

The Political Consequences of Private Equity: Evidence from U.S. Leveraged Buyouts

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Does private equity ownership shape corporate political strategy?

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We find evidence that:

- Portfolio companies increase lobbying after private equity takeover
- Especially true for companies that did not lobby prior to takeover
- Effects driven by politically active PE firms

Incredible Rise of Private Equity

- Over \$4 trillion current invested through US private equity
- PE accounts for roughly 5% of GDP value-add
- Industry now employs over 9 million workers
- No end in sight: over \$2 trillion available to purchase new companies

How Does Private Equity Work?

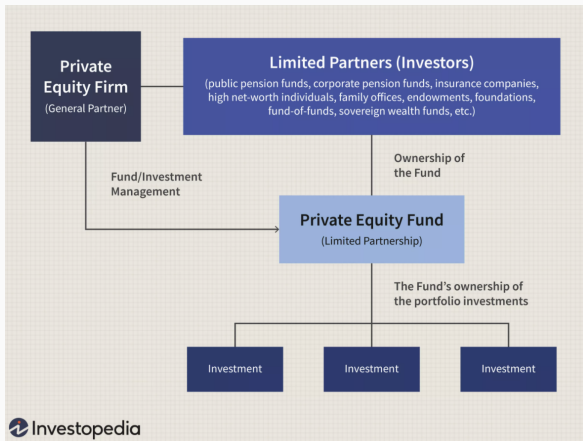
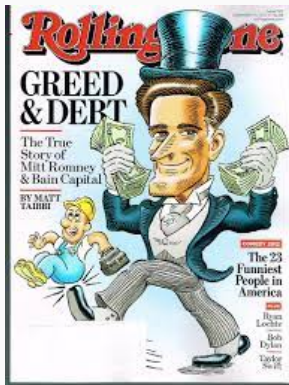


Image by Sabrina Jiang © Investopedia 2020

How do PE Firms Generate Returns?

- (Leveraged) buyouts of private portfolio companies (or taking firms private)
- Change in management team
- Performance-based incentives, e.g., stock options
- Liquidity & new financial/operating strategies

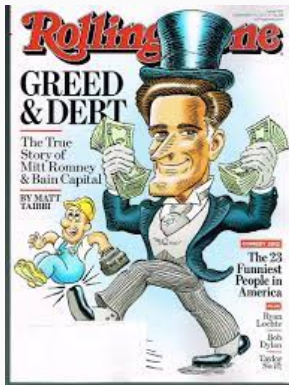
With Great Money Usually Comes Political Influence



PE firms have catapulted into Washington :

- Five-fold increase in campaign contributions over 2010-2020
- Over \$132 million spent on 2020 presidential election alone

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- Over \$132 million spent on 2020 presidential election alone
- Shroud of secrecy around private equity, especially w.r.t. **political activity**

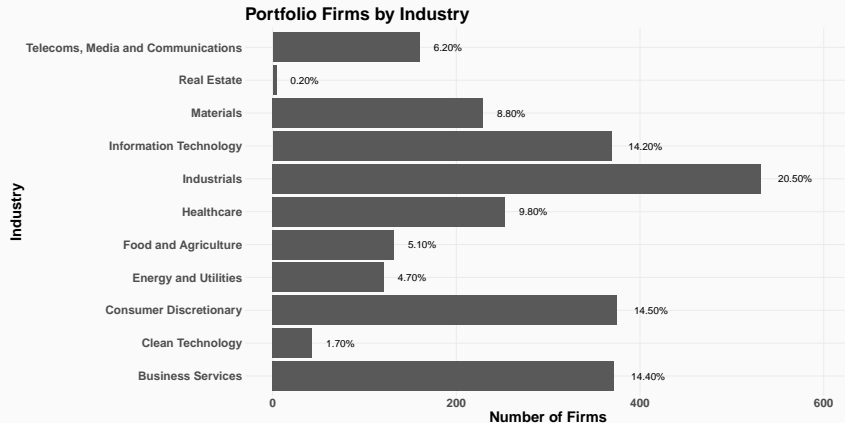
How do private equity buyouts change the political behavior of portfolio firms?

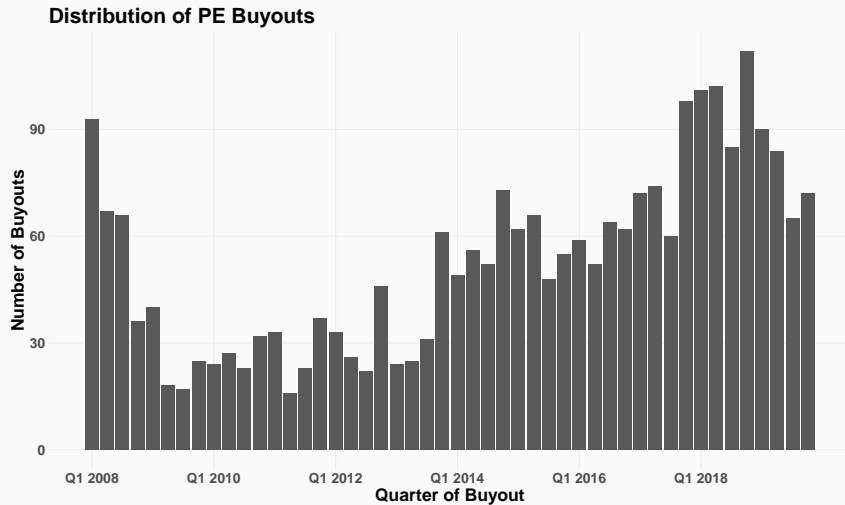
- Collect data on all private equity deals 2008 - 2019 from Preqin
- Exclude venture capital & sales from PE

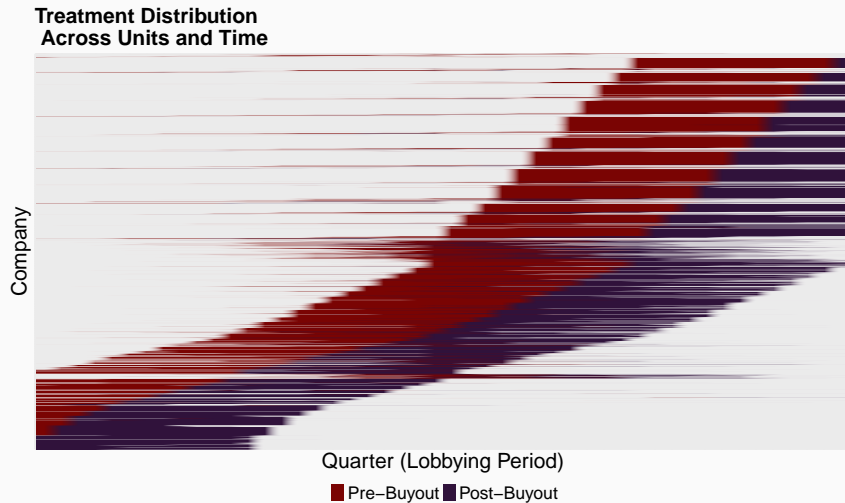
- Collect data on all private equity deals 2008 - 2019 from Preqin
- Exclude venture capital & sales from PE
- Sample of only ever-treated firms
- Fuzzy match to Dun and Bradstreet for financial data

- Subset to portfolio companies with at least US\$ 10 million in annual revenue prior to buyout
- Left with 2,558 unique private equity buyouts
- Restrict panel to 3 years (12 quarters) before and after deal

Main Sample







- Lobbying behavior of firms pre-/post PE buyout
- Match firm data to lobbying data from Lobbyview (Kim 2018)
- Only $\sim 6\%$ of portfolio firms ever lobby
- 3.3% of firm-quarters with lobbying activity

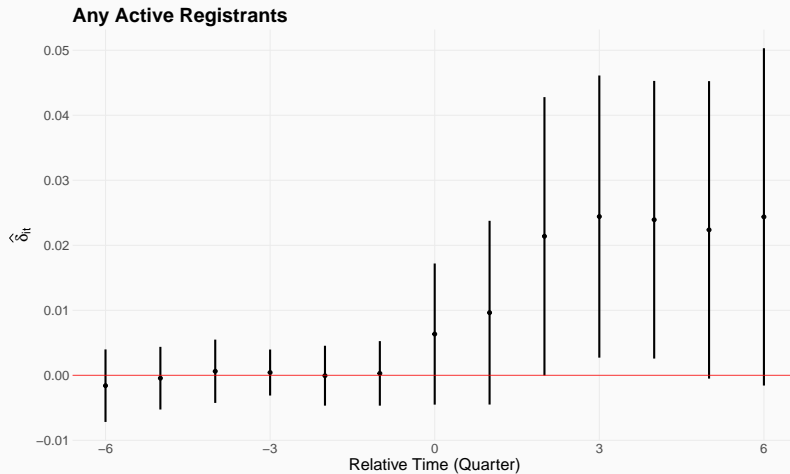
Outcome variables:

1. Any active registrants (0/1)
2. Total lobbying expenditure (lhs)

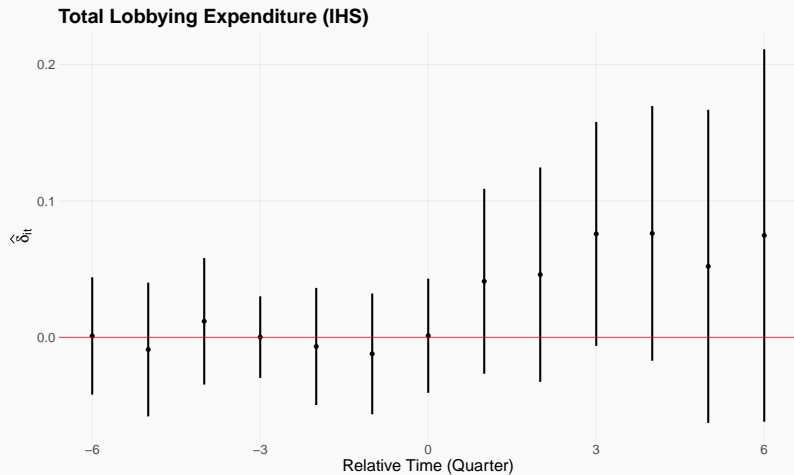
- Staggered difference-in-differences (Callaway & Sant'Anna 2021)
- Pre-buyout covariates: revenue, employment, num. of subsidiaries

Main Results

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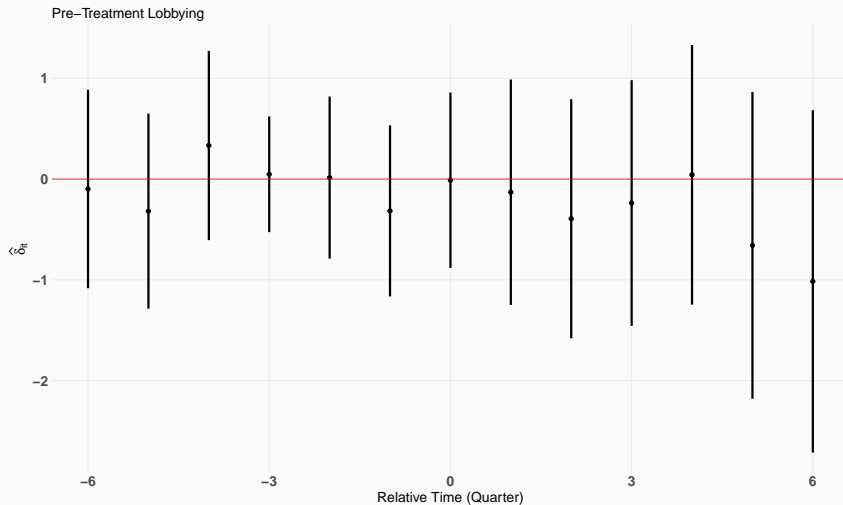


Main Results

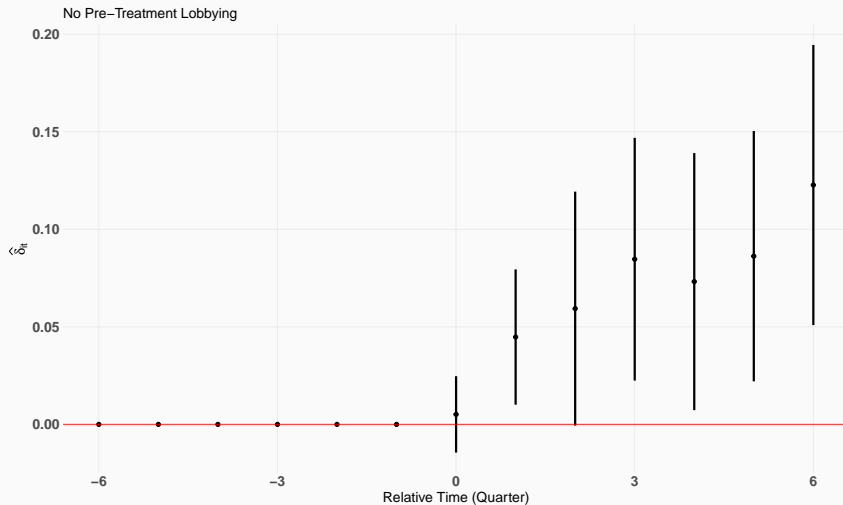


Lobbying History

Firms with lobbying history - Expenditure

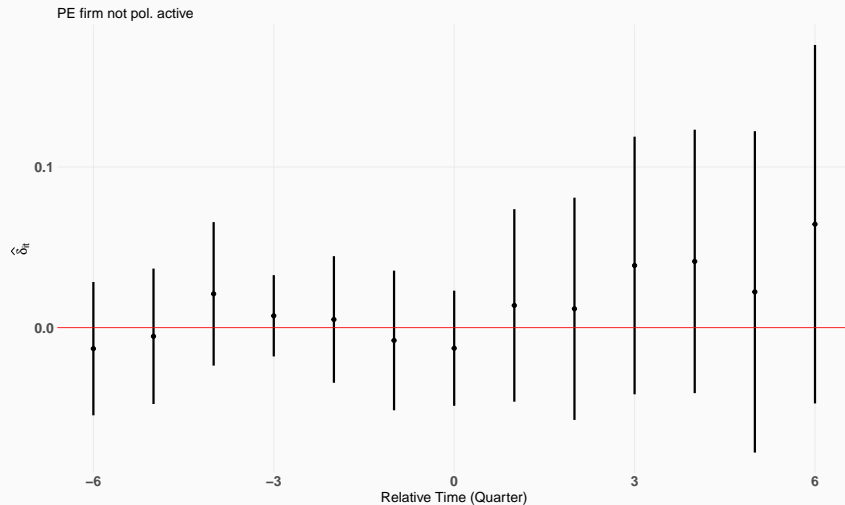


Firms without lobbying history - Expenditure

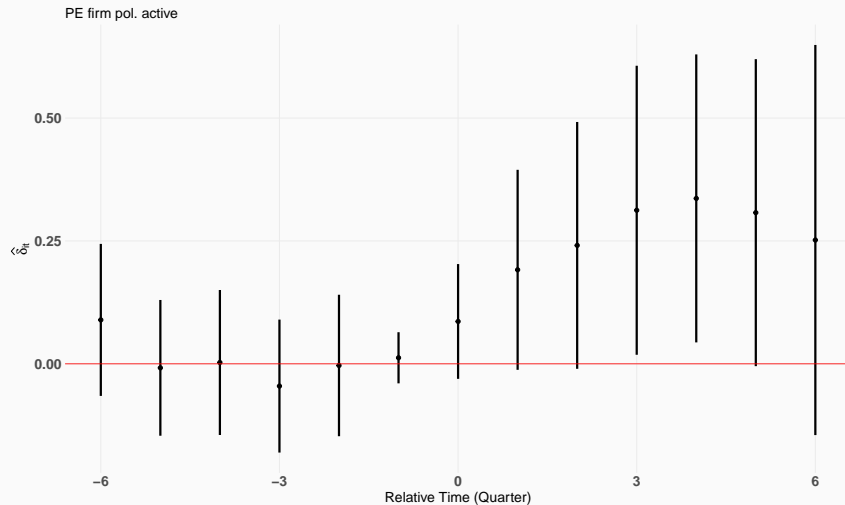


PE Firm Heterogeneity

Is PE Firm Politically Active?



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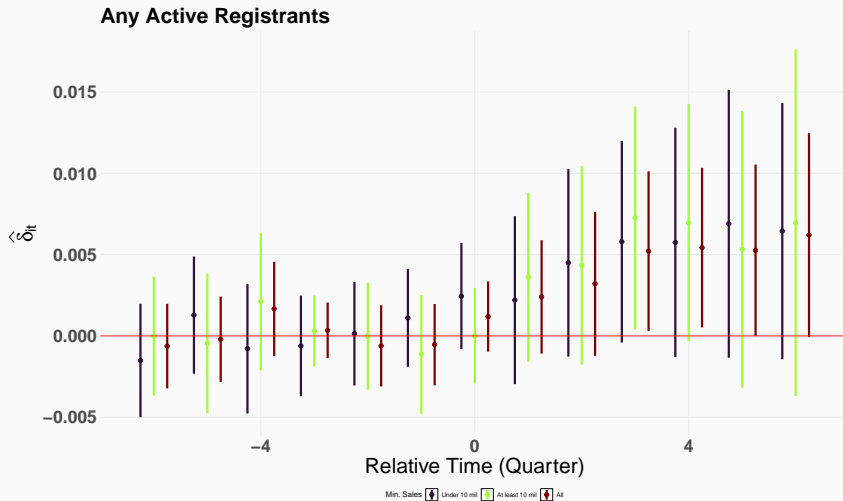
- Portfolio firms significantly increase lobbying activity after PE buyout
 - Results less clear for lobbying expenditure
 - Positive estimates for firms that had not lobbied pre-deal and not for those that had not

- Little evidence of effect on political contributions & gov't contracts
- Results similar with more restrictive sample of deals & stronger for firms w. higher revenues

Investigating mechanisms:

- What issue are lobbied?
- How do these firms lobby?
- Network & concentration effects

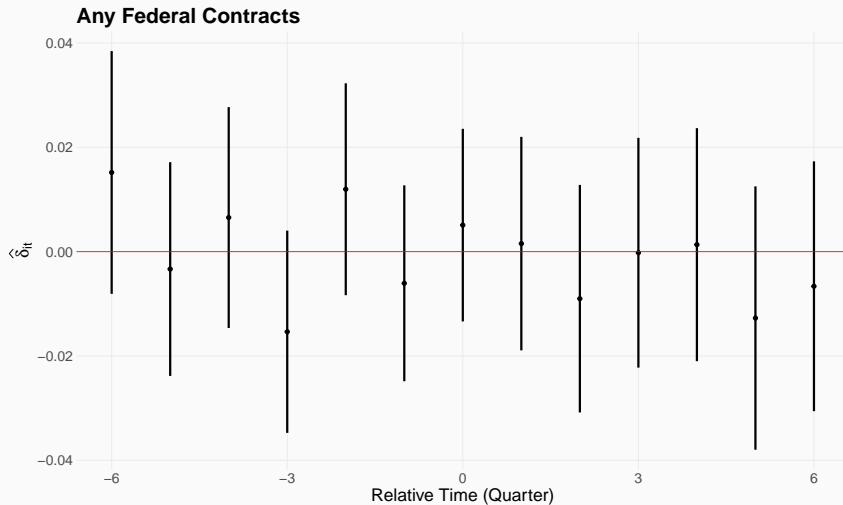
Conditional on Revenues (Full Sample)



Conditional on Revenues (Full Sample)



Federal Contracts



Political Contributions

