

# Local Political Ideology and Acquirers' Announcement Returns

Dongnyoung Kim<sup>1</sup>

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## Abstract

We investigate the impact of difference in local political ideologies between acquirers and targets on the likelihood of deal completion and announcement returns over the period of 1981-2009. We posit that increase in political ideology distance between acquirer and target leads to greater risks/costs associated with the integration process. This increase in distance is less likely to allow for the completion of deals and elicit less favorable market response to merger announcements. We find that when political ideology distance between acquirer and target in a merger are minimal, deals are more likely to be completed. We also find that acquirer which are politically proximate to their targets earn significantly higher returns than distant acquirers. After controlling for the geographic effect and other determinants of announcement returns, the political ideology effect still exists. Overall, the evidence suggests that corporate political ideology plays an important role in completing deals and determining announcement returns.

*Key Words:* Political Ideology, M&A announcement returns, Geographic Effect

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<sup>1</sup> Assistant professor of accounting and finance, Texas A&M University- Kingsville, Dongnyoung.kim@tamuk.edu

## **1. Introduction**

Recently, much literature has reported that political ideology has a significant impact on firms' investment decisions and valuation. For example, Hutton, Jiang and Kumar (2013), studying whether the political ideology of top executives influences corporate policies and firm behavior, find that their political ideology is an important factor for their firms' corporate policies and influencing the firms' valuation. Supporting the argument that capital markets incorporate political value into stock prices, Kim, Pantzalis and Park (2011) find evidence that there is a relation between political geography and the cross section of stock returns. Similarly, Hong and Kostovetsky (2011) find that political affiliations of mutual fund managers in the United States appear to influence their investment decisions. In particular, managers who donate to Democrats tend to prefer stocks of companies that are deemed socially responsible. With respect to individual investors, Bonaparte, Kumar and Page (2010) provide evidence that local political climate and individual investors' political affiliations influence their perceptions of risk and reward and thus their portfolio decisions.

In light of the empirical evidence suggesting a systematic difference between corporate executives, money managers, and individuals of Republican and of Democratic political affiliations, an interesting extension is to ask if the partisan difference has an impact on firms' merger and acquisition (M&A) decisions. We focus on the M&A decisions because they are one of the most important events for the acquirer and for the target. Further, since stock market reactions to announcements of M&A are well known in the literature, our examination of whether political ideology similarities or differences affect acquirer and target returns may help to shed new light on M&A decisions.

Much of the explanation for the success or failure of M&A has focused on financial factors. However, academics and practitioners also concede that corporate culture should play a crucial role in determining the success or failure of an M&A. Since a key factor for successful mergers and acquisitions is whether there is “fit” between the acquirer and the target that would facilitate integration and generate synergies, it makes sense to suggest that a “fit” in corporate culture would affect the performance of an M&A (Datta and Puia (1995)). Recent anecdotal evidence of the importance of cultural fit is Google's acquisition of Motorola Mobility announced on Aug 15, 2011. One of the main concerns was about the cultural mix of the two firms: a culture of freewheeling innovation in Google versus a staid culture of bureaucracy in Motorola Mobility<sup>2</sup>. It is not hard to imagine that such cultural differences could impede integration into the acquirer and management of the target when the two firms merge. The misalignment of culture is often considered to be a major cause for many corporate mergers and acquisitions to fail.

Clearly, an important element of corporate culture is the firm's or its employees' assimilation, which we measure with local political ideology. The evidence in Kim, *et al.* (2011) indicates that investors consider corporate political ideology to be an important risk factor in valuing a firm. Given the relevance of political ideology, it seems that a political ideology conflict between the acquirer and the target would pose a risk to the successful integration of the two, and therefore would affect the stock market reaction to the announcement of an M&A.

In this paper, we posit that a greater degree of political ideology distance between the acquirer and the target would lead to a higher risk or higher cost associated with the integration process and hence a less favorable market response to the M&A announcements. As mentioned, underlying this argument is the notion that cultural differences represent a source of acquisition

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<sup>2</sup> See the WSJ article: <http://online.wsj.com/article/SB10001424053111904253204576512761738987674.html>

risk and a potential obstacle to achieving integration benefits. Our contention is also consistent with the cultural distance hypothesis which, in its most general form, suggests that the difficulties, costs, and risks associated with cross cultural contact increase with growing cultural differences between two individuals, groups, or organizations [see, e.g., Hofstede (1980)]. Thus, in this study, we hypothesize that homogeneous (close) political ideology between acquirers and targets would result in greater positive abnormal returns upon the announcements of the mergers than would heterogeneous (distant) political ideology between the two and we test this hypothesis.

We examine M&As between 1981 and 2009 because the results of presidential elections are available from the U.S. Census from 1980 to 2008. Following the literature [see, e.g., Hilary and Hui (2009); Bonaparte, *et al.* (2010); and Kumar (2009)], we adopt a location-based identification approach that infers corporate political ideology by the results of presidential elections at the county level. As Bonaparte, *et al.* (2010) point out, we cannot identify precisely the political affiliation of each acquirer and target. Nonetheless, our measure is very beneficial to our study. As shown in Table 1, public targets account for just 27 percent of our sample. Almost all firm- or manager level data are available only for public firms. Thus, if we adapt firm level or top manager level measures to identify firms' political affiliation, then it will drop private/subsidiary targets, which take 73 percent of our sample and could generate biased results.

Although the location-based identification strategy is not as precise as is firm or manager level identification strategy, still it allows us to examine the political ideology effect using larger sample, thereby more robust results. Adopting the location-based identification strategy, we identify whether an acquirer (target) is located in Republican or Democratic dominated region, based on the region's voting pattern in recent elections. We then categorize the acquirer (target)

as the Republican or Democratic based upon its local voter turnout. The assumption we make here is that firms located in regions that are dominated by Republican or Democratic voters are more likely to subscribe to the Republican or Democratic political ideology, respectively.

We begin with 17,126 U.S. mergers and acquisitions between 1981 and 2009 to investigate the effect of difference in local political ideologies on the likelihood of deal completion. Many studies report that abandonment of a merger deal incurs heavy penalties, which can be as high as over 6% of transaction value. In addition, cancelling an announced deal can severely impair the firm's reputation and credibility [Luo (2005)]. Thus, we test the impact of political ideology closeness between acquirers and targets on deal completion after controlling for other factors. We find that when counties of acquirers and targets subscribe to the same ideologies, deals are more likely to be completed (coefficient= 0.2597, and t-statistics=1.98 significant at 5%). This result is confirmed with the political ideology distance variable, which is the absolute value of difference in local ideology between acquirer and target. The estimate of the variable is -0.2682(t-statistics=-1.95 significant at 10%). The findings support our conjecture that cultural similarity, measured by local political ideology between acquirers and targets, plays a positive role in completing mergers.

To test whether a differing ideology induces different market reaction to the merger announcements, we focus on a completed merger sample consisting of 12,075 mergers. Using this sample, we find that acquirers that are politically proximate to their targets earn significantly higher positive abnormal returns than politically distant acquirers on announcement windows. In Panel B of Table 4 with full sample, the average five-day CAR over the (-2, +2) window is 1.67 percent for politically homogeneous deals, but only 1.11 percent for politically heterogeneous deals. The extra 57 basis points in returns to acquirers of homogeneous deals over heterogeneous ones is statistically significant at the 5% level (t-statistics=2.40).

However, in each presidential election, there are some battlegrounds which are often referred to as a “purple” – a mixture of red for being solidly Republican and blue for Democratic. Because of the nature of “purple” counties– neither reliably Republican nor Democratic – their voter results could produce an identification noise and thereby reduce the reliability of the effect of a differing political ideology on announcement returns. To control for the purple county effect, we use several higher cutoff points for the margin of victory in a county. In Glaeser and Ward (2005), the definition of battle ground states, it is where a party’s margin of victory is less than 10 percent.

When we use 10 percent, 15 percent, and 20 percent of victory margin to remove noise from possible misspecification in Panel B of Table 4, the differences in the abnormal returns of politically similar takeovers versus dissimilar ones increase to 0.87 percent (t-statistics=3.22 significant at 1%), 1.08 percent (t-statistics=3.13 significant at 1%), and 2.88 percent (t-statistics=4.32 significant at 1%), respectively. Particularly, when 20 percent of margin of victory is used as a cutoff point, the abnormal announcement returns on mergers driven by politically different acquirers and targets are even negative (coefficient=-0.19). That is, the closer the political proximity between an acquirer and its target, the more positive the market valuation of the merger. Our evidence suggests that homogeneous political ideology between acquirers and targets is an important determinant of acquirer returns.

The result of our univariate tests still holds after we control for deal characteristics, acquirer characteristics and local demographic characteristics. After controlling for all known determinants of bidder returns, we find that homogeneous deals still generate higher returns than heterogeneous deals. In the model (1) of Table 5, the coefficient on homogeneous dummy variable is 0.0057(t-statistics=2.99 significant at 1%), meaning that when acquirers and targets

have same ideology, the announcement returns is 57 basis points higher than deals in which acquirers and targets subscribe to different ideology. In the model (2) of Table 5, the coefficient on Homogeneous acquisition is -0.0099 ((t-statistics=-2.03 significant at 5%) consistent with the finding above. Also we observe the incremental effect in the univariate test as the cut off points increase from 10 to 20 percent.

Recently, Uysal, Kedia and Panchapagesan (2008) argue that geographic distance between acquirer and target is a potential determinant of announcement returns due to the information effect and industry clustering effect. They find that local M&A earns higher returns than non-local M&A because of information advantage arising from geographical proximity. Thus, we test whether our measure still has explanatory power after controlling for the geographic factor. We add geographic proximity and state dummy as control variables to our regression. After controlling all these variables, we still find that our results remain unchanged.

Finally, we re-define local political ideology with presidential election outcomes and mid-term election outcomes to check whether our results still hold with the new measure. All the coefficients of our measures in Table 7 confirm our previous results.

The rest of the paper is organized as follows. In section 2, we review the related literature and discuss our approach. Section 3 describes the data, while section 4 reports the results and our interpretation. We conclude in Section 5.

## **2. Literature and Hypotheses**

### **2.1. Culture and Cross Border M&A performance**

The role of cultural difference between the acquirer and the target in mergers and acquisitions has received considerable attention in the international business literature, especially

in the cross- border M&A literature. This literature has sought to explain M&A performance or underperformance in terms of the impact that factors such as cultural distance [Morosini, Shane and Singh (1998)] and cultural fit [Weber, Shenkar and Raveh (1996)] have on the integration process and on the financial performance of firms engaging in M&A activities. A key assumption underlying much of this research is the notion that cultural differences represent a source of acquisition risk. This is consistent with the cultural distance hypothesis [Hofstede (1980)] on which most of this research has based, suggesting that greater cultural differences should lead to more costs and higher risk in cross-cultural interactions.

The empirical results, however, have been inconclusive or even inconsistent [Cartwright and Schoenberg (2006), Stahl and Voigt (2008)]. For example, Datta and Puia (1995) find that acquisitions characterized by greater cultural distance resulted in lower wealth effect for acquiring firms' shareholders and better cultural fit had an important impact

Morosini, *et al.* (1998), on the other hand, provide evidence that indicates a positive relation between the cultural distance and the performance of acquirers and also argue that the cultural difference may not be related to the performance of acquirers in M&A due to the nature of complexity of culture. Also, Chakrabarti, Gupta-Mukherjee and Jayaraman (2008) find that contrary to the general perception, cross-border acquisitions perform better in the long run if the acquirer and the target come from countries that are more disparate. Overall, it is fair to say that although the cultural distance hypothesis seems to be intuitively plausible and appears to be supported by some anecdotal evidence, a growing body of empirical research on the impact of cultural differences on M&A has yielded generally inconclusive and often contradictory results.



## 2.2. Local political climate and corporate political ideology

Given our use of the location-based identification approach that infers corporate political ideology by the presidential election results at the county level, it is important for us to establish the validity of connecting corporate political ideology with the local political climate. A number of studies have touched on this connection and the related issues.

The number of firms that relocate is generally small. The initial corporate decision on where to locate its headquarter tends to be based on the need to attract and retain workers who have the right combination of skills for the company's lines of business. Firms also strive to be near their customers and suppliers. As a result, firms move their headquarters infrequently. When such a move does occur, the impetus is often a desire to be closer to the company's stakeholders. In fact, Pirinsky and Wang (2006) find only 118 examples of relocations in a sample of more than 5,000 firms over 15 years.

There is evidence that the geographical distance between a firm's investors and its headquarter is an important factor in the investors' trading and portfolio decisions. Coval and Moskowitz (1999), Grinblatt and Keloharju (2000), and Feng and Seasholes (2004) find that investors exhibited home bias and were more likely to hold local firms' securities in their portfolios. This home bias suggests that one can proxy for the shareholder political view by the election result of voters in the location of the firm's headquarter.

Corporate executive and other interested stakeholders tend to reside near the firm's headquarter. The literature provides a theoretical basis for their tendency to cluster around customers and a large pool of potential employees. Glasmeier (1988) and Porter (2000) show that proximity to consumers is particularly beneficial to firms that depend on a rapid

differentiation of products to meet consumer demands by enabling them to beat the competition with new products and a faster response in the marketplace. Firms also benefit by being close to a well-educated labor market that understands new technology. All this suggests that the location of corporate headquarters correlates with a concentration of stakeholders. Because of this clustering of the important stakeholders of the firm around its headquarter, we think it is reasonable that election results of the locality would reflect the political views of stakeholders. Logically, it is also reasonable that corporate decision-makers would align the firm's value and vision with the view of their stakeholders, so as to reduce conflicts and benefit them. Thus, we believe that companies would exhibit a certain degree of sensitivity to the political preferences of their communities.

Even if most stakeholders do not reside near their firms' headquarters or election results do not prove to be a good proxy for the stakeholders' political views, it is possible that the community where corporate executives reside would still exert some influence on their political values. If we believe that social interactions tend to occur much more frequently between corporate executives and the people living in the community in which the company is headquartered, then it is plausible that the election preferences of the community would influence the firm's political views.

The above view is consistent with the contention Akerlof and Kranton (2000) that social identity affects people's behavior and that individuals tend to conform to their respective social groups. It is also consistent with Murphy and Shleifer (2004), who argue that identity and social networks tend to feed on each other. Since executives tend to reside near their firm's headquarter, the political views of their community would make a relatively good proxy for their political beliefs. Hutton, Jiang and Kumar (2011) also provides evidence that there are strong similarities

between the corporate and local political environment and manager's political value. They show that a manager with a certain political orientation is more likely to be associated with a firm that has a similar political ideology and/or is located in a region with a similar political environment. In this regard, corporate policies are likely to reflect the political values of managers, employees, and other shareholders, and thus, would be closely related to the local political environment. Our conjecture is also supported in part by the findings that many firms have local clienteles [e.g., Coval and Moskowitz (2001); and Ivković and Weisbenner (2005)] Likewise, Hilary and Hui (2009) argue that the culture of an organization is generally aligned with the local environment of the firm. Managerial style, corporate culture, employees' preferences, and investment behavior should fit together. They also argue that to the extent that individuals residing in a county are socially homogeneous (e.g., religiosity), then firms located in the county would reflect the individuals' preferences in their corporate culture and decision making.

### 2.3. Hypotheses

Confusion and distrust in merger transaction can be driven by organizational cultural differences between acquirer and target firms (e.g., management style and other employees' work-related values), resulting in post-merger conflict. To examine whether cultural difference has a negative impact on merger outcomes, we link local political ideology as a proxy for corporate culture to potential costs in mergers: deal completion and announcement returns.

Deal completion is important to acquirers because they incur substantial up-front costs in making the initial offer. In addition, the acquirers bears costs associated with revealing valuable private information about the post-acquisition plans for the target's assets [Officer (2003)]. Furthermore, once the appropriate target is identified, preparation of the offer typically requires

the services of outside accounting, financial and legal advisers. Luo (2005) also argues cancelling an announced deal can severely impair the firm's reputation and credibility.

Dikova, Sahib and van Witteloostuijn (2009) argue that cultural differences could be potential deal breaker. They argue that cultural differences are likely to increase the probability of disputes which may cause a deal abandonment.

**Hypothesis 1: When political distance between acquirer and target is closer, the likelihood of deal completion is high.**

One of popular measures to gauge merger success is announcement abnormal returns. In other words, the lack of turns to the acquirers reflects a merger failure. M&A literature has reported factors affecting the returns: method of payment, type of target, relative size and others [Fuller, Netter and Stegemoller (2002) ; Moeller, Schlingemann and Stulz (2004); Masulis, Wang and Xie (2007a); and others]. In addition to these factors, we posit that cultural difference is one of determinants of announcement abnormal returns.

**Hypothesis 2: When political distance between acquirer and target is closer, the announcement abnormal returns are high.**

### **3. Data and descriptive statistics**

To estimate the gains of acquirers' shareholders from acquisitions, we examine the announcement returns of that mergers and acquisitions that are successfully completed. In a subsequent section, we will use a larger merger and acquisition sample which includes incomplete deals, private acquirers, and all types of targets (public, private, and subsidiary) to test whether the similarity in political ideology of acquirers and targets can predict the probability of deal success.

### 3.1. M&A and Election Data

We obtain our sample from Securities Data Corporation's (SDC) U.S. Mergers and Acquisitions database. The sample initially consists of all merger and acquisition transactions to test the effect of political ideology on the deal completion and then limit to completed merger and acquisition transactions to test the market reaction to the deal announcement between January 1, 1981 and December 31, 2009. To be included in our final sample, the following requirements must be met:

1. The acquirer is a public firm having at least five days, around the announcement of the takeover, of returns listed in the Center for Research in Security Prices (CRSP) and also having accounting information in COMPUSTAT. The target can, however, be a public or a private firm.
2. The acquirer and the target are both U.S. firms.
3. Neither the acquirer nor the target is a financial or utility firm (SIC between 4900 and 4999, and SIC 6000 and 6999).
4. The acquirer and the target's headquarter zip code information is available at the time of the takeover announcement.
5. At least one million dollars of deal value which is defined by SDC as the total value paid by the acquirer to the target, excluding fees and expenses.
6. The bidder acquires more than 50 percent of the target.

In our sample, we also require that the relative size of a deal be greater than 1%. The relative size is the ratio of the deal value to the market value of the acquirer. The market value is defined

as the number of shares outstanding times the share price in CRSP five days prior to the announcement [Netter, Stegemoller and Wintoki (2011)].

We group the method of payment into three categories. (1) pure cash financing (2) pure stock financing and (3) Mix financing comprises combinations of common stock, cash, debt, preferred stock, and convertible securities [see, Martin (1996); Netter, *et al.* (2011)].

[Insert Table 1 here]

Table 1 reports the distribution of the sample of mergers and acquisitions by announcement years. The number of mergers and acquisitions reaches its highest level in the late 1990s. Moeller, *et al.* (2004) report a similar pattern in the number of mergers and acquisitions by announcement years. Table 1 also reports proportions of homogenous mergers, in-state mergers and local mergers. 61 percent of deals are classified as a homogenous deal while in-state and local deals are 22 percent and 15 percent of the entire sample, respectively.

### 3.2. Corporate political ideology variable

Based on the zip codes of headquarters of targets and acquirers, we infer their political identities using the county level voting results from the presidential elections between 1980 and 2008. Given the headquarter location of target and of acquirer, we use the voting pattern to label the corresponding county either “Republican” or “Democratic”. For instance, in a particular presidential election, a county is identified as Republican (Democratic) if the Republican (Democratic) candidate wins in the county. To capture the degree of Republican (Democratic) strength in a county, we compute the difference (the margin of victory) between the percentages of votes for the Republican and that for the Democratic.

Once we identify the political affiliation of the county from each presidential election, we assign the political value to the firm located in that county. This location-based identification strategy is used in Kumar (2009), Hilary and Hui (2009) and in Bonaparte, *et al.* (2010) to infer the education level, religiosity, and race/ethnicity of investors and managers. As they point out, using the location-based identification approach to assign accurate political affiliation value to target and acquirer has limitations. However, as long as firms in the locations concentrated by one political party are more likely to subscribe to the party's political ideology, we could assign the political affiliation value to targets and acquirers. In other words, firms located in counties that have voted strongly for the Republican (Democratic) party are more likely to have similar political views.

The assumption underlying the political values assignment process is that local political climate would be stable during one presidential election cycle. The outcome of presidential elections should also be a better measure for local political climate than the result midterm elections. This is because presidential elections typically see much higher voter turnouts than do midterm elections. For example, according to the data provided by Professor McDonald (<http://elections.gmu.edu>), the state-level VEP (voting eligible population) turnout rate in the 2006 midterm election in which the vote for the highest office is Governor, U.S. Senator, or House of Representatives ranged from 32 percent to 55 percent. In contrast, in the subsequent 2008 presidential election, the state-level VEP turnout rate was much higher, ranging from 51 percent to 71 percent. Because voter turnouts in presidential elections are generally much higher than those in midterm elections, the local political climate would clearly be better reflected in the presidential election with the higher turnout.

### 3.3. The bidder characteristics

We control for the bidder characteristics such as firm size, free cash flow, leverage, ROA and Tobin's  $q$ . The bidder characteristics are measured at the fiscal year-end prior to the acquisition announcement. Moeller, *et al.* (2004) find evidence that bidder size is negatively correlated with the acquirer's announcement abnormal returns. They interpret this size effect as evidence supporting the hubris hypothesis [Roll (1986)], since they find that on average larger acquirers pay higher premiums and make acquisitions that generate negative dollar synergies. Thus, we expect negative relation between firm size and announcement bidder returns. Lang, Stulz and Walkling (1991) and Servaes (1991) document a positive relation for tender offer acquisitions whereas Moeller, *et al.* (2004) find a negative relation in a comprehensive sample of acquisitions. Thus, we expect either positive or negative relation between free cash flow and announcement bidder returns.

We also control for the acquirer's free cash flow. Jensen (1986) argues that the more free cash flow managers have, the more likely they engage in value-destroying M&A. However, high free cash flows can reflect better firm performance. Thus, we expect either positive or negative relation between free cash flow and announcement bidder returns. Leverage is an important governance mechanism, since higher debt levels help reduce future free cash flows and limit managerial discretion. Leverage also provides incentives for managers to improve firm performance, since managers have to cede significant control to creditors and often lose their jobs if their firms fall into financial distress. We expect leverage to have a positive effect on CAR.



### 3.4. The deal characteristics

We also control for the deal characteristics: types of target, method of payment, relative deal size, industry relatedness of the acquisition, tender offer and whether the bidder and the target are both from high tech industries. Fuller, *et al.* (2002) and Moeller, *et al.* (2004) find that acquirers have significantly negative abnormal returns when acquiring public targets and significantly positive abnormal returns when targets are private firms or subsidiaries. They argue that acquirers take advantage of liquidity discount of private or subsidiary targets by acquiring them. To take this evidence into account, we use three indicator variables denoted by public, private, and subsidiary to represent types of target.

The method of payment is also related to the stock market's response to acquisition announcements. It has been known that the acquirers' announcement return is significantly negative when they pay for their acquisitions with equity. This is generally attributed to the adverse selection problem in equity issuance analyzed by Myers and Majluf (1984). However, Fuller, *et al.* (2002) report that the stock price impact of stock-financed deals is less negative or even positive when the target is private. Netter, *et al.* (2011) also show that the result that negative acquirer returns are associated with deals where equity is a method of payment is sample specific.

We create three indicator variables denoted by stock, cash and mix, where stock equals one for acquisitions financed only with stocks and zero otherwise, cash equals one for acquisitions financed only with cash and zero otherwise, and mix equals one for transaction financed with a combination of cash and stock. Also we control for other variables such as focus acquisition [Morck, Shleifer and Vishny (1990); Amihud and Lev (1981); Shleifer and Vishny (1989);

Campa and Kedia (2002); Villalonga (2004)], relative deal size [Moeller, *et al.* (2004)], high technology industry [Loughran and Ritter (2004)], and tender offer [Travlos (1987)] .

### 3.5. Geographic variable

In addition to bidder and deal characteristics, we take the geographical location of acquirer and target into consideration. Uysal, *et al.* (2008) show that when M&A deals are local transactions, bidder returns are higher than non-local transactions. They argue that the higher return to local bidder is related to information advantage arising from geographic proximity. Since geographic proximity is correlated with political ideology variable, we control for the geographic proximity. We use three geographic variables (*in-state* which is a dummy variable where *in-state* equals one if acquirer and target are located in the same state and zero otherwise, *local dummy* which takes 1 when acquirer and target are located within 100kilimiter, *local variable* which measures the geographic distance). To compute the geographic distance, we match the zip codes of targets and acquirers reported in SDC with zip code from US Census Bureau Gazetteer to get latitudes and longitudes for each acquirer and target. Then we estimate distance between target and acquirer using the Haversine formula. The distance between target and acquirer is

$$\text{Distance} = \text{Radius} \times 2 \times \arcsin(\min(1, \sqrt{a}))$$

where Radius  $\approx$  6378 kilometers ,

$$a = (\sin(dlat / 2))^2 + \cos(\text{target latitude}) \times \cos(\text{acquirer latitude}) \times (\sin(dlon/2))^2,$$

dlat = target latitude - acquirer latitude ,

and dlon = target longitude - acquirer longitude

Following Uysal, *et al.* (2008), Malloy (2005), and Coval and Moskowitz (2001), if the distance between target and acquirer is less than one hundred kilometers we group the transactions as local deals. The variable *local* is a dummy variable where *local* equals one if distance between target and acquirer is less than one hundred kilometers and zero otherwise. As they argue that local deals take advantage of information, we expect that local deals generate higher return than non local deals. Shown in Table 1, 22 percent of the deals are classified as in-state M&A if target and acquirer are located in same state. On the same side, 18 percent of the sample is classified as local based upon the computed geographic proximity. This pattern is very consistent with that of Uysal, *et al.* (2008).

### 3.6. Demographic variables

Demographic information of each county such as county population, education level, income, ethnicity, race, and gender is obtained from the Census Bureau. Since county level crime rate and income are highly correlated with other demographic variables we exclude them from our regression. We also include a religious activity variable as an important control variable for local culture. Hilary and Hui (2009) investigate how the level of religiosity in a firm's environment has an impact on its corporate behavior. They find that there is a positive relation between individual religiosity and risk aversion, influencing organizational behavior.

The local religiosity data is obtained from churches and church membership file provided from ARDA (American Religion Data Archive). However, information on religiosity at the county level is only available for four years (1971, 1980, 1990 and 2000). To obtain the values in the missing years (from 1981 to 1989, from 1991 to 1999, from 2001 to 2009) we use linear interpolation and extrapolation [refer to Hilary and Hui (2009)]. After collecting the county

level demographic information, we compute the difference in each demographic variable between acquirer and target. The differences of demographic variables could measure general cultural difference between acquirer and target.

### 3.7. Summary statistics

As shown in Panel A of Table 2 acquirers in homogenous deals acquire more public targets but few targets that are private firms or subsidiaries. This finding is quite interesting due to the evidence on the effect of types of target on announcement returns by Fuller, *et al.* (2002) and Moeller, *et al.* (2004). They find that acquirers, which are public firms, have significantly negative abnormal returns when acquiring other public firms and significantly positive abnormal returns when targets are private firms or subsidiaries. Thus, if the abnormal returns are determined by the types of target, it is reasonable to expect that heterogeneous deals would have higher abnormal returns than homogeneous abnormal returns. In addition, homogeneous deals are more likely to be financed with stock and less financed with cash. Although the negative effect of equity payment is not robust to all sample [Netter, *et al.* (2011)], much literature reports the negative effect of equity payment on returns. Therefore, heterogeneous deals could have higher CARs than that of homogeneous deals if there is strong negative effect of equity payment. Also homogeneous deals acquire smaller targets than do heterogeneous deals in terms of deal value.

[Insert Table 2 here]

Panel B of Table 2 shows that the acquirers in homogeneous deals, on average, have higher Q, lower free cash flow, lower leverage, lower ROA and higher cash holding. However, the average size (measured by total asset, and market value of equity) of the acquirers in

homogeneous deals is not significantly different from that of the acquirers in heterogeneous deals.

#### 4. Empirical Results

##### 4.1. Likelihood of deal completion

We investigate the impact of local political ideology on the probability of deal completion. Table 3 reports the results of logistic analyses focusing on the effect of cultural difference on merger completion. We focus on two ideology variables: ideology dummy and ideology distance variables. As control variables, we include cumulative abnormal returns over -1 and 1 window, focus increasing dummy, deal attitude (Friendly), legal ligation dummy, repeated bidder dummy, high tech industry dummy, types of target dummies, firm characteristics dummies, and local demographic variables. Model (1) and (2) in Table 3 reveals that cultural difference plays a role in determining the likelihood of deal completion. Model (1) in Table 3 shows that the probability of completing deal is higher when acquire and target are located in counties whose ideologies are identical. Model (2) also confirms the result from model (1). The negative coefficient of political distance variable in model (2) indicates that as political ideology distance increase, the likelihood of deal completion decreases after controlling for other potential factors for deal completion. It is noticeable that there is no effect of geographic distance between parties in mergers. Thus, the results of Table 3 suggest that the identical or close political ideologies of acquire and target are more likely to lead successful merger.

[Insert Table 3 here]

##### 4.2. Acquirer announcement return

We measure bidder announcement effect by the market model with value-weighted market index return around initial acquisition announcement.<sup>3</sup> The announcement dates are obtained from SDC's U.S. Mergers and Acquisitions database. We estimate 3-day cumulative abnormal returns (CARs) during the window over event days (-1, +1), where event day 0 is the acquisition announcement date.

As Panel A of Table 4 shows, the average 3-day CAR for the full sample is 1.45 percent, which is significantly different from zero at the 1 percent level. This is very similar to the findings from other studies (e.g., 1.77 percent CAR over (-2, +2) with value-weighted market index in Fuller, *et al.* (2002), 1.10 percent CAR over (-1,+1) with value-weighted market index in Moeller, *et al.* (2004)). The mean CAR of deals with cash payment is 1.64 percent, significantly different from zero at the 1 percent level, the mean CAR of deals with mix payment is 1.71 percent, significantly different from zero at the 1 percent level, and the mean CAR of deals with stock payment is 0.65 percent, significantly different from zero at the 10 percent level. This latter result might be reflection of the recent findings of Fuller, *et al.* (2002) and Netter, *et al.* (2011). Acquisitions of subsidiary target are associated with higher acquirer returns, with an average bidder CAR of 2.76 percent, followed by acquisitions of private target with an average bidder CAR of 2.18 percent. Acquisitions of public target generate the lowest bidder CAR of -0.96 percent. All three mean CARs are statistically significant at the 1 percent level, which is consistent with those in Fuller, *et al.* (2002).

[Insert Table 4 here]

#### 4.3. Homogeneous vs. heterogeneous mergers and acquisitions

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<sup>3</sup> Different benchmark model (e.g., market model), different index (equally weighted index), and different windows (e.g.,(-3,+3) and (-1,+1) are also used but results are not quantitatively different.

In Panel B of Table 4, we analyze the announcement abnormal returns to acquirers acquiring targets sharing similar political values (Homogeneous acquisition). The average CAR to acquirers in homogeneous deals is 1.67 percent, which is higher than the average CAR of 1.11 percent to acquirer in heterogeneous deals. Compared to the 3-day CAR of 1.45 percent for the full sample reported in Panel A, the average CAR to acquirers in homogeneous deals is higher. The mean difference of abnormal returns between homogenous and heterogeneous transactions for the full sample is 0.57 percent, which is significant at the 5 percent level. If acquisitions are paid for with a mix of cash and stocks, the homogeneous deals generate a significant positive abnormal return of 0.81 percent, but if deals are paid for with either cash or mix, there is no significant difference in CARs between homogeneous and heterogeneous deals even if the differences are positive.

For further analysis, we impose a restriction to eliminate the potential misidentification caused by the battleground counties. Some counties changed their political preference either temporally. To mitigate this issue, we use different cut-off points of margin of victory. The advantage of using different cut-off points is to allow us to test whether the strength of local political affiliation has an impact on the announcement returns. We hypothesize that stronger homogeneous M&A deals generate much higher abnormal announcement returns than heterogeneous M&A deals since risk caused by potential conflict is more likely to be significantly reduced.

As hypothesized, as we increase the level of margin of victory from 10 percent to 20 percent, the statistical significance and economic importance of the difference between CARs of homogeneous and heterogeneous M&A increase. In the full sample reported in Panel B, we find that acquirers of homogeneous deals earn higher return than heterogeneous deals only when

buying private targets. The average CAR of acquirers of homogeneous deals is 1.67 percent whereas the average CAR of acquirers of heterogeneous deals is 1.11 percent. The difference of the average CARs between homogeneous and heterogeneous deals is 57 basis points, which is significant at the 5 percent level. We find that the magnitude of the difference between the CARs become larger as the margin of victory restriction increases from 5 percent to 20 percent. Under the 10 percent, 15 percent, and 20 percent margin of victory requirement the differences are 87 basis points, 108 basis points and 288 basis points at the 1 percent significance level.

When the bids are partitioned by method of payment (cash, stock, or mix of cash and stock), we find that homogeneous deals have, on average, higher returns than heterogeneous deals but only bidder returns for mix are statistically significant. However, homogeneous deals under the 20 percent margin of victory restriction generate higher announcement returns than heterogeneous deals regardless of types of target and methods of payment except for equity payment. Thus, we take this result as evidence showing that as similarity of political ideology between acquirer and target increases the market responds more positively to the announcement due to a lower perceived risk/cost associated with conflict of corporate culture.

#### 4.4. Regression results

Thus far, we have provided results from univariate test that support the hypothesis that more homogenous acquisitions result in larger abnormal announcement day returns. To ensure the robustness of this result we carry out the following test. We examine the result from the univariate test, controlling for bidder and deal characteristics, demographic variables and geographic variables.



In Table 5, we confirm the results in the univariate tests. All the signs on our political ideology variables are consistent with our conjecture that homogeneous deals earn higher returns than heterogeneous deals after controlling for bidder and deal characteristics, and demographic variables. In model (1) and (2), the coefficients are 0.0057 with a t-statistic of 2.99 and -0.0099 with a t-statistic of 2.47, indicating that on average acquirers of homogenous deal earn 66 (59) basis points more than heterogeneous deals after controlling for other determinants.

We further investigate whether strength of local political values have an impact on announcement returns. We observe the same pattern shown in the univariate test. As we increase the level of margin of victory requirement from 10% to 20%, economic importance of cultural difference on CARs increases. Under the 10 percent margin of victory restriction, the coefficient in model (3) is 0.0091 with a t-statistic of 3.01. Under the 15 percent margin of victory restriction, the coefficient of homogenous deal in model (5) is 0.013 with a t-statistic of 3.33. Under the 20 percent margin of victory restriction, the coefficient of homogenous deal in model (7) is 0.019 with a t-statistic of 2.65. From model (4), (6), and (8), we find that as cut-off restriction increases, the negative effect of political ideology distance on announcement returns becomes larger. With this finding, we confirm that political cultural difference plays a critical role in determining announcement abnormal returns.

[Insert Table 5 here]

Most of the coefficient estimates for the bidder and deal characteristics variables and demographic variables are consistent with the findings of existing literature. Across the model specifications, acquirers' size measured by log of total asset are negatively related to announcement returns, which is consistent with the finding of Moeller, *et al.* (2004). Free cash

flow is negatively related to CAR but not statistically significant. ROA has a negative effect on bidder returns except for model (1). Leverage has a positive impact on bidder returns Masulis, Wang and Xie (2007b). Tobin's q has a negative effect on bidder returns except for the first specification.

## 4.5. Robustness

### 4.5.1. Geographic factor

In Table 6, we control for geographic proximity variables; *in-state* which is a dummy variable defined as one if acquirer and target are located in same state and zero otherwise, *local(dummy)* which is a dummy variable defined as one if acquirer and target are located within 100 kilometer and zero otherwise and *continuous local* variable, which measure the geographic proximity and. Uysal, *et al.* (2008) show that when M&A deals are local transactions, bidder returns are higher than non-local transactions. If our result is driven by geographic proximity, then our main variable would be insignificantly different zero.

In model (1) and (2) in Table 6, the coefficients of homogeneous dummy and homogeneous continuous variable are 0.0051 with a t-statistic of 2.67 and -0.0088 with a t-statistic of 1.80, respectively, while *in-state* dummy a proxy for geographic distance has 0.0074 with a t-statistic of 2.59 and 0.0079 with a t-statistic of 2.77. In model (3) and (4), Uysal, *et al.* (2008)'s distance variables are all significant and consistent with their findings while our measures are still consistent with our conjecture. Thus, after controlling for the geographic factor, we still observe that corporate ideology variable is statically significant, indicating that our results are not driven by geographic factor.

[Insert Table 6 here]

#### 4.5.2. Mid-term election

Our local political ideology identification strategy uses local voter turnouts in presidential elections. The main reasons were stability of ideology and representativeness of local political ideology due to the higher participation rate for presidential elections. However, they take place every four years so that there could be potential ideology update issue. Thus, we reassign local ideology based upon all elections including mid-term elections taking place every two years.

[Inset table 7 here]

The results of Table 7 show that previous results still hold. In model (1) and (2), both variables indicate that the identical or close political ideology is associated with positive announcement returns abnormal returns. The coefficients of homogeneous dummy in model (1) and (2) are 0.074 with a t-statistics=2.37 and is -0.0182 with a t-statistics=1.68, respectively. Model (3) and (4) also confirm that our results are robust to geographic factor.

## 5. Conclusion

We investigate the impact of difference in local political ideologies between acquirers and targets on the likelihood of deal completion and announcement returns over the period of 1981-2009. We posit that increase in political ideology distance, as a proxy for corporate culture, between acquirer and target leads to greater risks/costs associated with the integration process, and hence less likely to complete deals and less favorable market response to merger announcements. Using probit models, we find that when political ideology distance between acquirer and target in a merger are small, or when their ideologies are identical, deals are more likely to be completed. We also find that acquirer which are politically proximate to their targets

earn significantly higher returns than distant acquirers. To check whether our results are driven by geographic factor, we re-run regression analyses with three geographic proxies. After controlling for the geographic effect and other determinants of announcement returns, the political ideology effect still exists. Finally, we reassign local ideology values to acquirer and targets based on all elections to mitigate potential update issue. The result with new local ideology values is still consistent with the previous results. Collectively, our evidences suggest that corporate political ideology have an impact on the probability of completing deals and in determining announcement returns, supporting “Cultural distance hypothesis”.

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Table 1. Sample Distribution by Announcement Year

The table reports the number of mergers and acquisitions by announcement year. The sample consists of 17,126 U.S. mergers and acquisitions between 1981 and 2009 where the acquiring firm is only a public and a target is a public, private or subsidiary. Deals are classified as homogenous if the counties of the acquirer and the target support same political party in a certain presidential election. Transactions are classified as in-state deal if the acquirer and the target are located in same state and classified as local deal if the acquirer and target are located within 100km of each other.

year	Number of Acquisitions	Percentage of Acquisitions	Deal Value (\$ Mil)	Type of targets						Method of payment		
				Homogeneous Deals	In-State Deals	Local deals	Public	Private	Subsidiary	Cash	Stock	Mix
1981	71	0.41%	539.46	0.44	0.18	0.16	0.52	0.18	0.30	0.03	0.00	0.97
1982	93	0.54%	195.40	0.65	0.29	0.26	0.58	0.12	0.30	0.00	0.00	1.00
1983	95	0.55%	126.84	0.62	0.23	0.18	0.37	0.27	0.36	0.00	0.00	1.00
1984	190	1.11%	294.46	0.66	0.29	0.25	0.47	0.28	0.26	0.08	0.03	0.88
1985	243	1.42%	632.55	0.58	0.21	0.18	0.47	0.12	0.41	0.30	0.10	0.60
1986	473	2.76%	232.76	0.60	0.20	0.20	0.34	0.27	0.39	0.33	0.06	0.61
1987	347	2.03%	216.84	0.61	0.23	0.17	0.44	0.23	0.33	0.30	0.10	0.60
1988	445	2.60%	256.86	0.64	0.20	0.17	0.38	0.22	0.40	0.30	0.06	0.63
1989	408	2.38%	336.11	0.62	0.22	0.18	0.41	0.25	0.34	0.22	0.10	0.67
1990	263	1.54%	304.39	0.62	0.27	0.24	0.43	0.35	0.22	0.22	0.11	0.67
1991	275	1.61%	166.00	0.61	0.24	0.17	0.34	0.42	0.25	0.14	0.15	0.71
1992	408	2.38%	147.97	0.59	0.19	0.18	0.21	0.44	0.34	0.16	0.17	0.67
1993	845	4.93%	188.03	0.59	0.25	0.19	0.15	0.47	0.38	0.19	0.12	0.69
1994	969	5.66%	193.79	0.58	0.17	0.14	0.20	0.49	0.31	0.20	0.15	0.65
1995	1187	6.93%	248.96	0.57	0.18	0.13	0.20	0.49	0.31	0.18	0.18	0.64
1996	1255	7.33%	378.63	0.59	0.18	0.16	0.22	0.53	0.25	0.20	0.16	0.64
1997	1256	7.33%	366.22	0.61	0.22	0.17	0.25	0.55	0.20	0.17	0.17	0.66
1998	910	5.31%	1157.53	0.64	0.20	0.17	0.39	0.45	0.16	0.17	0.21	0.62
1999	755	4.41%	1452.21	0.64	0.23	0.17	0.47	0.39	0.15	0.18	0.27	0.55
2000	943	5.51%	1460.74	0.66	0.24	0.18	0.36	0.47	0.17	0.15	0.31	0.54
2001	568	3.32%	962.88	0.59	0.22	0.18	0.40	0.44	0.15	0.20	0.21	0.60
2002	494	2.88%	537.07	0.61	0.29	0.21	0.32	0.49	0.19	0.32	0.12	0.57
2003	564	3.29%	319.56	0.58	0.27	0.21	0.30	0.50	0.20	0.34	0.10	0.56
2004	686	4.01%	514.97	0.60	0.26	0.20	0.22	0.61	0.17	0.34	0.08	0.58
2005	742	4.33%	1051.67	0.62	0.20	0.15	0.23	0.61	0.16	0.36	0.07	0.57
2006	803	4.69%	946.01	0.59	0.18	0.15	0.21	0.59	0.20	0.33	0.05	0.62
2007	811	4.74%	637.00	0.65	0.19	0.15	0.22	0.58	0.20	0.36	0.03	0.60
2008	588	3.43%	582.35	0.62	0.22	0.19	0.21	0.60	0.19	0.29	0.04	0.68
2009	439	2.56%	1503.03	0.70	0.27	0.24	0.37	0.49	0.14	0.28	0.09	0.64
Total	17,126	100%	550.01	0.61	0.22	0.18	0.33	0.41	0.26	0.22	0.11	0.67



Table 2. Summary Statistics

The table reports summary statistics of our sample. The sample consists of 17,126 U.S. mergers and acquisitions between 1981 and 2009 where the acquiring firm is only a public and a target is a public, private or subsidiary. Deals are classified as homogenous if the counties of the acquirer and the target support same political party in recent presidential election. \*, \*\*, and \*\*\* represent significance at the 10%,5%, and 1 % levels, respectively. The definitions of other variables are in the Appendix.

Variables	Homogeneous(1)			Heterogeneous(2)			Difference	<i>t</i> -statistic
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.		
Panel A. Deal Characteristics							(1)-(2)	
Public Target (Dummy)	0.30	0	0.45	0.27	0	0.44	0.02***	(3.35)
Private Target (Dummy)	0.46	0	0.50	0.45	0	0.58	0.01	(-0.25)
Subsidiary Target (Dummy)	0.23	0	0.41	0.27	0	0.43	-0.03***	(4.15)
Cash payment (Dummy)	0.22	0	0.49	0.23	0	0.50	-0.01*	(-1.75)
Stock payment (Dummy)	0.14	0	0.42	0.11	0	0.39	0.03***	(4.96)
Mix payment (Dummy)	0.41	0	0.47	0.43	0	0.47	-0.17*	(-1.95)
Focusing acquisition (Dummy)	0.57	1	0.49	0.55	1	0.0.02	0.02**	(2.60)
High tech (Dummy)	0.29	0	0.45	0.24	0	0.43	0.041***	(5.68)
Deal value (\$mil)	534.8	80	2501.7	768.1	74.9	5105.4	-233.4**	(-2.31)
Relative deal size	0.51	0.12	3.68	0.32	0.11	1.25	0.03	(0.62)
Tender offer	0.05	0	0.23	0.05	0	0.23	0	(0.00)
Panel B. Bidder Characteristics								
Variables	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Difference	<i>t</i> -statistic
Total asset(\$mil)	1,979	259.06	7785.30	2,136	287.15	8546.36	-158.2	(-0.95)
Market value of equity (\$mil)	3,055	379.17	14,290.59	3,101	380.80	13,545.88	-46.06	(-0.16)
Tobin's Q	2.64	1.72	5.41	2.38	1.68	3.44	0.25***	(2.64)
Free cash flow	0.03	0.08	0.21	0.04	0.08	0.19	-0.013***	(-3.11)
Market leverage	0.13	0.09	0.15	0.14	0.11	0.14	-0.007***	(-2.58)
ROA	0.09	0.13	0.21	0.10	0.13	0.18	-0.012***	(-2.87)
Capital expenditure	0.06	0.04	0.08	0.06	0.04	0.07	0.001	(0.84)
Cash holding	0.21	0.11	0.23	0.18	0.09	0.21	0.027***	(5.82)

Table 3. Propensity to complete deals

With 17,126 all U.S. mergers and acquisitions between 1981 and 2009, we estimate probit model and report the results. The dependent variable takes a value of 1 if the deal is completed and 0 otherwise. In the model (1), Homogeneous acquisition (Dummy) is binary where 1 signifies that the acquirer and the target locals subscribe same political ideology determined with the recent president election outcomes. In the model (2), Homogeneous acquisition is defined as the absolute value of difference between local political ideologies of acquirer and target in terms of margin of victory. In parentheses are *t*-values based on standard errors robust to heteroskedasticity. All regressions control for year and industry fixed effects. \*, \*\*, and \*\*\* represent significance at the 10%, 5%, and 1 % levels, respectively. The definitions of other variables are in the Appendix.

VARIABLES	(1) Model	(2) Model
Homogeneous acquisition(Dummy)	0.2597** (1.98)	
Homogeneous acquisition(Continuous)		-0.2682* (-1.95)
Geographical Distance	0.0073 (0.39)	0.0056 (0.31)
CAR[-1,1]	0.6062** (2.54)	0.6013** (2.52)
Focus acquisition	0.1250** (2.57)	0.1234** (2.53)
Deal attitude(Friendly)	3.2920*** (23.62)	3.2848*** (23.58)
Litigation Dummy	-0.1976 (-1.09)	-0.1940 (-1.07)
Repeated bidder	-0.0192*** (-5.31)	-0.0192*** (-5.31)
High tech	0.1769*** (2.86)	0.1765*** (2.86)
Tender	1.8084*** (10.64)	1.8075*** (10.63)
Public target	-0.1489** (-2.14)	-0.1536** (-2.21)
Private target	0.0276 (0.46)	0.0238 (0.40)
Firm age	-0.0286 (-0.86)	-0.0294 (-0.89)
Firm Size	0.1615*** (10.38)	0.1618*** (10.43)
Free cash flow	0.3345*** (3.04)	0.3319*** (3.04)
Leverage	-0.1728 (-1.03)	-0.1713 (-1.02)
Population	-0.0095 (-0.75)	-0.0085 (-0.67)
Education	0.0053 (1.32)	0.0058 (1.42)
Income	-0.0112 (-0.58)	-0.0078 (-0.40)
Gender	0.0273 (0.05)	0.0806 (0.14)
Religious	0.0188	0.0305

	(0.08)	(0.12)
Ethnicity	-0.0758	-0.0125
	(-0.33)	(-0.05)
Constant	-2.3652***	-2.1009***
	(-8.16)	(-8.01)
Industry fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Observations	17,126	17,126

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Table4. Univariate market response

The table reports the results of univariate test with 12,075 completed U.S. mergers and acquisitions between 1981 and 2009 where the acquiring firm is only a public and a target is a public, private or subsidiary. Homogeneous acquisition is binary where 1 signifies that the acquirer and the target locals subscribe same political ideology determined with the recent president election outcomes. We follow standard event study methodology to compute acquirers' cumulative abnormal returns (CARs) for the three-day period (-1, 1) around the announcement date. We estimate the abnormal returns using a market adjusted model: .

$$AR_i = r_i - r_m$$

where  $r_i$  is the return on acquirer  $i$  and  $r_m$  is the daily return on the CRSP value-weighted index. \*, \*\*, and \*\*\* represent significance at the 10%, 5%, and 1 % levels, respectively. The definitions of other variables are in the Appendix.

Panel A. Announcement Abnormal Returns								
		Method of Payment				Type of Target		
		Full Sample	Cash	Mix	Stock	Public	Private	Subsidiary
CAR	Mean	1.45%***	1.64%***	1.71%***	0.65%*	-0.96%***	2.18%***	2.76%***
	(-2, +2)	Median	0.47%***	0.87%***	0.57%***	-0.83%***	-1.04%***	0.91%***
Panel B. Announcement Abnormal Returns By Political Orientation								
		Method of Payment				Type of Target		
Full Sample		Full Sample	Cash	Mix	Stock	Public	Private	Subsidiary
CAR (-2, +2)	Homogenous	1.67%	1.75%	2.02%	0.98%	-0.80%	2.49%	3.03%
		(6,017)	(2,413)	(2,220)	(1,384)	(1,704)	(2,999)	(1,314)
	Heterogeneous	1.11%	1.48%	1.22%	0.00%	-1.26%	1.69%	2.40%
		(3,832)	(1,719)	(1,392)	(721)	(984)	(1,900)	(948)
	Difference	0.57%**	0.18%	0.81**	0.98%	0.46%	0.80%**	0.63%
		[2.40]	[1.04]	[2.07]	[1.36]	[1.06]	[2.24]	[1.50]
10%> Margin of Victory		Method of Payment				Type of Target		
		Full Sample	Cash	Mix	Stock	Public	Private	Subsidiary
CAR (-2, +2)	Homogenous	1.65%	1.64%	2.05%	0.96%	-0.96%	2.70%	2.82%
		(4,697)	(1,888)	(1,759)	(1,050)	(1,379)	(2,305)	(1,013)
	Heterogeneous	0.77%	1.32%	1.01%	-1.02%	-1.66%	1.38%	2.15%
		(2,999)	(1,356)	(1,090)	(553)	(778)	(1,489)	(732)
	Difference	0.87%***	0.32%	1.04%**	2.01%**	0.70%	1.32%***	0.67%
		[3.22]	[1.09]	[2.32]	[2.41]	[1.47]	[3.14]	[1.42]
15%> Margin of Victory		Method of Payment				Type of Target		
		Full Sample	Cash	Mix	Stock	Public	Private	Subsidiary
CAR (-2, +2)	Homogenous	1.85%	1.45%	2.36%	1.65%	-0.59%	2.94%	2.72%
		(3,170)	(1,287)	(1,249)	(634)	(937)	(1,533)	(700)
	Heterogeneous	0.77%	1.30%	0.77%	-0.06%	-2.04%	1.38%	2.27%
		(1,926)	(884)	(708)	(334)	(471)	(967)	(488)
	Difference	1.08%***	0.16%	1.58%***	2.26%**	1.45%**	1.55%***	0.46%
		[3.13]	[0.42]	[2.95]	[1.92]	[2.36]	[2.89]	[0.79]
20%> Margin of Victory		Method of Payment				Type of Target		
		Full Sample	Cash	Mix	Stock	Public	Private	Subsidiary
CAR (-2, +2)	Homogenous	2.68%	2.65%	3.82%	0.07%	0.04%	3.81%	3.98%
		(893)	(383)	(339)	(171)	(277)	(395)	(218)
	Heterogeneous	-0.19%	-0.02%	0.43%	-2.51%	-3.85%	1.19%	0.79%
		(360)	(180)	(131)	(49)	(91)	(169)	(100)
	Difference	2.88%***	2.67%***	3.29%***	3.22%	3.90%***	2.62%***	3.19%**
		[4.32]	[3.21]	[2.92]	[1.44]	[3.31]	[2.63]	[2.54]

Table5. Market response to the announcement

The table reports the results of regression analysis with 12,075 completed U.S. mergers and acquisitions between 1981 and 2009 where the acquiring firm is only a public and a target is a public, private or subsidiary. Homogeneous acquisition (Dummy) is binary where 1 signifies that the acquirer and the target locals subscribe same political ideology determined with the recent president election outcomes. Homogeneous acquisition (continuous) is defined as the absolute value of difference between local political ideologies of acquirer and target in terms of margin of victory. All standard errors are robust to heteroskedasticity. All models are estimated with the year and industry fixed. \*\*\*, \*\*, and \* indicate statistical significance at 1%, 5% and 10% level, respectively. The definitions of other variables are in the Appendix.

VARIABLES	Full sample		10%> Margin of Victory		15%> Margin of Victory		20%> Margin of Victory	
	(1) Model	(2) Model	(3) Model	(4) Model	(5) Model	(6) Model	(7) Model	(8) Model
Homogenous (Dummy)	0.0057*** (2.99)		0.0091*** (3.01)		0.0136*** (3.33)		0.0199*** (2.65)	
Homogeneous acquisition(Continuous)		-0.0099** (-2.03)		-0.0148** (-2.38)		-0.0206*** (-2.83)		-0.0241* (-1.82)
Focus acquisition	-0.0005 (-0.23)	-0.0005 (-0.22)	0.0060** (1.98)	0.0060** (1.99)	0.0063* (1.72)	0.0065* (1.77)	0.0018 (0.33)	0.0017 (0.31)
Relative size	0.0038 (1.55)	0.0038 (1.55)	0.0137*** (3.99)	0.0138*** (4.01)	0.0195*** (5.27)	0.0196*** (5.31)	0.0199*** (3.10)	0.0198*** (3.08)
High tech	-0.0098*** (-3.75)	-0.0100*** (-3.80)	-0.0134*** (-3.47)	-0.0138*** (-3.56)	-0.0129*** (-2.77)	-0.0132*** (-2.85)	0.0040 (0.45)	0.0031 (0.36)
Public target	-0.0306*** (-10.97)	-0.0308*** (-11.00)	-0.0353*** (-8.38)	-0.0358*** (-8.47)	-0.0434*** (-8.45)	-0.0438*** (-8.50)	-0.0438*** (-5.82)	-0.0439*** (-5.80)
Cash payment	0.0046** (2.35)	0.0045** (2.33)	0.0028 (0.98)	0.0028 (0.97)	0.0004 (0.11)	0.0005 (0.14)	-0.0024 (-0.43)	-0.0034 (-0.59)
Tender offer	0.0109*** (3.40)	0.0109*** (3.42)	0.0071 (1.55)	0.0071 (1.57)	0.0056 (1.01)	0.0058 (1.05)	-0.0002 (-0.02)	-0.0008 (-0.08)
Deal attitude(Friendly)	-0.0054 (-1.09)	-0.0059 (-1.19)	-0.0079 (-1.14)	-0.0082 (-1.19)	-0.0111 (-1.41)	-0.0119 (-1.52)	0.0013 (0.12)	0.0015 (0.14)
Firm age	0.0024 (1.53)	0.0024 (1.51)	-0.0032 (-1.48)	-0.0032 (-1.46)	-0.0042 (-1.55)	-0.0042 (-1.56)	-0.0018 (-0.45)	-0.0019 (-0.49)
Firm size	-0.0052*** (-6.98)	-0.0052*** (-6.90)	-0.0025** (-2.56)	-0.0024** (-2.48)	-0.0009 (-0.72)	-0.0008 (-0.65)	-0.0037* (-1.78)	-0.0036* (-1.76)
Free cash flow	-0.0030 (-0.26)	-0.0032 (-0.28)	0.0191 (1.14)	0.0193 (1.15)	0.0196 (0.99)	0.0195 (0.99)	0.0169 (0.66)	0.0174 (0.68)
ROA	-0.0430*** (-2.85)	-0.0432*** (-2.86)	-0.0436*** (-2.67)	-0.0442*** (-2.69)	-0.0451** (-2.37)	-0.0451** (-2.37)	-0.0152 (-0.43)	-0.0162 (-0.45)
Leverage	0.0035 (0.67)	0.0032 (0.61)	0.0086 (0.98)	0.0084 (0.96)	0.0093 (0.94)	0.0095 (0.96)	0.0025 (0.15)	0.0028 (0.17)
Tobin's q	-0.0019*** (-5.13)	-0.0019*** (-5.11)	-0.0018*** (-4.11)	-0.0018*** (-4.09)	-0.0011** (-2.46)	-0.0011** (-2.41)	-0.0014 (-1.59)	-0.0015* (-1.69)
Industry competition	0.0130 (0.15)	0.0113 (0.13)	0.0685 (0.54)	0.0678 (0.53)	-0.0526 (-0.35)	-0.0577 (-0.38)	0.0966 (0.41)	0.0631 (0.27)
Population	0.0004 (0.93)	0.0003 (0.67)	0.0011 (1.62)	0.0009 (1.38)	0.0012 (1.48)	0.0011 (1.25)	-0.0001 (-0.11)	-0.0003 (-0.23)
Income	-0.0012* (-1.77)	-0.0011 (-1.54)	-0.0019* (-1.87)	-0.0016 (-1.58)	-0.0019 (-1.50)	-0.0016 (-1.21)	-0.0011 (-0.63)	-0.0009 (-0.47)
Gender	-0.0428** (-2.08)	-0.0406** (-1.97)	-0.0095 (-0.34)	-0.0035 (-0.12)	-0.0086 (-0.24)	0.0032 (0.09)	-0.0189 (-0.44)	-0.0117 (-0.28)
Religious	-0.0214** (-2.43)	-0.0208** (-2.36)	-0.0422*** (-3.26)	-0.0410*** (-3.17)	-0.0594*** (-3.71)	-0.0591*** (-3.70)	-0.0406* (-1.75)	-0.0389* (-1.69)

Ethnicity	-0.0078 (-0.92)	-0.0048 (-0.54)	-0.0026 (-0.21)	0.0000 (0.00)	-0.0017 (-0.11)	0.0020 (0.13)	0.0635** (2.23)	0.0587* (1.80)
MSA	-0.0091 (-1.05)	-0.0091 (-1.05)	-0.0031 (-0.22)	-0.0037 (-0.27)	-0.0004 (-0.03)	-0.0013 (-0.09)	0.0155 (1.03)	0.0161 (1.06)
Constant	0.0721*** (5.20)	0.0782*** (5.71)	0.0610*** (2.96)	0.0712*** (3.50)	0.0630*** (2.72)	0.0787*** (3.48)	0.0292 (0.88)	0.0501 (1.59)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	12,075	12,075	5,772	5,772	4,203	4,203	1,499	1,499
R-squared	0.07	0.07	0.08	0.08	0.09	0.09	0.14	0.14

Table 6. Local ideology and geographical distance

The table reports the results of regression analysis with 12,075 completed U.S. mergers and acquisitions between 1981 and 2009 where the acquiring firm is only a public and a target is a public, private or subsidiary. Homogeneous acquisition (Dummy) is binary where 1 signifies that the acquirer and the target locals subscribe same political ideology determined with the recent president election outcomes. Homogeneous acquisition (continuous) is defined as the absolute value of difference between local political ideologies of acquirer and target in terms of margin of victory. All standard errors are robust to heteroskedasticity. All models are estimated with the year and industry fixed. \*, \*\*, and \*\*\* represent significance at the 10%, 5%, and 1 % levels, respectively. The definitions of other variables are in the Appendix.

VARIABLES	Full sample		Full sample		Full sample		10%> Margin of Victory		15%> Margin of Victory		20%> Margin of Victory	
	(1) Model	(2) Model	(3) Model	(4) Model	(5) Model	(6) Model	(7) Model	(8) Model	(9) Model	(10) Model	(11) Model	(12) Model
Homogenous (Dummy)	0.0051*** (2.67)		0.0055*** (2.89)		0.0055*** (2.89)		0.0088*** (2.90)		0.0132*** (3.24)		0.0204*** (2.69)	
Homogeneous acquisition(Continuous)		-0.0088* (-1.80)		-0.0103** (-2.10)		-0.0105** (-2.16)		-0.0154** (-2.47)		-0.0214*** (-2.94)		-0.0247* (-1.85)
In-state (Dummy)	0.0074*** (2.59)	0.0079*** (2.77)										
Local (Dummy)			0.0067* (1.79)	0.0075** (1.99)								
Geographical Distance					-0.0022*** (-2.95)	-0.0024*** (-3.10)	-0.0024** (-2.34)	-0.0026** (-2.52)	-0.0029** (-2.38)	-0.0031*** (-2.58)	-0.0025 (-1.16)	-0.0023 (-1.10)
Focus acquisition	-0.0004 (-0.18)	-0.0004 (-0.17)	-0.0004 (-0.19)	-0.0004 (-0.18)	-0.0004 (-0.21)	-0.0004 (-0.20)	0.0060** (1.99)	0.0060** (2.00)	0.0064* (1.75)	0.0066* (1.81)	0.0020 (0.36)	0.0019 (0.34)
Relative size	0.0038 (1.56)	0.0038 (1.56)	0.0038 (1.55)	0.0038 (1.56)	0.0038 (1.56)	0.0038 (1.56)	0.0136*** (3.93)	0.0136*** (3.95)	0.0193*** (5.27)	0.0195*** (5.30)	0.0198*** (3.10)	0.0197*** (3.07)
High tech	-0.0101*** (-3.84)	-0.0102*** (-3.89)	-0.0100*** (-3.81)	-0.0102*** (-3.87)	-0.0097*** (-3.71)	-0.0099*** (-3.76)	-0.0133*** (-3.46)	-0.0138*** (-3.56)	-0.0129*** (-2.79)	-0.0134*** (-2.88)	0.0047 (0.52)	0.0038 (0.43)
Public target	-0.0308*** (-11.07)	-0.0310*** (-11.10)	-0.0307*** (-11.01)	-0.0309*** (-11.05)	-0.0306*** (-10.96)	-0.0307*** (-11.00)	-0.0353*** (-8.36)	-0.0357*** (-8.45)	-0.0433*** (-8.43)	-0.0438*** (-8.49)	-0.0443*** (-5.86)	-0.0443*** (-5.84)
Cash payment	0.0047** (2.41)	0.0046** (2.38)	0.0046** (2.37)	0.0046** (2.36)	0.0046** (2.36)	0.0046** (2.35)	0.0028 (0.97)	0.0028 (0.97)	0.0004 (0.12)	0.0005 (0.15)	-0.0027 (-0.47)	-0.0036 (-0.63)
Tender offer	0.0110*** (3.45)	0.0110*** (3.46)	0.0110*** (3.45)	0.0110*** (3.46)	0.0111*** (3.49)	0.0112*** (3.50)	0.0072 (1.59)	0.0073 (1.62)	0.0057 (1.03)	0.0059 (1.07)	0.0000 (0.01)	-0.0005 (-0.06)
Deal attitude(Friendly)	-0.0052 (-1.04)	-0.0056 (-1.12)	-0.0052 (-1.04)	-0.0056 (-1.13)	-0.0051 (-1.02)	-0.0056 (-1.12)	-0.0075 (-1.08)	-0.0078 (-1.13)	-0.0103 (-1.31)	-0.0110 (-1.41)	0.0022 (0.20)	0.0024 (0.21)

Firm age	0.0025 (1.57)	0.0025 (1.56)	0.0024 (1.55)	0.0024 (1.53)	0.0023 (1.48)	0.0023 (1.46)	-0.0033 (-1.49)	-0.0032 (-1.48)	-0.0042 (-1.56)	-0.0042 (-1.57)	-0.0020 (-0.51)	-0.0021 (-0.54)
Firm size	-0.0052*** (-6.95)	-0.0051*** (-6.87)	-0.0052*** (-6.98)	-0.0052*** (-6.90)	-0.0052*** (-6.97)	-0.0051*** (-6.89)	-0.0025** (-2.55)	-0.0024** (-2.48)	-0.0009 (-0.73)	-0.0008 (-0.65)	-0.0036* (-1.77)	-0.0036* (-1.75)
Free cash flow	-0.0025 (-0.22)	-0.0027 (-0.23)	-0.0034 (-0.29)	-0.0036 (-0.31)	-0.0025 (-0.21)	-0.0026 (-0.22)	0.0197 (1.17)	0.0199 (1.18)	0.0210 (1.06)	0.0211 (1.06)	0.0190 (0.73)	0.0194 (0.74)
ROA	-0.0434*** (-2.88)	-0.0435*** (-2.89)	-0.0425*** (-2.81)	-0.0426*** (-2.82)	-0.0435*** (-2.89)	-0.0438*** (-2.90)	-0.0443*** (-2.71)	-0.0449*** (-2.73)	-0.0463** (-2.43)	-0.0465** (-2.43)	-0.0165 (-0.46)	-0.0175 (-0.48)
Leverage	0.0038 (0.74)	0.0036 (0.69)	0.0037 (0.71)	0.0034 (0.66)	0.0036 (0.70)	0.0034 (0.64)	0.0088 (1.02)	0.0087 (1.00)	0.0098 (0.99)	0.0100 (1.02)	0.0029 (0.17)	0.0032 (0.19)
Tobin's q	-0.0019*** (-5.20)	-0.0019*** (-5.19)	-0.0019*** (-5.17)	-0.0019*** (-5.16)	-0.0019*** (-5.15)	-0.0019*** (-5.13)	-0.0018*** (-4.14)	-0.0019*** (-4.12)	-0.0011** (-2.48)	-0.0011** (-2.43)	-0.0015* (-1.66)	-0.0016* (-1.75)
Industry competition	0.0006 (1.22)	0.0005 (1.00)	0.0007 (1.51)	0.0007 (1.34)	0.0011** (2.14)	0.0010** (1.97)	0.0018** (2.49)	0.0017** (2.34)	0.0021** (2.33)	0.0020** (2.20)	0.0007 (0.50)	0.0005 (0.35)
Population	-0.0011 (-1.59)	-0.0009 (-1.37)	-0.0011 (-1.57)	-0.0009 (-1.30)	-0.0010 (-1.47)	-0.0008 (-1.20)	-0.0017* (-1.68)	-0.0014 (-1.37)	-0.0017 (-1.36)	-0.0013 (-1.04)	-0.0010 (-0.52)	-0.0007 (-0.37)
Income	-0.0341 (-1.63)	-0.0316 (-1.51)	-0.0419** (-2.04)	-0.0392* (-1.90)	-0.0363* (-1.77)	-0.0332 (-1.61)	-0.0014 (-0.05)	0.0058 (0.21)	0.0004 (0.01)	0.0137 (0.38)	-0.0162 (-0.38)	-0.0090 (-0.22)
Gender	-0.0154* (-1.70)	-0.0145 (-1.60)	-0.0197** (-2.25)	-0.0189** (-2.15)	-0.0179** (-2.03)	-0.0170* (-1.93)	-0.0375*** (-2.90)	-0.0359*** (-2.78)	-0.0529*** (-3.31)	-0.0520*** (-3.26)	-0.0371 (-1.62)	-0.0355 (-1.57)
Religious	-0.0042 (-0.49)	-0.0013 (-0.14)	-0.0071 (-0.84)	-0.0037 (-0.42)	-0.0077 (-0.90)	-0.0042 (-0.47)	-0.0023 (-0.19)	0.0009 (0.08)	-0.0013 (-0.09)	0.0033 (0.21)	0.0640** (2.24)	0.0592* (1.81)
Ethnicity	-0.0087 (-0.99)	-0.0086 (-0.99)	-0.0095 (-1.09)	-0.0095 (-1.09)	-0.0090 (-1.03)	-0.0089 (-1.02)	-0.0030 (-0.22)	-0.0036 (-0.26)	-0.0006 (-0.04)	-0.0014 (-0.10)	0.0159 (1.04)	0.0164 (1.08)
MSA	0.0648*** (4.61)	0.0699*** (5.00)	0.0654*** (4.54)	0.0706*** (4.94)	0.0751*** (5.39)	0.0812*** (5.90)	0.0644*** (3.13)	0.0745*** (3.67)	0.0666*** (2.87)	0.0821*** (3.63)	0.0317 (0.96)	0.0530* (1.68)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	12,075	12,075	12,075	12,075	12,075	12,075	5,772	5,772	4,203	4,203	1,499	1,499
R-squared	0.07	0.07	0.07	0.07	0.07	0.07	0.08	0.08	0.09	0.09	0.14	0.14



Table 7. Presidential and mid-term elections

The table reports the results of regression analysis with 5,180 completed U.S. mergers and acquisitions between 1981 and 2009 where the acquiring firm is only a public and a target is a public, private or subsidiary. Homogeneous acquisition (Dummy) is binary where 1 signifies that the acquirer and the target locals subscribe same political ideology determined with the recent president election and mid-term election outcomes. Homogeneous acquisition (continuous) is defined as the absolute value of difference between local political ideologies of acquirer and target in terms of margin of victory. All standard errors are robust to heteroskedasticity. All models are estimated with the year and industry fixed. \*, \*\*, and \*\*\* represent significance at the 10%, 5%, and 1 % levels, respectively. The definitions of other variables are in the Appendix.

VARIABLES	(1) Model	(2) Model	(3) Model	(4) Model
Homogenous (Dummy)	0.0074** (2.37)		0.0071** (2.28)	
Homogeneous acquisition(Continuous)		-0.0182* (-1.68)		-0.0184* (-1.70)
Geographical Distance			-0.0019 (-1.56)	-0.0020* (-1.66)
Focus acquisition	0.0034 (1.04)	0.0035 (1.06)	0.0033 (1.00)	0.0038 (1.17)
Relative size	0.0025* (1.84)	0.0025* (1.84)	0.0024* (1.89)	0.0025* (1.82)
High tech	-0.0113*** (-2.65)	-0.0112*** (-2.64)	-0.0108** (-2.52)	-0.0120*** (-2.84)
Public target	-0.0395*** (-8.60)	-0.0396*** (-8.61)	-0.0394*** (-8.48)	-0.0323*** (-8.43)
Tender offer	0.0063** (2.02)	0.0062** (2.00)	0.0057* (1.82)	0.0080*** (2.64)
Deal attitude(Friendly)	0.0138*** (2.71)	0.0139*** (2.74)	0.0141*** (2.78)	0.0128** (2.53)
Firm age	-0.0157* (-1.79)	-0.0160* (-1.83)	-0.0170* (-1.90)	-0.0152* (-1.73)
Firm size	-0.0035 (-1.58)	-0.0035 (-1.58)	-0.0035 (-1.59)	-0.0032 (-1.47)
Free cash flow	-0.0059*** (-5.47)	-0.0058*** (-5.40)	-0.0058*** (-5.31)	-0.0055*** (-5.10)
ROA	0.0025 (0.13)	0.0024 (0.12)	0.0041 (0.20)	0.0034 (0.18)
Leverage	-0.0319* (-1.75)	-0.0320* (-1.76)	-0.0352* (-1.90)	-0.0334* (-1.83)
Tobin's q	0.0096 (1.02)	0.0096 (1.02)	0.0098 (1.02)	0.0102 (1.09)
Industry competition	-0.0019*** (-3.75)	-0.0019*** (-3.68)	-0.0019*** (-3.72)	-0.0019*** (-3.74)
Population	-0.0001 (-0.20)	-0.0003 (-0.41)	0.0003 (0.41)	0.0003 (0.35)
Income	-0.0012 (-1.12)	-0.0010 (-0.92)	-0.0009 (-0.86)	-0.0008 (-0.76)
Gender	-0.0579* (-1.95)	-0.0553* (-1.83)	-0.0593** (-1.98)	-0.0501 (-1.64)
Religious	-0.0035 (-0.25)	-0.0033 (-0.24)	0.0044 (0.31)	0.0015 (0.11)
Ethnicity	-0.0269* (-1.95)	-0.0244 (-1.95)	-0.0256* (-1.95)	-0.0238 (-1.95)

	(-1.87)	(-1.64)	(-1.78)	(-1.61)
MSA	0.0001	-0.0003	0.0006	0.0004
	(0.01)	(-0.02)	(0.04)	(0.03)
Constant	0.0991***	0.1075***	0.1026***	0.0967***
	(4.49)	(4.93)	(4.63)	(4.65)
Industry fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	5,180	5,180	5,180	5,180
R-squared	0.08	0.08	0.08	0.08

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Appendix A . Definitions of variables

Variables	Definitions
Homogeneous acquisition(Dummy)	Dummy variable where 1 signifies that the acquirer and the target locals subscribe same political ideology determined with the recent president election outcomes
Homogeneous acquisition(Continuous)	Defined as the absolute value of difference between local political ideologies of acquirer and target in terms of margin of victory
In-state	Dummy variable where 1 signifies that the acquirer and the target are located in same state in a given year
Local	Dummy variable where 1 signifies that the acquirer and target are located within 100km of each other in a given year
Geographical distance	A continuous variable defined in Uysal, <i>et al.</i> (2008)
Firm size	Log of book value of total assets (item6).
Market capitalization	Market value of equity (millions of 2005 \$)
Book leverage	Book value of debts (item34 + item9) over market value of total assets (item6–item60 + item25 * item199).
Cash holdings	Cash/assets
R&D expenditures	R&D expenditures/lagged assets. Missing values are substituted with zero, unless indicated
Capital expenditures	Capital expenditures/lagged assets
Return on assets (ROA)	Operating income before depreciation/lagged assets
Tobin's <i>Q</i>	Market value of assets over book value of assets: (item6–item60 + item25 * item199)/item6.
Free cash flow	Operating income before depreciation (item13) – interest expenses (item15) – income taxes (item16) – capital expenditures (item128), scaled by book value of total assets (item6)
CAR (-2, +2)	Five-day cumulative abnormal return calculated using the market adjusted model with the CRSP value-weighted return as the market index.
Public target	Dummy variable: 1 for public targets, 0 otherwise.
Private target	Dummy variable: 1 for private targets, 0 otherwise.
Cash payment	Dummy variable: 1 for purely cash-financed deals, 0 otherwise.
Stock payment	Dummy variable: 1 for purely stock-financed deals, 0 otherwise
Relative deal size	Deal value (from SDC) over bidder market value of equity defined above
High tech	Dummy variable: 1 if bidder and target are both from high tech industries defined by Loughran and Ritter (2004), 0 otherwise.
Focus	Dummy variable where 1 signifies that the first 2 digits of SICs of the acquirer and the target are same
Deal attitude	Dummy variable where 1 signifies when the deal is defined as "friendly"
Tender	Dummy variable where 1 signifies when a tender offer is launched for the target
Population	Difference between log of local populations of acquirers and target in a given year (Data: CENSUS)
Education	Difference between log of local education of acquirers and target in a given year (Data: CENSUS)
Income	Difference between log of local median household income of acquirers and

Gender	target in a given year (Data: CENSUS) Difference between local female ratios of acquirers and target in a given year (Data: CENSUS)
Ethnicity	Difference between local race ratios of acquirers and target in a given year (Data: CENSUS)
Religious	A continuous variable to estimate local religious environment (Hilary and Hui (2009))
MSA	Dummy variable where 1 signifies when local is a metropolitan statistical area

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