

Elephants (or Donkeys) at the Gate: Political Ideology in M&A*

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Abstract

We study the effect of shared political identity between acquirers and targets on merger outcomes. In a sample of publicly traded U.S. mergers, we find that targets are more likely to be acquired by an acquirer of a similar political orientation. We document that acquirers in politically matched mergers experience significantly worse cumulative abnormal returns around the merger announcement compared to their non-politically matched counterparts. Acquirers in those mergers pay less takeover premiums, less advisory fees, and experience worse post-merger operating performance. We also find that target executive retention rates are higher, and that the top management team receives a larger bonus post-merger in politically matched mergers. Our results indicate that politically matched mergers create less value to shareholders.

JEL classification: G30, G34

Keywords: Mergers & Acquisitions; Corporate culture; Political orientation; Corporate Governance

*We are grateful for the comments and suggestions of Fajhan Almutairi, Khaled Alsabah, Eric Alston, Gustaf Belstam, Asaf Bernstein, Sanjai Bhagat, Matt Billet, Tony Cookson, Rob Dam, Shaun Davies, Nick Gantchev, Katie Moon, Edward Van Wesep, and seminar participants at Kuwait University and the University of Colorado Boulder. Any errors are our own.

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1 Introduction

Political ideology encompasses more than an individual's electoral choices and contributions recipients. It shapes the social and economic values he carries, how he perceives and understands the world around him, and his choice of colleagues and partners (Jost et al., 2003; Layman et al., 2006; Barnea and Schwartz, 1998; Schwartz et al., 2010). Managers are not immune to such cognitive drivers. One setting in which political ideology could drive managerial decision making is whom the firm acquires or merges with.

In Finance, political orientation has been found to affect the decision of various economic agents such as corporate executives (Hutton et al., 2014), equity analysts (Jiang et al., 2016), and portfolio managers (Hong and Kostovetsky, 2012). Furthermore, the political beliefs of top executives foster a certain environment within the firm that significantly shapes the corporate culture (Briscoe et al., 2014; Chin et al., 2013; Babenko et al., 2016; Guiso et al., 2015). The evidence on executive values shaping corporate culture extends beyond the realm of political values to other traits and behaviors (e.g. Davidson et al., 2015; Benmelech and Frydman, 2015).

In this paper, we look at the effect of having a shared political identity across the acquirer and target on merger outcomes. Acquisitions are very important decisions for firms and carry significant long-term implications for both the target's and the acquirer's shareholders. The decision to merge with an entity often lends itself not only to the synergistic fit of the two firms, but also to the cultural fit, the interaction, and trust between the top management teams of both firms. Having a similar culture plays a significant role in the decision on whom to merge with and likely manifests itself during the merger negotiations, conditions setting, and final signing of the deal. A focus on the political culture is fueled by the growing partisanship and polarization in the US political landscape (Fisher et al., 2013; Poole and Rosenthal, 2000; Prior, 2013; Rohde, 1991). This is certainly confirmed in our data by the tendency of firms to have managers of similar political ideology. Hence, a variable that could possibly affect merger outcomes would therefore be of importance to understand.

We hypothesize that firms would be driven to merge with firms with whom they share a similar culture and belief system. Firms of similar culture are better able to sail through the risky waters of post-merger integration, a process in which people, cultures, and processes collide and can easily result in the merger's failure (Cartwright and Cooper, 1993). This ideology and culture similarity would lend to a sense of trust and a commitment across both parties (Cvetkovich and Lofstedt, 2013; Earle and Cvetkovich, 1995; Miller, 1995; Dwyer et al., 1987; Morgan and Hunt, 1994) which would create a better information channel, which in turn manifests itself in better performance. We term this the value creation hypothesis. On the other hand, similarity in culture and managerial values could also have its costs. Having cultural and ideological similarity as a primary driver could result in firms forgoing better investment opportunities, insufficient risk consideration, and eventually poor decision making (Ang et al., 2015; Byrne, 1971; Janis, 1982; Triandis et al., 1965). This is further exacerbated by the tendency of homogeneous groups to perform worse relative to heterogeneous ones (Triandis et al., 1965). We term this the value destroying hypothesis.

We examine these two competing hypotheses by analyzing the political orientation of executives in 686 public mergers of S&P 1500 firms over the time period 1993-2010. Firms' top executives have a very significant influence and control over the merger process starting from its initiation to its closure. Hence, it is no surprise to constantly see their personal traits and incentives affecting merger outcomes (Graham et al., 2013; Yim, 2013). We find that acquirer announcement cumulative abnormal returns (CARs) in mergers in which the top management teams have a common political ideology are lower. This finding is consistent with the hypothesis that the trust generated by having a shared identity could lead to worse decision making. We arrive at a similar finding when examining the combined entity CARs¹. However, we fail to find any evidence that a similar negative effect exists for the target announcement returns. Such lack of evidence indicates that the lower combined CARs are not driven by an overpayment for targets with a common political ideology (i.e.

¹Combined entity CARs are constructed using acquirer and target CARs weighted by their respective market capitalization.

a wealth transfer from the acquirer to the target). A politically matched acquisition (PMA) is associated with a 1.7% (1.1%) less CARs to the acquirer (combined entity) compared to their non-politically matched counterparts. The effects to the acquirer remain even when we separately consider either political party (Republicans vs Democrats). To assess the economic magnitude of the drop in the CARs, we look at the mean three-day CAR for both the acquirer and combined entity and find it to be -2% and 1.2%, respectively.

Given this negative outcome for politically matched mergers, we further examine how shared ideology affects other merger outcomes. We start by examining how such mergers affect the advisory fees paid to investment banks by each firm. We find that in politically matched acquisitions, both the target and acquirer pay less advisory fees than their non-politically matched counterparts. This effect is more pronounced for acquirers than targets. Next, we examine whether deal premiums paid to the target are less in PMAs, and we find that such acquisitions are associated with the acquirer offering a smaller share-price premium compared to their non-politically matched acquisitions. We find that this premium effect is driven by the Republican mergers. Moreover, we observe worse operating performance three years after the merger for PMAs which is consistent with the market's negative response for the merger upon announcement. This is, however, true only for Republican matched acquisitions, while the initial negative market response was for both Republican and Democrat matched acquisitions.

We also find that PMAs are more likely to happen. The evidence, however, indicates that it is only targets that seem to more likely be matched to politically similar acquirers. In other words, targets seem to choose acquirers with whom they are similar/familiar along the political ideology dimension. On the contrary, we find no tendency for acquirers to seek targets of a similar political ideology.

Further we examine how this common political identity affects the retention of the target's executive team ([Agrawal and Walkling, 1994](#); [Ghosh and Ruland, 1998](#)). We find that in PMAs, there is a greater retention of executives from the target into the merged entity. This

is true for both Republican and Democrat executives. Retention of lesser-quality managers could be one reason explaining the negative market outcome upon the announcement of such mergers. Last but not least, we examine the compensation the acquirer's top managers receive upon completion of the merger (Grinstein and Hribar, 2004; Harford and Li, 2007). We find that on average, top managers receive greater cash bonuses upon completing a PMA. This effect is stronger when we control and interact PMA with the announcement CARs. That is, controlling for announcement performance, PMAs seem to enjoy an even higher bonus compared to non-PMA counterparts. This effect is true for Republican PMAs.

One concern in our analysis is that omitted variables could partially explain our results. For example, it is possible that targets with weak anti-takeover laws facilitate the execution of politically matched mergers, which could bias our results. As such, we run a robustness check where we include the target's G-Index as measured in Gompers et al. (2003) and find that our results are robust to this consideration across all outcomes.² Another possibility for an omitted variable is the geographical proximity of the acquirer and target. One could argue that the tendency for politically similar firms to merge is a result of their geographical proximity since political ideologies and party affiliations tend to be geographically clustered (Glaeser and Ward, 2006; Tam Cho et al., 2013). Therefore, we run a robustness check where we include the geographical proximity as measured in Uysal et al. (2008) and find that our results are robust to this consideration across all outcomes.

Taken together, the evidence indicates that having a common political ideology across the top management teams of acquirer and target has negative effects on merger outcomes. It is possible that a common culture and a shared political identity do foster an environment of trust and information flow during merger negotiations and post-merger integration. However, we observe only negative effects for PMAs, consistent with poorer decision making. The desire to seek and the preference to work with firms and managers of similar cultures and values in an acquisition could be one mechanism explaining the documented value destruction

²A large value of the G-Index implies that the firm has higher anti-takeover provisions. A large G-Index can also be interpreted as weak shareholder (or strong managerial) power.

for shareholders in mergers.

This paper contributes to the emerging literature on corporate culture and its influence on corporate outcomes. Culture has been found to be an important element behind economic decision making (Guiso et al., 2006, 2008; Giannetti and Yafeh, 2012; Li et al., 2011). Several papers have shown that managerial values shape the culture within the firm and the decisions the firm pursues (Davidson et al., 2015; Zingales, 2015). The effect of national culture differences in MA is documented in Ahern et al. (2015), who find that cultural differences is an important determinant of cross-border merger outcomes. In this paper, we focus on the firm-level cultural differences across the merged entities. Because political ideology likely captures traits such as risk-taking behavior and openness to new ideas, we examine whether political ideology is an important determinant of merger outcomes.

This paper contributes to the growing literature on familiarity and homophily in financial settings as a determinant of managerial decisions. Ishii and Xuan (2014) find that social ties among board members of two firms enhances the chances of a merger occurring, yet they end up being value destroying. Gompers et al. (2016) find that VCs prefer to syndicate with those of a shared background such as career, education, or ethnicity, yet again such high affinity has negative performance effects later on. Nevertheless, Cohen et al. (2010) and Hegde and Tumlinson (2014) show that having a shared identity, whether ethnic or educational, has actually positive performance spillovers. We try to reconcile these conflicting findings by looking at how a different form of shared identity, the political ideology of the firm's executives, would affect the merger outcomes. Moreover, while Ishii and Xuan (2014) and Cai and Sevilir (2012) look at connections between board members, we differ by looking at top executives in the acquirer and target firms that would likely have different incentives and concerns than board members (Harford, 2003; Hartzell et al., 2004).

This paper also contributes to the long standing M&A literature that is always trying to better understand the implications and drivers behind such a major corporate decision. A recently invigorated part of the M&A literature tries to examine how merger outcomes are

affected by the relationship between acquirers and targets. While [Levy and Sarnat \(1970\)](#) and [Eckbo \(1983\)](#) are two of the oldest papers to examine how the industry of the target in relation to the acquirer (i.e. a related or diversifying deal) affect merger outcomes, more recently, [Hoberg and Phillips \(2010\)](#) examines how product market synergies between two firms come into play in M&As. We contribute to this literature by showing how having a shared culture and political orientation between the acquirer and the target affects merger outcomes.

2 Hypothesis Development

An individual's political thought and ideology is an important dimension of his identity. It is a set of beliefs, attitudes, and principles that defines the political behavior of individuals ([Jost, 2006](#); [Adorno et al., 1950](#)). A political ideology can be very salient, as it has the ability to not only manifest itself in political choices and contributions but also in social behavior and cognition ([Jost et al., 2003](#); [Layman et al., 2006](#); [Barnea and Schwartz, 1998](#); [Schwartz et al., 2010](#)). Individuals vary in terms of their openness to experience, conscientiousness, belief in equality, risk taking, and novelty seeking based on where they lie on the conservative-liberal spectrum ([Carney et al., 2008](#); [Jost, 2006](#)). Additionally, an individual's political orientation shapes his social and economic attitudes towards various issues such as social welfare, economics equality, and moral matters ([Layman et al., 2006](#)). Such issues have become very polarized across the conservative-liberal spectrum of political thought in the U.S. ([Carmines and Wagner, 2006](#); [Layman et al., 2006](#)).

A firm's corporate culture consists of the norms and values widely shared throughout an organization ([O'Reilly and Chatman, 1996](#)). Being at the helm of the firm, top firm managers have significant influence on the corporate culture and steer the firm's values ([Davidson et al., 2015](#); [Mironov, 2015](#); [Benmelech and Frydman, 2015](#)). This transfer is not constrained to values such as integrity and ethical behavior only but can also occur with other

traits and values. For example, firms with more liberal top executives see their employees engage in greater LGBT activism, a sign of their open mindedness, (Briscoe et al., 2014) and score higher on corporate social responsibility (Di Giuli and Kostovetsky, 2014). The value orientation of the firm's executive could also set the tone for the degree of risk seeking and equal employee treatment within the firm (Hutton et al., 2014; Christensen et al., 2015; Hutton et al., 2015). Moreover, additional evidence on the effect of managers on values within the firm is the recent causal evidence documented by Babenko et al. (2016) on how employees donate to similar parites as the top executives in the firm.

The corporate culture, as shaped by the top executives, is a very important ingredient in mergers and acquisitions. The post-merger integration is a process in which cultures, people, and processes collide, making it tedious, lengthy, and risky. Such a process would be achieved at a much smoother pace and with greater success when the two merging firms share a similar culture (Cartwright and Cooper, 1993; Stahl and Sitkin, 2005; Chatterjee et al., 1992; Datta, 1991). This realization of the dangers of cultural differences in mergers could itself set firms ex-ante to look for partners with similar corporate culture. One channel for this smoother process and later success is that individuals, whom cultural values are inputs in their decision making (Guiso et al., 2006), would find it easier to coordinate with those who have similar values (Ahern et al., 2015).

This culture impetus is further stimulated by one's desire to interact with familiar individuals with whom one shares similar values, interests, or backgrounds (Byrne, 1971). We would expect corporate managers to be no different. The desire of corporate managers to work with individuals with whom they share similar background and history has been shown to affect decisions at the firm level (Ishii and Xuan, 2014). One dimension of such similarity that individuals look towards, and base their judgements on, is sharing a similar political orientation or ideology (Deaux et al., 1995).

This shared identity would create a sense of trust (Cvetkovich and Lofstedt, 2013; Earle and Cvetkovich, 1995; Miller, 1995), commitment to each other (Dwyer et al., 1987;

Morgan and Hunt, 1994), and reduce the feeling of being threatened by the other party (Garcia-Retamero et al., 2012). Therefore, this higher level of trust would result in better communication, information flow, and acceptance of each other (Cai and Sevilir, 2012; Ingram and Roberts, 2000). This improved flow of information could result in a better assessment for the merger fit and synergies, eventually resulting in better and timely decision making, less conflict, greater effort towards the merger, and better negotiation outcomes (Butler, 1999; Hinds and Mortensen, 2005; Krishnan et al., 2006; Jehn, 1995). Furthermore, individuals can work better when their team is homogenous and therefore we can expect that mergers with shared political identity perform better post-merger (Van Knippenberg, 2000; Van Knippenberg and Ellemers, 2003). Of no less importance is the notion that having a shared identity makes one party care for the outcomes of the other party in negotiations, and pushes them towards a win-win situation (Kramer et al., 1993). This concern for a win-win outcome could manifest itself, for example, in the merger agreement to take into consideration the career concerns of the target's management. In addition, having a shared political identity could result in paying lower deal premiums and lower advisory fees. The shared identity and its associated trust and information advantage could result in the two firms feeling they need to rely less on their investment banks for a fair opinion, and to convince them of the synergies of the deal. Therefore, one could hypothesize that having a common political ideology would result in better merger outcomes.

Shared identity and the subsequent higher trust, however, is not without its risks, perils, and costs as it could instead lead to worse decision making. Firms could be interested to merge mostly due to their shared identity, forgoing better investment or merger opportunities (Ang et al., 2015; Gompers et al., 2016; Horowitz and Tyburski, 2016; Shi and Tang, 2015). One channel for this interest to merge comes from the sense of familiarity that shared values create. One can argue that such familiarity pushes individuals to prefer working together, as opposed to working with those that are

unfamiliar to them (Byrne, 1971; McPherson et al., 2001). This sense of preference for the familiar is no stranger to the world of finance. For example, investors have been shown to prefer their home markets (Coval and Moskowitz, 1999; French and Poterba, 1991) and to invest heavily in their own company's stock (Benartzi, 2001; Meulbroek, 2005). Having high trust in the team sitting on the opposite side of the table, along with the familiarity bias and desire to conform to and work beside a group of similarly minded individuals, could result in top management teams, consciously or unconsciously, not following through on some areas that need further analysis and scrutiny. This may lead firms to forgo concerns they would otherwise not accept, and to insufficiently consider the risks involved (Janis, 1982). In other words, shared identity could result in poor decision making. Moreover, this heightened trust could cognitively result in the management of both firms having more optimistic assessment of the merger outcomes (Uzzi, 1996). In essence, this familiarity bias and resulting trust, could lead firms to miss out on better opportunities, lower their standards, fail in doing the proper due diligence, and not come out with the best negotiation outcomes for their shareholders (Barry and Friedman, 1998). The emerging literature in Finance on homophily has been in support of such a hypothesis documenting that a preference for the familiar tends to have detracting effects (Gompers et al., 2016; Ishii and Xuan, 2014).

Collaborating with similar individuals has other costs as well. By working with individuals who are different, the merger deal could be more creative in its structure. This would stem from diverse and heterogeneous groups potentially being better able to come up with varying perspectives which can lead to novel insights and solutions (Nemeth, 1986; Page, 2008). Such an outcome might not arise when dealing with a group of similar values and ideas (Triandis et al., 1965). Such a positive outcome from a diversified group of managers could spill-over beyond merger negotiation into the post-merger performance resulting in politically heterogeneous managers performing better.

3 Data

We identify all U.S. public mergers and acquisitions between 1992 and 2010 from SDC Platinum database, and obtain deal characteristics such as the transacted amount, announcement date, deal percentage financed by cash vs equity, and whether the deal was a tender offer. We obtain compensation data for the top management from Execucomp, accounting data from Compustat, and returns data from CRSP. To construct the political identity variable, we use the full names of managers in Execucomp to hand match to their individual political contributions for the years 1993-2010 as reported by the Federal Elections Commission (FEC). Our sample therefore captures the intersection of the following databases: SDC, Execucomp, Compustat, CRSP, and the FEC. The final sample consists of 686 unique mergers between the years 1993-2010.

3.1 Political Identity Measure

The FEC publicly discloses campaign contributions in excess of \$200.³ Disclosures in this database contain the name of the donor, the size of the donation, the committee receiving the donation, and the committee's party affiliation. We identify a manager's political orientation by collecting information about their individual contributions to either Republican or Democratic candidates or both. The candidates could be running for the Senate, the House of Representatives, or the Presidency, and contributions can include party committees. We do not collect information on firms' Political Action Committees (PAC), since they tend to contribute to different parties simultaneously (Cooper et al., 2010).

The data on individual contributions include the contributors name, address, occupation, and contribution amount. We use the contributors name, employer, and year of contribution to match the FEC to the Execucomp data. We identify 174,574 distinct contributions made

³The FEC was created by Congress in 1975 to enforce the Federal Election Campaign Act (FECA). All political contributions in excess of \$200 are disclosed in the FEC database which is publicly accessible at <http://www.fec.gov>

by 35,668 unique managers in 3,284 public firms over our sample period. We transform the individual contributions data into a measure of political identity of a manager and subsequently, of the top management team in a firm. We do this by following the procedures of [Christensen et al. \(2015\)](#) and [Hutton et al. \(2014\)](#). We start by creating a manager-level political index computed as a manager’s total contributions to the Republican party less his total contributions to the Democratic Party divided by the sum of his contributions to both parties. The contributions are summed for each election cycle. Therefore, a manager contributing completely to the Republican (Democratic) party in an election cycle would receive a score of 1 (-1). Managers contributing to both parties in an election cycle would receive a score between -1 and 1 depending on which party received a greater sum. Managers who do not contribute receive a score of 0. Then, for each manager, we average this variable across all election cycles to identify republican and democrat leaning managers. This results in a time-invariant measure for each manager across every year that the manager exists in the sample. At the firm-level in any given year, we use a salary weighted average of the political orientations of the top 5 managers as ranked by salary, and arrive to our firm-level, time-varying, political orientation measure, PO. The weight received by each manager to calculate the top management team political orientation measure is $\omega/\text{salary rank}$ as reported in Execucomp. ω is chosen based on the number of top managers reported by Execucomp for a given firm-year such that,

$$\sum_{k=1}^K \frac{\omega_{ij}}{\text{rank}_{ijk}} = 1 \tag{1}$$

where i stands for firm, j for year, and k for executive. This is done because there are cases in which the number of top managers reported by Execucomp is less than 5. To the extent that salary is reflective of a manager’s importance in the decision making at a firm, we believe that this weighting scheme reflects the collective political orientation of the firm as well.

We then use PO to assess the degree of conformity of the two merging firms' executives' ideologies. Our key independent variable, PMA, is a dummy variable allows us to flag a merger as having common political identity if both the acquirer and target share the same political values. Hence, PMA would equal to 1 if the POs of merging firms were greater than 0.25 (i.e. Republican managers in both firms), less than -0.25 in both firms (i.e. Democrat managers in both firms), 0 otherwise.

Christensen et al. (2015), Hutton et al. (2014), and Chin et al. (2013) perform various validation tests such as self-reported party affiliation, and they find that such measure truly captures the political orientations of the manager. Moreover, the extant literature in political science confirms that individual political donations are a result of their personal ideologies, which is the basis of our manager-level time-invariant approach in measuring a manager's political identity (Ansolabehere et al., 2003; Ensley, 2009; Francia, 2003; Francia et al., 2005).

3.2 Descriptive Statistics

Table 1 shows the breakdown of acquisitions in our sample by year, and Table 2 documents the breakdown by industry. Both tables report the numbers for the full sample as well as by PMA indicator. We notice that the distribution in the PMA subsample across the years in Table 1, and across industries in Table 2, is generally representative of the full sample. Of all mergers in our sample, approximately 24% are flagged as PMAs.

Table 3 presents sample summary statistics. We notice that acquirers in PMAs are smaller firms, have a lower Tobin's Q, and have worse pre-merger stock performance⁴. We also notice that PMAs execute larger deals in absolute terms and also relative to their own size. Other trends in the table suggest that PMA deals happen more within-industry⁵, are less likely to be tender offers, less likely to pay all cash, and more likely to pay all stock

⁴Pre-merger performance is measured as the buy&hold [-20,-219] abnormal return relative to the merger announcement date using the CRSP value-weighted index, Q is the sum of book value of assets and market value of equity times shares outstanding minus book equity all over assets.

⁵A deal is classified as within industry if the acquirer and target have the same 1-digit SIC code.

compared to non-PMA counterparts.

4 Political Similarity and Abnormal Returns

4.1 Univariate Results

In this section we start by analyzing how the market responds to acquisitions in which the target and the acquirer share a similar political ideology. We do this by examining the abnormal returns for the two merging firms around the announcement period. We follow the standard event study methodology of [Brown and Warner \(1985\)](#) to calculate the cumulative abnormal returns (CARs) around the announcement date. We use the market adjusted returns model of [Brown and Warner \(1985\)](#) in which the abnormal return for firm i on day t is equal to the firm i 's return on day t minus the return of the market on day t .⁶ For the market return, we use the CRSP value-weighted index return. To generate the CARs, we would then sum the daily abnormal returns for the firm over the event window. Various papers have shown that the use of simpler models in event studies yields results that are no different to those of more sophisticated models ([Brown and Warner, 1980, 1985](#); [MacKinlay, 1997b](#)).

[Table 4](#) reports the CARs for the acquirer, the target, and the combined firm around the acquisition announcement for the full sample and also broken down between firms engaged in PMAs and in non-PMAs. The table reports three different event windows; a three-day window $[-1,+1]$, a five-day window $[-2,+2]$, and a seven-day window $[-3,+3]$ where the event day 0 is the acquisition announcement date. In creating the combined entity CARs, we do a weighted-average of the CARs of both the acquirer and the target where the weights are the market value of the firm four days prior to the announcement ([Bradley et al., 1988](#); [Kaplan and Weisbach, 1992](#)). By examining the combined entity we are able to observe the total economic value of the acquisition for the overall shareholders ([Kaplan and Minton, 2006](#)).

⁶We arrive at similar CARs when using the market model of [MacKinlay \(1997a\)](#)

We can see from [Table 4](#) that acquirers tend to have their stock prices drop around acquisition announcements. This finding is in line with that of the extant literature on acquirer announcement CARs involving public targets ([Fuller et al., 2002](#)) Moreover, the drop observed in acquisition where firms have common political ideologies is greater than those who do not. Looking at a seven-day window, we can see that acquirers who share similar political beliefs with the target had negative abnormal returns of -3.1%, a figure that is double that in non-politically similar acquisitions. This difference in the magnitude of the abnormal returns is statistically significant at the 5% level as can be seen from the reported *t*-stat. The evidence from the Wilcoxon rank-sum test are even stronger for the seven-day window with a *z*-value of almost 2.5 providing further support that acquirer CARs are different across PMAs and non-PMAs. The results for shorter-period windows are not as strong. Nevertheless, [Table 4](#) provides preliminary evidence that PMAs tend to be more detrimental for the acquirer's shareholders when announced.

We now move to examine the target firms' return response upon the acquisition announcement. [Table 4](#) shows that target CARs were almost as high as 20%, in line with the extant literature. Given our earlier finding that politically similar acquirers have lower CARs than non politically similar acquirers, it is possible that such acquirers suffer from a greater wealth transfer to the targets that arises from overpayment. To support such a hypothesis, politically similar targets would have higher CARs than other targets. When looking at the last two columns of [Table 4](#), we can see that targets in PMAs and non-PMAs both observe CARs that range between 18 to about 20%. Furthermore, there is no statistically significant difference between targets' CARs across both PMAs and non-PMAs. This lack of statistical difference is evidence against the notion that acquirers in PMAs overpay relative to acquirers in non-PMAs. We can therefore interpret the findings for the acquirer and target CARs as PMAs being value destroying as opposed to observing wealth transfer from the acquirer to the target.

Our next step in assessing the market's assessment of the merger announcement, we

examine the combined CARs. [Table 4](#) reports combined CARs ranging from 1.1 to 1.2% for the full sample providing evidence that the combined entity has greater value for all the shareholders involved. This positive combined CAR finding is in line with that of [Andrade et al. \(2001\)](#), [Moeller et al. \(2004\)](#), and [Wang and Xie \(2009\)](#). Looking across politically similar and non-similar acquisitions, we find that the combined CARs are quite close and lack any statistically significant differences. This could indicate that the overall shareholders' gain is similar in both types of acquisitions. In other words, even though politically similar acquirers observed lower CARs, looking at the overall shareholder base of the combined entity, this lower CAR loses its substance.

4.2 Multivariate Results

In this section we further analyze our initial findings that acquirers in PMAs have lower CARs than acquirer in non-PMAs using multivariate analysis that controls for factors driving M&A announcement returns. We use as our dependent variable the seven-day acquirer CAR while the main independent variable is our politically matched acquisition (PMA) measure. Recall that this measure takes a value of one if the top executives of the acquirer and target share the same political ideology, and zero otherwise.

Our multivariate setting controls for various deal and firm characteristics that have been shown to affect merger announcement returns. In terms of deal characteristics, we control for acquirer size and deal size relative to the acquirer ([Moeller et al., 2004](#)), acquisition source of financing ([Amihud et al., 1990](#); [Travlos, 1987](#)), whether there was a tender offer ([Jensen and Ruback, 1983](#)), and whether the target is related to the acquirer or not (i.e. a focus vs. a diversifying deal) ([Morck et al., 1990](#)). In terms of firm characteristics, we control for Tobin's Q, leverage, operating cash flow, and past stock performance ([Moeller et al., 2004](#)). The standard errors in all of our regressions are adjusted for heteroskedasticity and clustered at the and year level.

[Table 5](#) reports the multivariate regressions for acquirer CARs, target CARs, and

combined CARs, in panels A, B, and C, respectively. The four first columns include the full sample across various specifications. The first specification includes only the main independent variable. Columns 2, 3, and 4 include the main independent variable along with all the controls. The difference between those specifications is the varying use of acquirer industry and year fixed effects. We can see from panel A that the coefficient on politically matched acquisitions is statistically significant at the 1% level across all first four specifications even after including year and acquirer's industry fixed effects. The coefficient indicates that politically matching acquisitions have 1.44 to 1.76% lower CARs than non-matching acquisitions.

Columns 5 and 6 (7 and 8) repeat the specifications of columns 2 and 4, respectively, however, they exclude from the sample acquisitions in which the managerial teams across both firms in the acquisitions were Democrats (Republicans). This exclusion allows us to understand whether this political similarity effect is pronounced along a certain political orientation or observed across both conservative and liberal orientations. The rationale behind this is that individuals' decision, as stated earlier, are shaped by their political values and therefore might take different actions based on their openness to new ideas and new experiences and how much they value job security (Atieh et al., 1987; Conover and Feldman, 1981; Joe et al., 1977; Gosling et al., 2003). This would have a bearing on our setting when considering that Republicans tend to have a greater preference for the familiar and conventional as well as not forthcoming with their trust (Carney et al., 2008; Glasgow et al., 1985; Adorno et al., 1950; Tomkins, 1963; Jost et al., 2003). Hence, we would expect that our findings would be more driven by Republicans than Democrats given their greater stress on familiarity and shared identity. When we exclude Democratic and Republican matches, as in the last four columns, we find results that are similar in terms of the negative effect for PMAs, albeit at a slightly lower significance. Both type of matches observe statistically and economically lower CARs. We can also notice that the drop in the CARs for politically matched acquisitions along Democratic lines is larger, as it ranges between 2.19% to 3.07%,.

than that for Republican matched acquisitions with a 1.49-1.65% drop. In other words, markets respond worse to politically matched acquisitions along liberal lines than they are to respond to conservative matched acquisitions.

As for the controls' coefficients, we find, in contrast to [Moeller et al. \(2004\)](#) and [Masulis et al. \(2007\)](#), that Tobin's Q and operating cash flow do not affect the acquirer's CARs. Furthermore, whether the deal offer is a tender offer (i.e. hostile or friendly) does not affect the acquirer CARs as documented by [Schwert \(2000\)](#). We fail however, in contrast to the extant literature, to find any effect for the acquirer's size, leverage, or its pre-announcement stock run-up. Moreover, no effects were found for deal characteristics such as deal size, method of payment, or type of deal being a focus acquisition or a diversifying one.

In summary, the results from panel A in [Table 5](#) support our earlier result from [Table 4](#) on the negative relationship between acquirer CARs and the extent of political match between the two management teams even after controlling for various drivers of acquirer announcement returns.

[Table 5](#) panel B reports the multivariate analysis for target CARs over a seven-day window with the main independent variable being the political match acquisition indicator variable. As in [Table 4](#), we fail to find any difference between politically matched and non-matched acquisitions as indicated by the insignificant coefficient on PMA as can be seen in column 1. The results also hold in the multivariate specifications in columns 2, 3, and 4 after controlling for the same set of controls as in the previous panel. These are size, leverage, operating cash flow, and pre-announcement stock runup of the target as well as deal characteristics. The deal characteristics controlled are deal size, method of financing, whether the offer was a tender offer, and the industry of the target relative to the industry of the acquirer. Column 3 controls for year fixed effects while column 4 controls for both year and acquirer industry fixed effects. The same finding is found across columns 5 and 6 (7 and 8), where we repeat the specifications of columns 2 and 4, respectively, while focusing only on Republican (Democrat) matched acquisitions. This would entail that there is no

relationship between target announcement returns and whether the target's management shares the same political values as the acquirer's. This lack of relationship between those two values of concern would indicate that having such a similar identity does not lead to a higher deal premium.

In the last panel, panel C, of [Table 5](#) we repeat our earlier analysis but with our dependent variable being the combined entity of acquirer and target seven-day CARs. In the first column we look at the univariate relationship between combined CARs and our key independent variable, PMA. As in [Table 4](#), we fail to find any relationship between the combined CARs and whether the managerial teams of the merging firms shared a common political ideology. Columns 2, 3, and 4 control for firm and deal characteristics that could potentially explain the announcement CAR. The deal characteristic controls are as in the previous panels, the size of the deal relative to the acquirer's size, method of payment, whether the deal is industry related, and whether the acquisition is friendly or hostile. For firm characteristics, we use the combined acquirer and target assets, Tobin's Q, leverage, and operating cash flows. We find that in column 2 PMAs tended to have a statistically significant CAR that is 1.05% than non-PMAs, *ceteris paribus*. This result also holds when controlling for year fixed effects and year and acquirer industry fixed effects, in terms of both significance and magnitude. In columns 5 and 6, which focuses on Republican matched acquisitions only, and columns 6 and 7, which focus on Democrat matched acquisitions only, we observe a contrasting relationship between our main independent variable and the combined entity CARs. While there is no relationship between PMAs and combined CARs along liberal lines, conservatively matched acquisitions have lower combined CARs. Conservative matched acquisitions have CARs that are lower by 1.13-1.18% than non-PMAs. In contrast to our earlier results on combined entities from [Table 4](#), we do find evidence that PMAs have a negative effect on the overall shareholder wealth of the acquirer and the target.

The results from the various panels show that mergers in which the top management

teams share a similar political orientation tended to damage shareholders' wealth. First of all, acquirer shareholders suffer a greater loss in firm value when the managerial team of the merging firms carry similar political values. The greater loss is significant both statistically and economically. Such a negative reaction to the merger announcement is not felt by target shareholders when the merger is politically matched. Hence, the wealth loss by the acquirer shareholders is not a result of wealth transfer from the acquirer to the target. The overall shareholders of the acquirer and the target also suffer some signs of loss when the acquisition is politically matched as evidenced by the lower combined CARs. These findings are more robust for Republicans than Democrats.

Given the lack of wealth transfer to explain the negative effect of PMAs, we examine in the next pages the various channels that could potentially explain this effect.

5 Additional Analysis on Political Similarity

In this section we try to better understand the driver and the channels behind the negative market reaction to PMAs relative to non-PMAs. We do this by examining several dimensions of the deals' outcomes and characteristics. First, we attempt to understand how a common political orientation affects the merging firms reliance on investment banks to initiate, price, and structure the deal. This reliance would manifest itself in the size of advisory fees the investment banks would receive. Next, we analyze the deal premiums paid in the transaction. Having a common political orientation may improve information flow which undermines competition from other bidders. This, in turn, may lead the acquirer to offer a lower premium in the transaction.

The negative market reaction to PMAs could be due to market expectations that such mergers would perform operationally worse in the future. Therefore, we investigate how PMAs fare in the post merger years relative to non-PMAs. We follow that with assessing the probability of acquisitions occurring when there is a common political ideology between

the target and the acquirer. An important decision to be made during mergers is the extent of retention of the top management team from the target. This would be our next set of analysis to try to understand how a common political ideology across the two firms affects managerial retention. In our final step, we look at how the acquirer's management are rewarded upon completing the merger.

5.1 Political Similarity and Transaction Costs

Mergers and acquisitions depend heavily on investment banks. Investment banks help in finding potential merger partners, assessing synergy gains, structure the M&A agreement and facilitate the process, assist in financing the deal, and provide fairness opinions (McLaughlin, 1990, 1992; Kisgen et al., 2009; Servaes and Zenner, 1996). Based on the trust hypothesis, firms with a shared identity would have greater trust in each other facilitating the information flow between the two firms. This information flow would facilitate the assessment of the potential for deal profitability and synergistic gains. Moreover, firms could prefer to acquire or be acquired by firms with a shared culture, therefore reducing the need to rely on investment banks to find potential acquirers or targets. Investment banks, as mentioned earlier, provide fairness opinions which are used to help managers from both sides assess whether the acquisition price is fair and reflects the potential synergies from the deal. By having a greater trust in the other party and better information flow, both firms' executives would have a lesser need to reach out to investment banks for a fairness opinion regarding the deal price. This trust, however, could come with its risks such as a lesser interest in relaying on a third-party's assessment and fair opinion, firms in a merger could expose themselves to miss or ignore, intentionally or unintentionally, alarming concerns in the other firm.

To examine these hypotheses we look at the relationship between the advisory fees paid by the acquirer and target and how that is effected when the acquisition is politically matching. Since investment banks set their fees based on deal size, we examine the advisory fees as the fees paid by the acquirer or the target as a percentage of total deal value.

Acquirers in our sample paid an average advisory fee of \$12.75M while targets paid an average of \$14.19M. In PMAs, acquirers on average paid \$13.07 while targets paid an average fee of \$14.80M. We can see that firms in PMAs tended to marginally pay higher fees when measured in dollars. However, given our earlier finding from Table 3 that PMAs tended on average to be of larger size, it would be better to assess the fees relative to the deal size. When looking at advisory fees as a percentage of the deal size, we find that acquirers paid a 0.37% average advisory fee with targets paying a 0.58% fee. Acquirers in PMAs tended to pay an average advisory fee of 0.31% and targets paid 0.47%. We notice now that firms in PMAs tended to pay lower advisory fees relative to the deal size than firms in non-PMAs.

To better assess this relationship between sharing a common political orientation and investment banking fees, we look at the relationship in a multivariate setting with the PMA indicator variable as our main independent variable. For our dependent variable, we look at the acquirer fees in panel A of Table 6 and at the target fees in panel B of the same table. We control for various firm and deal characteristics. These are firm size, tobin's Q, leverage, operating cash flow, and pre-announcement stock performance, deal size, method of payment, focus or diversifying deal, and whether the deal is a friendly or hostile deal.

We can see from Table 6 Panel A that acquirers in PMAs paid lower advisory fees in the univariate setting as reported in column 1. The effect remains as we add the controls, year fixed effects, and year and acquirer industry fixed effect in columns 2, 3, and 4, respectively, with politically matched acquirers paying about 0.05% less advisory fees. To assess the economic magnitude of the coefficient, we would compare it to the acquirer average advisory fees of 0.37%. A 0.05% drop in the advisory fees would constitute a 13.5% reduction in the average advisory fees. Columns 5 and 6 (7 and 8) report the multivariate specifications of columns 2 and 4 while excluding Democrat (Republican) matched acquisitions. We can see from columns 5 and 7 that acquisitions across both types of political ideology observe lower advisory fees with similar levels of reductions in the earlier columns. However, the significance does not survive controlling for year and acquirer

industry fixed effects as reported in columns 6 and 8.

Panel B repeats the analysis but focuses instead on targets fees. We find here similar results to that found earlier in panel A across the first two columns for the full sample. Targets in PMAs paid advisory fees that were 0.07-0.15% less than targets in non-PMAs. However, the result is not as robust as that for acquirers. We observe the significance of the PMA coefficient goes away once we add year fixed effects in column 3. Column 5 also reports lower advisory fees for politically matched targets when using Republican matches only. Republican targets tended to pay fees about 0.08% lower as can be seen from column 5. A drop of significant magnitude when we compared to an average target fee of 0.47%. Nevertheless, the results do not survive the inclusion of year and acquirer industry fixed effects.

Panel C reports regressions of combined acquirer and target fees. Column 1 reports the univariate specification which shows that PMAs paid a statistically significant almost 0.15% lesser advisory fees. The result remains in column 2 when adding combined entity and deal characteristics. However, these results do not survive the inclusion of year and acquirer industry fixed effects. Nonetheless, a coefficient of 0.08% would still constitute a significant drop relative to an average fees of 0.74% relative to total merger size. In columns 5 and 6, when examining Republican matches, we find even similar coefficients in size and significance. Similar results, however, are lacking when looking at Democrat matches only as reported in columns 7 and 8.

The findings in [Table 6](#) indicate that firms in PMAs pay lesser advisory fees. This lower advisory fees and lesser reliance on investment banks is consistent with the hypothesis that PMAs enjoy a higher level of trust and a greater desire to merge between the acquirer and the target.

5.2 Political Similarity and Takeover Premiums

Generally, the acquirer's expected return from a merger depends on whether information advantage can be realized in the bidding process. As such, an informed acquirer will price such information in the bidding process and pay an optimal premium to close the deal compared to an uninformed bidder. Given the trust hypothesis and the better information flow in PMAs, we would expect that such mergers would be better priced. As such, one would expect the takeover premiums in PMAs to be lower. It is also possible that a bargain between the acquirer and the target, where the target is willing to trade a lower premium for executive seats in the new merged entity, leads to a lower takeover premium. In fact, [Bradley et al. \(1988\)](#) suggest that favorable post-acquisition contracts, and other favors extended to target executive post-merger, are other kinds of premium that are unobserved in the takeover offer price. These explanations are not at odds with our findings that a shared political ideology may be at work in facilitating a takeover. Therefore, we test whether PMAs indeed pay lower takeover premiums by running the regressions in [Table 7](#) where the outcome variable is takeover premium.

We follow [Schwert \(1996\)](#) and estimate the takeover premium as the merger offer price (per share) over the target's share price 42 trading days before the merger. We use the offer price information for the target from SDC platinum, and we gather the target's pre-announcement share price from CRSP, with the merger announcement date as the reference when we look up the 42 days prior target share price. Ideally, we would like to measure the true base target price before the offer in order to accurately measure the takeover premium. This base price, however, is unobservable, and most studies in this literature resort to using two or three months prior to the first bid as the target base price ([Eckbo, 2009](#))⁷. [Table 3](#) shows that the overall sample has a mean takeover premium of 38%. PMAs has a mean takeover premium of 32% whereas the non-PMA counterparts paid an average of 40%. These

⁷Figure 2 in [Schwert \(1996\)](#) shows a plot of CARs for all mergers from day -126 to +253 around the merger announcement date. The CARs in that graph clearly starts break pattern and rise around day -42, and hence the justification for the use of -42 as the reference base price.

numbers are well in line with the numbers reported in the literature survey for takeover premiums in (Eckbo, 2009).⁸

The results we obtain from the regressions are consistent with the hypothesis that PMAs pay less takeover premiums compared to their non-PMA counterparts. On average, mergers where the acquirer and target share the same political orientation pay between 7 to 9.2% less in takeover premiums, and this effect is found only in Republican mergers. In these regressions, we control for the majority of known determinants of deal premiums like the number of bidders, percentage of transaction paid in cash, whether the deal is a tender offer, as well as acquirer and target characteristics like size, leverage, Tobin's Q, cash flow to assets, and past performance.

5.3 Political Similarity and Target Executive Retention

Another channel that could explain the negative market reaction and the lower takeover premium is the target managers' retention (Harford, 2003; Hartzell et al., 2004; Barger et al., 2009). The extant literature is split on the effect of managerial retention on mergers and announcement returns with findings ranging from a positive relationship (Matsusaka, 1993), to no relationship (Martin and McConnell, 1991; Barger et al., 2009), to a negative relationship (Wulf, 2004).

The preference to work with familiar individuals and those that share similar values, as we stated earlier, could result in a greater retention of the target's executives. This would explain our earlier findings of targets' greater desire, relative to acquirers, to merge with politically similar firms as they feel they might have a greater chance to maintain their positions with an acquirer who shares their identity and feels more comfortable around them. The target's management concern is certainly not unwarranted as they tend to face significant career losses upon the acquisition of their firms (Hartzell et al., 2004). However, any greater retention of executives based on their sharing of a similar political orientation

⁸Table 3 in Eckbo (2009) highlights deal characteristics and offer premiums in 10,806 acquisitions of public U.S. targets between 1973 and 2002, the mean takeover premium is approximately 45%.

could be a driver behind the considerable value destruction of PMAs (Ishii and Xuan, 2014). To investigate this hypothesis, we look at the proportion of the target's executives that remain as members of the top management team of the acquirer post-merger.

In order to check for target's managerial retention, for each merger in our sample, we examine who are the members of the target's top management team one year prior to the merger, as reported by Execucomp. We then track these managers and observe who still serves as a top executive in the new combined entity one year post merger. Our measure of retention is the number of managers from the target's top management team divided by the total number of executives in the combined entity post-merger. Column 1 in Table 10 reports a univariate regression of the target managerial team retention rate as a dependent variable on our key independent variable, PMA, while column 2 controls for the usual set of acquirer and deal characteristics. Column 3 adds year fixed effects and column 4 adds year and acquirer industry fixed effects. We can see that across all 3 specifications PMAs had a statistically greater retention of the target's executives. To assess the economic magnitude, we compare the coefficient to the mean target retention rate of 0.06. Columns 2-4 report PMA coefficients ranging between 0.0359-0.0387. Therefore, a PMA would have a target management retention rate that is more than 50% greater than the mean retention, *ceteris paribus*. Columns 5 and 6 report the columns 2 and 4 specifications excluding liberal mergers. We arrive at similar findings for Republican matches in terms of statistical and economic significance. For columns 7 and 8, we repeat columns 2 and 4 but without the conservative matches and arrive at similar results. Target executives in Democrat matching mergers are more likely to be retained than in non-PMAs. Moreover, we find that the coefficient for PMA in columns 7 and 8 is greater than that for Republican matches as reported in columns 5 and 6, albeit at a lower significance level.

To summarize, we find that in PMAs there is a greater retention of the target's management. This result holds across both ends of the political spectrum, conservative and liberal. This finding goes to show that managerial retention is a key element in mergers

where the top managers share a common political ideology. However, retention of poor managers on the basis on familiarity, political being one of them, could be one channel resulting in the lower value of PMAs.

5.4 Political Similarity and Deal Profitability

We have found from [Section 4](#) that markets respond negatively to mergers in which the top management teams share a common political ideology. One channel for this negative response is that market expects that such mergers to perform worse than non PMAs. To test whether such a notion exists, we examine the operating performance of the merged firms over the three years following the merger completion date. We try to assess whether a systematic difference between the performance of merged firms arises due to the common political ideology of the management of the merging firms. Examining the post-merger performance allows us to further disentangle which of the competing hypotheses regarding PMAs is supported. The positive side of similarity and its associated trust tells us that with a greater information flow and better affinity to work together, PMAs should do better post-merger. Yet, as discussed earlier such trust could have its perils in not making managers properly assess the potential merger and miss out on major pitfalls. This preference for just being in a familiar setting and conforming to the group without properly assessing the consequences could lead to a deterioration in the post-merger performance.

In assessing post-merger performance we use the methodology proposed by [Ghosh \(2001\)](#). We first start by finding a match from each of the acquirer's and target's industry where industry is defined using the two-digit SIC code. The match is based on firm size and operating performance one year prior to the merger ([Loughran and Ritter, 1997](#)). [Ghosh \(2001\)](#) defines operating performance as cash flow margin calculated as cash flow in year t divided by sales in year $t-1$. Cash flow is sales minus cost of goods sold and selling and administrative expenses plus depreciation and amortization expenses ([Healy et al., 1992](#)). After determining the acquirer and target matches, we create the pro-forma data of

the matched firms by aggregating the data of the two matched firms. We then track the performance of the acquirer three years after the merger completion date and adjust it annually for the aggregated matched firms' performance (Franks et al., 1991; Rau and Vermaelen, 1998). Finally, we take as post-merger performance the average of the match-adjusted cash flow margin of the acquirer over the three years following the merger.

Table 8 reports the results of the analysis of post-merger operating performance and sharing a common political ideology amongst the acquirer and target. Column 1 reports the univariate regression of post-merger performance on our main independent variable, PMA. We find that PMAs tended to have on average 4.67% lesser cash flow margin in the three years following the merger relative to non-PMAs. Column 2 controls for the firm and deal characteristics used in our earlier specifications. We find that our finding regarding a lower operating performance remains albeit at a lower magnitude. PMAs observed a 2.61% lower cash flow margin on average in the three years following the merger than non-PMAs. To get a sense of the economic significance of this finding, we need to compare it to the average match-adjusted cash flow margin for the full sample. Moreover, for non-PMAs the average is 5.78% and, hence, PMAs tended to have cash flow margins that are 55% lower than their non-PMAs counterparts. Since we match on industry and year in this analysis, we refrain from adding year and acquirer industry fixed effects. The result is robust for acquisitions matched along conservative lines as reported in column 3 with a similar drop in magnitude. However, a similar drop is not found for liberal matched acquisitions as seen in column 4. Therefore, PMAs tend to perform worse in the three years following the merger with this underperformance mostly stemming from conservative matches, not liberal.

The findings in this table go to support the hypothesis that having a common political ideology has a negative effect on the merger. Moreover, taken with the earlier findings on advisory fees, it seems that the lesser reliance on investment banks and the greater trust in the counterpart firm were misplaced as the merger fared worse operationally.

5.5 Political Similarity and Probability of Acquisition

To further understand the propensity of managers to be with similar managers in terms of their values and ideologies, we investigate the effect of a common political ideology on the probability of the merger occurring. We try to assess whether mergers are more likely to happen if there was a common political ideology across the two top management teams. We first start by reporting the proportion of PMAs in our full sample, 0.242. That is 24.2% of the mergers in our full sample were mergers where the top executives had a common political ideology. We also report the proportion of PMAs along the party lines of Republican and Democrat which are 21.3% and 4.6%, respectively. When reporting the proportion of PMAs along a certain party line, we remove from the sample mergers matched by the opposing party values. We can see, hence, that most of the PMAs tend to be along conservative (i.e. Republican) lines. Although Republican matches are the vast majority, this could be due to the more frequent observation of conservative executives in our sample. To gauge whether this frequency was systematically higher, we need to compare it to a random sample of acquisitions.

As a first analysis to assess the likelihood of PMAs occurring, we start by creating two random samples of mergers. In the first sample, we match each acquirer with a random target drawn from the target's industry and merger year. We repeat this step a thousand times and report the proportion of PMAs from those random draws under the header *Random Target - Mean* in [Table 9](#). We report the overall PMAs, Republican matched acquisitions, and Democrat matched acquisitions. The second step entails matching the targets to a random acquirer from the acquirer's industry and merger year along with repeating the step a thousand times. The proportions of PMAs are reported under the header *Random Acquirer - Mean*.

To evaluate whether our observed likelihood of PMAs is higher than what would happen if firms were merged randomly, we test for the statistical significance between our sample's proportion of PMAs and that of the two randomly generated samples. Compared to the first

random sample of mergers in which the targets were random, we fail to find any difference in PMAs' proportions. However, in the sample of only randomized acquirers, we do find statistically significant differences. We find that PMAs occurred 4.2% more than relative to a sample of random acquirers. Similar differences are found when mergers occur along a Republican ideologies line. Interestingly, we find that for Democrat matched firms, the true proportion was almost twice that of a sample of random acquirers and targets.

The results in general point towards sharing a common political ideology in the top management teams of firms to have an influence on the initiation and completion of mergers. This evidence supports the notion that firms in PMAs tend to miss out on other investment opportunities and push forward, possibly at lower standards, for mergers with politically similar firms. The contrasting findings, nonetheless, across the random acquirers and random targets samples indicates that it is targets that tend to seek politically similar acquirers. Moreover, it seems that the effect is observed across both the Republicans and Democrats. It might be surprising to find that Democrats have such a tendency to merge with similarly minded people when considering it is the Republicans who have a greater preference for familiar settings (Jost et al., 2007, 2009). However, liberals' greater openness and tolerance (Adorno et al., 1950; Tomkins, 1963; Jost et al., 2003) tends to result in a corporate culture within the firm that might not be acceptable to others (Briscoe et al., 2014). This in turn pushes liberals to prefer to merge with entities that would maintain their culture and not suppress it (Block and Block, 2006; Wilson, 1973).

5.6 Political Similarity and Acquirer's Management Post-Merger Bonus

One source of value destruction in M&As is the improper compensation of CEOs (Grinstein and Hribar, 2004). In this subsection, we examine whether acquirers' top management teams receive a greater bonus upon the completion of a PMA. We focus on cash bonus as Grinstein and Hribar (2004) report that bonuses are almost always the form of reward for merger

completion. We examine the bonus received by the top five managers of the firm in the year of the merger's completion as reported in Execucomp. We focus on the top five managers in order to be aligned with our political orientation measure of the firm and as the influence of lower managers would be very minimal on the merger's decision and outcomes.

Table 11 shows the effect of having a PMA on the management's bonus using a Tobit regression. Our dependent variable is the natural logarithm of the sum of the top management's bonuses in the merger completion year. Our main independent variable is the indicator variable PMA. Column 1 reports the univariate estimation which shows that managers receive bonuses that are 59% higher in PMAs. Column 2 controls for various acquirer and deal characteristics as well as year and acquirer industry fixed effects. Acquirer characteristics are computed for the year of the bonus award. We find that managers receive about 11.7% higher bonuses when completing a PMA. This effect is significant at the 1% level. Along with Grinstein and Hribar (2004)'s findings for CEO bonuses, we find that managers' bonuses are positively associated with acquirer size and relative deal size. In addition we find that bonuses are higher with higher leverage, lower pre-merger stock performance, cash financed deal, and diversifying and friendly deals. Columns 4 and 6 repeat the specification for column 2 but excluding Democrat and Republican matched acquisitions, respectively. Here, we have opposite results. When excluding PMAs by the Democrats, the results indicate that PMAs have a negative effect on top management team bonuses after the merger. The opposite is true when excluding Republican PMAs.

To further understand the contrasting findings on managerial bonuses across party lines, we look at the explanatory effect of potential merger performance, measured as the market's response to the merger announcement (Grinstein and Hribar, 2004). This is done by adding an interaction term between the dummy variable PMA and the acquirer's seven-day CARs as done in columns 3, 5, and 7. We find in column 3 that executive teams in PMAs still receive bonuses that are significantly higher, but yet still, higher market responses to the

announcement would lead to a further gain in the bonus, relative to executive teams in non-PMAs as can be seen from the statistically significant interaction effect. The economic magnitude of the effect of PMAs conditional on the potential performance of the merger is notable. A one standard deviation increase in the seven-day acquirer CAR for a PMA would result in an additional increase in the TMT bonus of almost 20%. Similar findings are also found for column 5 when we focus on Republican only acquisitions. The average TMT in PMA would receive a bonus that is about 59% higher, and this effect seems to be significantly exacerbated conditional on the merger performance as measured by CARs. A one standard deviation increase in the seven-day acquirer CAR for a Republican matched acquisition would result in an additional increase in the TMT's bonus of greater than 30%. We fail to find any similar findings for Democrat matched acquisitions.

Overall, our results indicate that managers in PMAs receive greater bonuses upon the completion of the merger, notwithstanding the negative market reaction to the merger's announcement. However, it seems that the better the market's response, the higher the bonus. The potential to be handsomely rewarded, regardless of the shareholder wealth effect, acts as an additional incentive, along with the familiarity preference, for managers to pursue mergers in which the target shares a similar political culture and value.

6 Robustness Tests

Thus far, the results we obtain indicate that PMAs: 1) experience worse market reactions post announcement, 2) experience a worse operating performance in the three years post-merger, 3) pay less in advisory fees, 4) pay less in takeover premiums, 5) retain more target executives post-acquisition, and finally 6) pay executives more bonuses after controlling for performance. These results are mostly driven by Republican mergers. In this section, we highlight the results from robustness tests to rule out competing explanations, and to alleviate concerns that our results are driven by certain omitted variables. We tabulate all

robustness results in [Appendix A](#).

6.1 Geographical Proximity

We try to rule out other variables that are likely correlated with PMA. One such case is geographical proximity. It is an observable fact that ideologies, cultures, and even races are to a certain extent geographically clustered for various reasons. These reasons include income inequality, education, environmental, and other factors. Political ideologies are no different [Motyl et al. \(2014\)](#). Further, [Wee et al. \(2016\)](#) find that proximity between the merging firms significantly increases the likelihood of completion as well as an increased likelihood of the bid to receive a positive recommendation from the respective boards. The authors argue that this result is driven by an information channel given the proximity. As such, we attempt to rule out this channel as one could argue that our measure is picking up geographical proximity instead of political ideology. We follow [Uysal et al. \(2008\)](#) and construct our geographical proximity as a dummy variable which is equal to one if the distance between the headquarters of the target and acquirer is more than 100 km, and 0 otherwise. We collect the zipcodes of the headquarters as reported in CRSP, and use google maps API to extract the latitudes and longitudes at the zipcode level to calculate the geodetic distances⁹.

6.2 Target's Anti-takeover Provisions

Another potential omitted variable that could be biasing our results is the target's level of governance. It is possible that we have selection between the PMA and non-PMA groups such that target firms with weak anti-takeover provisions happen to also be acquired by firms with a similar political ideology. As such, we attempt to rule out this explanation by including the target's G-Index in the regressions. The authors construct this index from by-law provisions and state-level anti-takeover laws. Finally, a possible total of 24 provisions are

⁹A geodetic distance is the length of the shortest curve between two points along the surface of a mathematical model of the earth

combined that makeup the index. A high G-index represents high anti-takeover provisions, but also a weaker shareholder (or strong managerial) power. Principally, a firm with a high number of anti-takeover provisions is said to restrict shareholder rights since such laws place limits on voting power, restrictions on board replacement, and shareholder activism (Bebchuk and Cohen, 2005). We use the data from Gompers et al. (2003) and match them to our sample.¹⁰

6.3 Discussion of Robustness Results

We repeat all of our acquirer regressions, this time controlling for geographical proximity and the target’s G-index, and report the results in Tables A2 to A7 in the Appendix A. Interestingly, many of our results become stronger, with larger t-stats, despite the significant loss of power due to the drop in sample size. Most of our previous results go through, and we notice some interesting patterns. The coefficient point estimates for the acquirer CARs regressions in Table A2 become larger, and are now driven solely by Republican mergers. Here, the geographic proximity and the target’s G-index are not significant predictors of the acquirer’s CARs.¹¹

In Table A3, our results are qualitatively similar in sign across all specifications, and are slightly lower in magnitude. The geographical proximity is a positive and significant predictor across most specifications. This is likely driven by the possibility that local mergers use a shared advisor, which Agrawal et al. (2013) find makes the process much lengthier translating into higher costs.

In Table A4, we again see qualitatively similar results in all specifications. The t-stats are larger, indicating a stronger statistical relationship, and the coefficient point estimates are slightly larger when we include the geographical proximity and the target’s G-index

¹⁰The authors makes this data publicly available in <http://faculty.som.yale.edu/andrewmetrick/data.html>. This data, however, is only available for the years 1990 to 2006, and hence significantly reduce our sample size.

¹¹The reason we refrain from including these variables in the main analysis is that they significantly reduces our sample size due to data availability.

as additional regressors. In most specifications, neither regressor fare significantly in the relationship.

In [Table A5](#), our results are no different than before. PMA remains a positive and significant predictor for target executive retention even when controlling for geographical proximity, which is also a positive and significant. These results indicate that PMA is a determinant for the target executive retention above and beyond geographical proximity. The target's G-index, on the other hand, has a negative and a statistically significant coefficient indicating that target's with high anti-takeover provisions retain less executives after the merger.

In [Table A7](#), we see a similar result. Given the merger performance, as measured by acquirer's CARs, PMAs pay higher bonuses to the top management team. The coefficient point estimates are slightly smaller but remain positive and significant. Geographical proximity shows mixed and inconsistent results here, and the target's G-index is positive and significant in most specifications, which indicates that when an acquirer successfully executes a merger where a target has a high G-index, the top management team received a larger reward.

Taken together, the results after running all robustness tests are very consistent with our main results. The pattern of our results is very persistent and points to political ideology being a significant predictor of many observable merger outcomes. Therefore, such empirical evidence confirms our main finding that politically matched mergers lead to worse outcomes.

7 Conclusion

Political orientation can signal a variety of traits in individuals and not just their electoral preferences. It would indicate their degree of extraversion, agreeableness, and openness to new ideas. Top managers, across the conservative-liberal spectrum, through their leadership positions would transfer their values to the firm and shape the corporate culture. In this

paper, we look at how a shared corporate culture, as shaped by the executive team's political orientation, affects merger outcomes. M&As are a good setting to observe the effect of shared cultures and identities given the significant amount of interaction between the two firms pre- and post-merger and the significant career concerns both TMTs face when making such major corporate decisions. In the finance literature, except for [Ahern et al. \(2015\)](#)'s work on national culture, there is yet any work examining the effect of firm culture on merger outcomes, albeit the significant influence culture has on the future merger's success. We attempt to fill this gap in this paper.

The desire to merge with firms who share similar cultural values is further fueled by individuals' desire to be in familiar surroundings with people whom they have much in common. This in turn facilitates trust and comfort in human interactions. In the finance literature, several papers have recently come out trying to understand how having a shared identity and/or background affects the financial decision making of executives, money managers, and analysts.

A shared culture and ideological identity leads to trust, and this could reduce information asymmetry and improve the post-merger integration process. However, we find that the costs of trust and desire to be amongst familiar individuals (i.e. homophily) outweigh the benefits. In this paper, we document evidence consistent with similar corporate cultures, as shaped by the top management teams' political orientations, driving negative M&A outcomes. We construct our measure from hand-collected and -matched mandatory public disclosures of political campaign donations by top managers to construct manager-level political identity index. It is important to note that these donations are made by managers as private citizens, and not in their capacity as executives at the firm. We show that at the firm-level, PMAs are value-destroying to shareholders as captured by the negative market response upon announcement and that such acquisitions lead to worse subsequent operational performance compared to non-PMA. We do not document evidence suggestive of acquirer firm wealth transfer to the target as we fail to find any relationship

between target announcement returns and PMA. Rather, we find evidence consistent with enhancement of executives' private benefits. PMAs retain more executives from the target firm in the post-merger entity and acquiring managers earn higher cash bonuses after the merger, where this effect is more pronounced when controlling for the merger's performance. Across the party lines, our results are found to be statistically significant for the Republican Party mergers for the most part which is consistent with the conservatives greater affinity to work with the familiar.

To the extent that our results are driven by observables, we control for the major determinants of merger outcomes that are discussed in the literature. It is possible that some unobservables would partially explain our results. However, the consistency of the sign, significance, and magnitudes in our results, despite the battery of specifications and the inclusion of year and industry fixed effects, show that CPI is a strong predictor of a variety of merger outcomes.

Taken together, we demonstrate that corporate decisions based on a desire to maintain a certain ideological culture lead to worse outcomes. This evidence has significant implications for a firm's choice of merger partners. Moreover, it brings into question the extent to which a partner's culture should influence both the acquisition decision as well as the merger outcome. Given our findings, it is possible that firms must consider merging with partners that hold a different ideological culture, as our findings indicate that seeking a similar partners does not deliver the anticipated gains. Essentially, the findings are consistent with the notion that heterogeneous teams are more likely to perform better than homogeneous ones.

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Table 1: No. of Acquisitions by Year

This table reports the number of acquisitions in our sample broken down by year and PMA indicator. The PMA indicator marks acquisitions of politically alike firms. All acquirers and targets in the sample are U.S. public firms.

Year	Full Sample		PMA		Non-PMA	
	Number	%	Number	%	Number	%
1993	1	0%	0	0%	1	0%
1994	23	3%	5	3%	18	3%
1995	44	6%	12	7%	32	6%
1996	46	7%	10	6%	36	7%
1997	69	10%	17	10%	52	10%
1998	69	10%	17	11%	52	10%
1999	88	13%	19	11%	69	13%
2000	58	8%	21	13%	37	7%
2001	30	4%	8	5%	22	4%
2002	11	2%	4	2%	7	1%
2003	24	3%	5	3%	19	4%
2004	32	5%	7	4%	25	5%
2005	37	5%	8	5%	29	6%
2006	34	5%	10	6%	24	5%
2007	41	6%	11	7%	30	6%
2008	30	4%	4	2%	26	5%
2009	25	4%	5	3%	20	4%
2010	24	4%	3	2%	21	4%
Total	686	100%	166	100%	520	100%

Table 2: No. of Acquisitions by Industry

This table reports the number of acquisitions in our sample broken down by industry and PMA indicator. Industries are defined as the 1-digit SIC code. The PMA indicator marks acquisitions of politically alike firms. All acquirers and targets in the sample are U.S. public firms.

Industry	Full Sample		PMA		Non-PMA	
	Number	%	Number	%	Number	%
Agriculture, Forestry, & Fishing	2	0%	1	1%	1	0%
Mining	32	4%	14	6%	18	3%
Construction	3	0%	2	1%	1	0%
Manufacturing	242	36%	50	32%	192	37%
Transportation & Public Utilities	100	15%	29	18%	71	14%
Wholesale Trade	16	3%	5	3%	11	2%
Retail Trade	32	5%	5	3%	27	5%
Finance, Insurance, & Real Estate	143	20%	42	24%	101	19%
Services	94	14%	17	10%	77	15%
Non-classified	22	3%	2	2%	20	4%
Total	686	100%	167	100%	519	100%

Table 3: Summary Statistics

This table provides summary statistics for the mergers in our sample. The statistics are shown for the full sample in the first three columns, and we show the statistics by PMA indicator in the last six columns. All acquirers and targets are U.S. public firms. The first 5 rows in this table show the pre-merger acquirer characteristics, while the rest of the variables in the table show deal and post-merger acquirer characteristics. Q is the sum of book value of assets and market value of equity times shares outstanding minus book equity all over assets. Debt is long-term debt plus debt in current liabilities. Cash flow is operating income before depreciation. Buy&Hold [-20,-219] abnormal return is relative to the merger announcement date using the CRSP value-weighted index. Deal Premium is the takeover premium which is calculated using the offer price relative to the target's price 42 trading days prior to the announcement. Target Executive Retention is a ratio constructed by dividing the number of pre-merger target executives that remain in the post-merger executive team over the total number of executives in the new firm. Post-Merger TMT Bonus is a ratio constructed by aggregating the executive team bonuses awarded to the top 5 executives in the year of merger completion. Post-Merger Operating Performance is the industry-year, peer-match adjusted post-merger operating performance of the merger during the 3 years post-merger. Acquirer and target fee's are in % of transaction value. Relative value is the transaction value over the acquirer's market value of equity. A deal is flagged as related if the acquirer and target share the same 1-digit SIC code. Local deal is a dummy variable equal to 1 if the acquirer and target are 63 miles (100 km) away from each other, as defined in [Uysal et al. \(2008\)](#). G-Index is a the the target's anti-takeover provisions index from [Gompers et al. \(2003\)](#)

	Full Sample			PMA			Non-PMA			Test Stats	
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Δ Means	T-Stat
Acquirer Assets (\$ billions)	67.51	13.66	38,946.50	59.70	14.78	22,945.18	70.01	13.08	44,082.92	-10.30	-0.59
Acquirer Q	2.29	1.52	5.60	2.01	1.47	3.49	2.38	1.58	6.23	-0.36	-1.70*
Acquirer Debt to Assets	0.20	0.18	0.02	0.21	0.19	0.02	0.20	0.18	0.02	0.01	0.59
Acquirer CF to Assets	0.14	0.13	0.01	0.13	0.12	0.01	0.14	0.14	0.01	-0.01	-1.67*
Acquirer BH [-20,-219] Return	0.10	0.05	0.15	0.07	0.03	0.12	0.11	0.06	0.16	-0.04	-1.15
Deal Value (\$ billions)	5.15	1.44	145.15	5.87	2.30	114.36	4.92	1.27	155.11	0.95	0.88
Deal Premium	0.38	0.32	0.29	0.32	0.28	0.12	0.40	0.33	0.34	-0.08	-1.46
Target Executive Retention	0.06	0.00	0.01	0.09	0.00	0.02	0.05	0.00	0.01	0.04	3.71***
Log(Post-Merger TMT Bonus)	6.38	7.58	10.27	6.74	7.71	8.58	6.27	7.56	10.79	0.48	1.64
Post-Merger Operating Performance	0.03	0.01	0.03	-0.00	-0.01	0.03	0.05	0.03	0.03	-0.05	-2.16**
No. of Bidders	1.08	1.00	0.11	1.11	1.00	0.19	1.07	1.00	0.08	0.04	1.46
Acquirer Fees % of Deal	0.37	0.29	0.12	0.31	0.26	0.04	0.40	0.31	0.14	-0.08	-1.67*
Target Fees % of Deal	0.58	0.50	0.18	0.47	0.38	0.11	0.62	0.55	0.20	-0.15	-3.19***
Total Fees % of Deal	0.74	0.64	0.28	0.63	0.58	0.14	0.78	0.69	0.31	-0.15	-2.64***
Relative Value	0.49	0.24	0.41	0.67	0.41	0.65	0.43	0.21	0.32	0.24	4.21***
Related Deal	0.78	1.00	0.17	0.81	1.00	0.15	0.77	1.00	0.18	0.04	1.09
White Knight/Squire Flag	0.10	0.00	0.09	0.09	0.00	0.08	0.10	0.00	0.09	-0.01	-0.44
Tender Offer	0.15	0.00	0.13	0.13	0.00	0.12	0.16	0.00	0.13	-0.03	-0.85
Distance (miles)	768.02	527.62	643,689.25	692.76	516.99	518,034.47	792.09	529.51	682,558.25	-99.33	-1.39
Local Deal	0.23	0.00	0.18	0.25	0.00	0.19	0.23	0.00	0.18	0.03	0.73
Target's G-Index	9.28	9.00	6.93	9.71	10.00	7.69	9.13	9.00	6.60	0.59	2.23**
All Cash	0.30	0.00	0.21	0.27	0.00	0.20	0.31	0.00	0.21	-0.04	-0.90
All Stock	0.44	0.00	0.25	0.47	0.00	0.25	0.43	0.00	0.25	0.04	0.66

Table 4: CARs Around Acquisition Announcement

This table shows the cumulative abnormal returns (CARs) around the acquisition announcement for the acquirers, targets, and the combined firm. We use the standard (-1, +1), (-2, +2), and (-3, +3) event windows in days around the announcement date to measure the CARs. We show the results for the full sample, as well as for the PMA breakdown. CARs for the combined entity is calculated using the market value of equity as weights to average the acquirer and target CARs.

	Full Sample			PMA			Non-PMA			Difference in Means	
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	t-Value	z-Value
Acquirer [-1, +1]	-0.021	-0.012	0.004	-0.029	-0.020	0.074	-0.018	-0.011	0.061	1.71*	1.61
Acquirer [-2, +2]	-0.020	-0.013	0.005	-0.029	-0.019	0.075	-0.018	-0.012	0.069	1.74*	1.69*
Acquirer [-3, +3]	-0.020	-0.013	0.006	-0.031	-0.030	0.081	-0.016	-0.010	0.074	2.06**	2.44**
Target [-1, +1]	0.187	0.151	0.042	0.180	0.157	0.190	0.190	0.146	0.210	0.52	0.39
Target [-2, +2]	0.195	0.162	0.045	0.187	0.169	0.195	0.198	0.161	0.216	0.56	0.30
Target [-3, +3]	0.198	0.165	0.049	0.191	0.170	0.197	0.199	0.161	0.228	0.39	0.17
Combined [-1, +1]	0.011	0.007	0.004	0.008	0.005	0.069	0.011	0.007	0.063	0.50	0.45
Combined [-2, +2]	0.012	0.009	0.005	0.010	0.006	0.071	0.013	0.010	0.067	0.56	0.51
Combined [-3, +3]	0.012	0.010	0.006	0.009	0.004	0.075	0.014	0.010	0.074	0.71	1.11

Table 5: CAR[-3, +3] Regressions

This table shows the OLS regression results where the dependent variable is the acquirer CARs in Panel (A), target CARs in Panel (B), and combined entity CARs in Panel (C). We report the CARs using the (-3, +3) window as our basis for the analysis. Columns (1) to (4) show the results without breaking PMA by party. Columns (5) and (6) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. Small deal is a dummy variable which is equal to 1 if the deal value is equal to 5% or less than the acquirer's size measured by market value of equity at the time of announcement. All other covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

Panel (A) - Acquirer CARs

					By Party	
	(1)	(2)	(3)	(4)	(5)	(6)
PMA	-0.0144*** (-2.68)	-0.0170*** (-3.05)	-0.0176*** (-3.23)	-0.0173*** (-2.68)		
Republican PMA					-0.0146** (-2.56)	-0.0160** (-2.44)
Democrat PMA					-0.0314** (-2.09)	-0.0248 (-1.60)
Ln(Acquirer Assets)		0.0010 (0.43)	0.0023 (0.96)	0.0016 (0.50)	0.0012 (0.50)	0.0017 (0.53)
Acquirer Q		-0.0063** (-2.26)	-0.0061** (-1.96)	-0.0059** (-1.98)	-0.0063** (-2.25)	-0.0058** (-1.98)
Acquirer Debt to Assets		-0.0198 (-0.67)	-0.0174 (-0.58)	-0.0090 (-0.29)	-0.0205 (-0.69)	-0.0092 (-0.30)
Acquirer CF to Assets		0.0679 (1.29)	0.0824 (1.62)	0.0995* (1.79)	0.0666 (1.26)	0.0987* (1.79)
Acquirer BH [-20,-219] Return		-0.0050 (-0.39)	-0.0045 (-0.36)	-0.0047 (-0.37)	-0.0052 (-0.41)	-0.0049 (-0.38)
Small Deal Flag		0.0081 (1.03)	0.0043 (0.48)	0.0038 (0.42)	0.0079 (1.00)	0.0037 (0.40)
% Cash		0.0001 (0.98)	0.0001 (0.99)	0.0001 (1.04)	0.0001 (1.03)	0.0001 (1.07)
Related Deal		-0.0032 (-0.37)	-0.0040 (-0.43)	-0.0015 (-0.15)	-0.0040 (-0.46)	-0.0020 (-0.19)
Tender Offer		0.0079 (0.96)	0.0062 (0.71)	0.0057 (0.68)	0.0075 (0.89)	0.0054 (0.63)
Obs.	651	558	558	558	558	558
R-Sq	0.006	0.046	0.078	0.097	0.048	0.098
Year FE			X	X		X
Acq. Industry FE				X		X

Panel (B) - Target CARs

	By Party					
	(1)	(2)	(3)	(4)	(5)	(6)
PMA	-0.0080 (-0.36)	-0.0028 (-0.13)	-0.0043 (-0.18)	0.0065 (0.28)		
Republican PMA					-0.0045 (-0.22)	0.0055 (0.23)
Democrat PMA					0.0082 (0.26)	0.0132 (0.38)
Ln(Target Assets)		-0.0179*** (-2.59)	-0.0227*** (-3.62)	-0.0232*** (-2.94)	-0.0181*** (-2.62)	-0.0233*** (-2.97)
Target Q		-0.0161*** (-2.93)	-0.0179*** (-3.31)	-0.0216*** (-3.64)	-0.0161*** (-2.93)	-0.0216*** (-3.65)
Target Debt to Assets		0.0282 (0.46)	0.0028 (0.05)	0.0596 (0.94)	0.0284 (0.46)	0.0596 (0.94)
Target CF to Assets		-0.1717 (-1.58)	-0.1849* (-1.76)	-0.1496* (-1.69)	-0.1710 (-1.57)	-0.1492* (-1.67)
Target BH [-20,-219] Return		-0.0791*** (-2.68)	-0.0790** (-2.48)	-0.0782*** (-2.65)	-0.0789*** (-2.67)	-0.0781*** (-2.63)
Small Deal Flag		-0.0271 (-1.09)	-0.0446* (-1.85)	-0.0515** (-2.11)	-0.0272 (-1.09)	-0.0515** (-2.10)
% Cash		0.0007*** (3.58)	0.0007*** (3.81)	0.0008*** (4.85)	0.0006*** (3.59)	0.0008*** (4.92)
Related Deal		0.0129 (0.45)	0.0095 (0.33)	-0.0047 (-0.16)	0.0137 (0.47)	-0.0042 (-0.14)
Tender Offer		0.1466*** (3.70)	0.1230*** (3.24)	0.1015*** (3.04)	0.1469*** (3.71)	0.1017*** (3.03)
Obs.	649	560	560	560	560	560
R-Sq	0.000	0.158	0.192	0.224	0.158	0.224
Year FE			X	X		X
Acq. Industry FE				X		X

Panel (C) - Combined CARs

					By Party	
	(1)	(2)	(3)	(4)	(5)	(6)
PMA	-0.0050 (-1.03)	-0.0114* (-1.87)	-0.0115* (-1.82)	-0.0110 (-1.45)		
Republican PMA					-0.0121** (-2.03)	-0.0121 (-1.62)
Democrat PMA					-0.0069 (-0.45)	-0.0042 (-0.27)
Ln Total Merger Assets		-0.0044** (-2.33)	-0.0035* (-1.65)	-0.0031 (-1.12)	-0.0045** (-2.38)	-0.0032 (-1.18)
Merger Q		-0.0039 (-1.28)	-0.0036 (-1.03)	-0.0033 (-0.91)	-0.0039 (-1.28)	-0.0033 (-0.92)
Merger Debt/Assets		0.0132 (0.56)	0.0119 (0.48)	0.0247 (0.96)	0.0133 (0.56)	0.0248 (0.96)
Merger Cash flow/Assets		-0.0130 (-0.29)	-0.0073 (-0.16)	-0.0110 (-0.22)	-0.0125 (-0.29)	-0.0103 (-0.20)
Merger BH [-20,-219] Return		-0.0238* (-1.82)	-0.0236* (-1.73)	-0.0237* (-1.79)	-0.0238* (-1.80)	-0.0235* (-1.76)
Small Deal Flag		-0.0264*** (-4.05)	-0.0301*** (-4.09)	-0.0318*** (-3.98)	-0.0264*** (-4.04)	-0.0317*** (-3.95)
% Cash		0.0003*** (4.06)	0.0003*** (3.93)	0.0003*** (3.64)	0.0003*** (4.03)	0.0003*** (3.64)
Related Deal		0.0164** (2.06)	0.0159* (1.87)	0.0201** (2.37)	0.0166** (2.03)	0.0206** (2.31)
Tender Offer		0.0104** (2.22)	0.0069 (1.27)	0.0036 (0.84)	0.0105** (2.19)	0.0039 (0.89)
Obs.	648	539	539	539	539	539
R-Sq	0.001	0.108	0.127	0.148	0.108	0.149
Year FE			X	X		X
Acq. Industry FE				X		X

Table 6: Advisor Fees Regressions

This table shows the OLS regression results where the dependent variable is the deal fee's as a % of deal value. Panel (A) shows the results for the acquirer total fees, Panel (B) for the target total fees, and Panel (C) for all merger fees. Columns (1) to (4) show the results without breaking PMA by party. Columns (5) and (6) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

Panel (A) - Acquirer Fee's

	By Party					
	(1)	(2)	(3)	(4)	(5)	(6)
PMA	-0.0825** (-2.35)	-0.0779*** (-2.59)	-0.0494* (-1.70)	-0.0483* (-1.88)		
Republican PMA					-0.0752** (-2.21)	-0.0374 (-1.15)
Democrat PMA					-0.0920** (-2.24)	-0.1039** (-1.98)
Ln(Acquirer Assets)		-0.1041*** (-9.42)	-0.1071*** (-7.04)	-0.1096*** (-6.71)	-0.1041*** (-9.41)	-0.1088*** (-6.57)
Acquirer Q		-0.0243** (-2.39)	-0.0194* (-1.73)	-0.0170 (-1.59)	-0.0243** (-2.39)	-0.0169 (-1.57)
Acquirer Debt to Assets		-0.0566 (-0.27)	-0.1126 (-0.70)	-0.0217 (-0.16)	-0.0601 (-0.28)	-0.0335 (-0.25)
Acquirer CF to Assets		-0.4481 (-1.37)	-0.3831 (-1.24)	-0.2495 (-0.76)	-0.4498 (-1.39)	-0.2577 (-0.80)
Acquirer BH [-20,-219] Return		-0.0251 (-0.68)	-0.0058 (-0.20)	-0.0094 (-0.45)	-0.0255 (-0.70)	-0.0108 (-0.52)
Small Deal Flag		0.4301 (1.58)	0.3916 (1.63)	0.4067* (1.81)	0.4296 (1.58)	0.4055* (1.80)
% Cash		-0.0001 (-0.11)	-0.0005 (-0.87)	-0.0005 (-0.76)	-0.0001 (-0.08)	-0.0004 (-0.67)
Related Deal		0.0146 (0.26)	0.0131 (0.21)	0.0084 (0.15)	0.0138 (0.25)	0.0068 (0.12)
Tender Offer		0.1299 (1.28)	0.2162** (2.26)	0.2085** (2.01)	0.1283 (1.25)	0.2030* (1.95)
Obs.	234	220	220	220	220	220
R-Sq	0.012	0.298	0.396	0.417	0.298	0.418
Year FE			X	X		X
Acq. Industry FE				X		X

Panel (B) - Target Fee's

	By Party					
	(1)	(2)	(3)	(4)	(5)	(6)
PMA	-0.1454*** (-3.63)	-0.0744** (-2.09)	-0.0346 (-1.15)	-0.0211 (-0.67)		
Republican PMA					-0.0788** (-2.00)	-0.0270 (-0.76)
Democrat PMA					-0.0477 (-0.61)	0.0153 (0.22)
Ln(Target Assets)		-0.1197*** (-9.09)	-0.1363*** (-12.62)	-0.1399*** (-12.26)	-0.1200*** (-9.03)	-0.1406*** (-12.47)
Target Q		-0.0627*** (-4.43)	-0.0617*** (-5.87)	-0.0630*** (-5.13)	-0.0627*** (-4.43)	-0.0632*** (-5.16)
Target Debt to Assets		-0.0046 (-0.05)	0.0739 (1.27)	0.1821*** (2.60)	-0.0036 (-0.04)	0.1826** (2.57)
Target CF to Assets		-0.9121*** (-6.49)	-0.8519*** (-6.09)	-0.7429*** (-4.59)	-0.9110*** (-6.42)	-0.7413*** (-4.52)
Target BH [-20,-219] Return		-0.0122 (-0.15)	-0.0110 (-0.15)	-0.0145 (-0.19)	-0.0115 (-0.14)	-0.0131 (-0.17)
Small Deal Flag		0.2041*** (3.05)	0.1800*** (3.56)	0.1653*** (3.36)	0.2042*** (3.04)	0.1662*** (3.39)
% Cash		0.0011* (1.77)	-0.0004 (-0.93)	-0.0003 (-0.66)	0.0011* (1.74)	-0.0003 (-0.68)
Related Deal		-0.0016 (-0.04)	0.0426 (1.01)	0.0451 (1.09)	-0.0006 (-0.02)	0.0466 (1.10)
Tender Offer		-0.0182 (-0.23)	0.0848 (1.13)	0.0604 (0.81)	-0.0178 (-0.23)	0.0615 (0.82)
Obs.	478	458	458	458	458	458
R-Sq	0.021	0.372	0.480	0.496	0.372	0.496
Year FE			X	X		X
Acq. Industry FE				X		X

Panel (C) - All Fee's

	By Party					
	(1)	(2)	(3)	(4)	(5)	(6)
PMA	-0.1475*** (-3.40)	-0.1178*** (-2.66)	-0.0649 (-1.49)	-0.0664 (-1.41)		
Republican PMA					-0.1226** (-2.53)	-0.0780 (-1.46)
Democrat PMA					-0.0890 (-1.04)	0.0052 (0.06)
Ln Total Merger Assets		-0.1774*** (-10.25)	-0.1899*** (-11.29)	-0.1911*** (-10.27)	-0.1777*** (-10.21)	-0.1922*** (-9.98)
Merger Q		-0.0441** (-2.10)	-0.0266 (-1.42)	-0.0237 (-1.19)	-0.0441** (-2.10)	-0.0237 (-1.18)
Merger Debt/Assets		0.0874 (0.55)	0.1515 (1.08)	0.2663 (1.59)	0.0903 (0.58)	0.2747 (1.64)
Merger Cash flow/Assets		-1.1677*** (-2.68)	-1.2420*** (-3.88)	-1.1076*** (-3.21)	-1.1671*** (-2.67)	-1.1030*** (-3.14)
Merger BH [-20,-219] Return		-0.0152 (-0.23)	-0.0122 (-0.20)	-0.0203 (-0.32)	-0.0146 (-0.22)	-0.0184 (-0.29)
Small Deal Flag		0.5029*** (5.80)	0.5036*** (6.35)	0.5022*** (6.57)	0.5036*** (5.81)	0.5051*** (6.64)
% Cash		-0.0000 (-0.06)	-0.0015** (-2.15)	-0.0013** (-2.13)	-0.0000 (-0.06)	-0.0013** (-2.14)
Related Deal		-0.0116 (-0.24)	0.0418 (0.73)	0.0315 (0.51)	-0.0107 (-0.23)	0.0348 (0.56)
Tender Offer		0.1531 (1.21)	0.2842** (2.35)	0.2643** (2.23)	0.1535 (1.21)	0.2667** (2.23)
Obs.	493	451	451	451	451	451
R-Sq	0.014	0.297	0.386	0.396	0.297	0.396
Year FE			X	X		X
Acq. Industry FE				X		X

Table 7: Deal Premium Regressions

This table shows the OLS regression results where the dependent variable is the premium offered in the acquisition deal. Columns (1) to (4) show the results without breaking PMA by party. Columns (5) and (6) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party					
	(1)	(2)	(3)	(4)	(5)	(6)
PMA	-0.0821**	-0.0707**	-0.0859*	-0.0920**		
	(-2.09)	(-1.96)	(-1.87)	(-1.99)		
Republican PMA					-0.0668*	-0.0902**
					(-1.77)	(-2.02)
Democrat PMA					-0.0973	-0.1032
					(-1.36)	(-1.13)
Ln(Acquirer Assets)		-0.0773**	-0.0769**	-0.0737**	-0.0772**	-0.0736**
		(-2.44)	(-2.52)	(-2.03)	(-2.43)	(-2.03)
Acquirer Q		0.0176*	0.0123	0.0065	0.0176*	0.0066
		(1.95)	(1.44)	(0.67)	(1.94)	(0.67)
Acquirer Debt to Assets		0.0053	0.0088	-0.0579	0.0023	-0.0590
		(0.03)	(0.05)	(-0.36)	(0.01)	(-0.37)
Acquirer CF to Assets		-0.0404	-0.1829	-0.3619	-0.0467	-0.3636
		(-0.15)	(-0.66)	(-1.53)	(-0.17)	(-1.52)
Acquirer BH [-20,-219] Return		0.0960**	0.0910**	0.0830*	0.0954**	0.0828*
		(2.43)	(2.37)	(1.88)	(2.42)	(1.89)
Target Q		-0.0537***	-0.0519***	-0.0620***	-0.0537***	-0.0620***
		(-4.48)	(-4.24)	(-4.06)	(-4.50)	(-4.06)
Target Debt to Assets		-0.1361	-0.2035	-0.2142	-0.1348	-0.2135
		(-0.89)	(-1.26)	(-1.30)	(-0.89)	(-1.30)
Target BH [-20,-219] Return		-0.1481*	-0.2145**	-0.2075**	-0.1483*	-0.2076**
		(-1.84)	(-2.25)	(-2.48)	(-1.85)	(-2.48)
No. of Bidders		-0.0772**	-0.0783**	-0.0803**	-0.0766**	-0.0800**
		(-2.53)	(-2.26)	(-2.09)	(-2.50)	(-2.05)
Small Deal Flag		0.1519	0.1012	0.1316	0.1520	0.1314
		(1.10)	(1.02)	(1.57)	(1.10)	(1.57)
% Cash		0.0001	0.0007	0.0005	0.0001	0.0005
		(0.12)	(0.80)	(0.62)	(0.12)	(0.63)
Related Deal		-0.0535	-0.0885	-0.1481***	-0.0555	-0.1490***
		(-0.88)	(-1.64)	(-3.47)	(-0.87)	(-3.37)
Tender Offer		0.0955*	0.0682	0.0708	0.0947*	0.0704
		(1.77)	(0.90)	(1.14)	(1.77)	(1.13)
Obs.	492	449	449	449	449	449
R-Sq	0.004	0.111	0.181	0.216	0.111	0.216
Year FE			X	X		X
Acq. Industry FE				X		X

Table 8: Post Merger Operating Performance

This table shows the OLS regression results where the dependent variable is the year and industry adjusted post merger operating performance. We follow Ghosh (2001) and Loughran and Ritter (1997) in constructing our industry-year, peer-matched adjusted post-merger operating performance. For every acquisition, we find a pair of matched firms from the same 2-digit SIC industry of acquiring and target firms a year prior to the acquisition from Compustat universe. We match firms on size and operating performance within industry using propensity score matching to find the closest pair. From the matches, we compute the post-merger operating performance as the difference in industry-adjusted cash flow between the 3 years pre- and post-acquisition periods between our acquirer-target and their matched peers. Columns (1) and (2) show the results without breaking PMA by party. Column (3) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party		
	(1)	(2)	(3)
PMA	-0.0467*** (-3.43)	-0.0261* (-1.67)	
Republican PMA			-0.0277* (-1.71)
Democrat PMA			-0.0147 (-0.35)
Ln(Acquirer Assets)		0.0007 (0.10)	0.0006 (0.09)
Acquirer Q		0.0294*** (4.51)	0.0294*** (4.50)
Acquirer Debt to Assets		0.0972 (0.83)	0.0989 (0.83)
Acquirer CF to Assets		0.0515 (0.37)	0.0518 (0.37)
Small Deal Flag		-0.0182 (-0.74)	-0.0178 (-0.73)
% Cash		-0.0004* (-1.69)	-0.0004* (-1.77)
Related Deal		0.0473** (2.19)	0.0471** (2.16)
Tender Offer		0.0344** (2.02)	0.0347** (2.03)
Obs.	351	317	317
R-Sq	0.013	0.107	0.107

Table 9: Probability of Acquisition

This table shows the results of simulations that test the likelihood of mergers occurring between i) a target and a random acquirer, and ii) an acquirer and a random target. We construct the scenario in (i) by pairing each sample target with a random acquirer drawn from the sample acquirer industry in the year of the acquisition. We repeat this procedure 1000 times to arrive to the simulated means. The same is true for scenario (ii). We report the full sample mean and perform tests on the equality of proportions using Wilcoxon rank-sum Z-test against the simulated means to test for significant differences.

	Full Sample	Random Target			Random Acquirer		
	Mean	Mean	Difference	Z-Stat	Mean	Difference	Z-Stat
All PMA	0.242	0.252	-0.010	-0.59	0.200	0.042	2.75***
Republican PMA	0.213	0.226	-0.012	-0.75	0.183	0.030	2.01**
Democrat PMA	0.046	0.043	0.003	0.31	0.025	0.021	3.09***

Table 10: Target Executive Retention

This table shows the results for post-merger target executive retention by acquirers. The dependent variable in these OLS regressions is a continuous variable, *TargetRET*, which is a ratio constructed by dividing the number of pre-merger target executives that remain in the post-merger executive team over the total number of executives in the new firm. In other words, this variable captures the extent to which the post-merger executive team comprise of pre-merger target executives. Columns (1) to (4) show the results without breaking PMA by party. Columns (5) and (6) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party					
	(1)	(2)	(3)	(4)	(5)	(6)
PMA	0.0406*** (4.01)	0.0359*** (3.06)	0.0376*** (3.24)	0.0387*** (3.44)		
Republican PMA					0.0346*** (3.39)	0.0369*** (3.83)
Democrat PMA					0.0450 (1.51)	0.0496* (1.65)
Ln(Target Assets)		0.0138*** (3.72)	0.0155*** (4.31)	0.0206*** (5.37)	0.0137*** (3.59)	0.0204*** (5.31)
Target Q		0.0022 (0.59)	0.0034 (0.94)	0.0015 (0.38)	0.0022 (0.59)	0.0014 (0.37)
Target Debt to Assets		-0.0281 (-1.13)	-0.0247 (-0.90)	-0.0474 (-1.38)	-0.0281 (-1.12)	-0.0476 (-1.39)
Target CF to Assets		0.0042 (0.12)	0.0041 (0.11)	-0.0210 (-0.63)	0.0048 (0.14)	-0.0204 (-0.61)
Target BH [-20,-219] Return		0.0060 (0.71)	0.0093 (0.95)	0.0085 (0.81)	0.0062 (0.73)	0.0086 (0.83)
Small Deal Flag		-0.0304*** (-3.80)	-0.0262*** (-3.25)	-0.0188*** (-2.59)	-0.0306*** (-3.73)	-0.0189*** (-2.58)
% Cash		-0.0006*** (-4.54)	-0.0006*** (-4.14)	-0.0006*** (-5.25)	-0.0006*** (-4.52)	-0.0006*** (-5.13)
Related Deal		0.0051 (0.41)	0.0054 (0.46)	0.0064 (0.49)	0.0055 (0.44)	0.0071 (0.51)
Tender Offer		0.0079 (0.72)	0.0107 (1.18)	0.0084 (0.90)	0.0081 (0.73)	0.0088 (0.92)
Obs.	671	579	579	579	579	579
R-Sq	0.020	0.158	0.177	0.198	0.158	0.198
Year FE			X	X		X
Acq. Industry FE				X		X

Table 11: Top Management Team Bonus After Merger

This table shows the results for post-merger executive bonus awards. The dependent variable in these tobit regressions is a continuous variable $Log(TMTBonus)$, which is a ratio constructed by aggregating the executive team bonuses awarded to the top 5 executives in the year of merger completion. This variable captures the extent to which the executive team is awarded for a successful merger (Grinstein and Hribar, 2004; Harford and Li, 2007). Columns (1) to (3) show the results without breaking PMA by party. Columns (4) and (5) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party				
	(1)	(2)	(3)	(4)	(5)
PMA	0.5895*	0.1172***	0.1734***		
	(1.72)	(8.55)	(4.97)		
Republican PMA				-0.1351***	0.0011
				(-10.22)	(0.03)
Democrat PMA				1.5921***	1.1933***
				(75.28)	(13.43)
PMA \times Acquirer CAR[-3,+3]			3.0846***		
			(5.63)		
Republican PMA \times Acquirer CAR[-3,+3]				4.7888***	
				(9.00)	
Democrat PMA \times Acquirer CAR[-3,+3]				-4.1423***	
				(-3.40)	
Acquirer [-3, +3]			1.4077***		1.3358***
			(5.15)		(4.40)
Ln(Assets)		0.4603***	0.4772***	0.4487***	0.4643***
		(411.49)	(445.17)	(383.06)	(414.74)
Q		0.1738***	0.1770***	0.1654***	0.1640***
		(24.94)	(25.73)	(24.04)	(24.92)
Debt to Assets		1.2638***	1.2748***	1.3038***	1.2378***
		(35.70)	(36.33)	(35.19)	(34.94)
CF to Assets		2.0171***	1.0387***	2.3837***	1.5599***
		(18.14)	(9.34)	(21.47)	(13.79)
Acquirer BH [-20,-219] Return		-0.4120***	-0.4164***	-0.3645***	-0.3476***
		(-20.73)	(-22.22)	(-17.94)	(-20.57)
Small Deal Flag		-0.7223***	-0.6986***	-0.6888***	-0.6676***
		(-20.72)	(-19.36)	(-20.01)	(-18.55)
% Cash		0.0056***	0.0048***	0.0051***	0.0040***
		(18.35)	(15.32)	(16.58)	(13.40)
Related Deal		-0.3269***	-0.2670***	-0.2248***	-0.1778***
		(-26.86)	(-19.41)	(-17.67)	(-12.17)
Tender Offer		-0.1809***	-0.0587	-0.1458***	-0.0193
		(-4.71)	(-1.47)	(-3.93)	(-0.49)
Obs.	655	573	543	573	543
Pseudo R-Sq	0.001	0.137	0.142	0.140	0.145
Year FE		X	X	X	X
Acq. Industry FE		X	X	X	X

A Appendix

Table A1: Variable and Acronym Definitions

Firm Characteristics	Variable Description
<i>Q</i>	We define Q as the book value of assets (Compustat Item 6) + the market value of equity (Compustat Item 199) \times shares outstanding (Compustat Item 25) - book equity (Compustat Item 6 - Item 181 - Item 10 + Item 35 + Item 79) all divided by total assets.
<i>Debt to Assets</i>	We define debt as the sum of long-term total debt (Compustat Item 9) + debt in current liabilities (Compustat Item 34). Assets is the book value of assets (Compustat Item 6).
<i>CF to Assets</i>	CF is Cashflow and we define it as the operating income before depreciation (Compustat Item 13). Assets is the book value of assets (Compustat Item 6).
<i>BH [-20,-219] Return</i>	The Buy&Hold abnormal return from day -219 to day -20 relative to the merger announcement date using the CRSP value-weighted index for market return.
<i>Political Identity</i>	A continuous index for political identity which starts at -1 for strictly the democratic firms and 1 for strictly republican firms
<i>TMT Bonus</i>	The sum of cash bonuses awarded to the top 5 executives in the management team ranked by salary during the year of merger completion.
Deal Characteristics	Variable Description

<i>PMA</i>	A dummy variable which stands for Politically Matched Acquisition, that is equal to 1 if the acquirer and target share the same political ideology, and 0 otherwise.
<i>Relative Value</i>	The ratio of the merger transaction value relative to the market cap of the acquirer.
<i>Related Deal</i>	A dummy variable which is equal to 1 if the acquirer and target share the same 1-digit SIC industry classification, and 0 otherwise.
<i>Small Deal</i>	A dummy variable which is equal to 1 if <i>Relative Value</i> is 5% or less, and 0 otherwise.
<i>Tender Offer</i>	A dummy variable which is equal to 1 if the merger is classified as tender offer, and 0 otherwise.
<i>Advisory Fees %</i>	The dollar amount paid as fees to complete the merger as a percentage of the transaction value.
<i>% Cash</i>	The percentage of the transaction value paid in cash
<i>Target Executive Retention</i>	The ratio of the number of pre-merger target executives that remain in the post-merger executive team, over the total number of executives in the new merger
<hr/> <hr/>	
Commonly Used Acronyms	Description
<i>CPI</i>	Common Political Ideology.
<i>TMT</i>	Top Management Team.

Table A2: CAR[-3, +3] Regressions

This table shows the OLS regression results where the dependent variable is the acquirer CARs. In this table, we include the target's anti-takeover G-Index from [Gompers et al. \(2003\)](#) as well as the distance between the acquirer and target as defined in [Uysal et al. \(2008\)](#). Due to G-Index data availability, the analysis in this table includes the years 1993-2006 only. We report the CARs using the (-3, +3) window as our basis for the analysis. Columns (1) to (3) show the results without breaking PMA by party. Columns (4) and (5) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All other covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party				
	(1)	(2)	(3)	(4)	(5)
PMA	-0.0179*** (-3.28)	-0.0192*** (-3.22)	-0.0213*** (-3.16)		
Republican PMA				-0.0194*** (-3.01)	-0.0239*** (-3.03)
Democrat PMA				-0.0082 (-0.97)	-0.0044 (-0.44)
Local Deal	0.0029 (0.28)	0.0000 (0.00)	0.0001 (0.01)	0.0029 (0.28)	0.0001 (0.01)
Target's G-Index	0.0004 (0.44)	0.0001 (0.08)	-0.0001 (-0.15)	0.0004 (0.49)	-0.0000 (-0.05)
Ln(Acquirer Assets)	0.0031 (1.40)	0.0038 (1.59)	0.0047 (1.39)	0.0030 (1.30)	0.0043 (1.28)
Acquirer Q	-0.0063** (-2.07)	-0.0059 (-1.63)	-0.0060* (-1.72)	-0.0062** (-2.07)	-0.0060* (-1.74)
Acquirer Debt to Assets	-0.0143 (-0.48)	-0.0107 (-0.32)	-0.0159 (-0.45)	-0.0133 (-0.45)	-0.0149 (-0.43)
Acquirer CF to Assets	0.0861 (1.57)	0.0956* (1.75)	0.0772 (1.19)	0.0856 (1.56)	0.0768 (1.19)
Acquirer BH [-20,-219] Return	-0.0080 (-0.53)	-0.0091 (-0.58)	-0.0091 (-0.57)	-0.0080 (-0.52)	-0.0090 (-0.56)
Small Deal Flag	0.0159** (2.49)	0.0112 (1.29)	0.0121 (1.32)	0.0161** (2.47)	0.0127 (1.33)
% Cash	0.0001 (1.16)	0.0002 (1.18)	0.0001 (0.98)	0.0001 (1.13)	0.0001 (0.93)
Related Deal	0.0067 (0.66)	0.0061 (0.59)	0.0090 (0.82)	0.0073 (0.69)	0.0102 (0.88)
Tender Offer	0.0059 (0.59)	-0.0005 (-0.05)	-0.0011 (-0.09)	0.0060 (0.60)	-0.0008 (-0.07)
Obs.	421	421	421	421	421
R-Sq	0.069	0.095	0.117	0.069	0.119
Year FE		X	X		X
Acq. Industry FE			X		X

Table A3: Advisor Fees Regressions

This table shows the OLS regression results where the dependent variable is the deal fee's as a % of deal value and we show the results for the acquirer total fees. In this table, we include the target's anti-takeover G-Index from [Gompers et al. \(2003\)](#) as well as the distance between the acquirer and target as defined in [Uysal et al. \(2008\)](#). Due to G-Index data availability, the analysis in this table includes the years 1993-2006 only. Columns (1) to (3) show the results without breaking PMA by party. Columns (4) and (5) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party				
	(1)	(2)	(3)	(4)	(5)
PMA	-0.0498** (-2.53)	-0.0425** (-2.17)	-0.0454** (-2.37)		
Republican PMA				-0.0404* (-1.80)	-0.0329 (-1.43)
Democrat PMA				-0.1004** (-2.43)	-0.1162*** (-2.75)
Local Deal	0.0551** (2.17)	0.0589** (2.22)	0.0473 (1.57)	0.0577** (2.25)	0.0503* (1.67)
Target's G-Index	-0.0039 (-0.92)	-0.0009 (-0.22)	-0.0027 (-0.49)	-0.0045 (-1.09)	-0.0036 (-0.68)
Ln(Acquirer Assets)	-0.0894*** (-9.73)	-0.0896*** (-8.58)	-0.0880*** (-9.51)	-0.0885*** (-9.61)	-0.0859*** (-9.22)
Acquirer Q	-0.0243*** (-2.88)	-0.0219** (-2.08)	-0.0186* (-1.85)	-0.0246*** (-2.88)	-0.0186* (-1.82)
Acquirer Debt to Assets	-0.0487 (-0.45)	0.0130 (0.11)	0.0659 (0.68)	-0.0652 (-0.61)	0.0469 (0.51)
Acquirer CF to Assets	-0.2970 (-1.21)	-0.3340 (-1.21)	-0.2577 (-0.88)	-0.2919 (-1.21)	-0.2504 (-0.89)
Acquirer BH [-20,-219] Return	-0.0398*** (-5.13)	-0.0251** (-2.56)	-0.0194 (-1.35)	-0.0408*** (-5.38)	-0.0202 (-1.41)
Small Deal Flag	0.1220 (1.63)	0.1430* (1.70)	0.1655* (1.94)	0.1184 (1.58)	0.1605* (1.86)
% Cash	-0.0004 (-0.93)	-0.0003 (-0.63)	-0.0003 (-0.63)	-0.0003 (-0.80)	-0.0002 (-0.47)
Related Deal	-0.0339 (-0.62)	-0.0173 (-0.27)	-0.0194 (-0.30)	-0.0364 (-0.68)	-0.0212 (-0.34)
Tender Offer	0.1188** (2.39)	0.1276** (2.06)	0.1229** (2.25)	0.1129** (2.30)	0.1136** (2.19)
Obs.	176	176	176	176	176
R-Sq	0.433	0.460	0.492	0.435	0.496
Year FE		X	X		X
Acq. Industry FE			X		X

Table A4: Deal Premium Regressions

This table shows the OLS regression results where the dependent variable is the premium offered in the acquisition deal and we show the results controlling for the acquirer characteristics. In this table, we include the target's anti-takeover G-Index from [Gompers et al. \(2003\)](#) as well as the distance between the acquirer and target as defined in [Uysal et al. \(2008\)](#). Due to G-Index data availability, the analysis in this table includes the years 1993-2006 only. Columns (1) to (3) show the results without breaking PMA by party. Columns (4) and (5) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

				By Party	
	(1)	(2)	(3)	(4)	(5)
PMA	-0.0602*	-0.0650**	-0.0796***		
	(-1.82)	(-2.25)	(-2.68)		
Republican PMA				-0.0571*	-0.0727***
				(-1.80)	(-2.78)
Democrat PMA				-0.0857	-0.1356
				(-1.02)	(-1.46)
Ln(Acquirer Assets)	-0.0333*	-0.0352*	-0.0220	-0.0332*	-0.0215
	(-1.78)	(-1.84)	(-1.00)	(-1.79)	(-0.99)
Acquirer Q	0.0261**	0.0190*	0.0128*	0.0260**	0.0127*
	(2.20)	(1.89)	(1.76)	(2.21)	(1.75)
Acquirer Debt to Assets	0.1584	0.1553	0.0693	0.1547	0.0625
	(0.68)	(0.67)	(0.33)	(0.67)	(0.30)
Acquirer CF to Assets	0.0762	0.0093	-0.1874	0.0722	-0.1960
	(0.37)	(0.05)	(-1.02)	(0.34)	(-1.02)
Acquirer BH [-20,-219] Return	0.0760**	0.0698*	0.0761*	0.0758**	0.0759*
	(2.20)	(1.88)	(1.93)	(2.18)	(1.91)
Target Q	-0.0408***	-0.0400***	-0.0471***	-0.0409***	-0.0473***
	(-3.26)	(-2.93)	(-2.80)	(-3.25)	(-2.80)
Target Debt to Assets	-0.0396	-0.0757	-0.0850	-0.0400	-0.0853
	(-0.24)	(-0.46)	(-0.48)	(-0.24)	(-0.48)
Target BH [-20,-219] Return	-0.1657***	-0.1966**	-0.2031***	-0.1666***	-0.2061***
	(-2.72)	(-2.40)	(-2.73)	(-2.76)	(-2.80)
No. of Bidders	-0.0632**	-0.0725*	-0.0776*	-0.0628**	-0.0767*
	(-2.03)	(-1.81)	(-1.91)	(-2.02)	(-1.84)
Small Deal Flag	-0.0193	-0.0290	0.0089	-0.0194	0.0083
	(-0.24)	(-0.34)	(0.13)	(-0.24)	(0.12)
Target's G-Index	0.0001	0.0022	0.0045	0.0000	0.0044
	(0.01)	(0.26)	(0.50)	(0.00)	(0.50)
Local Deal	0.0478	0.0674	0.0632	0.0489	0.0659*
	(1.11)	(1.56)	(1.55)	(1.12)	(1.67)
% Cash	-0.0004	0.0001	-0.0002	-0.0004	-0.0002
	(-0.71)	(0.14)	(-0.24)	(-0.71)	(-0.26)
Related Deal	-0.0165	-0.0309	-0.0723	-0.0182	-0.0774
	(-0.21)	(-0.40)	(-1.61)	(-0.23)	(-1.59)
Tender Offer	0.1378***	0.0956**	0.1067*	0.1378***	0.1069*
	(4.36)	(2.51)	(1.86)	(4.36)	(1.84)
Obs.	340	340	340	340	340
R-Sq	0.099	0.133	0.185	0.099	0.186
Year FE		X	X		X
Acq. Industry FE			X		X

Table A5: Post Merger Operating Performance

This table shows the OLS regression results where the dependent variable is the year and industry adjusted post merger operating performance. We follow Ghosh (2001) and Loughran and Ritter (1997) in constructing our industry-year, peer-matched adjusted post-merger operating performance. In this table, we include the target's anti-takeover G-Index from Gompers et al. (2003) as well as the distance between the acquirer and target as defined in Uysal et al. (2008). Due to G-Index data availability, the analysis in this table includes the years 1993-2006 only. For every acquisition, we find a pair of matched firms from the same 2-digit SIC industry of acquiring and target firms a year prior to the acquisition from Compustat universe. We match firms on size and operating performance within industry using propensity score matching to find the closest pair. From the matches, we compute the post-merger operating performance as the difference in industry-adjusted cash flow between the 3 years pre- and post-acquisition periods between our acquirer-target and their matched peers. Columns (1) to (3) show the results without breaking PMA by party. Columns (4) and (5) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party	
	(1)	(2)
PMA	-0.0348*	
	(-1.76)	
Republican PMA		-0.0394*
		(-1.87)
Democrat PMA		-0.0057
		(-0.13)
Local Deal	0.0386	0.0380
	(1.31)	(1.31)
Target's G-Index	-0.0020	-0.0020
	(-0.49)	(-0.49)
Ln(Acquirer Assets)	0.0059	0.0057
	(0.63)	(0.61)
Acquirer Q	0.0320***	0.0321***
	(4.38)	(4.39)
Acquirer Debt to Assets	0.2303*	0.2370*
	(1.65)	(1.68)
Acquirer CF to Assets	-0.0641	-0.0662
	(-0.45)	(-0.47)
Small Deal Flag	-0.0058	-0.0049
	(-0.23)	(-0.20)
% Cash	-0.0002	-0.0002
	(-0.56)	(-0.64)
Related Deal	0.0626***	0.0620***
	(2.68)	(2.64)
Tender Offer	0.0323**	0.0330**
	(2.01)	(2.04)
Obs.	244	244
R-Sq	0.128	0.130

Table A6: Target Executive Retention

This table shows the results for post-merger target executive retention by acquirers. The dependent variable in these OLS regressions is a continuous variable, *TargetRET*, which is a ratio constructed by dividing the number of pre-merger target executives that remain in the post-merger executive team over the total number of executives in the new firm. In other words, this variable captures the extent to which the post-merger executive team comprise of pre-merger target executives. In this table, we include the target's anti-takeover G-Index from Gompers et al. (2003) as well as the distance between the acquirer and target as defined in Uysal et al. (2008). Due to G-Index data availability, the analysis in this table includes the years 1993-2006 only. Columns (1) to (3) show the results without breaking PMA by party. Columns (4) and (5) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party				
	(1)	(2)	(3)	(4)	(5)
PMA	0.0233** (2.01)	0.0279** (2.41)	0.0280** (2.46)		
Republican PMA				0.0202* (1.88)	0.0245** (2.28)
Democrat PMA				0.0443 (1.35)	0.0511 (1.61)
Local Deal	0.0324*** (2.73)	0.0312** (2.57)	0.0329*** (2.82)	0.0321*** (2.68)	0.0325*** (2.73)
Target's G-Index	-0.0042*** (-3.34)	-0.0045*** (-3.63)	-0.0052*** (-3.53)	-0.0042*** (-3.56)	-0.0051*** (-3.71)
Ln(Target Assets)	0.0212*** (5.74)	0.0227*** (6.56)	0.0288*** (6.53)	0.0209*** (5.61)	0.0284*** (6.69)
Target Q	0.0044 (1.02)	0.0054 (1.37)	0.0032 (0.66)	0.0044 (1.02)	0.0032 (0.65)
Target Debt to Assets	-0.0343 (-1.25)	-0.0306 (-1.02)	-0.0609* (-1.68)	-0.0334 (-1.19)	-0.0610* (-1.68)
Target CF to Assets	0.0020 (0.05)	0.0056 (0.14)	-0.0355 (-0.85)	0.0044 (0.12)	-0.0332 (-0.80)
Target BH [-20,-219] Return	0.0030 (0.28)	0.0116 (0.83)	0.0095 (0.63)	0.0037 (0.34)	0.0104 (0.69)
Small Deal Flag	-0.0290*** (-3.56)	-0.0266*** (-3.13)	-0.0208*** (-3.34)	-0.0291*** (-3.37)	-0.0211*** (-3.26)
% Cash	-0.0005*** (-3.42)	-0.0004*** (-2.93)	-0.0005*** (-3.69)	-0.0005*** (-3.42)	-0.0005*** (-3.68)
Related Deal	0.0223* (1.80)	0.0247** (1.99)	0.0294** (2.15)	0.0233* (1.85)	0.0309** (2.18)
Tender Offer	0.0084 (0.70)	0.0136 (1.55)	0.0094 (0.90)	0.0085 (0.71)	0.0097 (0.92)
Obs.	437	437	437	437	437
R-Sq	0.189	0.213	0.234	0.190	0.236
Year FE		X	X		X
Acq. Industry FE			X		X

Table A7: Top Management Team Bonus After Merger

This table shows the results for post-merger executive bonus awards. The dependent variable in these tobit regressions is a continuous variable $Log(TMTBonus)$, which is a ratio constructed by aggregating the executive team bonuses awarded to the top 5 executives in the year of merger completion. This variable captures the extent to which the executive team is awarded for a successful merger (Grinstein and Hribar, 2004; Harford and Li, 2007). In this table, we include the target's anti-takeover G-Index from Gompers et al. (2003) as well as the distance between the acquirer and target as defined in Uysal et al. (2008). Due to G-Index data availability, the analysis in this table includes the years 1993-2006 only. Columns (1) to (2) show the results without breaking PMA by party. Columns (3) and (4) show the results by splitting PMAs by party. Our key variable of interest is PMA which is equal to 1 if mergers share the same political identity, and 0 otherwise. All covariates are as defined in previous tables. T-stats are reported in parentheses. Standard errors are robust and clustered at the year level. * denotes $p < 0.1$, ** denotes $p < 0.05$, and *** denotes $p < 0.01$.

	By Party			
	(1)	(2)	(3)	(4)
PMA	-0.2048*** (-13.01)	-0.2142*** (-5.42)		
Republican PMA			-0.3636*** (-28.18)	-0.3203*** (-7.46)
Democrat PMA			0.7824*** (36.51)	0.3702*** (5.68)
PMA × Acquirer CAR[-3,+3]		2.5243*** (4.91)		
Republican PMA × Acquirer CAR[-3,+3]				2.5155*** (4.76)
Democrat PMA × Acquirer CAR[-3,+3]				-0.6075 (-0.48)
Acquirer [-3, +3]		1.0412*** (3.22)		1.0023*** (3.11)
Local Deal	0.1352*** (6.09)	0.0630*** (3.21)	0.1234*** (5.56)	0.0630*** (3.24)
Target's G-Index	0.0482*** (43.66)	0.0249*** (22.97)	0.0521*** (46.94)	0.0276*** (25.71)
Ln(Assets)	0.5810*** (454.73)	0.6000*** (492.86)	0.5683*** (442.46)	0.5897*** (472.36)
Q	0.1144*** (18.96)	0.1124*** (19.87)	0.1120*** (18.47)	0.1100*** (19.52)
Debt to Assets	0.4848*** (16.97)	0.7083*** (27.98)	0.5511*** (18.78)	0.7309*** (28.80)
CF to Assets	4.0018*** (33.48)	3.2496*** (27.68)	4.0787*** (34.69)	3.3286*** (28.78)
Acquirer BH [-20,-219] Return	-0.1474*** (-6.21)	-0.0912*** (-4.22)	-0.1271*** (-5.21)	-0.0827*** (-3.78)
Small Deal Flag	-0.3491*** (-10.20)	-0.3377*** (-8.72)	-0.3026*** (-8.89)	-0.3064*** (-7.96)
% Cash	0.0035*** (10.82)	0.0030*** (9.16)	0.0031*** (9.44)	0.0027*** (8.10)
Related Deal	-0.4075*** (-27.40)	-0.3187*** (-19.28)	-0.3510*** (-23.03)	-0.2734*** (-16.63)
Tender Offer	0.0033 (0.08)	0.1909*** (4.65)	0.0278 (0.69)	0.2012*** (4.88)
Obs.	441	418	441	418
Pseudo R-Sq	0.125	0.132	0.126	0.133
Year FE	X	X	X	X
Acq. Industry FE	X	X	X	X