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All the President's Friends

Political Access and Firm Value

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Access to political decisionmakers is a scarce resource because politicians have limited time and can only interact with a limited set of people. Gaining political access can have significant value for corporations, particularly since governments play an increasingly prominent role in influencing firms. Governments affect economic activities not only through regulations, but also by playing the role of customers, financiers, and partners of firms in the private sector. Ample anecdotal evidence suggests that firms benefit from gaining access to powerful politicians. Therefore, gaining and maintaining access to influential policymakers can be an important source of competitive advantage for companies. Yet despite the importance of political access for firms, the allocation of political access across firms and its effects on firm value remains underexplored.

In our work, we investigate the characteristics of firms with political access as well as the valuation effects of political access for corporations. Using a novel dataset of White House visitor logs, we identify top corporate executives of S&P 1500 firms that have face-to-face meetings with high-level federal government officials. We examine two fundamental questions associated with political access. First, how prevalent is political access—in the literal form of meetings with influential policymakers—and what are the characteristics of firms with access to politicians? Second, does political access increase firm value, and if so, through what channels?

Given the influences of governments on firms and the scarce nature of political access, understanding the allocation of political access across firms has been a central question in political economy. To make a case to a policymaker, one needs to secure a politician's attention and convey messages through direct or indirect communication. The existing political economy literature contends that politicians grant more access to interest groups that contribute more to the officials' election. From a demand perspective, firms with more exposure to government policies should be more likely to seek political access. Yet, due to a lack of data on firms' access to politicians, it remains unclear how political access is allocated across firms.

Corporations can benefit from direct interactions with elected officials in at least three ways. First, political access may enable firms to secure contracts to provide goods or services to government. Government procurement of goods and services accounts for more than 10 percent of the GDP in the United States, and government officials may influence the allocation of lucrative government contracts toward firms whose executives have interacted with them.

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Second, companies with direct access to politicians can seek regulatory relief and influence political decision-making. Companies in the United States are subject to oversight from various regulatory agencies, such as the Securities and Exchange Commission, the Federal Trade Commission, the Consumer Product Safety Commission, the Food and Drug Administration, the Environmental Protection Agency, the Occupational Safety and Health Administration, and others. Since politicians have discretion in granting regulatory relief, they may provide more relief to companies that have access to them.

Third, access to politicians may enable companies to gain an informational advantage about government policies and actions, which would help them to mitigate political uncertainty. A growing literature shows that political uncertainty negatively impacts corporate investment. Gaining direct access to influential policymakers can help companies become better informed about the inner workings of the government and the policymaking process, which can help mitigate political uncertainties and improve corporate decisionmaking. These considerations suggest that access to politicians should be associated with increased firm value.

We match the names of visitors in the White House visitor logs to the names of corporate executives of S&P1500 firms during the period from January 2009 through December 2015, and identify 2,286 meetings between corporate executives and federal government officials at the White House. Our findings show that, first, in terms of the prevalence and characteristics of firms with political access, about 11.4 percent of the firm-years have executives that visit the White House. Since firms with political access are typically large ones they account for 40 percent of the total market capitalization of firms in the sample. Consistent with the notion that campaign contributions "buy" access, we find that firms that contributed more to Obama's presidential election campaigns were more likely to have access to the White House. Additionally, firms that spend more on lobbying, firms that receive more government contracts, larger firms, and firms with a greater market share are more likely to have access to influential federal officials.

Second, we find that corporate executives' meetings with White House officials are followed by significant positive cumulative abnormal returns (CARs). For example, the CAR is about 0.865 percent during a 51-day window surrounding the meetings (i.e., 10 days before to 40 days after the meetings). We also find that the result is driven mainly by meetings with the president and his top aides, and there are insignificant CARs for cancelled visits, suggesting that the actual incidence of the meetings matters for firm value.

Third, to alleviate concerns that omitted variables drive both the timing of corporate executives' meetings with federal officials and stock returns, we exploit the election of Donald J. Trump as the 45th President of the United States as a shock to political access. Firms with access to the Obama administration experience significantly lower stock returns following the release of the election result than otherwise similar firms. The economic magnitude is nontrivial as well: after controlling for various factors that are likely correlated with firms' political activities, such as campaign contributions, lobbying expenses, and government contracts, the stocks of firms with access to the Obama administration underperform the stocks of otherwise similar firms by about 80 basis points in the three days immediately following the election. This result helps alleviate the concern that the observed valuation effects associated with political access are driven by confounding factors that are correlated with both the timing of the meetings and stock returns.

Last, we identify several channels through which political access enhances firm value. Using a matched sample of firms with political access (treatment firms) and those without (control firms), we find that treatment firms, relative to control firms, receive more government contracts following the meetings than before the meetings. The economic magnitude of this effect is nontrivial. For example, assuming a profit margin of 12 percent for winning bids in procurement contracts, the profits generated from incremental contract volume due to political access represent a gain of about 0.09 percent for the average firm's stock, which is about 11 percent of the average 51-day CAR around White House visits. We also find evidence suggesting that treatment firms secure more regulatory relief following the meetings than before the meetings. Furthermore, there is evidence that the investment of treatment firms becomes less negatively affected by political uncertainty after the meetings.

NOTE:

This research brief is based on Jeffrey R. Brown and Jiekun Huang, "All the President's Friends: Political Access and Firm Value," NBER Working Paper no. 23356, April 2017, http://www.nber.org/papers/w22356.