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Bringing Connections Onboard: The Value of Political Influence

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DISCUSSION PAPER SERIES

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JUNE 2020

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ABSTRACT

Bringing Connections Onboard: The Value of Political Influence

In 2002, an amendment to UK parliamentary regulations removed restrictions on the participation of members of parliament (MPs) in parliamentary proceedings related to their corporate interests. Using this amendment as a quasi-natural experiment, we demonstrate gains in firm value and profitability for firms with prior connections to MPs. These benefits are higher for firms with family ownership and lower accounting transparency. Both firms and politicians to change their behaviour. Post-amendment, firms are more likely to appoint MPs and also reduce political donations. Politicians with corporate connections were more likely to both become members of, and conditional on this, attend meetings of parliamentary select and joint committee. Our results highlight mechanisms of returns from political influence in well-developed institutional contexts.

JEL Classification: G14, D72, G18, G30

Keywords: political connections, board of directors, firm value

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1. Introduction

The interaction of the corporate sector and political representation is a highly controversial issue. This reflects concerns regarding that these interactions will lead to the 'co-option' of politicians by large firms, whereby the politicians will not be working the interests of their electorate. This has led to a range of restrictions across different countries aimed at reducing potential conflicts of interest. At the same time, there are arguments for allowing politicians to, for instance, hold corporate roles. These relate to attracting, or at least not excluding, highly productive individuals with business and leadership experience from representative politics. Including people with relevant skills in corporate decision-making in the political process may be socially beneficial. These types of connections lower the barrier to corruption and cronyism and have been shown to lead to preferential treatment of firms in a range of ways. These include preferential access to government contracts, lower costs of bank loans, higher bailout probability, and lighter regulatory oversight (Shleifer and Vishny, 1994; Dinç, 2005; Khwaja and Mian, 2005; Faccio, Masulis and McConnell, 2006; Houston et al. 2014; Schoenherr, 2019). It is therefore not surprising that politically connected firms are more prevalent in countries with weaker institutions and industries with higher exposure to both government contracts and regulation (Baltrunaite, 2018; Agrawal and Knoeber, 2001).

This paper returns to this issue and examines the value and effect on both firm and politician's behaviour of corporate-political connections in Britain. Our focus is on politicians who hold corporate directorships or consultancy roles. This setting, as discussed below, allows us to provide a range of evidence missing from the previous literature in this area. In particular, beyond showing a return to political connections, we demonstrate how both firms and politicians change their behaviour when the value of political connections increase. We do this in the context of a developed, low corruption, economy. Although stylised results show that the benefits of political connection are more pronounced in countries with weak legal systems, recent papers show that even in developed economies such as the UK political connections can affect firm outcomes (Acemoglu, Johnson, Kermani, Kwak, and Mitton, 2016; Amore and Bennedsen, 2013; Adelino and Dinc, 2014, Bertrand, et al. 2018). Our focus centres on an amendment to parliamentary regulations in the United Kingdom in 2002 that removed important restrictions on the behaviour of politicians with corporate interests. We use this amendment to demonstrate marked increases in the value and profitability of connected firms and important changes in the behaviour of both connected firms and the politicians to whom they connected.

The UK provides an attractive setting to examine the value of political-corporate connections. On the one hand, it has strong legal protection and low corruption: it was ranked the 10th least corrupt country in the world in 2002, reaching a record low rank of 8th in 2007 on the Corruption Perception Index (Transparency International, 2017). At the same time, within this low corruption setting, 46% of the top 50 public firms have connections with a serving MP, and connected firms form 39% of market capitalisation (Faccio, 2006; Faccio, Masulis, and McConnell, 2006). In comparison, the figures for the US are 6% and 4%, respectively. Globally, only Russia and Thailand have a higher fraction of market capitalisation of connected firms.

In the UK, active members of both houses of parliament have historically been legally entitled to hold outside jobs concurrently with their political positions. For example, Braggion and Moore (2013) report that in the late Victorian period, up to half of the Members of Parliament (MPs) served as directors of, mostly, larger and older firms.¹ Now, British companies are still directed and advised by politicians, albeit to a lesser extent. A significant proportion of MPs have corporate affiliations in the form of paid directorships or as an advisor or as a consultant.² There has been a range of specific restrictions related to the parliamentary activities passed in the House of Commons that limit the activities of all parliamentarians who held directorships on corporate boards. Notably, under a Resolution of the House on November 6th 1995, MPs may not themselves, or urge other members to, advocate or initiate any matter on behalf of an outside body or individual with whom the MP has a financial relationship. This regulation did not prevent MPs from being appointed as a director on corporate boards or from taking up consultancy roles, but it prohibited paid advocacy. Amongst other things, this *de-facto* restricted MPs who were on corporate boards from initiating parliamentary debates and being included in the parliamentary select and joint committees that were concerned with areas of public policy that could reasonably be related to the activities of the corporation in which they have business interests. On 14th May 2002, the Resolution of 1995 was amended (HC 841(2001-02)) and this restriction was withdrawn. We use this amendment to examine the returns to corporate political connections.³

¹ Our main results focus on the sitting members of both houses of the British Parliament as both were affected by the amendment we examine. In common UK terminology only those who sit in the House of Commons are commonly referred to as MPs. For brevity and simplicity we use MPs to denote all sitting members of the British Parliament unless otherwise indicated. In later estimates we examine effect differences across MPs in the Commons and the Lords.

² Outside interest of British MPs are reported publicly in the Register of Members' Outside Interests and vary widely in terms of remuneration, contractual agreements, and the frequency of interaction with the outside party.

³ The motivation for the amendment was that the rule led to members with better knowledge from the industry being excluded from contributing to parliamentary debates. For instance, one member of the Opposition argued that since he is a farmer himself and represents a rural constituency with farming interests, he should be allowed to initiate proceedings related to agriculture, notwithstanding his affiliation with an agricultural corporation. The Committee on Standards in Public Life shared this view that the 1995 Resolution was "operating unnecessarily harshly" (Committee of Standards in Public Life Eighth Report, 2002).

We argue that this change presents a setting akin to a natural experiment. With effect from the 14th of May 2002, MPs with outside business interests were able to initiate parliamentary proceedings on issues that are related to their registered outside interests.⁴ This left MPs with corporate affiliations in a better position to, for instance, influence regulations related to the interests of the connected firms. In this sense, the amendment can be viewed as changing the strength (in terms of ability to influence the political process) of existing connections. If the market values this, then the subset of firms with MP-directors should experience positive abnormal returns around the announcement of this amendment while the subset of firms with no MP-directors shall see no such change. The difference (abnormal returns) in difference (between the firms with MP-directors, and those without) around the announcement date provides an estimate of the effect of political connections on firm value. Since the human capital and expertise of MPs is unlikely to be influenced by the regulation, this empirical strategy should solely capture the returns to the change in political access of firms.

We are not the first paper to examine the corporate financial effects of political connections. Notably, Fisman (2001) finds that Indonesian firms connected to the Suharto family decreased in firm value following bad news about the health of President Suharto. Similarly, Faccio and Parsley (2009) demonstrate how unexpected deaths of politicians lead to a fall in value for firms headquartered in a given politician's hometown in the US. These papers, and others that rely on similar shocks, provide convincing evidence of the value to firms of political connections. However, particularly in those papers using the death of politicians for identification, there is likely to be a simultaneous loss of both expertise and the political network. One advantage of our setting is that we provide the effect of changes in the strength of the political connection while the expertise of the connected politician is left unchanged.

We demonstrate that firms with MPs on the board experienced economically meaningful increases in financial returns following the amendment. We demonstrate this using two alternative identification approaches, a financial event study approach of abnormal returns for connected firms in narrow windows around the change in parliamentary legislation⁵ and a conventional difference in difference estimates of the effect of the amendment on the value and profitability of connected firms. The magnitude of these effects is substantial. We demonstrate that connected firms experienced a value increase of

⁴ Initiating parliamentary proceedings include presenting a bill, presenting a petition, tabling and asking parliamentary questions, seeking to initiate an adjournment (or other) debates, tabling or moving any motion and amendment to a bill, proposing a draft report, or moving an amendment to a draft report, in a select committee, etc.

⁵ It can be argued that such regulations are not entirely exogenous and there are some expectations leading to the day of the event. If that is the case, then the regulation change will be priced in the securities of the affected firms and will lead to a conservative bias in our estimates. In the empirical analysis we examine the robustness of our results to announcement and anticipation effects.

approximately 9% compared to unconnected firms around the announcement of the change in legislation, and a 4-5% increased shareholder value in the following three years. It is difficult to benchmark these magnitudes against previous results. Our amendment of interest changes the strength of existing connections. Existing evidence typically estimates the value of new individual political appointments. For example, Goldman et al. (2009) estimate that the abnormal stock return following the announcement of the appointment of a politically connected director is approximately 1.2%. In comparison, Cooper et al. (2010) estimate 2.6% higher abnormal returns for US firms from political donations to candidates who eventually win elections. The magnitude of our estimates fit with several reports of conflicts of interest that have emerged since the change in parliamentary regulations where MPs with outside business interests have increasingly taken part in parliamentary committees contributed to debates or raised questions in the parliament that are closely related to their personal financial interests (Newman, 2011).⁶

Critically, this gain in value for politically connected firms after the change in regulation should be net of existing returns to channels related to information or expertise. These should already be priced into financial returns of connected firms, and already influence the value and profitability of these firms. Along these lines, we demonstrate that the amendment did not affect firms connected to politicians that were not under the purview of the amendment (including ex-MPs, Members of the European Parliament (MEPs), and other non-MP politicians). Hence increased returns to politically connected firms resulting from the amendment are unlikely to reflect general changes in the value of political expertise over time. Together, this suggests that a substantial part of firm benefits from political connections comes through the ability to influence political decisions. This has implications for whether we view these connections as socially desirable

This dramatic increase in the value of political connections clearly will influence a range of incentives. We are able to go beyond firm value and profitability effects and explore how firms and politicians react to changes in the strength of connection in a way that is mostly missing from the current literature. First, how did firms respond to the amendment? The increase in the value of political connections following the amendment should cause firms to try to obtain such influence. Indeed, we demonstrate that MPs were more likely, compared to other unaffected politicians, to be appointed to corporate boards or consultancy roles after the amendment. The increased value of these political connections

⁶ The concerns about MPs' conflict of interest since the 2002 regulation was reflected in the Ninth Report of the Standards and Privileges Committee in 2010, whereby they recommended that the rules be revisited in light of the evidence of conflict of interest regarding the corporate affiliation of MPs. For example, the Chairman of the Climate Change Select Committee of the Parliament as of 2011 was also concurrently a director of three renewable energy companies.

is also reflected in substantially larger post-amendment stock market valuation responses for MP appointments when compared to non-MP politicians and other non-executive directors. Firms face other means of gaining political influence beyond the direct appointment of politician directors. How firms combine different channels of political influence is an essential question for regulators concerned with, for instance, revolving door arrangements.⁷ Focusing on one observable substitute activity, registered political donations, we find that politically connected firms decrease political donations in the post-2002 period with respect to unconnected firms. These results indicate that the more direct access to political influence through the MPs may have crowded out corporate political donations from politically connected firms.

Further, we provide evidence on the characteristics of firms that benefited from the change in regulation. This follows from the observation that certain firms are more likely to seek and benefit from political influence disproportionately. Political connections are known to benefit family firms more than non-family firms (Faccio, 2006; Amore and Bennedsen, 2013), and benefits firms with a higher probability of engaging in unethical practices (Borisov, Goldman, and Gupta, 2015). We find that the higher returns generated by the 2002 amendment are concentrated among politically connected firms with family control, with lower accounting transparency and lower social performance. These results are consistent with the view that the returns to higher access to political capital are more significant for firms characterised by lower transparency. We argue this makes it less likely that the increase in direct access of firms to political decision-making was in the interests of social welfare.

Turning to examine the mechanisms, we examine how connected politicians change their behaviour after the amendment to parliamentary regulations? We examine two types of behaviour for which our data and setting is advantageous. First, we analyse *ex-post* appointments to examine the effect of the change of regulation at the extensive margin. If access to membership of parliamentary select and joint committees provides a valuable channel for lobbying, comparing the relative likelihood of members of the parliamentary committees gaining a first-time corporate affiliation after the amendment of 2002 provides indirect evidence on the mechanisms through which MPs can affect firm outcomes.⁸ We aggregate information on historical parliamentary select and joint committee compositions from the

⁷ Recent papers show how financing political campaigns through debt can create vote-for-money arrangements (Ovtchinnikov and Valta, 2018). Corporate philanthropy has also been shown to be used as a tool for political influence (Bertrand, Bombardini, Fisman and Trebbi, 2018).

⁸ Some anecdotal finds evidence that MPs with prior experience of being members of Parliamentary select committees were in high demand in the market for corporate directors after the amendment. For example, Quentin Davies, who was in the Treasury Committee from 1995-1998, was appointed by Lloyds Bank in 2004. MPs with corporate affiliations were also appointed to parliamentary select and joint committees: Kenneth Clarke who held directorships in Alliance UniChem (now Alliance Healthcare) and British American Tobacco in May 2002 was appointed to the joint committee on Tax Law Rewrite in December 2002.

publication archives of the UK parliament and match them with the board composition data to examine this more formally. After the 2002 amendment, MPs with corporate affiliations are more likely to get appointed to parliamentary select and joint committees. Second, at the intensive margin, we examine the behaviour of MPs with corporate affiliations in parliamentary committee meetings. We employ data-mining algorithms to gather data on the attendance in parliamentary committee meetings from the public records of UK parliamentary committees. This type of approach is similar to, for instance, that used by Snyder (1992 a, 1992 b) who investigates 'roll-call' votes to examine the effect of campaign contributions on the parliamentary activities of the politicians. Relative to MPs with no corporate connections, connected MPs are likely to sit on select and joint committees after the amendment. Connected MPs are also more likely to attend the associated meetings. Together this suggests significant behavioural responses of both firms and connected politicians to the opportunity to influence legislation and policy.

2. Institutional Details and Backgrounds

Background on Legislation on Political Connections in the United Kingdom

Politically connected firms in the United Kingdom have been standard for a long time (Braggion and Moore, 2013), while a committee on Standards in Public Life has been a feature of the British parliamentary democracy since 1995.⁹ The role of this committee is to review and recommend changes to the code of conduct for the members of parliament, including arrangements relating to extra-parliamentary commercial and financial activities of individual members.¹⁰ In December 2001, the committee announced a new review of the code of conduct for the members of the House of Commons. On 22nd February 2002, the committee published a consultation paper setting out the areas of focus. The paper was circulated widely between both houses of the parliament, the members of the Scottish Parliament, Members of the Northern Irish Assembly and the National Assembly of Wales. The consultation paper was published on the committee's website, advertised in selected local and national publications, circulated among several academics, political commentators, and interested members of the

⁹ The term public life includes ministers, civil servants and advisers; Members of Parliament and UK members of the European Parliament, and various public bodies like the NHS.

¹⁰ Naturally, it would be interesting to understand the effect of the original publication of the 1995 report on firm outcomes and behaviour. Unfortunately, data on board composition for UK firms prior to 1999 is both incomplete and not digitised.

public. In May 2002, eight full days of public hearings on the report were organised in London and Edinburgh.

Insert Figure I

The committee recommended that the arrangements put in place in 1995 relating to the initiation of the parliamentary proceedings were unduly harsh.¹¹ The committee noted that disallowing members of parliament with outside interests from initiating parliamentary proceedings resulted in their experience and expertise not being effectively used in making policy decisions. Given these recommendations, the amendment of 14 May 2002 removed the prohibition on MPs with outside business interests from initiating and participating in parliamentary affairs that are directly related to their business interests. This amendment applied to members of both houses of the parliament. Under the new regulations, advocacy by MPs with outside commercial interests is prohibited which seeks to confer benefit exclusively upon a body (or individual) outside parliament, with which the member has a commercial connection. Otherwise, a Member can speak freely on matters that relate to the affairs and interests of a body (or individual) from which he or she receives a financial benefit, provided the benefit is appropriately registered and declared. See figure I for a timeline of the key events related to this legislation.

This change in the code of conduct enhanced the influence of MPs with corporate affiliations on parliamentary affairs. Even though paid advocacy was still banned, the MPs could now represent the issues of the firms they were connected to in parliamentary debates more effectively after the change in regulations. This represents an exogenous shock to the value of the political connection to firms. It did not, however, affect the expertise of the politicians in corporate affairs.

The Value of Political Connections

The theoretical underpinning of the relationship between political connection and firm value is that firms benefit from reducing the uncertainty in their information and operating environment, of which the government is a significant source. One way for a firm to reduce this uncertainty is to appoint a

¹¹ Please see the detailed report here: https://publicofficialsfinancialdisclosure.worldbank.org/sites/fdl/files/assets/library-files/United%20Kingdom_Guide%20to%20Rules%20relating%20to%20MPs%20conduct_2009%20amended%202010_en.pdf

politician on the board of directors. If, for instance, the board of directors act as a conduit of information and linkage to the firm's external environment, political appointments on corporate boards are likely to mitigate uncertainties. These benefits can stem from the advice and counsel of the politicians on regulations and compliance, or influence and preferential treatment for the connected firms.

The political connections of firms may take several forms, ranging from passive connections such as those based on the voting districts of politicians to more active connections from campaign donations, lobbying, and appointment of politicians on corporate boards or as advisers to firms. Firms may benefit from such connections in a variety of ways. Benefits could take the form of preferential access to credit Khwaja and Mian (2005), increased likelihood of receiving government contracts and lower probability of being detected for fraud (Goldman, Rocholl and So, 2009; Yu and Yu, 2011; Duchin, and Sosyura, 2012; Baltrunaite, 2018), and better access to government bailouts (Faccio, Masulis and McConnell, 2006).

These studies focus on two forms of political connections: political donations by firms, and explicit connection of firms to a politician (Goldman, Rocholl and So, 2010; Di Giuli and Kostovetsky, 2014). Roberts (1990) find a decline in the value of firms following the death of Senator Henry Jackson that contributed to his presidential campaigns. Similar positive (negative) value effects are reported for firms connected to Democratic (Republican) candidates following Senator James Jeffords' decision to leave the Republican party Jayachandran (2006). A Republican win in the US presidential elections of 2000 led to an increase in the value of firms connected to the Republican party through political donations Goldman, Rocholl, and So (2009). The value of political donations was particularly strong for firms based in the same state of the serving politicians (Cooper, Gulen and Ovtchinnikov, 2010).

Direct connections to politicians are arguably more durable than one-off contributions to political campaigns (Faccio, 2006). For a cross-section of firms drawn from 47 countries, Faccio (2006) shows that direct political connections through corporate directors or large shareholders are valuable, particularly in institutional settings with inadequate legal protection and high corruption. Using the sudden death of legislators as an exogenous shock to political connections, Faccio and Parsley (2009) show a decline in the value of the politically connected firms following the unexpected deaths. Using historical board composition data and election results from the late Victorian period in Britain, Braggion and Moore (2013) show that new technology firms who had limited access to formal channels of credit, gained in firm value from political connections. In contrast, the effect of political connection on the share price of old-technology firms was negligible. New technology firms of that period could raise external capital more efficiently if they were politically connected.

Estimating the social welfare effects of politically connected firms is empirically challenging. First, outside financial interests of MPs reduce the available time and energy of MPs to devote to parliamentary activities (Becker et al. 2009). Eggers and Hainmueller (2009a, 2009b) find that outside employment of British MPs in the post-war period of 1950 – 1970 had a statistically significant negative effect on parliamentary attendance rate. MPs facing a lower degree of electoral competition are more likely to trade off parliamentary activities for outside interests (Norris, 1996; Becker et al. 2009).¹² Attendance in parliament is an imperfect proxy for how well the politicians serve the interests of electorate-principals. With the increased availability of more detailed data on participation in select and joint committees, estimating the trade-off between parliamentary and extra-parliamentary activities of MPs can be more precise.

Second, welfare implications depend on the channel through which firms benefit from the political connection. From a public choice perspective, politically connected firms are also more likely to be in industries where the gains to such connections are significant (Agarwal and Knoeber, 2001). A concern is unethical arrangements between firms and politicians that are at odds with the interests of the wider society. Unethical arrangements, if any, are particularly difficult to observe from secondary data. Proxies for unethical behaviour or opacity of financial accounting is often used to examine the value political connections bring to firms. For example, Borisov et al. (2015) examine whether the value of lobbying is more significant for firms with poor social performance and a lower degree of accounting transparency.

3. Data

The primary sample used for this study is the set of firms featured in the FTSE 350 listings as of 2002, and in the primary analysis, we focus on the period 1999-2005. Reliable data on the composition of boards for UK firms is not available before the year 1999. Our sample period ends in 2005 as it is possible that representative election outcomes are affected by the change in regulation, and UK general elections occurred in 2005. Contamination is also possible if politicians prioritise electoral interests leading up to the elections, and the corporate affiliation of MPs might not be orthogonal to election outcomes (Franzese, 2002).¹³

¹² Galasso and Nanicini (2011) show the role of selection in these results. Political parties may field candidates with fewer outside interests in closely contested constituencies.

¹³ The elections were held in May 2005, after the financial year ended in March 2005.

We collect information from *BoardEx* on board composition, experience and backgrounds of individual directors, and director pay which are updated annually. We follow the set of FTSE 350 firms as of the event year before and after 2002. We exclude firms that do not feature in the FTSE 350 for at least two years after our event of interest or do not have the full set of board characteristics and financial data available. This constraint restricts our sample to 338 firms. We collect stock price information and firm-level covariates from Datastream. The firm-level controls include firm size as measured by the natural log of sales, MTBV measured as the market value of equity over book value of total assets, variance in the daily stock returns as a proxy for information and operational risks, and debt-to-equity ratio. Data on the ownership structure is obtained from Thomson Eikon and Datastream. We also collect information on GHG emissions and CSR expenses from Datastream. GHG emissions are normalised based on the methodology used in Homroy and Slechten (2017).

Our measure of political connection is constructed using information from two sources. We begin with information on board composition obtained from BoardEx. Directors with political backgrounds are likely to be non-executives. We undertake a series of matching exercises to identify a politician on the board of FTSE 350 firms. BoardEx reports the main occupation for every non-executive director in the form of information on current and historic non-board roles. We adopt a text mining approach to identify non-executives whose non-board employment is coded as "Government", "UK Ministry of...", "UK Home Office", etc. We also search for titles of non-executive directors. We include members of both the first chamber (House of Commons) and the second chamber (House of Lords). The politically related titles for members of the lower house are 'Right Honourable', which identifies a member of the cabinet and 'Honourable', which identifies a non-cabinet member of the House of Commons. The political titles for the second chamber are 'Lord' and 'Baroness'.¹⁴

This information is then matched to the list of MPs published on the UK Parliament website. In 2002, there were a total of 659 members in the House of Commons and 690 members in the House of Lords. For all MPs, we use the listings of outside interests listed in the Register of Members' Financial Interests in the UK parliament's website to obtain information on paid outside positions. In particular, we focus on the MPs with paid director and consultant positions on corporate boards. This information, in conjunction with the BoardEx data on Director Employment, helps us locate the firms that were connected

¹⁴ Lord titles are awarded for achievement in the political sphere but can sometimes be inherited. Only two hereditary peers had a corporate directorships and/or consulting role in 2002. We exclude them from our sample.

to at least one MP in the year 2002. In the final sample, we have 203 MPs with paid positions as directors or consultants, which is approximately 15% of all MPs.

We also identify 187 other non-MP politicians connected to our sample firms: 73 are MEPs, 66 are ex-MPs, and 48 are members of the Scottish Parliament and the Welsh Assembly.¹⁵ 53% of our sample firms have at least one politician on the board, MPs or otherwise, with the mean firm having 0.6 MPs on the board in a given year.¹⁶ Politicians from the Conservative Party were more likely to have an outside business interest: 209 when compared to 113 from the Labour party. This is consistent with the evidence of partisan effects in outside interests of politicians (Geys and Mause 2011).

We gather information on the composition of parliamentary select, and joint committees focused on specific areas. There are separate select committees for both the houses. The Commons Select Committees are responsible for shadowing every government departments, whereas the Lords Select Committees are focused on specific issues like European Union Affairs, Consitution Affairs, Economic Affairs, etc. These committees are cross-party groups of MPs focused on gathering broad-based evidence on specific issues and are relevant channels of influence on public policy. The reports published by these committees gain substantial media attention, and the government is often forced to reply to and debate on these reports in parliament. Therefore, membership of such committees can potentially aid an MP with a corporate affiliation to influence policy. However, not all MPs can be members of these select committees, even though the eligibility criteria are not very well defined.¹⁷ MPs holding cabinet portfolios and whips, the frontbench, and whips of the Opposition are not allowed to be members of these select committees.

In our sample, 66% of eligible MPs are members of at least one select committee. The median number of committee memberships for eligible MPs is 2.20. There are over 100 such committees, and new committees are formed to deal with specific socio-political requirements.¹⁸ In particular, we focus on the select committees through which firms are more likely to benefit specifically committees that are directly related to government contracts and regulatory affairs. These are the Backbench Business Committee, Business Innovation and Skills Committee, Energy and Climate Change Committee, Health

¹⁵ The appointment of politicians on board are sometimes referred to as Advisors or Consultants. These roles, like that of the directors, are reappointed annually. In our analysis, we do not distinguish between these two types of appointments. We discuss the robustness of our results to this classification in later sections.

¹⁶ A significant majority of the sample of firms had a maximum of 1 MP on the board at any given year. There are only 6 firm-year observations with more than one MP-director, pertaining to two firms.

¹⁷ The flexibility in eligibility criteria is often exercised in special circumstances for MPs from special interest groups and smaller parties.

¹⁸ For example, the Exiting the European Union Select Committee was instituted in 2017 to deal with issues related to UK's withdrawal from the EU.

Committee, Regulatory Reform Committee, Defense Committee, the Economic Affairs Committee, the Environmental Audit Committee, International Trade Committee, and Science and Technology Committees.¹⁹ Examples of committees that we do not include are the Constitution Committee, Ecclesiastical Committee, Foreign Affairs Committee, Members Expenses Committee, Refreshment Committee, Scottish and Welsh Affairs Committees.

Data-mining techniques are used to extract historical committee compositions and the minutes of the meetings from the archives of publications of the UK parliament for the period 2001 to 2005.²⁰ The number of meetings per year varies quite widely across the committees. For example, the Committee for Environment and Climate Change had 45 meetings in the year 2012-13, whereas the Regulatory Reform Committee had 13 meetings in the 2007-08 session. We extract information on minutes of the meetings of all committees year on year. The contents of the minutes are heterogeneous across committees. Typically, the minutes note the date of the meeting, list the members who attended the meeting, and the topics that were discussed. The meetings also contain a declaration of interests by the members of the committee, which allows corroboration of our classification of MPs outside interests. However, the minutes do not systematically identify the individuals who initiate and participate in discussions by their name. For example, a standard entry into the minutes is noted as "A Member raised the question...". Therefore, it is not possible to conclusively assign the topics of discussion to the members of the committee. In our algorithm, we, therefore, aggregate the attendance of each member of the committees for every year as a proxy for the likelihood of politically connected firms to benefit from the MPs select committee membership.

Information on MPs backgrounds is also collected from BoardEx, the UK Parliament's website, and publicly available sources. Age, gender, and education are used as demographic variables. On average, MPs with outside affiliations are approximately 60 years old, are almost exclusively male, and with at least a post-graduate qualification. Using data on electoral outcomes for every constituency from archival reports (Morgan, 2001), we control for the electoral majority of MPs. The electoral majority is defined as the margin of win for the MPs (in terms of % of votes) in the 2001 UK general elections. The electoral majority is calculated for only members of the House of Commons.

¹⁹ We also check the robustness of the results, discussed later, using information on all parliamentary committees where at least one MP had an outside corporate affiliation.

²⁰ A schema of the data extraction process is provided in Appendix A5. The codes will be made available through public repositories. The meetings and minutes prior to 2001 are not digitally archived.

Finally, we collect information on political donations to the major political parties from the Electoral Commission database that records donations made to political parties by individuals, trade unions, firms and other donors. This data is only available from 2001 onwards. Within the sample period (2001-2005), we have approximately 14,300 donations made totalling to £96 million²¹ We only consider donations that are reported to be made by "Companies", "Trusts" and "Building Societies".²²

Table A1 provides descriptive statistics on firms with and without political connections, where. Political connections are defined based on having MPs as corporate directors and/or consultants as of the year 2001. Politically connected firms are on average, larger, more profitable, have higher leverage, and higher CSR performance. Also, firms with a politically connected director or a consultant have higher GHG emissions, more family ownership, marginally lower accounting transparency, and make less political donations. There seems to be no statistically significant difference in the fraction of independent directors, the fraction of intangible assets, or auditor choice.

4. Methodology

Our starting point is to estimate the value-effect of corporate political connections by making use of the regulatory change. We estimate an event study around the announcement of the change. At the time of the announcement, a subset of our sample firms had an MP on the board of directors. If the value of the political connection is through the expertise of the MP-directors, it will be priced in, and there will be no effect on the cumulative abnormal return (CAR). However, if influence drives the value of political connection, the news of the change in parliamentary regulation should be associated with a positive CAR. The abnormal returns are calculated based on a market model using the equal-weighted market portfolio. We use daily data from days -250 to -7 days before the event to estimate the parameters of the market model. We calculate the returns in 3-day and 7-day windows and for the event day of 14th of May 2002:

$$R_{i,t} = E[R_{i,t}|X_t] + \xi_{i,t} \quad (1)$$

²¹ The year 2001 was the year of a general election in the UK, which may lead to bunching of political donations before the election. In our sample we include both pre-poll and post-poll donations for the year 2001. Donations data for pre-2001 period is not readily available.

²² It is possible that corporate political donations do not adequately capture the monetary transfers between firms and the parties. Disclosure of corporate loans and the terms of these loans to political parties has been widely debated in the UK in the lead up to the 2006 General Election. Unfortunately the disclosure requirements of political loans were not well formed during our sample period.

where we decompose stock-returns $\mathbf{R}_{i,t}$ around the announcement of the regulatory change allowing MPs with board memberships to participate in parliamentary discussions around issues closely aligned to their corporate interests. \mathbf{X}_t is the conditioning vector of firm characteristics at time t and $\xi_{i,t}$ is the abnormal returns within the event windows. In that sense, this represents a quasi-natural experiment where we compare the effect of an exogenous change in regulation on stock returns of affected firms to other unaffected firms. In additional estimates, we examine CARs where we control for, amongst other things, the industry that the firm operates in based on the Fama-French 49 industry classification. Since the event affects all treated firms at the same time, in our univariate results, we control for the event-induced volatility and the cross-sectional correlations by calculating the standard errors using the Kolari and Pynnönen (2010) approach.²³

As an alternative identification strategy, we estimate the difference in difference models of the form:

$$Y_{jt} = \alpha Connected_j + \gamma Connected_j \cdot Post2002_t + X_{jt}\theta + \delta_t + \varepsilon_{jt} \quad (2)$$

Where Y provides measures of the financial performance of firm j for year t . *MP Political Connection* is a dummy variable indicating the firm is politically connected before the amendment, *Post2002* takes a value of one for years 2002 onwards and δ_t is set of year fixed effects such that γ provides the difference in difference estimate of the effect of the 2002 amendment for connected firms. X_{jt} are firm-level controls. We explore the robustness of our results to alternative specifications, including treatment specific time trends.

The construction of the control group is not straightforward as political connectedness can change over time, particularly after the amendment. In the baseline models, the treatment group is comprised of firms that had an MP political connection for at least 12 months before the amendment in 2002 and continue to have such connection in the subsequent years. No treatment firms in our sample cease to have a political connection in our observation period. The control group is comprised of firms who did not have an MP-director or MP-consultant for at least 12 months preceding the amendment. These firms continue to be in the control group, even if they subsequently appoint an MP as a director or a consultant (in the post-2002 period 45 firms or 28% of the control group firms appoint an MP Director or a consultant). This design ensures that the difference-in-difference estimates of the gains from political access from our models are a lower bound of the real effect. However, we also report estimates

²³ Alternative specifications using the Sefcik and Thompson (1986) method of correcting standard errors yield similar results.

where we exclude from our sample control group firms from the year they appoint an MP as a director or a consultant.

In addition estimates of (1) and (2) are provided for firms with directors on their board with other forms of political connections (ex-MPs, members of the European Parliament, members of the Scottish Parliament and the Welsh Assembly, etc.). The amendment of 2002 should not affect the influence-value of these politicians. Therefore, if the value of the political connection is driven by an influence motive, we should not see any statistically significant effect on either CAR or profitability.

There is a range of potential issues that may threaten our ability to interpret the critical estimates from (1) and (2) as unbiased and causal. A standard concern with CAR estimates of the form of (1) is timing effects. Estimates may be biased towards zero if actors within the financial markets anticipated the announcement of the amendment or that events related to specific industries around the date can lead to spurious results. While anticipation would, in our case, lead to conservative estimates, we explore issues of timing and related placebo tests. Additionally, the standard errors in the cross-section regressions may be biased because we use a single event day, which affects the returns of all firms simultaneously. To address the possibility of contemporaneous correlation in the returns, we use the standard errors from portfolio-time series regressions (Kolari and Pynnönen, 2016).

In a similar vein, a concern with (2) is that firms who anticipate the policy may act and appoint MPs earlier. The nomination of directors is a forward-looking process, and the elections happen at the Annual General Meetings of companies that are held in spring (typically in March-May), which coincides with the change in regulation. As discussed later, there is no significant increase in the number of politically connected firms from 2001-2002, which partially mitigates the concern of anticipation effects in director recruitment. Nevertheless, we investigate issues of timing and more general sensitivity of our results to how we classify our treatment group. Specifically, we exclude all directors appointed between the publication of the white-paper and the final legislative change (6 in number) and examine the effect of MPs with different forms of corporate affiliations (directors vs advisers). An additional issue is that our event occurs in May 2002, which is during the calendar year. Therefore, there is no straightforward choice of whether to characterise the year 2002 as either a treatment or a control year. In the UK, the corporate tax cycle the UK runs from April 1st to March 31st, which is also the most common accounting cycle. As a result, May 22nd is close to the beginning of the accounting year, and we choose to use the financial year 2002-2003 as a treatment year.

5. Results

The effect of the changes in the value of political connections on firm value

Table I presents initial estimates of the value of political connections based on abnormal returns around the announcement of the change in parliamentary regulation on the 14th of May 2002 using the market model.²⁴ We present both results with equally weighted cumulative abnormal returns (CAR), and where the CARs are weighted by the value of the companies. In panel A, we report estimates of the difference in CARs between politically connected firms and firms with no political connections. The difference in CAR is positive and significant in all the event windows and for all specifications, in both the equally weighted and value-weighted CARs. Figure II provides a corresponding graphical depiction of the returns (in percentages) for politically connected firms around the event date, with respect to the control group. There is a spike in returns for politically connected firms around the event date while the returns for unconnected firms do not show significant deviation from the pre-trend. The magnitude of the effect for our event is comparable to, for instance, the announcement effect of appointing politically connected directors in US firms (Goldman et al. 2009). Distributional effects of the amendment on CARs for firms with and without connections are further explored in Figure III, which provides kernel density estimates of the value effect of the amendment for connected and not connected firms. While this shows a right-hand side tail of connected firms who had sharp increases in value around the amendment, this paints a picture of generalised increases in value for these firms. Later, we explore in more detail which types of firms particularly benefited from the amendment.

Insert Table I

Panel B of Table I (with the corresponding graphical depiction in figure II) reports estimates of the difference in CARs for firms with connections to non-MP politicians. As the change in regulation only affects the political value of MPs at Westminster, the value of other politicians such as Members of the European Parliament (MEPs), ex-MPs and members of the Scottish Parliament and Welsh Assemblies should be unaffected.²⁵ These estimates demonstrate no statistically significant price reaction for firms connected to non-MP politicians in our event windows.

²⁴ Our results are robust to alternative approaches, for instance the Fama and French (1993) model.

²⁵ Even though the recommendations of the Standards in Public Life broadly applies to the MEPs, members of Scottish Parliament, Welsh and Northern Irish Assemblies, the change in regulation on participation of Members in parliamentary procedures only applies to politicians in Westminster. Other politicians are bound by the regulations of the Houses and Assemblies they attend.

Insert Figure II and Figure III

These price reactions are then examined, controlling for firm characteristics. In multivariate tests with value-weighted CAR for (-3, +3) days as the dependent variable (expressed as a percentage), we control for several firm characteristics (included in table II notes) and industry dummies. The results are presented in table II, where column 1 presents the baseline specification for the firm value effect of political connection. While MPs can be appointed as a Director or as a Consultant to the Board, the former dominates numerically. In column 2, we re-estimate omitting all firms with MP-Consultants. This eliminates 76 politicians who were only employed as consultants, and the fraction of connected firms drop from 53% to 44%. In practice, excluding consultants does not affect the estimate of interest. The estimates from columns 1 and 2 suggest that politically connected firms experienced a 9% increase in value as a result of the amendment. In column 3, we estimate an analogous model for firms with non-MP political connections. Here, the control group are firms with no political connections, and we exclude the firms with connections to MPs. As before, these results show that companies with connections to non-MPs experienced no rise in abnormal returns following the amendment to parliamentary regulations.

Insert Table II

We next employ a difference-in-difference set up as an alternative approach to estimating the impact of the amendment on firm value. Figure IV plots MTBV by connected and non-connected firms for 1999-2005 and provides illustrative evidence that is suggestive of parallel trends before the amendment.²⁶ The corresponding difference in difference estimates is reported in table III. We report two sets of main estimates, the first includes all FTSE 350 firms (subject to earlier sample restrictions), while the second set drops firms who after the amendment hired an MP director and became politically connected. In practice, our results do not hinge upon this. Likewise, they are unaffected by alternative treatments of the time dimension, including linear trends, year fixed effects (both reported) and alternatives such as year fixed effects with a yearly trend interacted with treatment status. These results suggest returns in the value of connected firms of around 4-5% following the amendment.

Insert Figure IV and Table III

²⁶ We find similar results for Total Shareholder Returns.

As before, a concern is that our results reflect some general increasing return to political expertise over the period or that the amendment somehow increased the overall value of political expertise. In appendix table A2, we re-estimate the models in Table III where again we use firms who are politically connected but where the politician is not an MP and exclude MP connected firms from our sample. Again, there is no effect of the amendment on the value of these firms with, non-MP, political connections. Together these results suggest that the amendment led to sharp increases in the value and profitability of firms connected specifically to MPs, but the amendment that did not represent broader increases in the value of general political expertise.

How Did Firms' Change Their Behaviour After the Amendment

If the amendment of the parliamentary regulation on members outside interests increased the political value of the MP-directors, the demand for MP-directors is likely to increase in the post-event period. To this end, we examine if firms appoint more MPs as directors or consultants in the post-event period. Table A3 provides preliminary information on the characteristics of MP-directors before and after the amendment, we additionally report limited demographic characteristics for all non-executive directors for comparison.

Descriptive statistics on the characteristics of politician directors before and after the amendment are reported in appendix table A3 show that the proportion of non-executive directors who were MPs increased markedly from 8% to 14% after the amendment. This rate of increase is consistent with the findings of Geys and Mause (2013) that approximately 27% of British MPs had directorships by 2010, whereas in our sample 15% of all MPs in 2002 had corporate affiliations. There is no increase in the proportion of other politicians (MEPs, ex-MPs, etc.) in the post-amendment period. There is some evidence that these MP-directors became on average older, and were (in the case of those in the House of Commons), in more marginal seats.

Insert Table IV

More formally, we estimate difference-in-difference models of the probability of being on a corporate board or holding a consulting position with an FTSE350 firm. The treated group is comprised of all MPs of the UK Parliament, and the control group is composed of MEPs and ex-MPs. Hence, our parameter of interest provides the change in the probability of holding such a position for MPs relative to non-MP politicians as a result of the amendment. These results are reported in Table IV; details of controls

are provided as notes to the table. The main finding is that the likelihood of an MP being appointed to a board after the amendment increases markedly in the post-2002 period, in the order of 8 percentage points. This effect is subsequently (column 2) split by whether the MP had a corporate affiliation as of 2001. There is some indication that the amendment had a slightly higher effect on previously unattached MPs joining a corporate board. Therefore, the amendment of the parliamentary regulation increased the demand for MPs relative to other politicians, indicating the desire of firms for enhanced political access through these MPs.

Insert Table V

A stylised result from the finance literature is that there are stock price reactions to the appointment of non-executive directors on corporate boards (Defond et al., 2005; Fich and Shivdasani, 2006; Dass et al., 2014). Again, if political connections have higher value after the amendment, these stock price reactions should reflect this. We examine the announcement effects for MPs and other non-executive directors (including other politicians like MEPs and ex-MPs) in the 2000-2001 and 2003-2005 periods.²⁷ We have 114 announcements of MPs' appointment on corporate boards in the 2000-2001 period and 135 announcements of MPs' appointments to corporate boards in the 2003-2005 period.²⁸ The control group is a random selection of 100 other non-executive appointments in the same periods.²⁹ The results are presented in table V. While the stock price reaction to the appointment of other non-executive directors is similar in 2001 and 2003; the announcement returns are substantially higher for MPs in 2003 compared to 2001. The increase in the announcement returns to MPs on boards (post-2002 – pre-2002) is 0.03, and the difference of similar estimate for other non-executive director appointments between the same periods is statistically significant.

In practice, there are several, non-mutually exclusive, channels through which firms can seek to establish a political connection. This paper focuses on one channel. Donations to political parties represent another potential channel. There is a literature on the political donations of firms and their executives (Goldman, Rocholl, and So, 2009; Cooper, Gulen and Ovtchinnikov, 2010), and the benefits that accrue to firms that make such donations. An open question in this literature is the relative importance of the two channels of investing in political capital, and how firms optimise over this choice set.

²⁷ Data on board appointments prior to 2001 is not complete, and the exact dates are not systematically recorded.

²⁸ MPs appointed in the year 2002 are omitted from the baseline estimates. We examine our results by including these events in the pre-amendment period. The results are qualitatively similar.

²⁹ We exclude all announcements of multiple director appointments, or appointments surrounding a major event for the firm.

Insert Figure IV

We estimate analogous models to (2) where instead the dependent variable is the natural log of political donations by firms. As an initial step, in figure V we present the time-series variation in political donations made by firms connected to an MP and firms not-connected to an MP. Political donations are cyclical and increase leading up to the general elections. Firms connected to an MP have a lower level of political donations from 2001 to 2010 compared to firms without such connections. There is some evidence that the gap in political donations between connected and unconnected firms widens after the 2002 change in parliamentary regulation. Table VI provides a difference in difference estimates based on this data. The results in column (1) show that firms with MP-Political Connection lower their political donations in comparison to firms with no political connections and non-MP political connections after the amendment.

Insert Table VI

Moreover, these effects are substantial, in the order of a 20% reduction in political donations. The average firm in our sample spends around GBP 25,000 on political donation annually; hence this is a reduction of approximately 5,000 pounds a year in donations, this compares, for instance, to the median non-executive directors' annual pay in 2002 of 30,000 pounds. The implications of this result are two-fold. First, our evidence is suggestive of the fact that the two channels of political connections are substitutes. The increase in the value of political connection through politician directors leads to a drop in political donations. Second, this result has implications for public policies that attempt to limit the involvement of elected politicians in corporate affairs. These policies are often focused on constraining the direct involvement of politicians on corporate boards. Our results imply that such policies need to be balanced by regulations for a transparent declaration of corporate political donations and other potential channels of influence.

Mechanisms and Heterogeneous Treatment Effects

Any discussion of the social desirability of politically connected firms is predicated on the mechanisms through which the benefits of political connections accrue. Our first approach to examining the mechanisms is to examine the differences in returns to connection for firms most likely to benefit from more significant political influence. The rationale is that if the benefits of enhanced political access accrue to firms with questionable business practices, then the increased influence of MPs with commercial interests in lawmaking may not be in the interests of social welfare.

First, we examine whether firms characterised by family control, poorer social and environmental performance and lower accounting transparency benefitted more from the parliamentary regulation change. We estimate variants of (2) where treatment effect is allowed to vary according to whether the firm is characterised by family ownership (greater than 5% ownership of a family), low expenditure on corporate and social responsibility measures (CSR expenses lower than the industry median), and high GHG emissions (GHG Emission greater than the industry median). Additionally, we examine two measures of accounting transparency: Intangible Assets (ratio of intangible assets to total assets) and Earnings Accruals (defined as the difference between annual earnings and cash flow from operating activities (Sloan, 1996)). We use a triple difference estimator of MP-Political Connection, Post- 2002 and the indicators for Family Ownership, Low CSR, High GHG, Intangible Assets and Earnings Accrual. These specifications include the double-difference estimator as well as the indicators for MP-Political Connections and Post-2002, for the sake of brevity, we only report the triple difference interactions. The results are reported in table VII.³⁰

Insert Table VII

Family firms with connections to MPs had a higher value gain in the post-2002 period compared to non-family firms. From columns 2 and 3, firms with High GHG emissions and MP Political Connections gain in the post-2002 period, whereas there is no significant value gain for politically connected firms with low CSR spending. In terms of accounting transparency, firms connected with MPs with lower accounting transparency gained in value after the parliamentary amendment. In gist, table VII suggests that firms characterised by family control, lower environmental performance, and lower accounting transparency gained in value from increased access of the connected MPs to parliamentary decision making.

How Did Politicians Change Their Behaviour After the Amendment?

A second and more challenging approach is to examine how MPs actions in the parliament align with the interests of their corporate affiliations. Such an exercise is complicated by the lack of consistent and detailed data. For example, it is hard to observe the time commitment required of a Select Committee member in the parliament. Trying to infer behaviour from observational data is likely to be

³⁰ In unreported estimates we also estimate difference in difference models and these reveal similar patterns.

imprecise, and at best provide a lower-bound estimate of the real effect. Our approach is to use data sourced from the records of parliamentary select and joint committee meetings and examine the composition and the attendance of the MPs with corporate interests in these meetings.

First, we examine if MPs with corporate affiliations before the amendment (pre-2002) are more likely to be members of parliamentary joint and select committees, compared to all other MPs, after the amendment was passed. The initial round of appointments to select committees happen in the first few weeks of a new parliament. In principle, select committee members can remain till the end of the parliamentary cycle, but in practice, the membership of committees frequently change (MPs Guide to Procedure, UK Parliament, 2019). The dependent variable in column 1 is an indicator for membership of any of the committees listed in appendix A4. Estimates are reported in column 1 of table VIII. MPs with pre-2002 corporate affiliations were 23 percentage points more likely to be appointed to select committees after the amendment when compared with MPs without prior corporate affiliations.

Insert Table VIII

Models are then estimated of the fraction of select committees attended for all MPs who were members of a committee in the period 2003-2005. Our main point of interest is whether MPs with a corporate affiliation, who were members of a committee, attended more frequently than other, not-connected, committee members. The relevant estimates are in column 2 of Table. There is some indication that MPs with a corporate affiliation attended a substantially higher share of meetings than MPs without an affiliation, although the size of this effect is just under a 1 percentage increase in the share of meetings attended. When taken together the estimates in Table VIII provide evidence that connected MPs acted at both the extensive margin (joining committees) and the intensive margin (attending meetings) to be more involved in the vital political decisions that they were prohibited from before the amendment.

As a final step, we examine the returns to the MPs in the form of income from their corporate affiliations. Increased influence on the political process can lead to an increase in the market value of MPs in the labour market for corporate directors. Information on directors' pay for FTSE 350 companies for the years 1999 – 2005 is used to estimate a difference-in-difference model where non-MP non-executive directors form the control group³¹ and MP Directors form the treated group. While there is some

³¹ We include MEPs and ex-MPs who are non-executive directors in the control group.

indication of an increase in MP-directors' pay post amendment relative to other non-executive directors, these are not statistically significant. One reason a wage effect may not be apparent is that the discretionary component in non-executive directors' pay is low. Within a given firm's board, non-executive pay varies primarily with the roles of individual directors, i.e. chairs of the board, the chairs of audit, nomination, and remuneration committees are paid more than the other non-executives. MPs are unlikely to take on any of these roles that require a higher time commitment. In fact, in our sample, there are no MPs in these roles within the boards. It should be noted that returns to individual MPs may take the form of higher post-political career pay in the corporate world that we are unable to detect (Eggers and Hainmueller, 2009)

Insert Table IX

6. Further Robustness and Placebo Tests

Finally, a range of checks is conducted aimed at examining the potential for our results to reflect other idiosyncratic trends and related confounding factors. First, we check for the number of appointments of politician directors in the six months before the amendment. By doing this, we seek to examine if firms start to appoint more MPs in anticipation of this amendment between December 2001 when the review was first announced, and the recommendations were finally adopted. In that period, nine firms announce the appointment of directors, all of which are reappointments. Of the 28 reappointments in this period, only four are politicians, none of whom were MPs. Therefore, it seems unlikely there were substantial political appointments in anticipation of the amendment.

Next, we check the robustness of our results to anticipation and other timing effects. First, we examine the change in the value of connected firms around the publication of the Consulting paper (22nd May 2002) and the public consultations in London and Edinburgh. The consultations happened from 01st May 2002-10th May 2002, and we estimated the effects in a $[-1,+1]$ window around 2nd May 2002 and 8th May 2002.³² The results are presented in table X. There was no price reaction around the initial announcement of the review of MPs Code of Conduct and the public hearings, but there is a positive price reaction around the date of the publication of the Consulting paper. The price reaction is in the order of 0.5% for the connected firms. This provides some indication that investors may have had some prior knowledge of the recommendations of the committee and acted accordingly. Notwithstanding this, there were positive value effects for connected firms when the proposals were adopted. Tables

³² Within the eight-day period of public hearings in London and Edinburgh, we choose two randomly selected days as the event dates. Our results are robust the choice of event days within the eight-day period.

I and II may likely provide conservative estimates of the real effect size of the policy change on firm value.

Insert Table X

In results reported in the internet appendix, we conducted a battery of further robustness tests for reliability of the classification and the price effects. First, to ensure that we are not capturing idiosyncratic trends in stock prices, we simulate the policy experiment for the 'treated' and the 'control' group for 100 randomly defined dates in the 24-months before the event and calculate the CAR for 3-day event windows. We find no statistically significant value-effects in any of these time windows for the politically connected firms. The average and standard deviations of the CAR and the t-statistics are shown. We also examine the robustness of our baseline results using CARs adjusted by the Fama-French thirty-industry returns. Our results remain substantially unchanged.

In our baseline estimates, we have focused on all members of the UK parliament, both in the House of Commons and House of Lords, and both are guided by the same Standards of Conduct in Public Life, there may be differences in how both groups, and the firms connected to them, are affected by the reform. To explore this, we examine the difference in price reaction for firms connected to Commons MPs concerning those connected to Lords MPs. Firms connected to MPs in Commons gained in value more than those connected to MPs in Lords. This may be driven by the access of members of the lower house to the Commons Select Committees that shadow every government departments, and therefore can potentially influence policies more directly.

Furthermore, we examined the difference in CARs between firms connected to MPs from the Conservative Party and firms connected to MPs from other parties (Labour, Liberal-Democrats and Green Party). We find weak evidence that firms connected to Conservative Party MPs experience a higher price reaction in the event windows compared to firms connected to MPs from other parties. The marginally higher price reaction for Conservative MPs could be driven by low power on the test for Labour MPs due to smaller sample size. We do not offer any causal interpretation of this result.

7. Conclusion

The degree of connection between the political sphere and the corporate world is a matter of ongoing public debate. On the one hand, politicians as directors can add valuable expertise to the firm and

bridge the information gap between firm management and regulatory authorities. At the same time, firms can benefit from political connections through a range of activities that are unlikely to be in the broader social interest, including insulation from regulatory prosecution, lobbying for government contracts, and support in weaker economic conditions, etc. In practice, it is difficult to disentangle these channels of effect due to factors such as endogenous selection in corporate board formation. Additionally, the paucity of consistent data on the actions of politicians in the shaping regulations remains a significant impediment to these lines of enquiry.

This paper uses an amendment to the UK parliamentary regulations as a source of exogenous variation in the value of direct representation of politicians on corporate boards to contribute to the literature on politically connected firms. A vital component of this legislative change was to remove the prohibition of MP Directors from involvement in parliamentary committees that may relate to the business of the firm. We demonstrate that firms with existing connections to MPs experienced positive abnormal returns around the date the amendment was passed in the parliament and increases in firm value. These effects were absent for firms connected to other, non-MP, politicians. This is, in itself, suggestive of increasing returns to political influence, rather than, for instance, expertise-based returns to political connections.

Furthermore, these returns were more significant for firms where influence may be more important, for instance, those with concentrated (family) ownership, low attention to corporate and social responsibility, poorer environmental performance, and less transparent accounting practices. Also, political donations of firms connected to MPs decreased. This suggests substitution between different means for corporate bodies to be politically connected is relevant for policymakers.

We subsequently provide evidence on changes in firm and politicians behaviour resulting from the amendment. After the amendment, UK MPs were increasingly likely to have a corporate affiliation compared to other politicians, and markets reacted more positively to these new MP-director appointments. Moreover, connected MPs became, relative other MPs, more likely to sit on key committees and had higher attendance at committee meetings. Together this suggests that the amendment reduced the distance between corporate concerns and political decision making in a manner that both generated returns to private firms and led to MPs with corporate connections exercising more involvement in important political decision making. The role of corporate leaders in influencing democratic processes is increasingly coming under scrutiny. Our results have implications for the design of policy aimed at regulating and/or restricting these political and corporate interactions, particularly in light of the substitution between the different forms of corporate political connections.

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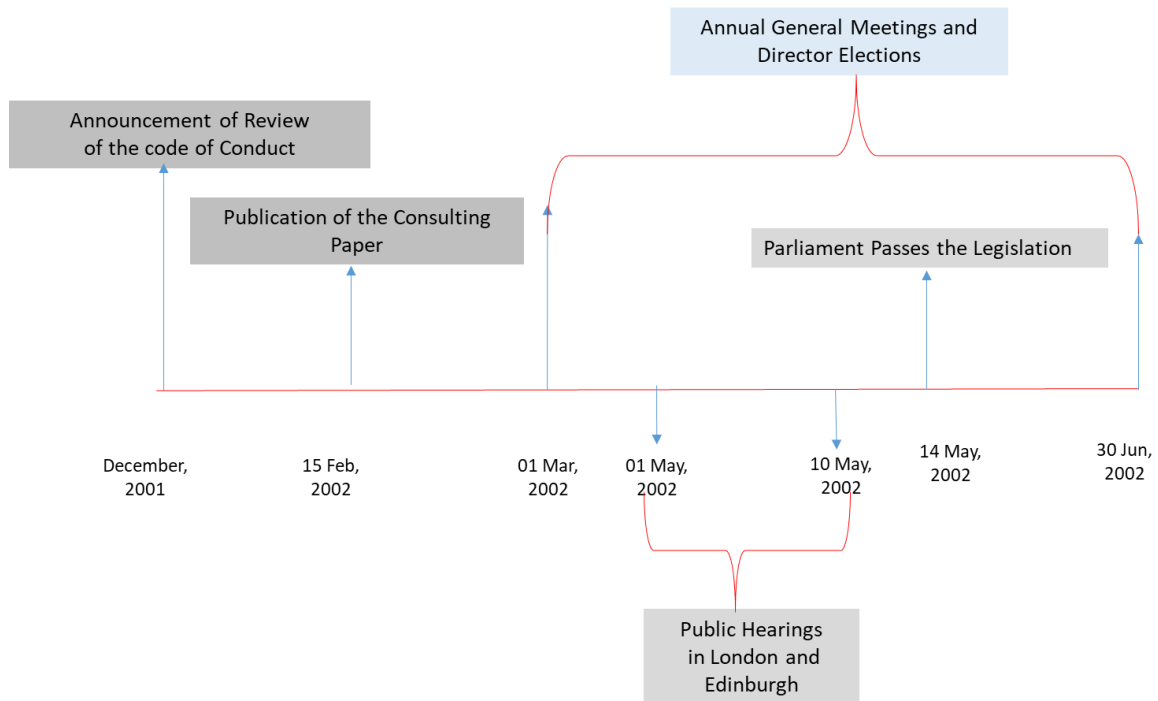
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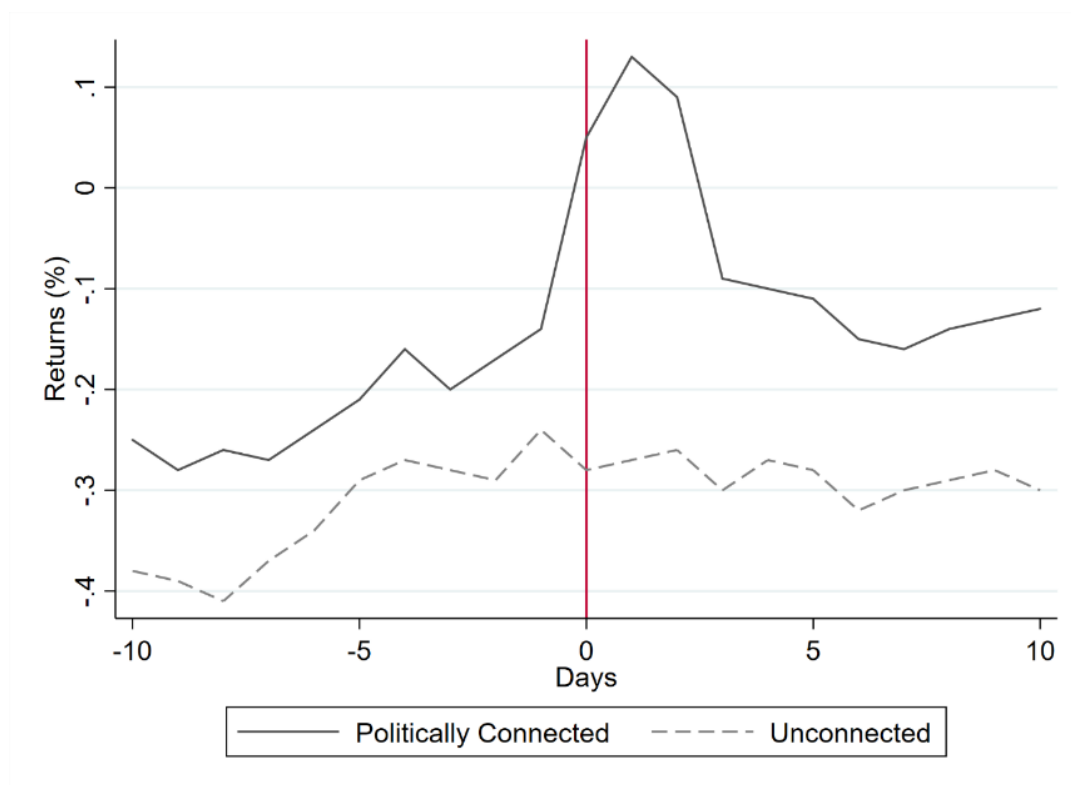
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FIGURE I: Timeline of Events, Amendment to the Parliamentary regulation on the Outside Interests of the Members, 2002.



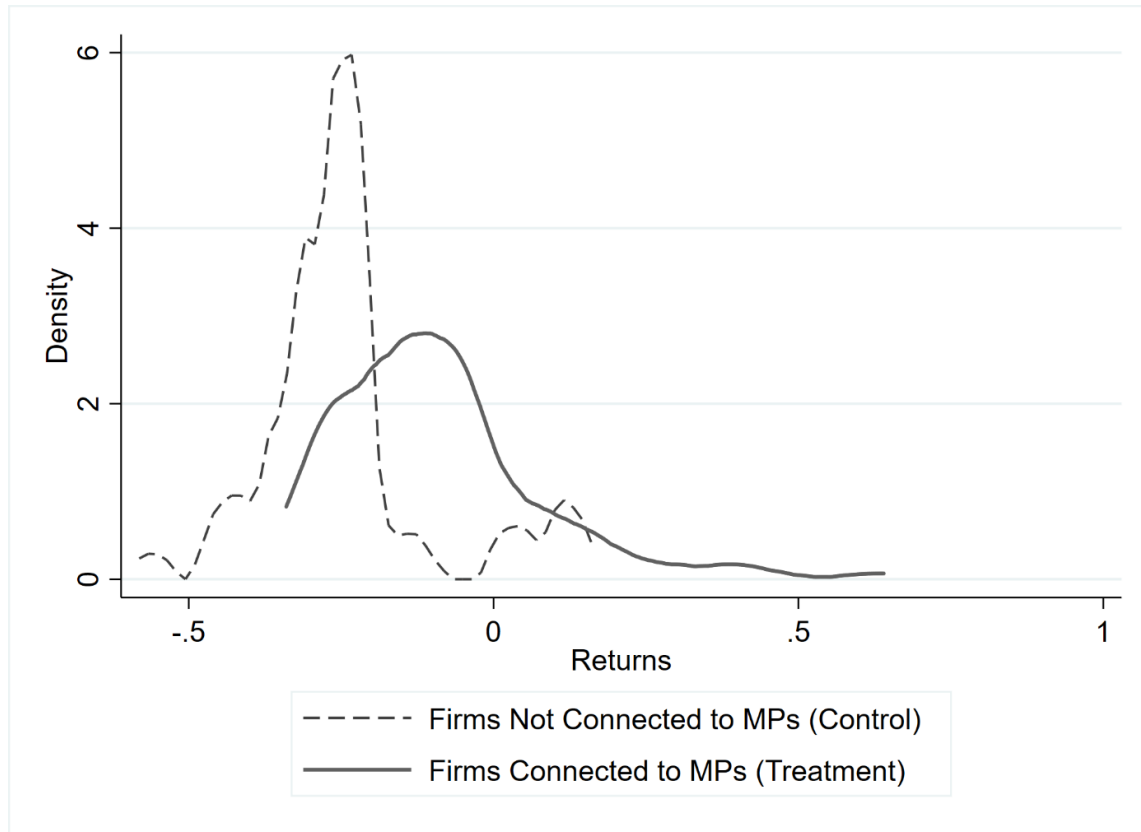
In this figure, we present the timeline of events related to the amendment of the UK parliament's regulation on the participation of MPs with corporate interests in parliamentary affairs. The event date is 14th of May, 2002, and other important milestones in the legislative process are shown here.

FIGURE II: CAR by Political Connection around the amendment of 14th May 2002 to MP's Outside Interests.



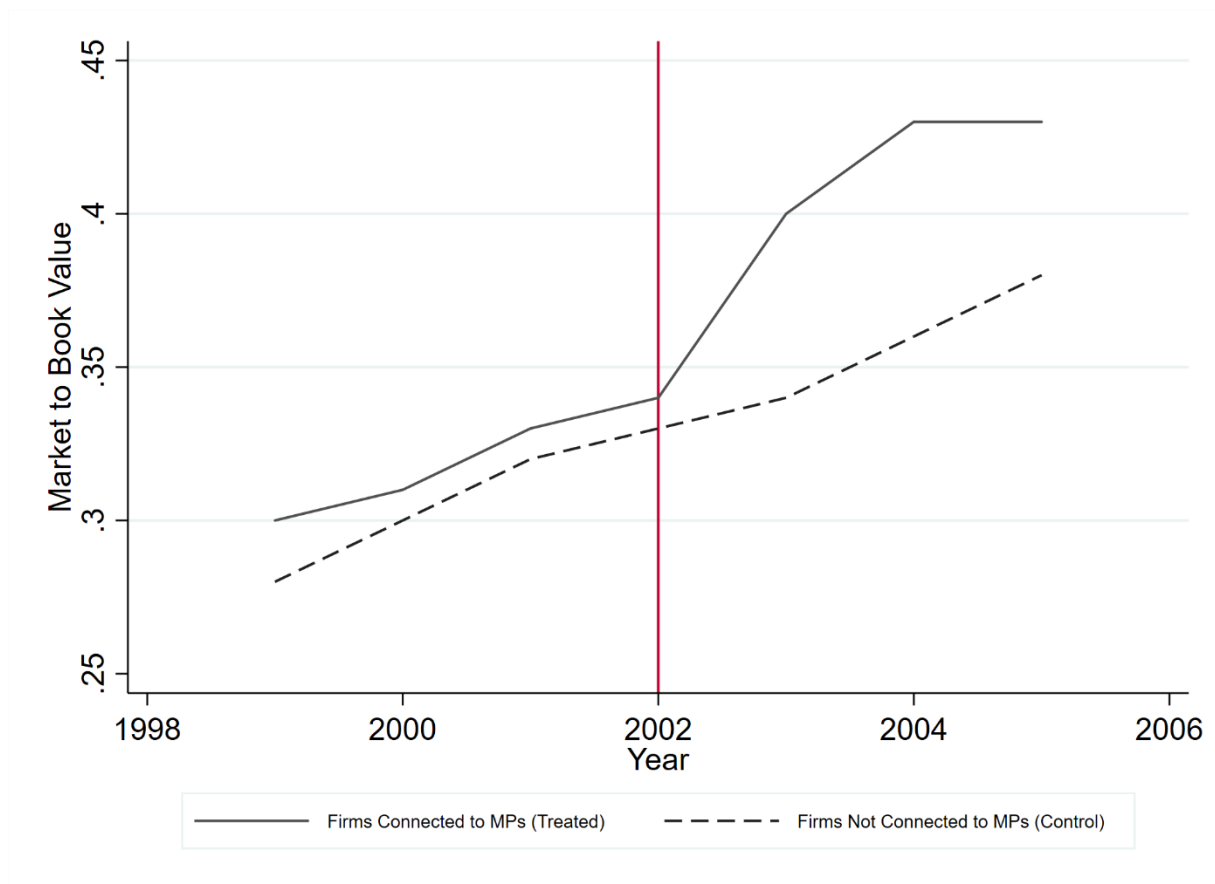
This figure shows the returns for the politically connected and unconnected firms during a 10-day event window centred on the amendment to Parliamentary regulation on 14th of May 2002. 180 firms had an MP-director on the event date and 158 firms did not.

Figure III: Kernel Density Plot of the Distribution of Cumulative Abnormal Returns



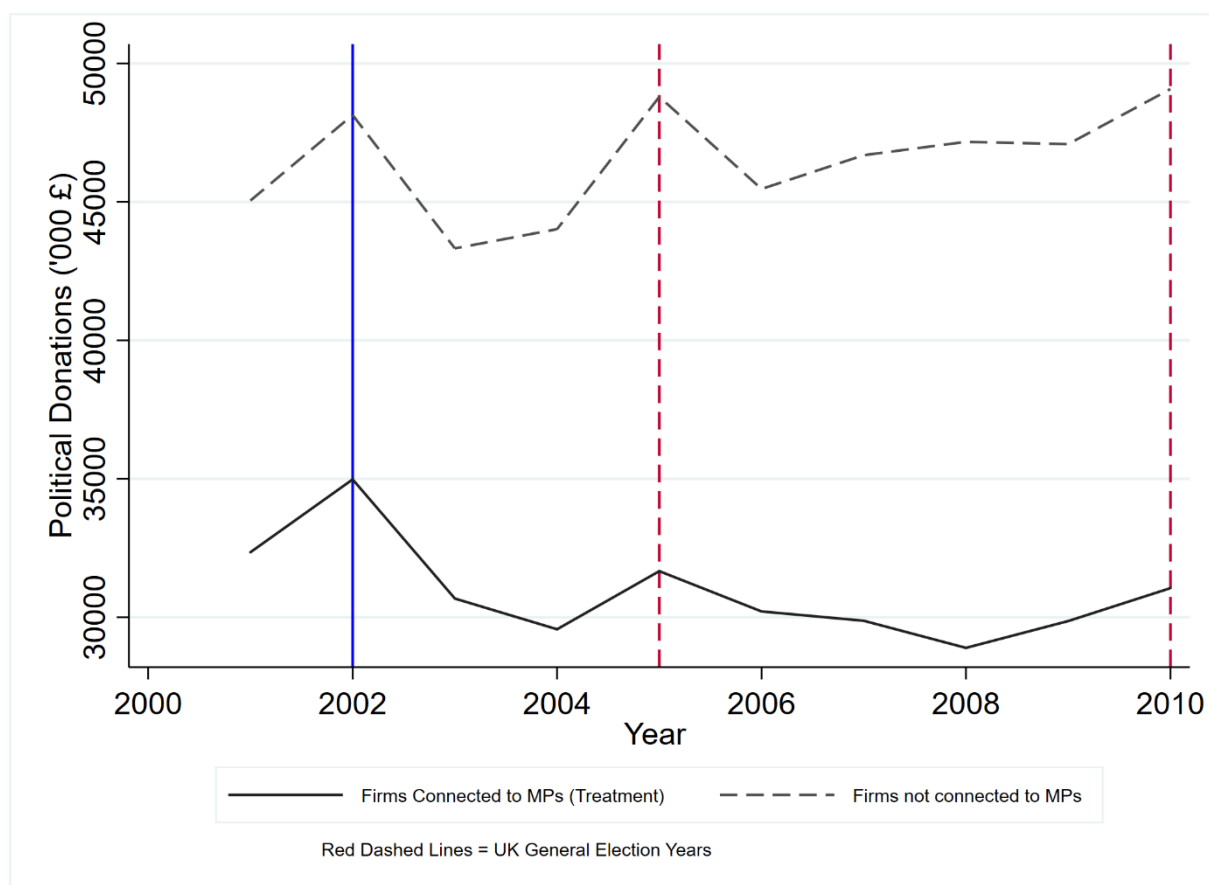
This figure shows the kernel density plot of abnormal returns (Equally Weighted) in the 7 day event window [+3,-3] for firms connected to MPs compared to firms not connected to an MP.

Figure IV: Firm Value (MTBV) Connected versus Not-Connected Firms 1999-2005.



In this figure, we present the change in the average MTBV (market value of equity over book value of total assets) of British firms that employed an MP at the time of the amendment compared to firms that never had any connection to an MP in the period 1998 – 2005.

FIGURE V: Political Donations around the Change in Parliamentary Regulations (2001-2010)



This figure shows the time-series of mean political donations made by FTSE 350 firms in the period 2001-2010. The blue vertical line represents the year of the change of parliamentary amendment, and the red dashed lines denote the years of UK general elections.

TABLE I: The Effect of Political Connections on Firm Value: Event Study Estimates

Panel A	Equally weighted CARs		Value Weighted CARs	
	(+3,-3)	(+1,-1)	(+3,-3)	(+1,-1)
MP Political Connections	0.134 (0.057)	0.090 (0.028)	0.151 (0.058)	0.092 (0.037)
<hr/>				
Panel B	Equally weighted CARs		Value Weighted CARs	
	(+3,-3)	(+1,-1)	(+3,-3)	(+1,-1)
Non-MP Political Connections	0.023 (0.019)	0.018 (0.024)	0.026 (0.023)	0.025 (0.029)

This table presents the results for the market reaction to the change in regulation on Members of Parliaments outside interest. In panel A, we present price reaction for connected to an MP around the event date and in panel B, we present the price reaction for firms connected to non-MP politicians. The estimation period is from day 250 to day 7 before the parliamentary legislation, and the market-model is used. CAR is estimated using the market-model. The standard errors reported in the parentheses account for cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016).

TABLE II: The Effect of Political Connections on Firm Value: Multivariate CAR Estimates

	(1)	(2)	(3)
MP Political Connections	0.088		
	(0.031)		
MP Director Appointments Only		0.092	
		(0.030)	
Non-MP Political Connections			0.011
			(0.008)
Control Variables _{it-1}	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes
Constant-	0.082	0.028	0.118
	(0.031)	(0.015)	(0.073)
N	338	309	229
R^2	0.184	0.134	0.091

The sample comprises of firms in the FTSE 350 as of the year 2002. The dependent variable is CAR in the period (-3, +3) days around the amendment in UK parliamentary regulation on Members of Parliaments outside interests. In column 1 we present the baseline results for the value of political connections, in column 2 we estimate our models for a subsample of MPs connected to the firms not as a director but as a consultant and in column 3 we present results for firms connected to non-MP politicians. All specifications control for one-year lags of firm size, ROA, board size, board independence, leverage, variance and daily stock returns and industry classification. The standard errors account for cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016).

TABLE III: Difference in Difference Estimates of the Effect of the Regulation Change on Firm Value (MBTV), 1999-2005

	All Firms		Excluding Switchers from the Control Group	
	(1)	(2)	(3)	(4)
MP Political Connections	0.042	0.049	0.051	0.057
* Post-2002	(0.013)	(0.015)	(0.023)	(0.020)
MP Political Connections	0.026	0.036	0.030	0.038
	(0.008)	(0.010)	(0.012)	(0.013)
Post-2002		0.011		0.014
		(0.004)		(0.005)
Control Variables _{it-1}	Yes	Yes	Yes	Yes
Linear Time Trend	No	Yes	No	Yes
Year Dummies	Yes	No	Yes	No
N	2,366	2,366	2,105	2,105
R ²	0.44	0.33	0.34	0.28

We present the difference-in-difference in the valuation for firms connected to MPs vs unconnected firms between 1999 and 2005. In columns 1 and 2, we include all previously unconnected firms who appointed an MP in the post-2002 period in the control group and columns 3 and 4; we exclude these firms from the analysis. Post-2002 is a dummy for all years after the parliamentary regulation change. The year 2002 is considered as a treatment year because the regulation happened in May, which is closer to the beginning of the tax year in the UK (April). The control group consists of firms without any political connection throughout the sample period. All specifications control for the one-year lags of firm size, ROA, board size, board independence, leverage, variance and daily stock returns and industry classification. Robust standard errors, clustered at the firm level, are given in the parentheses.

TABLE IV: Difference in Difference Estimates of the Effect of the Amendment of the probability of an MP having a corporate affiliation

Dependent Variable: Appointment on Corporate Boards	
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	(1)	(2)
MP Politicians x Post-2002	0.088 (0.029)	
MP Politicians with Prior Corporate Experience x Post-2002		0.034 (0.015)
MP Politicians without Prior Corporate Experience x Post-2002		0.057 (0.019)
MP Politicians	0.051 (0.013)	
MP Politicians with Prior Corporate Experience		0.068 (0.017)
MP Politicians without Prior Corporate Experience		0.021 (0.013)
Control Variables _{it-1}	Yes	Yes
Year Dummies	Yes	Yes
N	941	941
R ²	0.238	0.294

This table presents the likelihood of MPs holding a corporate affiliation before and after the change in the regulation of 14 May 2002. We estimate the likelihoods of all MPs and MPs with prior corporate affiliations to be appointed in an FTSE350 company. All specifications control for age, gender, party affiliation, electoral majorities of MPs, and year dummies. Robust standard errors are reported in the parentheses.

TABLE V Announcement Effects of MP Directors and Other Non-Executive Directors Before and After the Regulation Change

	Before Regulation Change		After Regulation Change	
	(2000-2001)		(2003-2005)	
	(1)	(2)	(3)	(4)
	CAR	CAR	CAR	CAR
	(-1, +1)	(-1, +1)	(-1, +1)	(-1, +1)
MP Politicians	0.047		0.077	
	(0.023)		(0.025)	
Other NEDs		0.023		0.033
		(0.012)		(0.011)
Control Variables _{it-1}	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes
N	114	100	135	100
R^2	0.16	0.13	0.21	0.23

We present the announcement returns for MP politicians on corporate boards, before and after the parliamentary regulation change. The announcement of director appointments in 2002 is excluded for clean before and after-effects. The dependent variable in all the specifications is CAR estimated using the market-model. In columns 2 and 4, we present the announcement returns for a sample of 100 randomly selected other non-executive director appointments as benchmarks. All specifications control for one-year lags of firm size, ROA, board size, board independence, leverage, variance and daily stock returns and industry classification. The standard errors reported in the parentheses account for cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016).

TABLE VI: The Effect of the 2002 Amendment on Political Donations by Firms: Difference in Difference Estimates 2001-2005

	Dependent Variable: Ln(Political Donations)
MP Political Connections x Post-2002	-0.197 (0.074)
MP Political Connections	-0.341 (0.152)
Control Variables _{it-1}	Yes
Year Dummies	Yes
N	1,621
R^2	0.175

We present the difference-in-difference in political donations of firms connected to MPs vs unconnected firms, before and after the change in parliamentary regulations in the period 2001-2005. The unconnected group are firms with no political connections of any form. In column 3, we present a difference in differences results for firms with other forms of political connections. In all the specifications, we use donations information for the period 2001-2005. All specifications control for one-year lags of firm size, ROA, board size, board independence, leverage, variance and daily stock returns and industry classification. Robust standard errors, clustered at the firm-level, are given in the parentheses.

Table VII: Heterogeneous Effects of the Amendment on Firm Value (MTBV)

	(1)	(2)	(3)	(4)	(5)
	Family Firm	Low CSR	High GHG	Intangible Assets	Earnings Accruals
MP Political Connections x Post- 2002 x ...	0.054 (0.018)	0.019 (0.012)	0.038 (0.014)	0.019 (0.008)	0.013 (0.004)
DID estimates, and MP Political Connections Dummy	Yes	Yes	Yes	Yes	Yes
Other Control Variables _{it-1}	Yes	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes	Yes
N	2,366	2,366	2,366	2,366	2,366
R^2	0.189	0.199	0.173	0.212	0.223

In this table, we present heterogeneous treatment effects of the 2002 amendment of the UK Parliamentary regulations related to members' outside interests. Each column provides the triple interaction of a firm being politically connected to an MP, a post-amendment dummy and firms with more than 5% family ownership (column 1); low CSR expenditure (column 2); high GHG emissions (column 3); the high proportion of intangible assets as a fraction of total assets (column 4); and the difference between annual earnings and cash flow from operating activities (column 5). In all specifications, the sample period is 1999-2005, and we include the double-difference estimators and the full set of firm-level controls, lagged by one year. Robust standard errors are reported in the parentheses.

Table VIII: Participation of MPs with Corporate Affiliations in Parliamentary Activities Post-Amendment

	Indicator of Committee Appointment	The fraction of Select and Joint Committee Meetings Attended
MPs with Pre-2002 Corporate Affiliations	0.233 (0.062)	
MPs with Corporate Affiliations		0.007 (0.003)
Controls	Yes	Yes
N	1,349	964
R^2	0.334	0.252

In this table, we present the results on the actions of MPs in the parliament that can benefit the connected firms. Column 1 presents the probability of MPs with pre-2002 corporate affiliations to be appointed to parliamentary select committees. In column 2, the dependent variable is the fraction of parliamentary select and joint committee meetings attended by MPs in the period 2001-2005. The control group in columns 2 are MPs with no corporate affiliations. All specifications control for individual characteristics like age, gender, party affiliation, electoral majority, and House of Commons members. Robust standard errors are given in the parentheses.

TABLE IX: The Effect of the Parliamentary Amendment on the Pay of MP-Directors compared to other NEDs.

	Dependent Variable: Total Pay from Non-Executive Positions	
	(1)	(2)
MP Politicians x Post-2002	0.080 (0.073)	0.077 (0.065)
MP Politicians	0.033 (0.025)	0.032 (0.022)
Director Level Control Variables	Yes	Yes
Firm-Level Control Variables _{it-1}	Yes	Yes
Year Dummies	Yes	Yes
N	23,250	20,928
R^2	0.345	0.327

In this table, we present the effect of the 2002 amendment to UK parliamentary regulation on the participation of MPs with corporate affiliations in parliamentary proceedings on the pay of MPs from their corporate positions. The dependent variable is the natural log of total pay from non-executive positions. In specification 1, the control group is comprised of all non-executive directors, including MEPs and Ex-MPs, and in specification 2 we remove the non-MP politicians from the control group. All specifications control for individual characteristics like age, gender, party affiliation, and tenure. Firm-level control variables relate to the largest publicly listed firm where the MP has a non-executive position, lagged by one year. Robust standard errors are given in the parentheses.

TABLE X: Anticipation Effects and Alternate Dates, Event Study Estimates

	Panel A: Publication of the Consultation paper	Panel B: Publication of the Consultation paper	Panel C: Public Hearings
	(+1,-1)	(+1,-1)	(+1,-1)
MP Political Connections	0.011 (0.014)	0.048 (0.023)	0.009 (0.018)

In this table, we present the results for the anticipation effects around the initial announcement of the review of code of conduct (panel A), the publication of the consulting paper (panel B) and the public hearings before the regulation change (panel C) for the returns of FTSE 350 firms with connections to an MP. The CARs are estimated using the market-model. The estimation period is from day 250 to day 7 before the events. The standard errors reported in the parentheses take into account cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016).

Appendix A1: Variable Description

Variables	Definition
MP Political Connections	Indicator = 1 if an FTSE 350 firm had employed a concurrent Member of the British Parliament on the corporate board as of January 1, 2002.
Post-2002	Indicator = 1 for all years after 2002.
Non-MP Political Connections	Indicator = 1 if an FTSE 350 firm had employed a politician who is not a concurrent member of the British Parliament on the corporate board as of January 1, 2002.
Political Donations	The monetary value of the annual political contribution made by FTSE 350 firms.
ROA	Return of Assets defined as the ratio of earnings before interest and taxes over total assets
MTBV	Market to Book Value defined as the ratio of the market value of equity over book value of the total asset
Leverage	The ratio of Total Debt over Total Equity
Size	Natural log of Annual Sales Turnover
Board Size	Number of directors on the corporate board
Proportion of Independent Directors	Independent directors on the corporate board as a percentage of board size
Family Ownership	Indicator = 1 if the proportion of equity ownership of members of the same family is greater than 5%
Low CSR	Indicator = 1 if the moving average of three years' CSR expenditure of the firm is below the median for the same FF49 industry group.
High GHG	Indicator = 1 if the moving average of three years' GHG emission of the firm is above the median for the same FF49 industry group.
Intangible Assets	The ratio of Intangible Assets over Total Assets
MP Age	The age of individual members of the British parliament in years
MP Gender	Indicator = 1 if the member of the British parliament is male
MP Tenure	The number of consecutive years an individual is a member of the British parliament

Party Affiliation	Indicator = 1 if the member of the British parliament is from the Conservative Party
Committee Appointments	Indicator =1 if a member of the British parliament is appointed to parliamentary select and joint committees.
The fraction of Select and Joint Committee Meetings Attended	The number of Select and Joint Committee Meetings that a member of the British parliament attends in a year as a ratio of the total number of meetings held
Electoral Majority	The margin of the win (in terms of % of votes) for the member of the British parliament in the 2001 UK general elections.
Total Pay from All Non-Executive Positions	The sum of all payments received by a member of the British parliament from all non-executive positions annually

Appendix A2: Univariate Differences, Connected and Not-Connected Firms, 2002

VARIABLES	MP Political Connections			No MP Connection		
	N	Mean	SD	N	Mean	SD
Political Donations (£'000)	180	30.308	19.247	158	46.713	12.186
Ln Size	180	8.578	2.494	158	7.920	1.926
ROA	180	0.098	0.089	158	0.046	0.122
MTBV	180	0.379	0.673	158	0.333	0.479
Board Size	180	9.882	2.020	158	8.935	2.875
Family Ownership	180	0.073	0.088	180	0.024	0.016
Proportion of Independent Directors	180	0.591	0.290	158	0.540	0.255
Proportion of Female Directors	180	0.158	0.136	158	0.121	0.183
Variance in Daily Stock Returns	180	0.014	0.087	158	0.021	0.083
Leverage	180	0.212	0.150	158	0.178	0.130
Dividend Pay-Out Ratio	180	0.066	0.061	158	0.043	0.047

In this table, we describe the observable characteristics of the group of FTSE 350 firms that were connected to an MP in 2002 and the group of FTSE 350 firms that have no connections to an MP as on 2002.

Appendix A3: Firms with Other Political Connections and Firm Value: Difference in Difference Estimates 1999-2005

Dependent Variables	MTBV	
	(1)	(2)
Post-2002*Non-MP Political Connections	-0.018 (0.017)	-0.020 (0.018)
Non-MP Political Connections	0.007 (0.003)	0.009 (0.004)
Post-2002		0.010 (0.010)
Control Variables	Yes	Yes
Linear Time Trend	No	Yes
Year Dummies	Yes	No
N	1,106	1,106
R^2	0.21	0.24

We present the difference-in-difference in the value for firms connected to non-MP politicians' vs unconnected firms between 1999 and 2005. The control group is comprised of all firms that have no political connection throughout the sample period, i.e. firms with connections to MPs are excluded from this analysis. Post-2002 is a dummy for all years after the parliamentary regulation change. The financial year 2002-2003 is considered as a treatment year because the regulation happened in May, which is closer to the beginning of the tax year in the UK (April). All specifications control for one-year lags of firm size, board size, board independence, leverage, variance and daily stock returns and industry classification. Robust standard errors, clustered at the firm level, are given in the parentheses.

Appendix A4: Characteristics of MP Directors Before and After the Regulation

	All Non-Executive Directors			MP Directors		
	Pre 2002	Post- 2002	Post - Pre (T-stat)	Pre 2002	Post -2002	Post – Pre (T-stat)
Age	57.6	58.2	0.6 (1.64)	58.3	62.4	4.1 (3.37)
Male	0.92	0.88	-0.04 (0.59)	0.99	0.99	0.00 (0.14)
Higher Degree	0.96	0.96	0.00 (0.11)	0.94	0.92	-0.02 (1.79)
% of All Politicians	0.11	0.13	0.02 (1.08)	-	-	-
% of MPs	0.08	0.14	0.06 (1.99)	-	-	-
% Non-MPs	0.04	0.02	0.02 (2.13)	-	-	-
Conservatives	-	-		0.85	0.87	0.02 (1.21)
Electoral Majority	-	-		0.37	0.24	-0.13 (4.68)
No. of Directorships	2.8	3.4	0.6 (2.56)	1.5	2.3	0.8 (3.27)

In this table, we compare the observable characteristics of MPs with a corporate affiliation before (1999-2001) and after the amendment (2003-2005). We compare age, gender, education (Post-Graduate and above), party affiliation, electoral majority, and the number of directorships. The electoral majority is calculated only for MPs in the House of Commons. We benchmark this with the difference in observable characteristics of all non-executive directors appointed in the same periods. T-statistics for the difference in means are given in the parentheses.

Appendix A5: Protocol to Extract Data from Parliament Website

1. Use the A-Z URL on the UK parliament website to get the urls of committee meeting minutes pdfs

Requires R and recent versions of the packages rvest, httr and RCurl.

The script "rvest.r" performs the scraping and creates a file called pdf_urls.csv.

2. Download all of the pdf files containing committee minutes.

Requires a Bash console (such as gitbash for Windows) and wget command.

The script "download-files.sh" uses pdf_urls.csv and gets all of the files listed.

3. Convert each of the pdfs to a text file.

Requires GhostScript and gswin64c command.

The script "get-text.sh" uses each of the pdfs to create a text file.

4. Check which text files actually contain text (some pdfs are actually bitmaps of text and text-

stripping will not work).

Requires grep and globstar.

Outputs "check-text.csv" that contains a row per file, and a flag if it has text.

5. Process each required text file to remove unwanted text and ensure there are spaces in between

strings.

This part was done manually by deleting the body of each committee meeting and keeping the header,

including the list of members' names and the date.

Each text file was copied as a .cpy file

6. Extract information from the processed text files.

The script "xtract-data.sh" operates on each .cpy file to write the strings into two files.

names.csv is the intermediate file and names2.csv is the final one.

7. Tidy data manually.

8. Use pivot table on list of names to calculate counts of appearances.

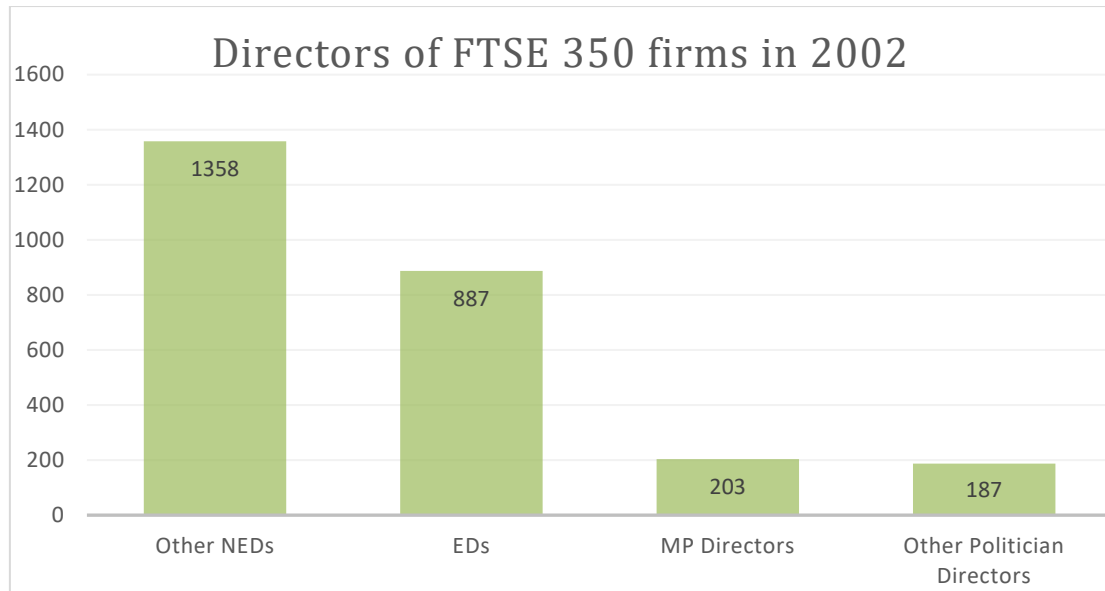
9. Keep information on the following committees:

- a. Backbench Business Committee
- b. Business Innovation and Skills Committee
- c. Defense Committee
- d. Economic Affairs Committee

- e. Energy and Climate Change Committee
- f. Environmental Audit Committee
- g. Health Committee
- h. International Trade Committee
- i. Regulatory Reform Committee
- j. Science and Technology Committee

10. Search for matches to directors' dataset.

Internet Appendix 1: Distribution of Different Categories of Directors in FTSE 350 Firms In 2002



In this figure, we present the count of different types of directors in FTSE 350 firms as of the year 2002.
Notes: NED = Non-Executive Director; ED = Executive Director

Internet Appendix 2: Falsification Event Studies

	Mean	Standard-Deviation
CAR (MP Political Connections)	0.018	0.044
t-stats	0.72	0.64
N	100	

In this table, we present the average of CAR and t-stats from the 100 falsification event studies performed for 100 randomly selected placebo "events" in the 24-months preceding 14th May 2002. The estimation period is from day 250 to day 7 before the events. The standard errors reported in the parentheses take into account cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016).

Internet Appendix 3: Robustness Using Fama French: Event Study Estimates

Panel A	(+3,-3)	(+1,-1)
MP Political Connections	0.136	0.095
	(0.062)	(0.040)
Panel B	(+3,-3)	(+1,-1)
Non-MP Political Connections	0.029	0.021
	(0.022)	(0.026)

In panel A, we present price reaction for connected to an MP around the event date and in panel B, we present the price reaction for firms connected to non-MP politicians. The estimation period is from day 250 to day 7 before the events. The standard errors reported in the parentheses take into account cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016). The Fama-French 3-factor model is used.

Internet Appendix 4: Partisan Effects in the Price Reaction: Event Study Estimates

	Panel A: Equally weighted CARs		Panel B: Value weighted CARs	
	(+3,-3)	(+1,-1)	(+3,-3)	(+1,-1)
Conservative MPs	0.130 (0.050)	0.082 (0.024)	0.144 (0.049)	0.085 (0.028)

In this table, we present the partisan effect on the price reaction around the event date using a market-model. The estimation period is from day 250 to day 7 before the events. The standard errors reported in the parentheses take into account cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016).

Internet Appendix 5: Commons vs Lords: Event Study Estimates

	Panel A: Equally weighted CARs		Panel B: Value weighted CARs	
	(+3,-3)	(+1,-1)	(+3,-3)	(+1,-1)
Commons MPs	0.138 (0.045)	0.096 (0.025)	0.140 (0.050)	0.095 (0.023)

In this table, we present the partisan effect on the price reaction around the event date using a market-model. The estimation period is from day 250 to day 7 before the events. The standard errors reported in the parentheses take into account cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016).