (2009) find that U.S. firms that spend more on lobbying have lower effective tax rates; Yu and Yu (2011) show that lobbying firms are less likely to be detected committing fraud; and, Coates (2012) finds that corporate lobbying increased after the Supreme Court decision on Citizens United.

Our paper also contributes to the growing literature on political connections (Roberts (1990), Fisman (2001), Khwaja and Mian (2005), Faccio (2006), Faccio, Masulis, and McConnell (2006), and Goldman, Rocholl, and So (2009, 2013)). These studies consider the role of political connections, while we focus on the value of lobbying.

The remainder of the paper is organized as follows: Section II discusses the events, Section III describes our data, Section IV presents the main results, Section V describes the robustness tests, and Section VI concludes.

II. Events

Our analysis of the value-relevance of corporate lobbying utilizes exogenous events that affect firms' ability to lobby, but are uncorrelated with their characteristics. We first focus on our main event: the guilty plea by top lobbyist Jack Abramoff on January 3, 2006 to criminal felony counts related to the corruption of public officials and defrauding of American Indian tribes. As a condition of the plea, Mr.

Abramoff provided evidence that led to the conviction of more than twenty elected representatives, Congressional staff, and executive branch officials.

While the investigation of Jack Abramoff began in 2004, his guilty plea generated widespread media coverage of what had been, until then, mainly a Washington D.C. scandal. In Figure I, Panel A we describe the number of news articles published daily between January 2004 and December 2006 that mention "Abramoff", "lobbying", and "regulation". The graph shows a sharp increase in news coverage in the immediate aftermath of the guilty plea. Given the heightened public scrutiny of politicians' relationships with lobbyists, it appears that the plea increased expectations that (unethical) lobbying practices would face restrictions in the future. Reflecting this view, there were about twenty lobbying related bills with floor action introduced between 2006 and 2007, all but one after the guilty plea in January 2006.

To check if there were other concurrent national news events that may affect market returns on January 3, 2006, we examined the front page headlines for the *New York Times*, *Washington Post*, and *Wall Street Journal*, on the following day, January 4, 2006. All three reported the Jack Abramoff guilty plea on their front page. The only other major news item reported by two of these three national newspapers on that day was the mining disaster in West Virginia.[10]

In the aftermath of the guilty plea, the 109th U.S. Congress debated a number of bills intended to regulate corruption in lobbying. We consider the first lobbying-related bill to come out of committee after the Abramoff plea, the first to be voted on in both the U.S. House and Senate, and also, the first to be passed by both chambers of the 109th Congress, the "Lobbying Transparency and Accountability Act of 2006 – 527 Reform Act of 2006" (Bill S.2349) sponsored by Senator Trent Lott (R-MS). Note that

[10] The *New York Times* in its "On this day" series, which describes important events in history for a particular day, lists the Abramoff guilty plea as the most notable event of January 3, 2006.

there were no other lobbying-related bills passed by both chambers of the 109th Congress.[11] Bill S.2349 was introduced in the U.S. Senate on March 1, 2006, passed by the Senate on March 29, 2006, and passed by the U.S. House of Representatives on May 23, 2006.[12] The dates of the events are summarized in Appendix I.

Bill S.2349 focused on curbing corruption in the lobbying process. As described in Appendix II, the main provisions of the bill increased disclosure, imposed penalties for violating rules, limited revolving door arrangements, where former policy makers and officials obtain employment in lobbying firms, and suspended privately funded travel and gifts from lobbyists, among other restrictions. We also note that while the U.S. Senate passed S.2349 with a 90-8 vote, the legislative outcome might not have been fully anticipated since the vote was not preceded by a lengthy discussion period, thus limiting information dissemination.

We also consider the corruption investigation involving the PMA Group and its founder, the lobbyist Paul Magliocchetti, a former Congressional staffer with close ties to Representative Jack Murtha (D-PA). The scandal related to *quid pro quo* campaign contributions made by the PMA Group to Representative Murtha, who in turn helped the PMA Group's clients secure nearly $100 million in military contracts. Mr. Magliocchetti eventually pleaded guilty to giving more than $380,000 in illegal contributions to policy makers in charge of the Pentagon's budget ("Ex-Lobbyist Pleads Guilty to Illegal Campaign Donations," *The New York Times*, September 24, 2010).

Unlike the Jack Abramoff case, this case did not receive as much media coverage since no politicians were directly implicated. However, this case was still potentially informative to investors

[11] While S.2349 was voted on and passed by both chambers, it is yet to become law. In 2007, the 110th U.S. Congress passed the "Honest Leadership and Open Government Act of 2007", signed into law in September 2007 by President G.W. Bush, which strengthened lobbying disclosure requirements, restricted Congressional gifts, and provided for mandatory disclosure of earmarks. This latter bill was one of 20 separate lobbying-related bills with floor action, and several more that did not come out of committee, to be introduced after S.2349.

[12] Investigating activity related to the bill, such as roll call votes, we found that there were two relevant votes prior to the passage: a rejected amendment and a rejected cloture motion. Most of the political activity took place between 28th and 29th March, 2006, which are in the 3-day event window around the Senate vote).

because of the connection of the PMA Group to Representative Murtha, who at the time served as the Chairman of the House Defense Appropriations Subcommittee, a powerful congressional committee in charge of defense related expenditures. The raid of the PMA Group was related to the FBI investigation of Representative Murtha for ethics violations. Consequently, the raid and the connection of the PMA Group to Jack Murtha made national news in February 2009, and was reported by major national newspapers, including *The Wall Street Journal*, *New York Times*, and *Washington Post*, and news outlets including *ABC News* and *Fox News*, among others.[13]

We consider two dates related to the PMA Group. On November 25th, 2008, the FBI raided the offices of the PMA Group. However, the news of the FBI raid was first reported on February 9, 2009 by *ABC News* in, "EXCLUSIVE: FBI Raided Lobbying Firm Connected to Murtha," *ABC News*, February 9, 2009. Subsequently published news articles confirm this date, including *The Wall Street Journal* ("FBI Raided Firm with Ties to Rep. John P. Murtha," February 10, 2009) and the *New York Times* ("U.S. Raids a Lobbying Firm with Ties to a Congressman", February 10, 2009). In the analysis, we therefore focus on the date when the news of the FBI raid was first reported in the national news. Although the original raid was not reported at the time it occurred, we also consider the November 2008 date so as to capture any potential trading based on private information. In Figure I, Panel B, we provide a news analysis indicating the pattern of news coverage of these events. As can be seen from this graph, there was a peak in PMA related news coverage in early February 2009. The PMA Group was closed on March 31st, 2009; however news reports indicate that the closure of the firm was widely anticipated prior to this date, and, Figure I, Panel B shows that there was no spike in news coverage around the closure date.

[13] For example, the *Wall Street Journal* noted that "PMA was founded by Paul Magliocchetti, formerly the top aide on a defense appropriations subcommittee chaired by Mr. Murtha…Over the past two years, Mr. Murtha directed earmarks worth $93 million to PMA clients, according to the National Journal's Hotline publication. In the last two election cycles, he took in $1.3 million in contributions from the firm and its clients, which include big defense contractors as well as small firms located in his district," ("FBI Raided Firm With Ties To Rep. John P. Murtha", *The Wall Street Journal*, February 10, 2009).

III. Data

We start with all 753 companies that were included in the S&P 500 index between 2000 and 2008. For these firms we collect data on lobbying expenditures for the years 2003 to 2005, the three year period prior to Jack Abramoff's guilty plea in 2006. The data are available from the Center for Responsive Politics (CRP), which collects all lobbying disclosure reports filed with the Secretary of the Senate's Office of Public Records by any entity engaged in lobbying activities with costs exceeding $10,000 in any 6-month period. The data include spending by companies and their subsidiaries through "in-house" lobbyists and professional lobbying firms.[14] We do not observe lobbying expenditures by trade groups and industry associations on the behalf of firms.[15]

From this sample we drop 105 firms that stopped trading before the event date of January 3rd, 2006 (most were involved in a merger/acquisition), and 19 firms that started trading after that date. To mitigate the effect of potential outliers or possible firm-specific news (e.g. some firms were engaged in M&A talks around the event period), we exclude firms in the 1st and 99th percentiles of abnormal returns. This generates a final sample of 617 firms, of which 421 firms report positive lobbying expenditures between 2003 and 2005, and 196 firms comprise the non-lobbying group. Henceforth, we refer to firms that report $10,000 and more in lobbying expenditures as the lobbying sample, and the remaining as the non-lobbying sample. Table I describes the data for the full sample in Panel A, the lobbying sample in Panel B, and the non-lobbying sample in Panel C. All variables are described in Appendix III.

Using stock market data from CRSP, we construct the 3-day abnormal returns for each firm around the event dates using the Fama-French three-factor model. In Table I, *CAR (-1,+1)* is computed

[14] A description of the data is available at http://www.opensecrets.org/lobby/methodology.php

[15] A recent study notes that lobbying through trade groups and firm-level lobbying are complementary, where trade associations operate mostly in the realm of industry-level goods and regulatory politics, while companies focus on company-level goods and distributive politics (Drutman, 2009).

as the sum of the daily abnormal returns in the 3-day window around January 3rd, 2006, the date of Mr. Abramoff's guilty plea. In Figure II we plot the median cumulative abnormal returns for the lobbying and non-lobbying sample on each day of the 10-day window around January 3, 2006. Specifically, for each firm we sum up daily abnormal returns starting from day -5 until day +5. The figure suggests that the CARs of firms that lobby are more negative than the CARs of non-lobbying firms, starting from the event date. We construct two measures of lobbying activity. First, *Lobbying Rank*, groups firms into deciles based on their three-year lobbying expenditures prior to 2006. Companies with the highest lobbying expenses are assigned a rank of 10 (average lobbying expenditures of $20.6 million), and those with the lowest lobbying expenses are assigned a rank of 1 (average lobbying expenditures of $66.6 thousand). Appendix IV provides the cutoff points for each decile based on lobbying expenditures. Firms that do not lobby are assigned a rank of 0. From Table I we note that the average value of *Lobbying Rank* is about 3.7.

The second measure we use is *Lobbying Expenses*, defined as the sum of lobbying expenditures, expressed in thousands, for each firm in the three years preceding the Abramoff guilty plea, and constructed for the sample of 421 firms that lobby. In unreported results we verify that our findings are robust to using lobbying expenditures from 2005, immediately preceding the event year. From Table I Panel B we note that on average firms spent nearly $4 million between 2003 and 2005. The biggest spender during our sample period is General Electric Company with nearly $56 million in lobbying expenditures. Consistent with the minimum filing requirement, the smallest reported lobbying expense is $10,000.

Figure III, Panel A, examines the difference in lobbying expenditures between 2005 and 2007 for two groups of firms: Firms that experienced a negative market reaction to Abramoff's guilty plea on January 3, 2006, and those that experienced a positive reaction. Semi-annual lobbying expenses for each

firm are scaled by the firm's semi-annual lobbying expenses during the first half of 2005. The plotted lines, describing the difference in the mean and median values of the lobbying expenditures between the two groups, suggest that firms in the former group, with a negative market reaction, reduce their lobbying expenditures more than firms in the latter group. This is consistent with the hypothesis that the Abramoff event increased restrictions on lobbying, since it appears that firms that experienced the greatest decrease in value in response to the guilty plea subsequently also reduced their lobbying expenditures the most.

Using the same measure of lobbying expenses, in Panel B, we graphically compare the difference in lobbying expenditures between 2005 and 2007 for "Low Rep" and "High Rep" firms, where "Low Rep" refers to firms that have a poor reputation for corporate ethics, whereas "High Rep" refers to firms that do not. Specifically, "Low Rep" firms are those with: 1) an SEC Action, 2) without a Code of Ethics, and, 3) with a KLD Concerns measure that is above the 75th percentile for the sample, while "High Rep" firms are those: 1) without an SEC Action, 2) with a Code of Ethics, and 3) with a KLD Concerns measure that is below the 75th percentile. The plotted lines, describing the difference in the mean and median values of the lobbying expenditures between firms with a low and high corporate reputation, suggest that firms with a poor reputation for corporate ethics reduce their lobbying expenditures more than firms with a strong ethical reputation.

To establish firm-level connections to Jack Abramoff, we examine all lobbying reports filed between 2003 and 2005 to collect the names of individual lobbyists employed by all the firms in our sample. These data are used to identify whether any of these lobbyists are members of "Team Abramoff", the team of lobbyists assembled by Jack Abramoff when he worked at the lobbying firm Greenberg Taurig, who were mainly former aides to prominent politicians.[16] To measure the relative importance of these lobbyists to the firm, we define the variable *Team Abramoff* as the ratio of a firm's

[16] The members of Team Abramoff are identified from news sources http://en.wikipedia.org/wiki/Team_Abramoff

lobbyists who were also close associates of Mr. Abramoff, to the total number of lobbyists employed by the firm. From Panel B of Table I we note that this ratio is about 0.2% on average, with a maximum value of 22%.

We use three different data sources to capture the likelihood that firms may engage in unethical behavior. First, we hand-collected data from the Enforcement and Litigation sections of the Securities and Exchanges Commission about all investigations, including civil lawsuits and financial reporting related enforcement actions to identify firms that were subject to regulatory actions and lawsuits brought by the SEC. We define *SEC Action* as a dummy variable equal to 1 if a sample firm is involved in any such SEC enforcement between 2001 and 2005, and 0 otherwise. On average, about 10% of our sample firms appear in such actions as shown in Panel A of Table I. The incidence of actions against firms that lobby is more than twice as high at 13% compared to 5% for the non-lobbying sample.

Second, we examine the strength of a firm's code of ethics as analyzed by EIRIS, a non-profit organization conducting research on the ethical codes of publicly traded firms.[17] The data are collected from annual reports, company websites, and survey responses, and examine whether a company has a code of ethics, the quality of the code, and its implementation. In particular, the data record whether the firm is committed to obeying the law, and, has a policy against paying bribes, among other ethics related policies. We evaluate firms based on the following questions: "*Does the Company have a code of ethics and, if so, how comprehensive is it?*" and "*Does the Company have a system for implementing the code of ethics and, if so, how comprehensive is it?*" Firms are considered as having a strong code of ethics if their performance along both of these questions is "Intermediate" or "Advanced". We define the variable, *Code of Ethics*, as an indicator variable that is equal to 1 for firms with a strong code of ethics and 0 otherwise. From Table I we note that on average about 35% of lobbying firms have strong codes of ethics, compared to 20% of the non-lobbying firms.

[17] More about the description, history of the organization, and research methodology may be found at http://www.eiris.org/

Lastly, we use the corporate social responsibility (CSR) rankings published by KLD Research & Analytics, which evaluates large U.S. firms along the following seven categories: Community Relations, Corporate Governance, Diversity, Human Rights, Employee Relations, Products, and Environment; and, assigns one point if the firm meets the criteria for a particular strength or concern. We define *Concerns* as the aggregate number of concerns across all categories, and *Strengths* as the aggregate number of strengths along the seven categories. To identify firms with relatively more concerns (strengths) we also construct indicator variables for firms with concerns (strengths) above the 75^{th} percentile, *Concerns>P75* (*Strengths>P75*). From Table I we note that, on average, the lobbying sample has more concerns and strengths than the non-lobbying sample. For example, Exxon Mobil has the highest number of concerns and also ranks among the top spenders with a *Lobbying Rank* of 10. In contrast, J.M. Smuckers and Symantec are among the companies with the best CSR reputation and a *Lobbying Rank* of 0 and 5, respectively. The correlation between *Lobbying Rank* and the concerns score is 0.48 for the lobbying sample.

We also examine the effect of corruption in the state where the firm is headquartered using two measures of corruption. The first metric is the *BGA Index*, which is constructed by the Better Government Association (BGA), and measures the relative strength of the states' laws that promote integrity. Specifically, the BGA examines states' laws related to the Freedom of Information Act, Whistleblower Protection Laws, Campaign Finance Laws, Conflict of Interest Laws, and Laws about Gifts, Trips, and Honoraria, and assigns a combined score to each state along these dimensions. Higher scores indicate stronger laws and better citizen protection. We use the index as of 2002, as it is the last release of these data prior to the Abramoff event. We also adopt a second measure based on Glaeser and Saks's (2006) study, *Corruption Rate*, which is the number of corruption convictions of state level

officials between 1976 and 2002, relative to the average population of the state. In contrast to the *BGA Index*, a higher value of *Corruption Rate* indicates a more corrupt state.

To examine the information benefits of corporate lobbying, we use three measures of information asymmetry at the firm level based on asset intangibility and accounting transparency. To capture asset intangibility we use the ratio of R&D expenditures to total expenses, and the ratio of intangible assets to total assets. For accounting transparency we use the earnings management measure from Leuz, Nanda, and Wysocki (2003), which is defined as the ratio of the standard deviation of a firm's operating income to the standard deviation of the firm's cash flow, where a higher score indicates less earnings management in terms of earnings smoothing, and less information asymmetry.[18] Based on the earnings management measure, we construct *Low Transparency*, as a dummy variable that is equal to 1 if a firm has a transparency metric below the 25th percentile of the sample.

To capture the partisan affiliations of firms, we use data on the connections of corporate boards from Goldman, Rocholl, and So (2009) to construct two political connection variables. *Republican on Board* is equal to 1 if the firm has a Republican Party connection (connected either to the Republican Party or to both the Republican and Democratic parties) through its executives and board members, and 0 otherwise (connected only to the Democratic Party, or not connected to either party). The second variable, *Democrat on Board*, treats connections to the Democratic Party in the same way.

Since lobbying may depend on the competitive structure of industries, we construct the industry Herfindahl Hirschman Index (*HHI*), which measures industry concentration based on the Fama and French 49 industry classifications. The average value of *HHI* is 6.94 for the sample of lobbying firms and 5.94 for the sample of non-lobbying firms (Table I). We also define *Regulated Industry* as a dummy variable indicating whether a firm belongs to a regulated industry such as public utilities, railroad,

[18] Cash flow from operations is calculated as operating income minus accruals, where accruals are calculated as: (ΔTotal Current Assets – ΔCash) – (ΔTotal Current Liabilities – ΔShort-term Debt – ΔTaxes Payable) – Depreciation Expense. Standard deviations are estimated over the 5-year period ending in 2005.

banking, finance, or insurance. Table I shows that on average 22% of lobbying firms are in a regulated industry, compared to 18% of non-lobbying firms.

We collect data on campaign contributions made by individual employees and Political Action Committees (PACs) of firms during the 2004 and 2006 election cycles from OpenSecrets.org. From Panel B of Table I we note that our sample firms spent nearly $550,000 on average during the years 2003 to 2005, substantially less than the average lobbying expenditures of about $3.9 million during the same period. We also create a *Contributions Rank* variable, similar to *Lobbying Rank* described above.

From Table I we note that firms that lobby are larger, with an average book value of assets of $26.9 billion, compared to $12.2 billion for firms that do not lobby. We control for firm value and growth opportunities using *MB Ratio*, which is the ratio of a firm's market value of equity to its book value, and firm size using total assets. We also winsorize these variables. Note from Table I that the lobbying sample is similar to the non-lobbying sample in terms of the market to book ratio.

IV. Results

A. Does lobbying add value?

The guilty plea by Jack Abramoff on January 3rd 2006 to charges of corruption and bribery affected the ability of firms to lobby while being exogenous to firm characteristics. Hence, the market's response to this event may indicate whether investors view lobbying as a value-enhancing activity. Since all firms experience the Abramoff event on the same day, there is a potential concern that the residuals in the cross-sectional regression are not independently distributed across firms. To address this, we adopt the portfolio estimation procedure developed by Sefcik and Thompson (1986), which provides unbiased estimates of the coefficients with standard errors that account for cross-sectional heteroskedasticity and cross-security dependence (see Binder (1998) for a survey).

We start with the Fama French three-factor model specification:

$$R_{i,t} = \alpha_i + \beta_{m,i} R_{m,t} + \beta_{HML,i} R_{HML,t} + \beta_{SMB,i} R_{SMB,i} + \gamma_i \delta_t + \varepsilon_{i,t} \quad (1)$$

where $R_{i,t}$ is the daily return on security *i* on day *t*, while $R_{m,t}$, $R_{HML,t}$, and $R_{SMB,t}$ are the returns on each of the three factors in the Fama-French three factor model. We run the model using daily returns for the years 2005 and 2006 and to calculate abnormal daily returns, we use the estimated coefficient of the indicator, δ_t, which is equal to one in the 3-day window around the event, and zero otherwise.

To examine the market response to the Abramoff guilty plea, we estimate the following cross-sectional regression:

$$\gamma_i = \alpha + \beta_1 Lobbying_i + \beta_2 X_i + Industry\ Fixed\ Effects \quad (2)$$

where γ_i are the average daily abnormal returns (in percentages) estimated in equation (1) for each day around the 3-day window centered at January 3, 2006. *Lobbying* captures measures of the company's lobbying activity, X_i includes firm size captured by *Log(Assets)* and the market to book ratio of firms in the year preceding the event. We also include industry fixed-effects based on the Fama-French 49 industry classification. Using the Sefcik and Thompson (1986) methodology to correct the standard errors for cross-security correlation, specification (2) is run on portfolios where the portfolio weights are determined according to the independent variables in the cross-sectional regression.[19]

Table II, columns (1) and (2) report the results for the full sample (*All Firms*), and columns (3)-(6) for the sample of firms with positive lobbying expenditures (*Lobbying Sample*). The results in the first two columns suggest that in response to the guilty plea, firms that spend more on lobbying experience a significant decrease in abnormal returns compared to firms that spend less, and those that do not lobby. For example, from the estimated coefficient of *Lobbying Rank* in column (2) we note that

[19] As a benchmark, in Appendix V we provide the results for the specifications in Table II without corrected standard errors.

a one standard deviation increase in *Lobbying Rank* is associated with a $35 million decrease in market value on average in the 3-day window around this event.[20]

Considering lobbying expenditures in columns (5) and (6) for the sample of lobbying firms, the results suggest that firms that spend more, experience a larger decrease in abnormal returns around Abramoff's plea. To illustrate, from the coefficient of *Log(Lobbying Expenses)* in column (6) we estimate that a one standard deviation increase in lobbying expenditures is associated with a $49 million decrease in value on average, around the event. The negative market response to an event that reduces the influence of lobbyists is consistent with the notion that the market views lobbying as a value-enhancing activity.

B. Do less ethical firms benefit more from lobbying?

Does lobbying add value simply by allowing firms to communicate specialized information to overburdened policy makers, or does it also add value by facilitating potentially unethical arrangements between firms and politicians? To investigate the second question, we focus on the lobbying sample, and examine whether the value from lobbying varies based on the likelihood that firms that lobby may engage in unethical practices. We use three broad categories of measures to identify the likelihood of unethical behavior: violations of SEC regulations, rules and procedures put in place by the firm to address unethical practices, and metrics of corporate reputation based on social responsibility rankings. The results are reported in Table III, Panels A to C.

We start by investigating whether the loss in value due to lobbying is greater for firms that have been charged with violating SEC rules against insider trading, accounting fraud, or bribery, among other things. Columns (1) and (3) of Table III, Panel A first show that violating SEC rules is not associated with a significant market response, although the coefficients of the lobbying variables remain negative

[20] Note that to calculate cumulative abnormal returns, here and below, we sum up the daily abnormal returns over the 3-day window.

and statistically significant. The negative coefficients of the interaction terms in columns (2) and (4) suggest that, on average, in response to the guilty plea, the decrease in value associated with higher lobbying expenditures , is greater for firms charged with a SEC violation. For example, from the results reported in column (4) of Panel A of Table III, we note that a $100,000 increase in lobbying expenditures is associated with a decrease in value of about $3.1 million for a firm charged with a SEC violation, compared to a $1 million decrease for firms without violation. While the estimated coefficient of *SEC Action* is positive and statistically significant in columns (2) and (4), on average this variable does not have a statistically significant impact on returns, as can be observed in columns (1) and (3).

Next, we use two reputation ranking measures to examine whether firms that have a poor reputation for corporate ethics react differently to the Abramoff event. First, in Panel B of Table III, we consider the variable *Code of Ethics*, which ranks firms based on the strength of their policies against bribery and corruption, among other unethical practices. We note from the coefficients of the interaction terms reported in columns (2) and (4) of Panel B, that in response to the Abramoff event, the loss in value associated with higher lobbying expenditures is greater for firms without a strong ethics code. From the estimated coefficient of *Log*(*Lobbying Expenses*) and *Code of Ethics* in column (4) of Panel B, we note that a $100,000 increase in lobbying expenditures is associated with a loss in value of about $1.9 million on average for a firm lacking a strong code of ethics. In contrast, this effect is reversed for a firm with a strong ethical code, and suggests a gain in value of about $487,000 on average. Hence, the interaction term suggests that the market reaction to the value of lobbying following the guilty plea is more negative for firms that may be more likely to engage in unethical practices.

The second group of reputation measures is based on the corporate social responsibility rank of firms. We consider the effect of both *Concerns* and *Strengths*, where higher values of the *Concerns* variable indicate a worse reputation for socially responsible practices. From the results reported in Panel

C of Table III, we note that the coefficients of the interaction between *Lobbying Rank* and the CSR variables reported in columns (2) and (4) of Panel C are negative and statistically significant, indicating that in response to the Abramoff event, the loss in value associated with higher lobbying expenditures is greater for firms with a greater number of CSR concerns. For example, from the coefficient of the interaction between *Log(Lobbying Expenses)* and *Concerns>P75* in column (4), we estimate that a $100,000 increase in lobbying expenditures is associated with a loss in value of about $3.5 million on average for firms that score in the 75th percentile and above of CSR concerns, compared to a loss of about $1.6 million on average for firms with fewer concerns. It also appears that concerns and strengths do not have a symmetric effect on firm value. In particular, CSR strengths may not be informative because firms may strategically implement policies that count as strengths in order to counteract the effects of a large number of concerns on their overall CSR rank.

C. Do laws restricting corruption affect value?

To further investigate whether unethical lobbying practices create shareholder value, we examine the stock market reaction to the first lobbying-related bill to be voted on in both chambers of the U.S. Congress following the Abramoff event. Since the main objective of this bill was to reduce corruption in lobbying, if the value from lobbying arises only from legitimate interactions with policy makers, we posit that firms that lobby should not be significantly affected by this event. However, if the bill increases potential costs of compliance for firms that lobby, then the market reaction may partly reflect these costs. Note that we control for firm size and industry, which are likely to be highly correlated with the cost of complying with additional regulation.

We consider the average abnormal daily return for our sample firms in the 3-day event window around the introduction of the bill in the U.S. Senate on March 1, 2006, the Senate vote on March 29, 2006, and the House vote on May 23, 2006. The results reported in Table IV suggest that firms with

higher lobbying expenditures experience a greater decrease in value upon the introduction of the bill in the U.S. Senate. For example, compared to firms in the 1st decile of *Lobbying Rank* with the lowest lobbying expenditures, firms in the 10th decile with the highest expenditures experience an average a decrease in abnormal returns of about 0.4% (column (1)). For the sample of firms that lobby, from the results reported in column (4), we note that a $100,000 increase in lobbying expenditures is associated with an average decrease of about $0.66 million in value around the event.

We also examine the announcement returns around the passage of the bill in the U.S. Senate and the House of Representatives in the remaining columns of Table IV, and find that the coefficients on the lobbying variables are negative but not statistically significant. Since the Senate and House votes occurred after the introduction of the bill in the Senate, the market may have already incorporated information about the outcome of these votes.[21]

D. Market response to the PMA Group event

We also examine the market response to a second corruption scandal involving the lobbying firm, the PMA Group, headed by another prominent Washington D.C. lobbyist, Paul J. Magliocchetti, who pleaded guilty to making illegal campaign contributions. The first event we consider occurred on November 25, 2008, when the FBI raided the offices of the PMA Group, signaling the start of the FBI investigation into possible illegal activity. However, this event was not reported in the national news until February 9, 2009. Hence, we examine the market response to both the original event in November 2008, and the initial date on which it was reported in February 2009.

The results reported in Table V show that the estimated coefficient of the lobbying variable is negative, although not statistically significant, for the November 2008 event, possibly because the news

[21] In unreported estimates we do not find a significant difference in firm-level returns in response to the events surrounding the "Honest Leadership and Open Government Act of 2007", which became law in September 2007, suggesting that by the time this law was introduced, investors may have already incorporated the likelihood that lobbying would be regulated.

of the raid was not widely reported. Consistent with this view, we find a significant market response to the reporting of the raid, in February 2009. Specifically, we observe that firms that spend more on lobbying experience a significant decrease in value in the 3-day event window surrounding the initial report of the FBI raid in February 2009.[22] Although weaker than the investor reaction to the Abramoff event, the significant market response to another lobbyist scandal provides additional support for the hypothesis that lobbying creates shareholder value.

E. Do opaque firms benefit more from lobbying?

Theory suggests that lobbying allows experts to communicate specialized information to overburdened policy makers (Grossman and Helpman, 2001), but recent empirical research shows that lobbyists are valued more for their political connections than their issue-based knowledge (Bertrand, Bombardini, and Trebbi (2011), Blanes i Vidal, Draca, and, Fons-Rosen (2011)). To investigate the information role of lobbying, we examine if opaque firms, characterized by greater information asymmetry, benefit more from their lobbying activities.

We use three firm-level measures of asset opacity and accounting transparency: The ratio of a firm's intangible assets to total assets (*Intangibles/Assets)*; the ratio of R&D expenditures to total expenses (*R&D/Total Expenses)*; and an earnings management measure based on Leuz, Nanda, and Wysocki (2003). The results from examining the market response to the Abramoff guilty plea are reported in Table VI. The estimated coefficients of the interaction terms between the lobbying variables and the opaqueness measures are not statistically significant, indicating that opaque firms that spend more on lobbying do not experience a significant change in market value in response to this event.

[22] We also investigate the market reaction to the closure of the PMA Group on March 31st, 2009, and do not find a significant response. One reason for this result may be that it was already widely reported in the news media that the firm was likely to close.

However, the absence of empirical evidence for the informational role of lobbying in our analysis does not imply that lobbying has no such a role. Instead, it may be the case that the market viewed the Abramoff scandal as one that primarily affected firms engaged in unethical lobbying activities, rather than firms that lobby for a legitimate informational purpose.

V. Robustness Checks

In this section we conduct a number of tests to investigate the robustness of our results to alternative specifications and interpretations. First, to corroborate that we capture the effect of Mr. Abramoff's guilty plea, and not confounding events, we examine the impact of the guilty plea on firms that employed Jack Abramoff or his close associates as lobbyists. The results reported in Table VII show that such firms experienced a greater decrease in value in response to the guilty plea. Note that the coefficient of *Lobbying Expenses* remains negative and statistically significant, indicating that among the sample of firms that lobby, those that did not use Mr. Abramoff or his associates as lobbyists, also experience a significant decrease in value. These results suggest that the scandal affected all firms that lobby, and not only those directly connected to Jack Abramoff.

Second, we implement a propensity score matching method to perform a matched sample analysis and investigate the robustness of our results to this alternative specification. In particular, we adopt a generalized propensity score methodology developed by Hirano and Imbens (2004), designed for settings with a continuous treatment, such as the amount of lobbying expenditures. This method allows us to reduce the bias that may arise from systematic differences in firms with different lobbying expenditures. We restrict the analysis to the lobbying sample and match each firm, based on firm size, market to book, and industry classification, to a firm in a different "bin" of lobbying expenditures. We estimate the treatment effect, or the change in the outcome variable for a unit change in the treatment

variable, and plot the results in Figure IV.[23] The treatment variable (t) is *Log (Lobbying Expenses*) and the outcome variable is cumulative abnormal returns around the guilty plea. The horizontal axis of the figure shows different levels of the treatment variable, while the vertical axis shows the change in the conditional expectation of the CARs. The middle line of the graph indicates the change in cumulative abnormal returns for a one unit increase in *Log(Lobbying Expenses*), and is negative. Hence, consistent with our prior results, the graph suggests that firms with higher lobbying expenditures experience a greater decrease in value compared to otherwise similar firms that spend less on lobbying. The *Low Bound* and *Upper Bound* plot the 95% confidence interval generated with bootstrapped standard errors, and, since 0 is not in this interval, indicate that the negative treatment effect is statistically significant.

Third, we also construct a one-to-one matched sample where for each firm that lobby, we identify a comparable non-lobbying firm based on size, market to book, and industry. For this matching process we include all non-lobbying firms in the S&P 1500 index during our sample period. Matching is based on the estimated probability of lobbying for each firm and follows the method of nearest neighbor matching with replacement. The returns of each lobbying firm are then adjusted by the returns of the matched non-lobbying firm. The results are reported in column (1) of Table VIII, Panel A, and are robust. In column (2), we control for the relative importance of lobbying expenditures as a share of total expenditures at the firm level. The results are robust to this alternative measure.

Fourth, we investigate whether our results may be driven by calendar time effects, given the proximity of the plea date to the New Year's Day holiday. In columns (3)-(5) of Table VIII, Panel A, we examine the market reaction on the same event date in the two years prior and the year after our event year. We do not find a significant association between the lobbying activity of a firm and its market value during this event window in other years.

[23] The estimation of the generalized propensity score method uses the algorithm and program developed by Bia and Mattei (2008).

Firms that seek to influence politicians may also do so by contributing to electoral campaigns, or through their political connections. We collect data from the Center for Responsive Politics for the 2004 and 2006 election cycles to calculate campaign contributions made by the individual employees and Political Action Committees of firms. The results described in column (1) of Table VIII, Panel B suggest that political contributions are not significantly related to abnormal returns around Abramoff's plea. However, the lobbying variables retain their sign and statistical significance, suggesting that lobbying is not a proxy for campaign contributions.

Another potential channel for political influence is through a firm's political connections. Using data on the political connections of corporate boards, we examine the market response for firms around the plea. From the results reported in column (2) of Table VIII, Panel B, we note that the party affiliation of connected board members does not eliminate the effect of lobbying as the coefficient of *Lobbying Rank* remains negative and statistically significant. For the lobbying sample in columns (5) and (6) we note that the coefficients of the lobbing variables remain negative and statistically significant after controlling for political connections, suggesting that lobbying is not a proxy for partisan affiliations and/or political preferences.

Since the decision to lobby and its value implications are likely to be affected by industry-specific factors such as government regulation and competitive structure, we establish the robustness of our results to industry regulation and competition. In columns (1), (3), and (4) of Panel C we include a dummy variable that takes the value of 1 if the firm is in a regulated industry (public utilities, banking, finance, or insurance). The results confirm that lobbying firms experience a decrease in value in response to the Abramoff event after controlling for the presence of regulated industries. To control for the competitive structure of industries, we estimate our main specifications controlling for the

Herfindahl-Hirschman index (*HHI*) based on the Fama and French 49 industry categories.[24] The results reported in Panel C suggest that lobbying expenditures are not just a proxy for industry concentration, since the estimated coefficients of the lobbying variables retain their sign and statistical significance. Note that the specifications in Panel C do not control for industry dummies.

Additionally, in Panel D we control for state-level corruption measures, based on the location of the firm's headquarters. We use two measures of corruption at the state level: first, the *BGA Index*, measuring the relative strength of states' laws that promote integrity, where higher values of this variable indicate stronger laws. The second measure, *Corruption Rate*, captures the number of convictions of public officials for corruption relative to the average population of the state. The results reported in Panel D show that firms located in states with below median strength in laws promoting public integrity, and higher than the sample median number of convictions of public officials, experience a greater decrease in market returns in response to the Abramoff event. Note that the lobbying variables retain their sign and statistical significance.

Lastly, since we have a single event affecting all firms that may lead to contemporaneous correlation of returns, which we address using a portfolio-based methodology (Sefcik and Thompson (1986)), we also provide results from an alternative approach that estimates p-values associated with bootstrapped standard errors, calculated via Monte Carlo simulations using nonevent day returns (see for example, Zhang (2007) and Larcker et al., (2011)). We consider the market response to the Abramoff guilty plea on January 3, 2006 using this alternative method, and report the results in Table VIII, Panel E. From the p-values of the estimated coefficients of *Lobbying Rank* and *Log(Lobbying Expenses)* in columns (1)-(6) of Panel E, we note that the results are robust. The results for the specifications in

[24] Our results are robust if we use 2-digit SIC codes for industry classification purposes instead of the Fama and French 49 industry groups to construct *HHI*.

Tables III and IV are substantively similar using this approach, and to save space we do not report them in the paper.

In unreported estimates we also investigate whether the market response to the additional events, the introduction of the law in the U.S. Senate and the raid of the PMA Group, vary based on the ethical reputation of firms. The interactions between the individual measures of ethical reputation and lobbying have the correct sign but are not highly statistically significant. However, using the composite measure of reputation, *Low Rep*, which captures firms that have a SEC investigation, no ethical code on bribery, and are in the 75th percentile of the KLD *Concerns* measure, we find that in response to the Introduction of the bill, the loss in value associated with higher lobbying expenditures is greater for firms with a poor ethical reputation.

VI. Conclusion

Despite the fact that corporations and interest groups spent about $30 billion lobbying policy makers over the last decade, there is a lack of robust empirical evidence on whether firms' lobbying expenditures create value for their shareholders. Moreover, while the public perception of the lobbying process is that it involves unethical behavior that may bias rather than inform politicians, this is difficult to show since unethical practices are not typically observable.

Our main contribution is to identify events that exogenously affect corporate lobbying. Using the guilty plea by top lobbyist Jack Abramoff to bribery, and legislation that attempted to reduce corruption in lobbying, as exogenous negative shocks to the ability of firms to lobby, we find that firms that lobby more experience a significant decrease in market value around these events.

We also examine whether lobbying adds value simply by informing politicians, or whether the value to firms partly arises from lobbyists using unethical means to influence policy makers. Using SEC enforcement actions against firms for violations such as insider trading, accounting fraud, and bribery to

identify firms that are more likely to engage in unethical practices, we show that, the value loss associated with lobbying activity around the guilty plea, is greater for firms charged with violating SEC rules.

Based on the argument that firms with weak policies against bribery and corruption may be more likely to engage in unethical practices, we also show that the lobbying-related loss of value around the scandal is significantly greater among firms with a weak code of ethics. We obtain similar results for firms with a poor reputation for corporate social responsibility. Significantly, we also find that firms that lobby more experience a greater decrease in value in response to legislative efforts to restrict corruption in lobbying. Taken together, our results suggest that lobbying is valuable to shareholders and that part of the value from lobbying may arise from potentially unethical arrangements between firms and policy makers.

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Appendix I

Event	Date
Jack Abramoff pleads guilty	3-January-2006
Introduction of the Bill by T. Lott	1-March-2006
Senate votes the Bill by T. Lott	29-March-2006
House votes the Bill by T. Lott	23-May-2006
Initial raid of PMA	25-November-2008
PMA closed	31-March-2009

Appendix II

Bill S.2349
Latest Title: 527 Reform Act of 2006
Sponsor: Sen Lott, Trent [MS] (introduced 3/1/2006) Cosponsors (None)
Related Bills: H.RES.772, H.R.513, H.R.4575, H.R.4667, H.R.4948, H.R.4975, H.R.4988, H.R.5677, S.RES.525, S.2128
Latest Major Action: 5/23/2006 Resolving differences -- Senate actions. Status: Senate disagreed to House amendments, requested a conference, and appointed conferees. Lott; Stevens; McConnell; Dodd; Inouye.
Latest Action: 5/23/2006 Message on Senate action sent to the House.

SUMMARY AS OF:
5/23/2006--Passed House amended. (There are 3 other summaries)

Lobbying Transparency and Accountability Act of 2006 - 527 Reform Act of 2006 - **Title I: Enhancing Lobbying Disclosure** - (Sec. 101) Amends the Lobbying Disclosure Act of 1995 (LDA) to require: (1) quarterly instead of semiannual filing of lobbying disclosures reports; (2) electronic filing; and (3) maintenance of certain lobbying disclosure information in an electronic data base, available to the public free of charge over the Internet.

(Sec. 104) Extends from two years to seven years before the first date of acting as a lobbyist the look-back period for mandatory registration disclosure by a registered lobbyist of service by any of its employees as a covered executive or legislative branch official.

(Sec. 105) Requires registered lobbyists to include in their mandatory semiannual reports specified information about any contributions to federal candidates or related committees, gifts to covered legislative branch officials, and funds contributed to an entity named for, established, financed, maintained, or controlled by a covered legislative branch official. Exempts from this reporting requirement any payments or reimbursements made from funds already required to be reported under the Federal Election Campaign Act of 1971(FECA).

(Sec. 106) Increases from $50,000 to $100,000 the civil penalty for knowing failure to remedy a defective lobbyist filing or comply with any LDA requirement. Amends the federal criminal code to

establish criminal penalties of fines or imprisonment for up to: (1) three years for knowing and willful failure to comply with LDA requirements; or (2) five years for knowing, willful, and corrupt failure to do so.

(Sec. 107) Subjects registered lobbyists, employees, and clients to civil penalties of up to $50,000 for offering gifts to a covered legislative branch official of the House in knowing violation of House rules.

Title II: Slowing the Revolving Door - (Sec. 201) Amends the federal criminal code to require former Members of the House, officers, or employees to be notified of certain post-employment restrictions.

(Sec. 202) Amends the Code of Official Conduct to require public disclosure by Members of the House of employment negotiations. Urges them to refrain from voting on any pending legislative measure if such negotiation creates a conflict of interest. (Sec. 203) Amends the Code to prohibit a Member, officer, or employee of the House from wrongfully influencing, on a partisan basis, an entity's employment decisions or practices.

Title III: Suspension of Privately-Funded Travel; Curbing Lobbyists Gifts - (Sec. 301) Prohibits Members, officers or employees of the House from accepting a gift of travel (including any transportation, lodging, and meals during such travel) from any private source unless the House Committee on Standards of Official Conduct (Committee) pre-certifies in writing that such travel complies with House rules and standards of conduct.

(Sec. 302) Requires the Committee to report its recommendations to the House Committee on Rules on changes to Rule XXV (Limitations on Outside Earned Income and Acceptance of Gifts) of the Rules of the House regarding exceptions to such Rule.

(Sec. 303) Prohibits registered lobbyists from traveling on flights as passengers or crew members of aircrafts not licensed by the Federal Aviation Administration (FAA) to operate for compensation or hire (corporate flights), if a Member, officer, or employee is a passenger or crew member on such flights.

(Sec. 304) Amends Rule XXV to declare that a gift of a ticket to a sporting or entertainment event shall be the face value of the ticket, or equivalent.

Title IV: Oversight of Lobbying and Enforcement - (Sec. 401) Requires the Office of Inspector General of the House (OIG) to: (1) have access to all lobbyists' disclosure information received by the Clerk of the House; and (2) randomly audit such information to ensure LDA compliance. Authorizes the OIG to refer potential violations by lobbyists of LDA to the Department of Justice (DOJ) for disciplinary action.

(Sec. 402) Requires the Inspector General to review on an ongoing basis, and report annually to Congress about, the lobbyist registration and disclosure enforcement activities of the Clerk of the House.

Title V: Institutional Reforms - (Sec. 501) Makes it out of order to consider appropriations measures containing earmarks if the legislation, its accompanying reports, or managers' joint explanatory statements do not list such earmarks or name the requesting Members.

(Sec. 502) Amends Rule II (Other Officers and Officials) of the Rules of the House to prohibit the Chief Administrative Officer from paying compensation to House employees for any pay period during which the employee is not in compliance with the applicable requirements of regulations promulgated pursuant to Rule XI (Procedures of Committees and Unfinished Business). Amends such Rule XI to require the Committee to establish a program of regular ethics training for House employees and promulgate related regulations.

(Sec. 503) Requires the Committee to publish biennially an up-to-date ethics manual for Members, officers, and employees.

Title VI: Forfeiture of Retirement Benefits - (Sec. 601) Amends federal civil service law regarding the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS) to exclude from retirement accounting any service as a Member of Congress of an individual finally convicted of a felony involving bribery of public officials and witnesses, conspiracy to commit an offense or to defraud the United States, or acting as an agent of a foreign principal. Entitles such individual, all the same, to so much of his or her lump-sum credit as is attributable to such service.

Title VII: Leadership PACS - (Sec. 701) Amends FECA to permit a leadership political action committee (PAC) to use its funds for: (1) otherwise authorized expenditures in connection with campaigns for election for federal office; (2) tax deductible charitable contributions; and (3) transfers to a national, state, or local committee of a political party (subject to applicable FECA limitations). Defines leadership PAC as a political committee directly or indirectly established, maintained, or controlled by a candidate for federal office or an individual holding federal office, but which is not an authorized committee of the candidate or individual. Excludes from the meaning of leadership PAC, however, any political committee of a political party.

Title VIII: Ethics Training for Lobbyists - (Sec. 801) Requires the Committee, during each Congress, to provide an eight-hour ethics training course to registered lobbyists. Subjects registered lobbyists who fail to complete such course at least once during each Congress to LDA penalties to the same extent as for LDA noncompliance.

Title IX: Miscellaneous Provisions - (Sec. 901) Amends the federal criminal code subjecting individuals to fines and penalties for bribery of public officials and witnesses to include as an "official act" (which might be influenced in violation of such law) any decision or action on an earmark.

Title X: 527 Reform Act of 2006 - 527 Reform Act of 2006 - (Sec. 1002) Amends the Federal Election Campaign Act of 1971 (FECA) to include in the definition of political committee any applicable 527 organization. (Thus subjects such organizations to the requirements of the Act. A 527 organization, as defined by section 527 of the Internal Revenue Code, is an organization, not controlled by or involving a particular candidate for office, whose function is to influence or attempt to influence the selection, nomination, election, or appointment of any individual to any federal, state, or local public office or office in a political organization, or the election of presidential or vice-presidential electors, whether or not such individual or electors are selected, nominated, elected, or appointed.) Requires the organization to give notice to the Secretary of the Treasury under section 527 that it is to be treated as an organization described in section 527 of the Internal Revenue Code. Except from the definition of 527 organization under FECA a committee, club, association, or other group of persons (organization) which: (1) is a 527

organization under the Internal Revenue Code; (2) is organized, operated, and makes disbursements exclusively for paying certain tax-deductible business expenses or expenses of a certain kind of political newsletter fund; (3) consists solely of candidates for or individuals holding state or local office, but only if the organization refers only to one or more nonfederal candidates or applicable state or local issues in all of its voter drive activities, without reference to any federal candidate; or (4) whose election or nomination activities relate exclusively to elections where no candidate for federal office appears on the ballot, or to influencing the selection, nomination, election, or appointment of one or more candidates to nonfederal offices or individuals to non-elected offices, or influencing one or more applicable state or local issues. Denies the treatment of any such organization as meeting such exclusivity requirement if it makes disbursements aggregating more than $1,000 for: (1) a public communication that promotes, supports, attacks, or opposes a clearly identified candidate for federal office during the one year period ending on the date of the general election for the office sought by the candidate (or if a runoff election is held with respect to such general election, on the date of the runoff election); and (2) any voter drive activity during a calendar year, except a drive in only one state with no reference to federal office candidates.

(Sec. 1003) Sets forth rules for allocation and funding for certain expenses relating to federal and nonfederal activities, including payments of 100% or 50% from a federal account in several specified circumstances. Limits individual donations to a political committee that is a separate segregated fund or non connected committee to an annual aggregate of $25,000 for its qualified nonfederal account.

(Sec. 1004) Repeals the limit on the amount of party expenditures on behalf of candidates in general elections. Raises the limits for House and Senate candidates facing wealthy opponents.

(Sec. 1006) Prescribes special rules for actions brought for declaratory or injunctive relief to challenge the constitutionality of any provision of this Act. Requires such an action to be filed in the U.S. District Court for the District of Columbia, and to be heard by a three-judge panel. Makes any final decision by the panel reviewable only by the U.S. Supreme Court. Authorizes Members of Congress to: (1) bring an action challenging the constitutionality of this Act; and (2) intervene in any action in which the constitutionality of any provision of this Act is raised. Applies such special rules only to actions brought on or before December 31, 2008.

Appendix III

Variable	Description
CAR(-1;+1) in %	The cumulative abnormal return of each firm calculated over a 3-day window centered at the respective event date. The abnormal returns are in percentage. Abnormal returns are calculated using the Fama-French 3-factor model.
Lobbying Expenses (in '000s)	Continuous variable that measures the amount of money (in thousands of $'s) spent on lobbying by a firm in the 3-year period 2003-2005 (included). It is constructed as the sum of lobbying expenses made by each firm over this period. Source: OpenSecrets.org
Lobbying Expenses(Fraction)	Continuous variable that measures the amount of money spent on lobbying by a firm in the 3-year period 2003-2005 as a fraction of the total expenses incurred by the firm during this period. Total expenses are defined as the sum of Advertising Expenses, Interest Expense, R&D Expense, and Selling, General, and Administrative Expense.
Lobbying Rank	Ordinal variable that measures the rank of each firm in terms of lobbying activity. To construct this variable, we split all firms with non-zero lobbying over the period 2003-2005 into 10 deciles. The variable is increasing in lobbying expenditures. Decile 10 (Decile 1) includes firms with the largest (smallest) lobbying expenses. Lobbying Rank takes the value of the decile in which a firm falls based on its lobbying expenses. All firms which have no lobbying activities in the period 2003-2005 (included) are assigned a lobbying rank of 0.
Log(Lobbying Expenses)	Natural logarithm of the sum of the lobbying expenses (in thousands of $'s) made by a firm during the 3-year period 2003-2005 (included).
Assets	Book value of the firm's total assets as of the end of year 2005. Expressed in thousands of $'s.
MB Ratio	Continuous variable of the ratio of the firm's market value of equity to its book value. Market value is constructed as price times shares outstanding. Book value is the book value of equity and deferred taxes and investment tax credit minus the book value of preferred. Book value of preferred stock is redemption, liquidation, or par value (in that order), while book value of equity is stockholders' equity, common equity plus par value of preferred, or book value of total assets minus total liabilities (in that order). The measure is for 2005.
Industry FE FF49	Indicator variable for each of the industry groups following the Fama-French 49 industry classification. Source: Kenneth French's website.

Concerns	The sum of all concerns raised by KLD across 7 dimensions of corporate social responsibility (CSR): Community Relations, Corporate Governance, Diversity, Human Rights, Employee Relations, Products, and Environment. The score is for 2005. Source: KLD Research & Analytics, Inc.
Concerns>P75	Indicator variable that takes the value of 1 if the *Concerns* of a firm's CSR practices exceed the sample's 75th percentile, and 0 otherwise.
Strengths	The sum of all strengths identified by KLD across 7 dimensions of corporate social responsibility (CSR): Community Relations, Corporate Governance, Diversity, Human Rights, Employee Relations, Products, and Environment. The score is for 2005. Source: KLD Research & Analytics, Inc.
Strengths>P75	Indicator variable that takes the value of 1 if the *Strengths* of a firm's CSR practices exceed the sample's 75th percentile, and 0 otherwise
Code of Ethics	Indicator variable that takes the value of 1 if the score by the firm is "Advanced" or "Intermediate" on both survey questions: "Does the Company have a code of ethics and, if so, how comprehensive is it?" & "Does the Company have a system for implementing a code of ethics and, if so, how comprehensive is it?", and 0 otherwise. The score is for 2005. Source: EIRIS
Team Abramoff	Ratio of the number of close associates of Jack Abramoff employed by the firm during 2003-2005 to the total number of lobbyists employed by each firm during that period.
D(Team Abramoff)	Indicator variable that takes the value of 1 if a member of the close associates of Jack Abramoff has been employed by the firm during 2003-2005, and 0 otherwise.
SEC Action	Indicator variable that takes the value of 1 if the Securities and Exchange Commission has brought a civil lawsuit, investigation and administrative proceeding, or enforcement action against the firm during the 5-year period 2001-2005; and 0 otherwise. Source: SEC Litigation and Enforcement Releases sections.
High/Low Rep	"High Rep" firms meet all of the following three conditions: 1) no SEC Action against firm, 2) firm has a Code of Ethics, and 3) firm's Concerns do not exceed the 75th percentile. "Low Rep" firms meet all of the following three conditions: 1) SEC Action against firm, 2) firm does not have a Code of Ethics, and 3) firm's Concerns exceed the 75th percentile.
Contributions (in '000s)	Continuous variable that measures the amount of money (in thousands of $'s) spent on political campaign contributions by a firm in the 3-year period 2003-2005 (included). This includes the amount spend during the 2004 cycle and half of the 2006 cycle. It is measured as the sum of all campaign contributions through PACs and individuals made by each firm over this period. Source: OpenSecrets.org

Contributions Rank	Ordinal variable that measures the rank of each firm in terms of political campaign contributions. To construct this variable, we split all firms over the period 2003-2005 into 10 deciles. The variable is increasing in campaign contributions. Decile 10 (Decile 1) includes firms with the largest (smallest) donations. Contributions Rank takes the value of the decile in which a firm falls based on its campaign contributions.
Intangibles/Assets	Book value of a firm's intangible assets scaled by the book value of its total assets. The measure is for 2005.
Low Transparency	Indicator variable that takes the value of 1 if a firm's *Transparency Score* is below the sample's 25th percentile score and 0 otherwise, where *Transparency Score* is defined as the ratio of the standard deviation of a firm's operating income to the standard deviation of the firm's cash flow. Standard deviations are estimated over 5-year period ending 2005 (included). Cash flow is calculated as operating income minus accruals, where accruals are (ΔTotal Current Assets – ΔCash) – (ΔTotal Current Liabilities – ΔShort-term Debt – ΔTaxes Payable) – Depreciation Expense. Source: Leuz, Nanda, and Wysocki (2003).
R&D/Total Expenses	Continuous variable that measures firm's R&D expenditures as a fraction of its total expenses. Total expenses are defined as the sum of Advertising Expenses, Interest Expense, R&D Expense, and Selling, General, and Administrative Expense. The measure is for 2005.
HHI	Continuous variable that measures industry concentration at the Fama and French 49 industry classification level. The measure is the equally-weighted sum of squared sales-based market shares of all firms on the Compustat tape in that industry. The measure is for 2005.
Democrat on Board	Indicator variable that takes the value of 1 if the firm is connected to Democratic Party or to both Democratic and Republican parties, and 0 otherwise (if the firm is connected only to Republican Party, or if it is not connected). Source: Goldman, Rocholl and So (2009).
Republican on Board	Indicator variable that takes the value of 1 if the firm is connected to Republican Party or to both Republican and Democratic parties, and 0 otherwise (if the firm is connected only to Democratic Party, or if it is not connected). Source: Goldman, Rocholl and So (2009).
Regulated Industry	Indicator variable that takes the value of 1 if the firm is in a regulated industry and 0 otherwise. Regulated industries are industries with the following 2-digit SIC codes: 40, 48, 49, 60, 61, and 63.

BGA Index	*BGA Index* is constructed by the Better Government Association and measures the relative strength of the states' laws that promote integrity. Higher scores indicate stronger laws and better citizen protection. We use the index of the firm's headquarters state as of 2002. *BGA Index* < *Median* is an indicator that takes the value of 1 if the state has below-median index, and 0 otherwise.
Corruption	*Corruption Rate* is based on Glaeser and Saks (2006) and measures the number of convictions of public officials for corruption during 1976-2002 relative to the average population in the state. *Corruption Rate* > *Median* is an indicator that takes the value of 1 if the state has above-median rate, and 0 otherwise.

Appendix IV

Lobbying Rank	Mean Lobbying Expenses (in '000s)	Min Lobbying Expenses (in '000s)	Max Lobbying Expenses (in '000s)
0	$0	$0	$0
1	$66.6	$10.0	$120.0
2	$205.3	$130.0	$280.0
3	$403.1	$284.0	$520.0
4	$644.8	$540.0	$880.0
5	$1,120.8	$900.0	$1,340.0
6	$1,702.2	$1,356.7	$2,005.0
7	$2,647.4	$2,066.3	$3,320.0
8	$4,049.6	$3,350.0	$5,050.0
9	$7,132.9	$5,267.2	$10,520.0
10	$20,591.3	$10,640.0	$55,960.0

Appendix V: Cumulative Abnormal Returns around Abramoff's Guilty Plea

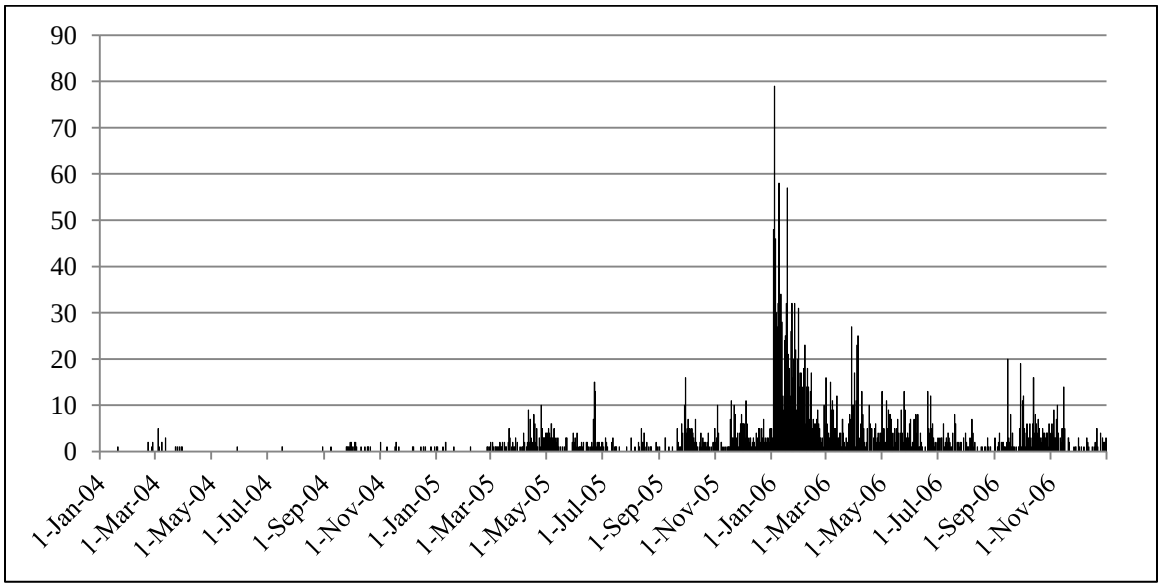
This table reports the OLS results for the specifications in Table 2. Results for the full sample of lobbying and non-lobbying firms are reported in columns (1) and (2), and for the sample of firms that lobby in columns (3)-(6). All variables are described in Appendix III. P-values based on robust standard errors are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	All Firms		Lobbying Sample			
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	-0.081***	-0.055*	-0.144***	-0.117**		
	(0.001)	(0.071)	(0.001)	(0.017)		
Log(Lobbying Expenses)					-0.242***	-0.194**
					(0.001)	(0.022)
Log(Assets)		-0.130		-0.097		-0.106
		(0.195)		(0.465)		(0.431)
MB Ratio		0.023		0.124*		0.124*
		(0.681)		(0.064)		(0.065)
Constant	-1.994*	-0.067	-1.341	-0.096	-0.403	0.803
	(0.069)	(0.972)	(0.343)	(0.969)	(0.788)	(0.735)
Industry FE FF49	Yes	Yes	Yes	Yes	Yes	Yes
N	617	617	421	421	421	421
R^2	0.391	0.393	0.447	0.457	0.446	0.456

Figure I

Panel A of the figure shows the daily number of articles returned from a Factiva key-word search over the period January 2004-December 2006. The search imposes the following conditions: 1) at least two mentions of "Abramoff" and "lobb*" and one of the following terms: "accus*", "fraud*", "investig*", "regula*", "reform*" "restric*", "scand*", "strict*", "unlaw*", and 2) the article contains at least 1000 words. Panel B shows the daily number of articles returned from a Factiva key-word search over the period November 2008 – November 2009. The search imposes the following conditions: 1) all must mention PMA, 2) at least one mention of the following terms: "FBI, raid".

Panel A



Panel B

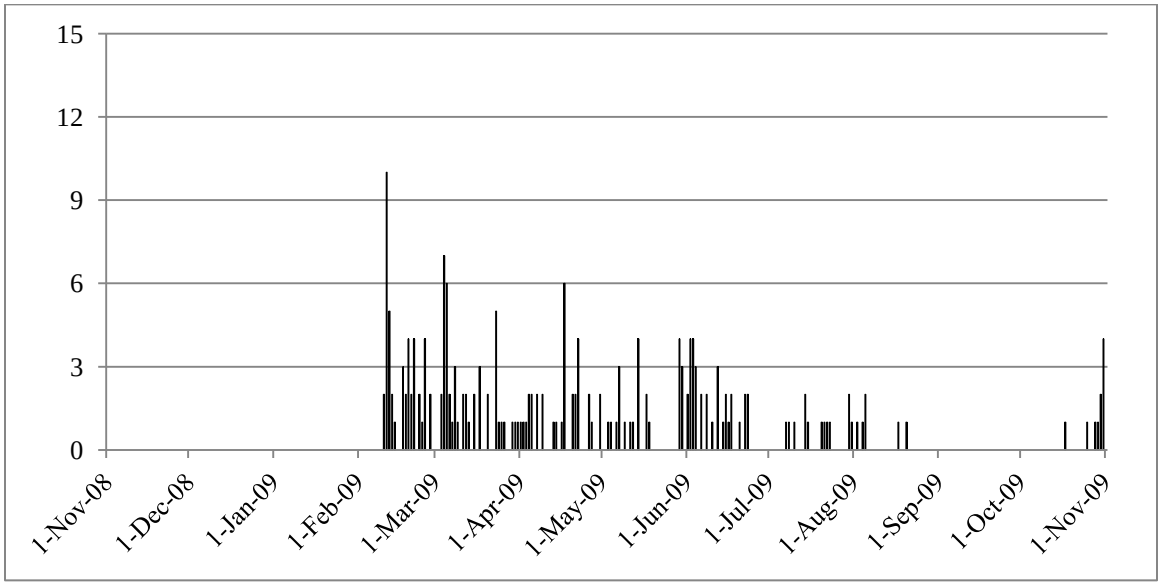


Figure II: Cumulative Abnormal Returns around Abramoff's Guilty Plea

This figure shows the median cumulative abnormal returns for the lobbying and non-lobbying firms on each day during a 10-day event window (-5,+5) centered at the date of Abramoff's guilty plea (January 3, 2006). The cumulative abnormal return of a firm on each day during the event window is the sum of the daily abnormal returns experienced by this firm between this day and day -5. Abnormal returns are estimated using the Fama-French 3-factor model.

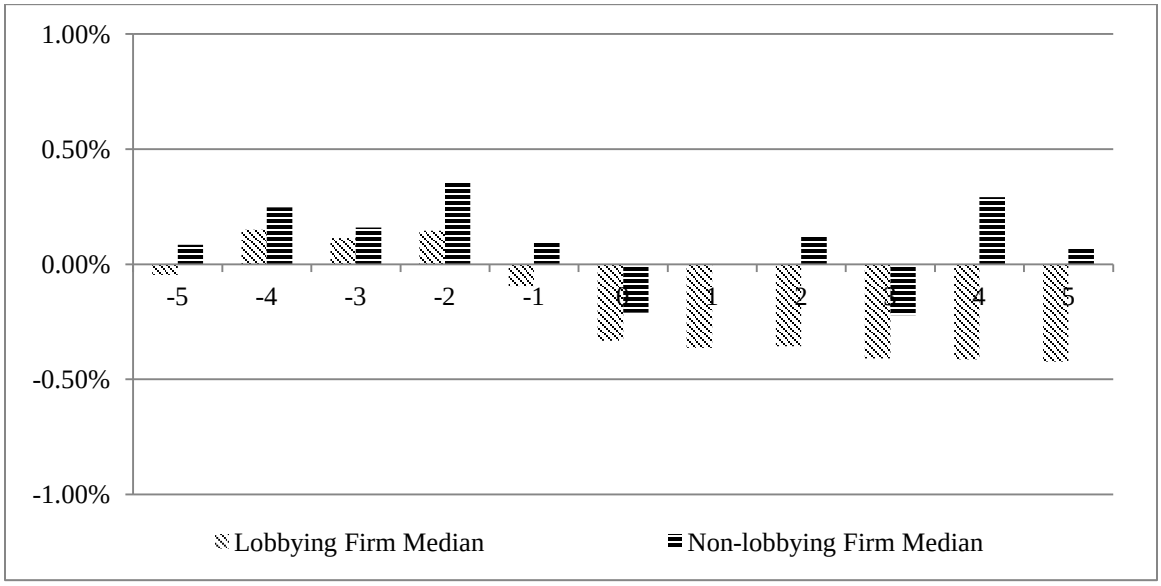
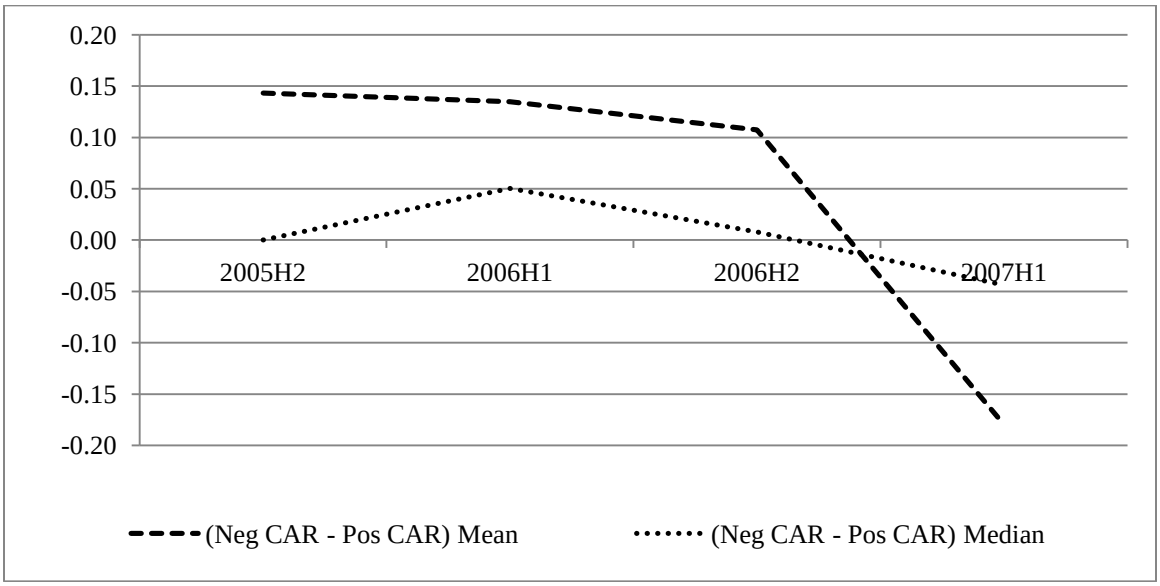


Figure III

The figure shows time series profile of mean and median lobbying spending by sample firms between 2005 and 2007. In Panel A, the dashed (dotted) line represents the difference between average (median) lobbying expenses of firms with negative market reaction around Abramoff's guilty plea and firms with positive market reaction. In Panel B, the dashed (dotted) line represents the difference in the mean (median) of the lobbying expenditures of "Low Rep" and "High Rep" firms. "High Rep" firms meet all of the following three conditions: 1) no SEC Action against firm, 2) firm has a Code of Ethics, and 3) firm's Concerns do not exceed the 75th percentile. "Low Rep" firms meet all of the following three conditions: 1) SEC Action against firm, 2) firm does not have a Code of Ethics, and 3) firm's Concerns exceed the 75th percentile. The semi-annual lobbying expenses of each firm are scaled by its semi-annual lobbying expenses during the 1st half of 2005.

Panel A



Panel B

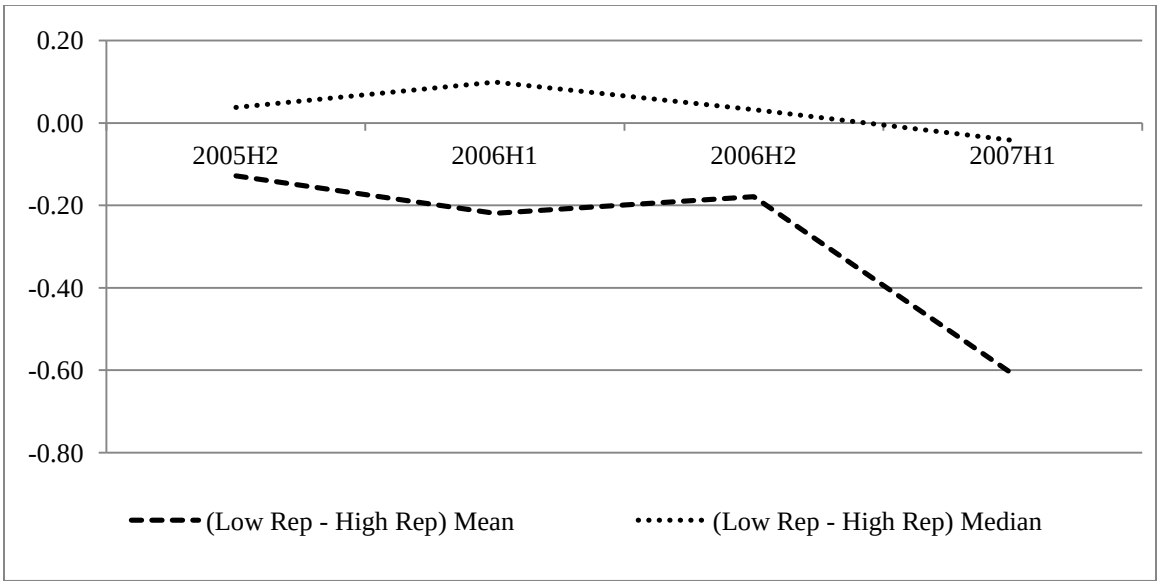


Figure IV: Generalized Propensity Score with Continuous Treatment

The figure shows the estimated treatment effect function of the generalized propensity score analysis, along with its 95% confidence interval obtained from 500 bootstrap replications. The treatment variable (t) is *Log(Lobbying Expenses)*. The horizontal axis shows different levels of the treatment variable, while the vertical axis shows the change in the conditional expectation of the outcome variable (cumulative abnormal returns around Abramoff's guilty plea) given treatment and generalized propensity score for a unit change in the treatment variable.

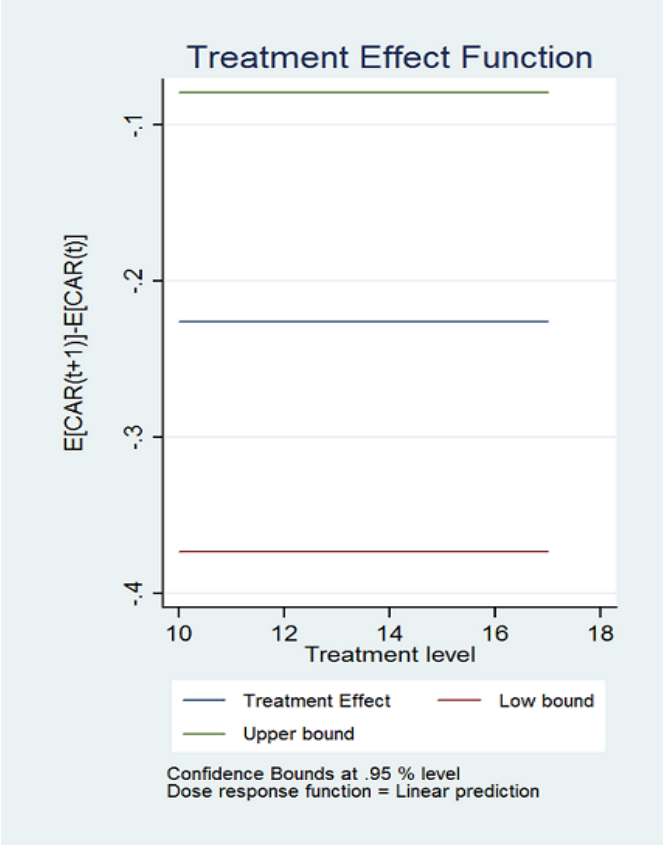


Table I: Summary Statistics

The table reports summary statistics for the sample of firms used in the event study analysis of Jack Abramoff's guilty plea (January 3, 2006). Panel A provides summary statistics for the entire sample of firms, while panels B and C show summary statistics for the sub-samples of lobbying and non-lobbying firms, respectively. All variables are described in Appendix III.

Panel A: All Firms	Mean	Standard Deviation	Minimum	25th Perc	75th Perc	Maximum	Number of Firms
Lobbying Expenses (in '000s)	2,632	5,874	0	0	2,422	55,960	617
Lobbying Rank	3.74	3.50	0	0	7	10	617
Assets (in '000s)	22,248,496	32,312,812	1,366,980	3,514,900	25,307,020	124,615,160	617
Log(Assets)	9.18	1.28	7.22	8.16	10.14	11.73	617
MB Ratio	3.16	2.04	0.94	1.69	3.97	8.88	617
Concerns	3.31	2.54	0	2	4	16	608
Strengths	3.04	3.07	0	1	4	18	608
Concerns>P75	0.25	0.43	0	0	0	1	608
Strengths>P75	0.24	0.42	0	0	0	1	608
Code of Ethics	0.31	0.46	0	0	1	1	510
Republican on Board	0.20	0.40	0	0	0	1	617
Democrat on Board	0.17	0.37	0	0	0	1	617
SEC Action	0.10	0.30	0	0	0	1	617
Regulated Industry	0.21	0.40	0	0	0	1	617
Contributions Rank	5.54	2.86	1	3	8	10	617
Contributions (in '000s)	405	779	0	25	435	8,355	617
Low Transparency	0.25	0.43	0	0	1	1	591
R&D/Total Expenses	0.07	0.11	0	0	0.12	0.33	614
Intangibles/Assets	0.17	0.18	0	0.02	0.29	0.57	617
HHI (FF49)	6.62	7.88	1.16	3.03	7.11	80.36	617
CAR(-1;+1) in %	-0.12	2.17	-5.82	-1.61	1.14	8.59	617

Table I continued

Panel B: Lobbying Firms	Mean	Standard Deviation	Minimum	25th Perc	75th Perc	Maximum	Number of Firms
Lobbying Expenses (in '000s)	3,858	6,773	10	380	3,900	55,960	421
Lobbying Rank	5.48	2.90	1	3	8	10	421
Lobbying Expenses(Fraction)	0.003	0.044	0.000	0.0001	0.0009	0.902	420
Assets (in '000s)	26,931,753	35,219,670	1,366,980	4,895,170	30,304,000	124,615,160	421
Log(Assets)	9.47	1.23	7.22	8.50	10.32	11.73	421
MB Ratio	3.15	2.06	0.94	1.68	3.99	8.88	421
Concerns	3.88	2.66	0	2	5	16	414
Strengths	3.63	3.33	0	1	5	18	414
Concerns>P75	0.23	0.42	0	0	0	1	414
Strengths>P75	0.22	0.41	0	0	0	1	414
Code Ethics	0.35	0.48	0	0	1	1	367
Team Abramoff	0.0016	0.013	0	0	0	0.222	421
D(Team Abramoff)	0.045	0.208	0	0	0	1	421
Republican on Board	0.25	0.43	0	0	1	1	421
Democrat on Board	0.22	0.42	0	0	0	1	421
SEC Action	0.13	0.33	0	0	0	1	421
Regulated Industry	0.22	0.41	0	0	0	1	421
Contributions Rank	6.52	2.58	1	5	9	10	421
Contributions (in '000s)	547	893	0	71	584	8,355	421
Low Transparency	0.25	0.43	0	0	0	1	414
R&D/Total Expenses	0.07	0.11	0	0	0.13	0.33	419
Intangibles/Assets	0.17	0.17	0	0.03	0.29	0.57	421
HHI (FF49)	6.94	8.65	1.16	3.48	7.11	80.36	421
CAR(-1;+1) in %	-0.15	2.17	-5.82	-1.67	1.11	8.59	421

Table I continued

Panel C: Non-Lobbying Firms	Mean	Standard Deviation	Minimum	25th Perc	75th Perc	Maximum	Number of Firms
Assets (in '000s)	12,189,052	21,853,889	1,366,980	2,116,130	9,935,230	124,615,160	196
Log(Assets)	8.57	1.16	7.22	7.66	9.20	11.73	196
MB Ratio	3.17	1.99	0.94	1.70	3.94	8.88	196
Concerns	2.08	1.72	0	1	3	13	194
Strengths	1.78	1.88	0	0	2	14	194
Concerns>P75	0.07	0.26	0	0	0	1	194
Strengths>P75	0.09	0.29	0	0	0	1	194
Code of Ethics	0.20	0.40	0	0	0	1	143
Republican on Board	0.10	0.30	0	0	0	1	196
Democrat on Board	0.05	0.22	0	0	0	1	196
SEC Action	0.05	0.21	0	0	0	1	196
Regulated Industry	0.18	0.38	0	0	0	1	196
Contributions Rank	3.45	2.28	1	2	5	10	196
Contributions (in '000s)	102	257	0	6	91	1,995	196
Low Transparency	0.26	0.44	0	0	1	1	177
R&D/Total Expenses	0.07	0.11	0	0	0.12	0.33	195
Intangibles/Assets	0.17	0.18	0	0.01	0.28	0.57	196
HHI (FF49)	5.94	5.85	1.16	3.03	7.11	46.77	196
CAR(-1;+1) in %	-0.05	2.17	-4.99	-1.31	1.17	8.36	196

Table II: Average Daily Abnormal Returns around Abramoff's Guilty Plea

The table reports the results from an event study examining average daily abnormal returns in the 3-day event window around Jack Abramoff's guilty plea (January 3, 2006). Abnormal returns are computed using the Fama-French three-factor model. Results for the full sample of lobbying and non-lobbying firms are reported in columns (1) and (2), and for the sample of firms that lobby in columns (3)-(6). All variables are described in Appendix III. P-values based on robust standard errors and using the Sefcik and Thompson (1986) method, are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	All Firms		Lobbying Sample			
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	-0.025***	-0.017*	-0.047***	-0.039**		
	(0.001)	(0.087)	(0.001)	(0.010)		
Log(Lobbying Expenses)					-0.080***	-0.064***
					(0.001)	(0.003)
Log(Assets)		-0.042		-0.032		-0.036*
		(0.285)		(0.178)		(0.068)
MB Ratio		-0.005		0.033		0.033
		(0.785)		(0.426)		(0.427)
Constant	-0.569	-0.206	-0.371	-0.161	0.488	0.559
	(0.137)	(0.680)	(0.472)	(0.813)	(0.285)	(0.241)
Industry FE FF49	Yes	Yes	Yes	Yes	Yes	Yes
Number of Firms	617	617	421	421	421	421

Table III: Corporate Ethical Reputation and the Value of Lobbying

The table reports the results from an event study examining the average daily abnormal returns of the sample of firms that lobby based on corporate ethical reputation, in the 3-day event window around Jack Abramoff's guilty plea (January 3, 2006). All variables are described in Appendix III. P-values based on robust standard errors and using the Sefcik and Thompson (1986) method are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A

	Lobbying Sample			
	(1)	(2)	(3)	(4)
Lobbying Rank	-0.039***	-0.031**		
	(0.007)	(0.010)		
Log(Lobbying Expenses)			-0.065***	-0.052***
			(0.002)	(0.001)
Lobbying Rank × SEC Action		-0.058***		
		(0.005)		
Log(Lobbying Expenses) × SEC Action				-0.106**
				(0.022)
SEC Action	0.078	0.417***	0.083	1.593***
	(0.446)	(0.001)	(0.416)	(0.007)
Log(Assets)	-0.033	-0.031	-0.036*	-0.033
	(0.186)	(0.222)	(0.073)	(0.121)
MB Ratio	0.032	0.033	0.032	0.032
	(0.433)	(0.426)	(0.434)	(0.431)
Constant	-0.175	-0.237	0.552	0.338
	(0.792)	(0.727)	(0.239)	(0.523)
Industry FE FF49	Yes	Yes	Yes	Yes
Number of Firms	421	421	421	421

Panel B

	Lobbying Sample			
	(1)	(2)	(3)	(4)
Lobbying Rank	-0.031**	-0.057**		
	(0.020)	(0.028)		
Log(Lobbying Expenses)			-0.054**	-0.096**
			(0.018)	(0.021)
Lobbying Rank × Code of Ethics		0.072**		
		(0.046)		
Log(Lobbying Expenses) × Code of Ethics				0.121**
				(0.029)
Code of Ethics	-0.102***	-0.535**	-0.099***	-1.830**
	(0.002)	(0.012)	(0.002)	(0.020)
Log(Assets)	-0.011	-0.007	-0.011	-0.010
	(0.612)	(0.738)	(0.692)	(0.686)
MB Ratio	0.028	0.031	0.028	0.031
	(0.476)	(0.441)	(0.474)	(0.441)
Constant	0.114	0.184	0.336	0.948
	(0.750)	(0.570)	(0.593)	(0.182)
Industry FE FF49	Yes	Yes	Yes	Yes
Number of Firms	367	367	367	367

Panel C

	Lobbying Sample			
	(1)	(2)	(3)	(4)
Lobbying Rank	-0.049**	-0.046***		
	(0.019)	(0.009)		
Log(Lobbying Expenses)			-0.083**	-0.084***
			(0.013)	(0.005)
Lobbying Rank × Concerns>P75		-0.053***		
		(0.005)		
Lobbying Rank × Strengths>P75		0.014		
		(0.378)		
Log(Lobbying Expenses) × Concerns>P75				-0.094***
				(0.001)
Log(Lobbying Expenses) × Strengths>P75				0.049**
				(0.019)
Concerns>P75	0.084	0.460**	0.084	1.481***
	(0.129)	(0.014)	(0.121)	(0.001)
Strengths>P75	0.196*	0.128	0.197*	-0.499
	(0.073)	(0.427)	(0.074)	(0.135)
Log(Assets)	-0.059*	-0.055	-0.062*	-0.058*
	(0.085)	(0.126)	(0.050)	(0.075)
MB Ratio	0.021	0.019	0.021	0.019
	(0.537)	(0.568)	(0.541)	(0.574)
Constant	0.113	0.034	1.034*	0.986
	(0.873)	(0.964)	(0.080)	(0.138)
Industry FE FF49	Yes	Yes	Yes	Yes
Number of Firms	414	414	414	414

Table IV: Abnormal Returns around Stages of Bill S.2349

The table reports the results from an event study examining the average daily abnormal returns of firms in the 3-day event window around each of the three stages of the "Lobbying Accountability and Transparency Act of 2006" (Bill S.2349) sponsored by Senator Trent Lott. The three events are: 1) *Introduction* (March 1, 2006), 2) *Senate Vote* (March 29, 2006), and 3) *House Vote* (May 23, 2006). Results for the full sample of lobbying and non-lobbying firms are reported in columns (1)-(3), and for the sample of firms that lobby in columns (4)-(6). All variables are described in Appendix III. P-values based on robust standard errors and using the Sefcik and Thompson (1986) method are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	All Firms			Lobbying Sample		
	Introduction	Senate	House	Introduction	Senate	House
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	-0.014*	-0.001	-0.004			
	(0.059)	(0.922)	(0.317)			
Log(Lobbying Expenses)				-0.034***	-0.005	-0.017
				(0.008)	(0.865)	(0.372)
Log(Assets)	-0.018	-0.035	0.034	-0.006	-0.025	0.031
	(0.556)	(0.567)	(0.158)	(0.796)	(0.694)	(0.455)
MB Ratio	0.007	0.030*	0.021	0.017	0.034	0.031***
	(0.569)	(0.051)	(0.224)	(0.392)	(0.267)	(0.001)
Constant	-0.057	0.474	-0.158	0.219	0.424	0.141
	(0.798)	(0.400)	(0.740)	(0.407)	(0.466)	(0.663)
Industry FE FF49	Yes	Yes	Yes	Yes	Yes	Yes
Number of Firms	615	613	607	420	420	412

Table V: Response to Another Corruption Scandal

The table shows results from an event study of the average daily abnormal returns of firms around event dates for the corruption scandal involving lobbyist Paul Magliocchetti. The event dates are the initial raid of his lobbying firm, the PMA Group (November 25, 2008), and the first news report of this event (February 9, 2009). Results for the full sample of lobbying and non-lobbying firms are reported in columns (1) and (2), and for the sample of firms that lobby in columns (3) and (4). All variables are described in Appendix III. P-values based on robust standard errors and using the Sefcik and Thompson (1986) method are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	All Firms		Lobbying Sample	
	Nov 25th 2008	Feb 9th 2009	Nov 25th 2008	Feb 9th 2009
	(1)	(2)	(3)	(4)
Lobbying Rank	-0.014	-0.034**		
	(0.708)	(0.011)		
Log(Lobbying Expenses)			-0.126	-0.162*
			(0.189)	(0.068)
Log(Assets)	0.031	0.043	-0.121	0.073
	(0.764)	(0.341)	(0.309)	(0.423)
MB Ratio	-0.011	-0.055	-0.083*	-0.055
	(0.612)	(0.355)	(0.084)	(0.198)
Constant	-2.334	-1.722**	-2.405*	0.053
	(0.313)	(0.014)	(0.084)	(0.922)
Industry FE FF49	Yes	Yes	Yes	Yes
Firms	561	558	415	422

Table VI: Examining Alternative Explanations

The table shows the results from an event study of the average daily abnormal returns of lobbying firms in the 3-day event window around Jack Abramoff's guilty plea (January 3, 2006), based on measures of firm opaqueness to examine the informational role of lobbying. All variables are described in Appendix III. P-values based on robust standard errors and using the Sefcik and Thompson (1986) method are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Lobbying Sample					
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	-0.047*	-0.045**	-0.046***			
	(0.050)	(0.025)	(0.004)			
Log(Lobbying Expenses)				-0.078**	-0.077**	-0.073***
				(0.043)	(0.017)	(0.001)
Lobbying Rank × Intangibles/Assets	0.055					
	(0.439)					
Lobbying Rank × R&D/Total Expenses		0.081				
		(0.370)				
Lobbying Rank × Low Transparency			0.024			
			(0.403)			
Log(Lobbying Expenses) × Intangibles/Assets				0.085		
				(0.538)		
Log(Lobbying Expenses) × R&D/Total Expenses					0.156	
					(0.320)	
Log(Lobbying Expenses) × Low Transparency						0.036
						(0.531)
Intangibles/Assets	-0.437			-1.334		
	(0.300)			(0.492)		
R&D/Total Expenses		1.272			-0.434	
		(0.293)			(0.848)	
Low Transparency			-0.135			-0.509
			(0.518)			(0.556)
Log(Assets)	-0.035*	-0.042*	-0.033	-0.037**	-0.045**	-0.038*
	(0.096)	(0.089)	(0.228)	(0.034)	(0.037)	(0.089)
MB Ratio	0.032	0.021	0.032	0.031	0.021	0.032
	(0.428)	(0.639)	(0.459)	(0.432)	(0.642)	(0.456)

Constant	-0.454	-0.458	-0.565	0.411	0.425*	0.272
	(0.256)	(0.205)	(0.197)	(0.464)	(0.066)	(0.507)
Industry FE FF49	Yes	Yes	Yes	Yes	Yes	Yes
Number of Firms	421	419	414	421	419	414

Table VII: Firms Connected to Team Abramoff

The table shows results from an event study of the average daily abnormal returns of lobbying firms in the 3-day event window around Jack Abramoff's guilty plea (January 3, 2006), based on their connections to "Team Abramoff". All variables are described in Appendix III. P-values based on robust standard errors and using the Sefcik and Thompson (1986) method are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Lobbying Sample			
	(1)	(2)	(3)	(4)
Lobbying Rank	-0.037**	-0.038**		
	(0.019)	(0.012)		
Log(Lobbying Expenses)			-0.061***	-0.062***
			(0.008)	(0.005)
D(Team Abramoff)	-0.138		-0.139	
	(0.133)		(0.116)	
Team Abramoff		-3.998***		-3.966***
		(0.006)		(0.007)
Log(Assets)	-0.031	-0.035	-0.035*	-0.039*
	(0.181)	(0.148)	(0.068)	(0.051)
MB Ratio	0.032	0.029	0.032	0.029
	(0.431)	(0.492)	(0.432)	(0.492)
Constant	-0.176	-0.131	0.511	0.575
	(0.794)	(0.851)	(0.254)	(0.230)
Industry FE FF49	Yes	Yes	Yes	Yes
Number of Firms	421	421	421	421

Table VIII: Additional Robustness Checks

The table reports results from robustness tests. Panel A column (1) reports the results from an event study of the cumulative abnormal returns of lobbying firms adjusted for the cumulative abnormal returns of a matched sample of non-lobbying firms using propensity score methods in the 3-day event window around Jack Abramoff's guilty plea (January 3, 2006). Panel A, column (2) uses an alternative measure of lobbying expenses expressed as a fraction of total expenses. Panel A, columns (3)–(5) reports the results from an event study of the average daily abnormal returns of lobbying firms in a 3-day event window around the same date as the guilty plea, January 3, but in the years 2005, 2007, and 2008, to control for potential calendar time effects. Panels B-E report results using the full sample of non-lobbying and lobbying firms, and the sample of firms that lobby. Panel B controls for the campaign contributions made by firms and their employees, and for the political connections of the firms' corporate boards. Panel C controls for industry concentration (HHI) and regulated industries (2-digit SIC codes 40, 48, 49, 60, 61, and 63). Panel D controls for state-level corruption based on the location of the firms' headquarters. Panel E reports results from a Monte Carlo simulation to correct the standard errors for cross-sectional dependence and heteroskedasticity. All variables are described in Appendix III. P-values based on robust standard errors are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Propensity Score Matched Sample and Calendar Effects

			2004	2005	2007
	(1)	(2)	(3)	(4)	(5)
Log(Lobbying Expenses)	-0.201**		0.015	0.003	-0.013
	(0.017)		(0.587)	(0.777)	(0.406)
Lobbying Expenses (Fraction)		-2.154***			
		(0.006)			
Log(Assets)		-0.101***	0.048***	0.140**	0.012
		(0.001)	(0.002)	(0.020)	(0.769)
MB Ratio		0.029	-0.058*	0.001	-0.029
		(0.473)	(0.065)	(0.948)	(0.245)
Constant	3.008**	0.366	-0.596	-1.521**	0.577
	(0.015)	(0.483)	(0.387)	(0.023)	(0.309)
Industry FE FF49	No	Yes	Yes	Yes	Yes
Firms	421	420	385	391	412

Panel B: Controlling for Campaign Contributions and Political Connections

	All Firms		Lobbying Sample			
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	-0.014**	-0.018*	-0.034**		-0.038**	
	(0.043)	(0.079)	(0.027)		(0.022)	
Log(Lobbying Expenses)				-0.069**		-0.062**
				(0.014)		(0.011)
Contributions Rank	-0.009		-0.012			
	(0.479)		(0.430)			
Log(Contributions)				0.008		
				(0.521)		
Republican on Board		-0.095**			-0.166***	-0.163***
		(0.031)			(0.001)	(0.001)
Democrat on Board		0.083			0.074	0.069
		(0.351)			(0.373)	(0.392)
Log(Assets)	-0.034	-0.041	-0.024	-0.039*	-0.023	-0.028
	(0.499)	(0.342)	(0.483)	(0.054)	(0.292)	(0.135)
MB Ratio	-0.004	-0.006	0.034	0.032	0.034	0.034
	(0.807)	(0.735)	(0.396)	(0.427)	(0.391)	(0.391)
Constant	-0.254	-0.224	-0.203	0.563	-0.247	0.456
	(0.647)	(0.645)	(0.777)	(0.237)	(0.703)	(0.308)
Industry FE FF49	Yes	Yes	Yes	Yes	Yes	Yes
Firms	617	617	421	421	421	421

Panel C: Controlling for Regulated Industries

	All Firms		Lobbying Sample			
	(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	-0.014***	-0.011**	-0.035***		-0.032***	
	(0.001)	(0.042)	(0.004)		(0.001)	
Log(Lobbying Expenses)				-0.063***		-0.058***
				(0.005)		(0.001)
Regulated Industry	-0.066**		-0.037	-0.038		
	(0.039)		(0.297)	(0.275)		
HHI		-0.004			-0.004	-0.004
		(0.660)			(0.550)	(0.562)
Log(Assets)	-0.033	-0.047	-0.003	-0.001	-0.012	-0.011
	(0.226)	(0.117)	(0.795)	(0.956)	(0.138)	(0.247)
MB Ratio	-0.011	-0.007	0.035	0.036	0.038	0.038
	(0.425)	(0.552)	(0.303)	(0.301)	(0.270)	(0.268)
Constant	0.360*	0.485*	0.071	0.735***	0.159	0.776***
	(0.071)	(0.051)	(0.689)	(0.001)	(0.156)	(0.001)
Industry FE FF49	No	No	No	No	No	No
Firms	617	617	421	421	421	421

Panel D: Controlling for State-level Corruption

	All Firms		Lobbying Sample	
	(1)	(2)	(3)	(4)
Lobbying Rank	-0.019*	-0.018*		
	(0.081)	(0.090)		
Log(Lobbying Expenses)			-0.064***	-0.058***
			(0.005)	(0.006)
BGA Index < Median	-0.122*		-0.134**	
	(0.061)		(0.040)	
Conviction Rate > Median		-0.151***		-0.164***
		(0.005)		(0.003)
Log(Assets)	-0.033	-0.036	-0.030	-0.035
	(0.414)	(0.409)	(0.294)	(0.214)
MB Ratio	-0.011	-0.010	0.029	0.029
	(0.434)	(0.454)	(0.424)	(0.427)
Constant	-0.237	-0.207	0.511	0.490
	(0.661)	(0.706)	(0.333)	(0.365)
Industry FE FF49	Yes	Yes	Yes	Yes
Firms	596	596	402	402

Panel E: Monte-Carlo Simulation Results

		All Firms		Lobbying Sample			
		(1)	(2)	(3)	(4)	(5)	(6)
Lobbying Rank	β	-0.08	-0.05	-0.14	-0.11		
	Mean	0.00	0.00	0.00	0.00		
	p-value	(0.00)	(0.07)	(0.00)	(0.02)		
Log(Lobbying Expenses)	β					-0.23	-0.19
	Mean					0.01	0.00
	p-value					(0.00)	(0.01)
Log(Assets)	β		-0.12		-0.09		-0.10
	Mean		0.01		0.00		0.00
	p-value		(0.18)		(0.27)		(0.26)
MB Ratio	β		-0.01		0.10		0.10
	Mean		0.00		0.00		0.00
	p-value		(0.5)		(0.07)		(0.07)
Constant	β	-1.71	-0.66	-1.12	-0.53	1.39	1.58
	Mean	-0.02	-0.07	-0.02	-0.03	-0.08	-0.09
	p-value	(0.08)	(0.40)	(0.20)	(0.39)	(0.20)	(0.18)