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Two Essays on Mergers and Acquisitions

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by

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DEDICATION

This dissertation is dedicated to my loving wife, Heenam Park, for being there for me throughout my entire life in U.S. Without her support, this work wouldn't have been possible. I also dedicate this work to my wonderful daughters, Hannah and Eunice, and to my parents, Gi-Ik Kim and Sung-Mi Choi. I also give special thanks to my aunt, B.J. Kim, to my mother-in-law, Myung-Han Choi, and to my uncle-in-law, Jong-Mok Choi.

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ABSTRACT

In the first essay, we examine the link between CEOs political ideology – conservatism – and their firms' investment decisions. We focus on the effect of CEO conservatism on M&A decisions. Our evidence indicates that politically conservative CEOs are less likely to engage in M&A activities. When they do undertake acquisitions, their firms are more likely to use cash as the method of payment, and the target firms are more likely to be public firms and to be from the same industry. Conditional on the merger, CEO conservatism appears to have a significantly positive impact on long-run firm valuation. However, we find no evidence that conservative CEOs create value in the short run. All our results hold after controlling for CEO overconfidence. In the second essay, 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.

ESSAY 1.

The Effect of CEO Conservatism on Merger and Acquisition Decisions

1. Introduction

A growing literature has examined individual as well as corporate financial decisions in the context of a phenomenon known as "behavioral consistency," the notion that individuals' preferences, attitudes, and personal traits can translate consistently across various choice problems. For example, Cronqvist, Makhija and Yonker (2011) document the behavioral consistency of CEOs' leverage choices in the mortgages of their primary residences and the debt ratios of their firms. Bonaparte, Kumar and Page (2010), Hong and Kostovetsky (2012), and Jiang, Kumar and Law (2011) show that personal political preferences indeed have a significant influence on the investment decisions of individual investors and professional money managers, as well as on the forecasts of equity analysts. Similarly, Malmendier and Tate (2005) and Malmendier and Tate (2008) point out how CEO overconfidence can adversely impact their firms' capital expenditures and M&A decisions while Bertrand and Schoar (2003) analyze how other characteristics of CEOs, such as age, education, and region, can also affect their corporate decisions.

More recently, Hutton, Jiang and Kumar (2013) test whether the personal political ideology of CEOs influences the level of financial conservatism in their firms. Their evidence is consistent with the notion that CEOs with Republican orientation, who are generally viewed as following a politically more conservative ideology, would also make financially more conservative decisions for their firms. Their results show that firms with Republican CEOs exhibit more conservative

corporate policies with lower leverage ratios, lower capital and R&D expenditure, less risky investment, higher dividend payouts, and greater profitability.

This paper extends the work of Hutton, *et al.* (2013) by examining the effect of CEO political conservatism on the merger and acquisition (M&A) decision of their firms. As in Hutton, *et al.* (2013) and similarly in Hong and Kostovetsky (2012), we use CEOs' personal political contributions to identify their political orientations, and thereby to assess the degree of their political and fiscal conservatism. Linking the personal ideology of CEOs and their M&A decisions is important because acquisitions are among the most significant investment decisions the CEOs make, which can have a substantial impact on their shareholder wealth.

To empirically examine the effect of CEO conservatism on M&A decisions, we compile a sample of 1,007 publicly traded U.S. firms and 2,100 CEOs that are covered by the COMPUSTAT Execucomp with 12,928 CEO-year observations between 1993 and 2006. Our test contributes to the literature by shedding light on how CEO conservatism affects (1) the firm's choice of acquisition (external investment) over capital expenditure (internal investment), (2) the acquirer's choice of payment method (cash vs. stock), type of target (public vs. private firm), and deal type (focus increasing vs. diversification), and (3) the market's reaction to the M&A announcement and the long-run performance of the acquiring firm.

First, we test how likely conservative CEOs are to engage in mergers. We find that conservative CEOs are significantly less likely to engage in M&A activities. The results are robust after controlling for other CEO characteristics, such as CEO age, tenure, and gender, as well as standard M&A determinants namely, Tobin's q, size, free-cash-flow, leverage, R&D and capital expenditure, and industry concentration level. We use firm and year fixed effects to remove the within-firm and time effects. Our evidence is consistent with the view suggested in the previous

literature (Jost, Glaser, Kruglanski and Sulloway (2003); Wilson (1973a); Kish, Netterberg and Leahy (1973)) that conservative individuals exhibit a strong disposition to preserve the status quo and are less likely to seek strong external stimulation and to engage in sensation-seeking behavior. Our results indicate that this behavioral consistency of conservatives extends to their corporate investment/M&A decisions.

Using seemingly unrelated regressions (SUR), we further test conservative CEOs' choice of acquisition (external investment) over capital expenditure (internal investment). We find that conservative CEOs are negatively associated with external investment (M&A), but positively associated with internal investment (capital expenditure) after controlling for firm-level investment opportunity (Tobin's q) and industry concentration level. Their choice can be explained by the higher degree of uncertainty and asymmetry information in the environment surrounding external investment (M&A) addressed in Harford and Li (2007).

Regarding whether conservative CEOs prefer stock or cash as the method of payment for acquisitions, we find that they are significantly less likely to choose stock as a payment method. Gilson (1986) documents that stock payments lead to substantial offer delays in the United States due to security registration and shareholder approval requirements. Fishman (1989) argues that cash enables more rapid deal completion, thus lessening the risk of competitive bids. Furthermore, holding the acquisition price constant, using cash lowers the likelihood of bid rejection by target management and a competitive bid. Since using stock as the payment method would increase the uncertainty of successful completion of the deal, conservative CEOs are therefore less likely to use this payment method, and our evidence is consistent with this prediction.

CEOs with a conservative ideology are also significantly more likely to choose focus-increasing M&As. Glasgow and Cartier (1985) argue that conservatives tend to prefer familiar

stimuli over unfamiliar stimuli. They are also more sensitive to the possibility of a loss. diversifying M&As are shown to have a negative response to the announcement (Morck, Shleifer and Vishny (1988)) while similarly diversified firms too are seen to exhibit a diversification discount on valuation [Berger and Ofek (1995); Lang and Stulz (1994); Rajan, Servaes and Zingales (2000)]. Conservative CEOs are therefore more likely to acquire within-industry targets to the extent that their sensitivity to unfamiliar stimuli and the potential loss from diversifying merger is greater than non-conservative CEOs.

We also find that conservative CEOs are less likely to choose private targets and more likely to choose public targets. One possible explanation for the finding could be the difference in information availability on private/subsidiary and public targets. Less information on private targets makes the value of assets highly uncertain; this causes conservative CEOs to favor to acquire public targets.

To address the question of whether conservative CEOs add value to the firms by undertaking acquisitions, we analyze the market's reaction to M&A announcements. We find no statistically significant difference in market response to the announcement by firms with conservative or non-conservative CEOs in multivariate regression test. One possible reason for this finding is that M&A decisions made by CEOs with conservative ideology could be suboptimal in their decision making process. In Table 2 we document that conservative CEOs are less likely to use stock as the payment method (positive to the announcement returns), are more likely to conduct focus-increasing M&A (positive to the announcement returns), and are more likely to acquire public targets (negative to the announcement returns).

In particular, acquiring public targets could be a suboptimal decision in creating firm value. In conservative CEO perspectives, acquiring public targets is a safe choice due to As argued in Fuller,

Netter and Stegemoller (2002), due to the lack of liquidity in private and subsidiary targets, acquiring such firms can result in positive announcement returns. However, information on private and subsidiary targets is generally more opaque and is less available than public targets. Thus, given the preference for greater uncertainty avoidance, CEOs with conservative ideology are more likely to prefer acquiring public targets, resulting in negative market response.

Interestingly, the analysis of long-term performance indicates that conservative CEOs add values to their firms. Over the five-year period of a post-M&A announcement, stocks of firms with conservative CEOs outperform those with non-conservative CEOs by 20.73% (significant at the 5% level). This finding is consistent with the result in Hutton, *et al.* (2013) that firms run by conservative CEOs have better operating performance. It is possible that more cautious management by conservative CEOs results in fewer mistakes and hence better performance.

We perform robustness checks for all our results, for example, by controlling for CEO overconfidence. Malmendier and Tate (2005) show that management overconfidence is an important aspect of CEO behavioral bias that has a significant impact on a firm's investment decisions. We show that our results remain unchanged after controlling for CEO overconfidence.

The rest of the paper is organized as follows. In Section 2, we develop the hypotheses concerning the effect of CEO conservatism on mergers. In Section 3, we describe the data and the conservatism measures. Section 4 presents the empirical results and their interpretations. We conclude in Section 5.

2. Hypotheses

The basic premise of our analysis is that CEOs' political conservatism is correlated with their conservatism when making their firms' financial and investment decisions. Carney, Jost, Gosling and Potter (2008) show that left-right differences in ideologies exist and are related to their relative

openness to changes versus the preservation of traditional values. Jost, *et al.* (2003) argue that conservatives exhibit a strong disposition to preserve the status quo while liberals are more willing to embrace changes and seek novelty. In particular, conservatives are less likely to seek strong external stimulation [Wilson (1973b)], less open to unconventional views [Jost and Thompson (2000)], less likely to engage in sensation seeking behaviors [Kish, *et al.* (1973)], and more cautious about making major changes in life (Feather 1979).

In addition, external (M&A) and internal investment (capital expenditure) decisions are the choice of CEOs since they are similar way of adding to a firm's asset base and productive capacity. Andrade and Stafford (2004) analyze industry patterns in M&A and internal investments (Capital expenditure) and find that M&A, like internal investment(Capital expenditure), are a means for firms to improve their capital base, in reponse to growth opportunity measured by Tobin's q and sales growth. However, Harford and Li (2007) report that the CEO treats internal investment (Capital expenditure) and M&A differently and argue that the incentives to undertake each differ as well due to the uncertainty and information in the environment surrounding a M&A.

Given these observations, we expect that politically conservative CEOs are more likely to be conservative in making financial decisions for their firms. Thus, this type of CEOs would be less likely to undertake major investment decisions such as mergers and acquisitions for their firms, and favor internal investment (capital investment) over external investment (M&A).

Hypothesis 1: CEOs who are politically conservative are less likely to engage in acquisitions than CEOs who are less conservative.

The M&A literature has documented negative announcement returns for acquirer's stocks in stock-finance mergers [e.g., Servaes (1991); Travlos (1987)]. In fact, the acquiring firms' poor stock performance goes beyond the announcement period. Agrawal, Jaffe and Gershon (1992b)

document that post-acquisition stock returns are lower for acquisitions that are stock-financed than those that are cash-financed. Linn and Switzer (2001) find that acquiring firms experience significantly worse industry- and size-adjusted operating performance for up to five years following the acquisition. Now, if conservatives are more sensitive to the possibility of a loss as argued in Wilson (1973b), it is reasonable to expect that conservative CEOs would be more sensitive to potentially poor stock performance and hence would be less likely to choose stock as the method of payment for acquisitions.

Moreover, Wilson (1973b), Gillies and Campbell (1985), and McAllister and Anderson (1991) point out that conservatives also exhibit greater aversion to ambiguity, uncertainty, and complexity. While stock payments is documented in Gilson (1986) to have led to substantial offer delays in the United States, due to security registration and shareholder approval requirements, cash is shown by Fishman (1989) to enable more rapid deal completion and thereby lessen the risk of competitive bids. Martin (1996) also find that stock offers are more likely to be used than cash if there more uncertainty about the target. Holding the acquisition price constant, paying cash also lowers the likelihood of bid rejection by target firms. Thus, our second hypothesis predicts that conservative CEOs are less likely to choose stock as the payment method.

Hypothesis 2: Conservative CEOs are less likely to use stock as the method of payment than less-conservative CEOs.

There are many explanations for the different market reaction to the M&A with the different type of target[Chang (1998), Hansen and Lott (1996), and Fuller, *et al.* (2002)]. Particularly, Fuller, *et al.* (2002) argue that private targets are associated with positive announcement returns due to a liquidity effect for private/subsidiary target. The lack of liquidity on those targets makes the investments less attractive, resulting in price discount. Thus, with the higher sensitivity to the

possibility of a loss [Wilson (1973a)], we can conjecture that conservative CEOs more likely favor to acquire private target. However, information about private and subsidiary targets is generally more opaque and is less available than public targets(information effect). Thus, given the preference for greater uncertainty avoidance, CEOs with conservative ideology are more likely to prefer acquiring public targets. Collectively, conservative CEOs' choice of type of target is not clear.

Hypothesis 3: Conservative CEOs are more likely to acquire public (Private) target if information effect for public target is greater (smaller) than liquidity effect for private/subsidiary target.

Ruth Glasgow, Cartier and Wilson (1985) argue that the conservatives also prefer familiar versus unfamiliar stimuli. Morck, Shleifer and Vishny (1990) find that diversifying M&A have negative (value-destroying) announcement returns. Other studies also document diversification discounts [Berger and Ofek (1995); Lang and Stulz (1994); Rajan, *et al.* (2000)]. If conservative CEOs indeed prefer familiar stimuli and are more sensitive to poor performance, we expect that they are more likely to engage in focus-increasing rather than diversifying acquisitions by pursuing within-industry targets.

Hypothesis 4: Conservative CEOs are more likely to acquire targets that are in the same industry.

Hutton, *et al.* (2013) provide evidence that managerial conservatism is a determinant in corporate financing, payout, and investment decisions. They report that CEOs with conservative ideology have lower level of leverage (financing policy), higher level of dividend payout (payout policy), higher level of profitability (operating side), and tend to avoid risky investment (less investment in capital expenditure and even less investment in R&D expenditure). They argue that

the cautious financing decision and operating style leads firms less risky and more profitable whereas conservative investment policy may be costly to shareholders and then conclude that the impact of these policy choices on firm valuation is not clear.

However, many M&A studies document the major determinants of short term firm valuation (announcement returns) such as method of payment, type of target, and within-industry M&A, which are the CEOs' choices. As such, we can examine the impact of their policy choices on firm valuation. In general, cash offers are associated with greater abnormal announcement returns than stock offers [Travlos (1987), Fishman (1989), Brown and Ryngaert (1991)]. Hansen and Lott (1996) and Fuller, *et al.* (2002) report that acquiring private generates higher announcement returns. Also Comment and Jarrell (1995) find that increase in focus is consistent with shareholder wealth maximization. Thus, the short term firm value created/destroyed by M&A will be contingent on CEOs' choices (cash: (+), private (public):+(-), focus-increasing: (+)). Regarding long term firm valuation, due to their conservative managing style, M&A made by conservative CEOs will outperform those by non-conservative CEOs.

Hypothesis 5: The announcement returns will be conditional on their determinant choices, but M&A made by CEOs with conservative ideology will outperform those by non-conservative CEOs due to the managing style in the long run.

3. Data

We draw the initial sample of CEOs from the Compustat Executive Compensation (Execucomp) database, which primarily covers firms in the S&P 1500 index from 1993 and 2006. Execucomp provides the full name, title, position, age, gender, and "Became CEO" date to compute their tenure of being the top executive for each fiscal year. Then we use the CEO

information from Execucomp to identify the CEO's political contributions recorded by the Federal Election Commission (FEC).

We match the CEO's personal and political information obtained from ExecuComp and FEC with the M&A database. Securities Data Company (SDC) is used to obtain announcement dates and merger financing information for completed deals by our sample firms. We require that the acquiring firm obtains at least 51% of the target's shares (and hence control). We also require that the deal size be greater than $1 million. This criterion is important because acquisitions of small targets may not require active involvement of the acquirer's CEO. We exclude acquisitions where the targets are not either private or subsidiary. Firm-level accounting variables are obtained from COMPUSTAT (See Appendix for the definitions of variables). The Fama-French industry group information comes from Professor Kenneth French's data library. This procedure generates 1,007 firms, 2,100 CEOs and 12,928 CEO-year combinations.

Following Hong and Kostovetsky (2012), Hutton, et al. (2013), and others, we use CEO's political contributions to Republican and Democratic senate, house, presidential candidates and party committees in political campaigns to determine their political affiliations. Individual donation data is obtained from the Federal Election Commission (FEC) website (www.fec.gov) from 1993 and 2006. Corporate CEOs can make contributions to political candidates or party committees either directly or indirectly. They can make contributions directly to candidates or party committees. They can also contribute indirectly through their companies' Political Action Committees (PACs). We use the direct contributions by CEOs to identify their political orientation because company PACs usually make simultaneous contributions to both parties [Cooper, Gulen and Ovtchinnikov (2010)].

To identify the political preferences of CEOs, we create the tenure-specific Republican dummy measure for each CEO. This dummy variable identifies strong Republican CEOs during their tenures. It takes the value of one if the CEO's political contributions during his/her entire tenure is all toward the Republican Party, and of zero if otherwise. The fact that this measure does not vary during the sample period captures the idea that party identification is developed and established in one's earlier years adolescence or early adulthood and remains fairly stable during the adult life [Green, Palmquist and Schickler (2002)] . Our measure of CEO political orientation also eliminates the potential noise that could be introduced by varying party popularity at given years.

We also construct an alternative index variable for party orientation, which is defined as the difference between a CEO's political contributions to the Republican Party candidates (or its committees) and those to the Democratic Party (or its committees) divided by the CEO's total contributions to both parties during his/her entire tenure. As in Hutton, et al. (2013), the measures here are based on self-revealed preferences (e.g., political donations) of CEOs and can therefore capture their embedded political identities and ideologies which they subscribe.

Table 1 presents the summary statistics of our sample. Panel A shows the differences in firm-specific and CEO-specific variables across CEOs. First, we examine the tendency of conservative CEOs on investments. As shown in Panel A, the M&A dummy shows that a lower proportion of CEOs with conservative ideology (44% of conservative CEOs) engages in M&A activities than non-conservative CEOs (47% of non-conservative CEOs). However, firms with conservative CEOs have, on average, a larger amount of capital expenditures compared to those with non-conservative CEOs. The initial finding is consistent with our first hypothesis that conservative CEOs are less likely to engage in M&A because of greater uncertainty and greater information

asymmetry surrounding M&A, but they do prefer internal over external investments holding fixed their investment opportunities and industry competition levels [see Andrade and Stafford (2004)].

We next check the operating performance of firms. Hutton, *et al.* (2013) find that firms with conservative CEOs have higher profitability. Consistent with their findings, firms with conservative CEOs in our sample also have higher profitability, higher operating margin, and higher ROA than those with non-conservative CEOs. In our sample, firms with conservative CEOs have higher leverage. This is inconsistent with the finding in Hutton, *et al.* (2013). A possible explanation could be that firms with conservative CEOs in our sample have more tangible assets, enabling them to borrow more at lower costs. Panel B presents the pairwise correlations between the conservative CEO measure and other CEO characteristics. The correlations are lower than 0.1 but CEO age displays higher than 0.1. We will control for CEO age in our estimations to prevent their direct effects from contaminating our results.

4. CEO Conservatism and Acquisitions

To see whether CEOs' individual traits may influence their investment decisions, our main empirical analysis concerns the link between their personal ideology and their firms' investment choices. To address the question, we first investigate whether CEOs' preferences for internal vs. external investment, and in the event of acquisitions, their choices of payment method, target type, and deal characteristics (focus-increasing vs. diversification).

4.1. Merger Frequency

To test the first hypothesis, we use the following probit regression specification:

$$\Pr\{Y_{it} = 1 | C_{it}, X_{it}\} = G(\beta_1 + \beta_2 C_{it} + X'_{it} B) \quad (1)$$

Y in the Eq. (1) is a dummy variable where 1 signifies that the CEO engages in M&A in a given year. *C* stands for the conservatism measure for CEOs. *X* is a set of control variables. *G*

stands for the logistic distribution. In estimating Eq. (1), we use two proxies for *C*, both the dummy and the index variable.

Table 2 reports two sets of results related to the first hypothesis. In model (1) and (2), using the probit model described above, we test how likely conservative CEOs engage in M&A controlling for CEO age, tenure, founder, and gender. At the firm level, we include the following controls: size of acquirer, Tobin's q (control for investment opportunity), free cash flow (measure of internal resource), leverage, capital expenditure, R&D expenditure, Herfindahl index (measure of industry competition), and a dummy variable for high tech industry. We also include industry and year fixe effect to control for within-industry variations and time trends in the likelihood of M&A.

The effect of CEO conservatism on merger frequency appears to be negative after including the controls and firm and year-fixed effects with standard errors robust to two-dimensional clustering effect from model (1) and (2). The estimate of the conservative dummy measure is -0.0789 (t-statistic= -2.04), significant at 5%, and the estimate of the conservative index measure is -0.0596 (t-statistic=-1.80), significant at 10%. To address the economic significance of the effect of conservatism on M&A frequency, we compute the marginal effects. The marginal effect of the conservative dummy measure is -2% and the marginal effect of the continuous conservative measure is -1.4%.The finding support the notion of conservatism in that conservatives tend to prefer familiar rather than unfamiliar stimuli [Glasgow and Cartier (1985)] and also tend to exhibit the greater aversion to ambiguity, uncertainty, and complexity [Wilson (1973b), Gillies and Campbell (1985); McAllister and Anderson (1991)].

As a follow-up test, we use a simultaneous equation approach to investigate how conservative ideology is related to two different types of investments: external investment (M&A) and internal

investment (capital expenditure). We estimate a system of equations using seemingly unrelated regression (SUR), in which the residuals are correlated.

$$X_{i,t} = f(CEO\ conservatism + Controls) + \varepsilon_{i,t} \quad (2)$$

$$Y_{i,t} = h(CEO\ conservatism + Controls) + \gamma_{i,t} \quad (3)$$

In the above, i indexes firms, t indexes years, $X_{i,t}$ is the external investment decision (M&A), and $Y_{i,t}$ is the internal investment decision (Capital expenditure). From this specification, we analyze whether the conservative ideology has similar or differential effects on two investment decisions. Within the specification, the likelihood of external investment and that of capital expenditure are simultaneously estimated by regression on the set of control variables and the main variable – CEO conservatism.

Models (3) and (4) in Table 2 estimate the system of two equations with the M&A dummy and the capital expenditure measure normalized by the total assets as the dependent variables. The regression results show that firms with conservative CEOs are less likely to engage in M&A but they are positively associated with capital expenditure, consistent with our hypothesis. Notably, our results are also consistent with the implications of Andrade and Stafford (2004). In their comparative study of mergers and internal corporate investment at the industry and firm levels, they find that both merger and internal investment are positively related to the firm's Tobin's q but differently related to industry landscape. In our models (3) and (4), the signs of Tobin's q are positive on both dependent variables but the signs of industry competition variable are opposite.

4.2. Method of Payments, Type of Targets, and Diversification

Next we examine CEOs' choice of method of payments, type of targets and diversification and examine the effect of their choices on announcement returns. The method of payment, the type of target, and diversification are the important determinants of acquirer returns. Studies that examine

the method of payment include Myers and Majluf (1984), Hansen (1987), Martin (1996), Fuller, *et al.* (2002), while those that focus on the type of target include Hansen and Lott (1996), Chang (1998), Mulherin and Boone (2000), and Fuller, *et al.* (2002). The topic of diversification are in Berger and Ofek (1995), Lang and Stulz (1994), and Rajan, *et al.* (2000). We use a probit regression specification to explore CEOs' choices of these determinants.

$$\Pr\{Y_{it} = 1 | C_{it}, X_{it}\} = G(\beta_1 + \beta_2 C_{it} + X'_{it} B) \qquad (4)$$

Y in Eq. (4) is a dummy variable where 1 signifies that the CEO uses stock as payment in models (1) and (2) of Table 3. *Y* in models (3) and (4) is a binary variable where 1 signifies that the type of target firm in M&A is private. In models (5) and (6), the dependent variable is a binary variable where 1 signifies that the first two digits of SIC code are identical for the acquirer and the target.

Table 3 reports the regression results. In models (1) and (2), we find that firms are less likely to use stock as payment. The estimates in model (1) are -0.3381 (t-statistic=-4.42) and -0.2768 (t-statistic=-4.13) after controlling for CEO characteristics and firm characteristics, respectively. Their marginal effects are -3.6% and -4.4%, respectively. This result can be explained by the nature of CEO ideology. Given the uncertainty in bidders' stock offer as a method of payment [Gilson (1986), Fishman (1989)], selecting cash payment is consistent with greater uncertainty aversion exhibited by conservative CEOs. Also reported in Hutton, *et al.* (2013) and shown in Table 1, firms with conservative CEOs tend to have more cash holdings due to the better operating performance (higher ROA, profitability, and operating margin). When they have enough cash-holding, bidders are less likely to face financing constraints.

Next we test the relation between CEO conservatism and the type of target. Many studies identify the type of target as an important determinant to announcement returns. Fuller, *et al.* (2002)

argue that the differential market reactions to the acquisitions of private or subsidiary versus public targets are that bidders can acquire private or subsidiary firms at a lower price because these targets, unlike public firms, lack of liquidity. Indeed, there are significant differences in information availability on private or subsidiary targets relative to public targets. Unlike information on public targets that is more readily available, acquirers must collect private information and hence must incur higher information costs when buying a non-public target.

In term of conservative ideology, the conservatives display greater aversion to uncertainty and a loss. Thus, conservative CEOs' choice between private/subsidiary and public target is not clear because their choices depend on the size of liquidity effect (Price effect) and information effect. In models (3) and (4) of Table 3, we find that conservative CEOs' are less likely to acquire private targets and more likely to acquire public targets. The estimate is -0.1959 (t-statistic=-3.07) in models (3), and -0.1749 (t-statistic=-3.19) in model (4). Their marginal effects are -4.0% and -3.6%, respectively.

We use diversification as a proxy for conservative CEOs' tendency for status quo. First, due to their status quo tendency and less degree of informational asymmetry for the targets within the same industry, they are more inclined to conducting focus-increasing M&A. In addition, there is much evidence in the literature documenting a diversification discount [Berger and Ofek (1995); Lang and Stulz (1994); Rajan, *et al.* (2000)]. If the conservative ideology is associated with a loss aversion and a preference for similarity, then conservative CEOs are more likely to pursue deals that are focus-increasing. We find that conservative CEOs are indeed more likely to complete focus-increasing M&A, compared with non-conservative CEOs. In models (5) and (6) of Table 3, the estimate for the conservative CEO dummy is 0.0869 (t-statistic=1.79), significant at 5%, and

that for the conservative CEO index variable is 0.0917 (t-statistic=2.25), significant at 10%. Their marginal effects are -1.2% and -1.1%, respectively.

4.3. Value Consequences

We test whether CEO conservatism has a positive or negative impact on firm valuation in both the short term and the long term. For the short-term effect, 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.

Table 4 reports the average abnormal announcement returns. The market response to M&A by conservative CEOs is not significantly different from that by non-conservative CEOs. This result suggests that CEO conservatism may not have a positive impact on firm valuation. Possible explanation is that as shown in the previous tests, there is a tendency for conservative CEOs to choose the determinants in a consistent way with their conservative ideology. For example, they are more(less) likely to use cash (stock) as a method of payment, are likely to acquire within-industry targets, and are more likely to acquire public targets after controlling for other factors. However, each choice would affects the announcement abnormal returns differently (cash payment (+), focus-increasing (+), and public target (-)). Thus, the effect of CEO conservatism on short-term firm valuation could be unclear.

In the long-run performance analysis, however, we see that conservative CEOs outperform non-conservative CEOs over the five-year post M&A announcement. We use buy-and-hold

average abnormal returns over holding periods that extend from one to five years following M&A announcements. The buy-and-hold abnormal return (BHAR) for each event firm is calculated:

$$BHAR_{(i,a,b)} = \prod_{t=a}^{b}(R_{it} + 1) - \prod_{t=a}^{b}(R_{mt} + 1) \qquad (5)$$

where *ER(i,a,b)* = Excess return for event firm *i* over the time period from day *a* to day *b*; R_{it} is the return on the common stock of event firm *i* on day *t*; and R_{mt} is the return on the stock of the matched firm on day *t*. Matched firms are selected using the following sets of matching criteria: size and ratio of book to market value of equity. The post-announcement long-term abnormal returns do not include the abnormal returns over days -1 through 0 relative to the announcement date. If an event firm is delisted before the end of the buy-and-hold period, its truncated return series is still included in the analysis, and it is assumed to earn the daily return of the benchmark for the remainder of the period.

Using matching method with size and book-to-market ratio as matching criteria (see Liu, Szewczyk and Zantout (2008)], we find that M&A conducted by conservative CEOs outperform those by non-conservative CEOs over 5 years. In Table 5, the abnormal buy and hold returns for M&A by conservative CEOs are 11.27% whereas BHARs for M&A by non-conservative CEOs are -9.46%. The difference between two BHARs is 20.73% (t-statistic=2.31). This result is interesting when compared with the results of other post-merger long-term studies reporting poor post-merger performance. Much of long term post-merger studies report that acquirer experience significantly negative abnormal returns over one to three(five) years after the merger [Agrawal, Jaffe and Mandelker (1992a) ; Andrade, Mitchell and Stafford (2001)]. Especially, Agrawal, *et al.*

(1992a) reports that acquirers suffer a significant wealth loss of approximately 10 percent over the five years following the merger completion. The wealth loss over the five years for the mergers driven by non-conservative CEOs is -9.46 percent which is consistent with the finding of Agrawal, *et al.* (1992a). Meanwhile the abnormal buy and hold returns for M&A by conservative CEOs are 11.27%. Thus, the result suggests that different managers' different managing style may have an impact of the post-merger long term performance.

The result from the time-series analysis is also confirmed with a cross-sectional analysis. Table 6 reports the result of the cross-sectional regression of BHAR on conservative CEOs. We show that time-series result holds in the cross-sectional analysis. After controlling for CEO characteristics (age, tenure, and gender) and for deal characteristics (size, relative size, type of target, method of payment, deal attitude (Friendly vs. Hostile) and tender offer), we find that M&A by conservative CEOs outperform those by non-conservative CEOs. The coefficient for the conservative CEO dummy is 0.22 (t-statistic=1.93) and that for the conservative CEO index variable is 0.109 (t-statistic=1.73). Thus, while conservative CEOs may make suboptimal investment decisions for short-term by following their conservative preference, they do manage their firms in a way that ultimately enhance their firm value in the long run.

4.4. Overconfidence

Malmendier and Tate (2008) analyze the effect of CEO overconfidence on corporate M&A decisions. They find that the level of CEO overconfidence has an impact on merger frequency, merger financing, and deal quality, resulting in significantly negative announcement returns. Since the level of CEO overconfidence is another dimension of his or her personal beliefs and traits, we include an overconfidence variable and re-do the regression analyses. To construct the CEO overconfidence measure, we follow Campbell, Gallmeyer, Johnson, Rutherford and Stanley

(2011).[1] Panel A in Table 7 shows a pairwise correlation between the conservative measure and the overconfidence measure. The correlation is negative but is less than 0.1, implying that conservatism and overconfidence are in opposite directions but are not strongly correlated. Panel B in Table 7 confirms that our previous results hold even after controlling for overconfidence and for the same set of controls used earlier.

5. Conclusion

We analyze the effect of CEO conservatism on M&A decisions. Given the evidence in the literature that CEOs' behavioral consistency plays an important role in certain decisions of their firms, we examine specifically whether the same conservatism would also impact their firms' M&A decisions and whether M&A by conservative CEOs have value implications. In our analysis, we use a CEO's political contribution to determine the CEO's level of conservatism.

We find that conservative CEOs are significantly less likely to engage in M&A activities. This result holds whether we identify such CEOs with a dummy variable or an index variable. The result is also robust to controlling for standard M&A determinants (Q, size, free-cash-flow, leverage) as well as using firm and year fixed effects to remove the time and year effects. Our analysis also tests the likelihood that conservative CEOs would choose stock versus cash as method of payment. Consistent with the notion of being conservative, we find that conservative CEOs are indeed significantly less likely to use stock as payment method. We also find that conservative CEOs are more likely to prefer focus-increasing M&A as they are more likely to acquire the within-industry targets. This result is consistent with the argument that conservatives have the greater tendency for status quo and the greater concern for better performance.

[1] See Campbell*, et al.* (2011) to see how to construct CEO overconfidence measureCampbell*, et al.* (2011)

To address the question of whether conservative CEOs add value to their firms in their M&A, we analyze the market's reaction to M&A announcements. In a multivariate regression test, we find no statistically significant difference in market response to the announcement between conservative and non-conservative CEOs. However, the long-term performance analysis shows that conservative CEOs do add value to their firms. Over the five years of post-mergers announcement, conservative CEOs outperform non-conservative CEOs by 20.73% (significant at 5%). Our finding is consistent with that in Hutton, *et al.* (2013) who show that firms run by conservative CEOs tend to have better operating performance.

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ESSAY 2.

Local Political Ideology and Acquirers' Announcement Returns

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[2]. 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.

[2] See the WSJ article: http://online.wsj.com/article/SB10001424053111904253204576512761738987674.html

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 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 the. 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)]. 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. 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. 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

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

where $\text{Radius} \approx 6378 \text{ kilometers}$,

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

$\text{dlat} = \text{target latitude} - \text{acquirer latitude}$,

and $\text{dlon} = \text{target longitude} - \text{acquirer longitude}$

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 that 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 to1989, 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.

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.

4.2. Acquirer Announcement Return

We measure bidder announcement effect by the market model with value-weighted market index return around initial acquisition announcement.[3] 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.

[3] 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.

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).

4.3. Homogeneous vs. Heterogeneous Mergers and Acquisitions

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 suing 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.

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 returnsMasulis, 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.

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.

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. Summary Statistics

The table reports summary statistics of our sample. The sample consists of 1,007 publicly traded U.S. firms and 2,100 CEOs covered by the COMPUSTAT Execucomp with 12,928 CEO-year observations between 1993 and 2006. Panel A is the summary statistics of firms with conservative CEOs (taking value of 1) versus firms with non-conservative CEOs (taking value of 0). Panel B provides the correlations in CEOs characteristics. Financial variables are reported in $mil. ***, **, and * indicate statistical significance at 1%, 5% and 10% level, respectively. The definitions of other variables are in the Appendix.

Panel A. Summary statistics

	All		1		0		Diff (1-2)	
	N	Mean	N	Mean	N	Mean		
M&A Dummy	12,928	0.45	5,628	0.44	7,310	0.47	-0.03	***
Asset	12,928	8.51	5,628	8.61	7,310	8.43	0.19	***
Sales	12,928	8.01	5,628	8.16	7,310	7.90	0.26	***
Book to Market	12,928	0.45	5,628	0.46	7,310	0.44	0.02	***
Tobin's Q	12,928	2.17	5,628	2.03	7,310	2.28	-0.25	***
Profitability	12,928	0.11	5,628	0.12	7,310	0.11	0.01	***
Operating Margin	12,928	0.19	5,628	0.21	7,310	0.17	0.04	***
Free Cash Flow	12,928	0.08	5,628	0.09	7,310	0.08	0.01	***
ROA	12,928	0.13	5,628	0.14	7,310	0.13	0.01	***
Capital Expenditure	12,928	0.05	5,628	0.05	7,310	0.05	0.00	**
R&D	12,928	0.03	5,628	0.02	7,310	0.03	-0.01	***
Tangibility	12,928	0.30	5,628	0.33	7,310	0.28	0.05	***
Leverage	12,928	0.23	5,628	0.24	7,310	0.22	0.02	***
Firm Age	12,928	3.17	5,628	3.25	7,310	3.11	0.14	***
CEO Age	12,928	55.76	5,628	56.75	7,310	55.00	1.75	***
CEO Tenure	12,928	7.57	5,628	8.08	7,310	7.19	0.89	***
Gender	12,928	0.00	5,628	0.00	7,310	0.01	-0.01	***
Founder	12,928	0.06	5,628	0.06	7,310	0.06	0.00	

Panel B. Correlation

	Conservative CEO	Gender	Age
Conservative CEO	1		
Gender	-0.041	1	
Age	0.117	-0.038	1
Founder	0.001	-0.013	0.024

Table 2. Propensity to Engage in M&A Activity

The table reports the results of probit regressions in (1) and (2) and the estimated relations between M&A decision and the level of capital expenditure using SUR (Seemingly unrelated regressions in (3) and (4). In (1) and (2), the dependent variable is binary where 1 signifies that the CEO engages in M&A in a given year. In (3) and (4), M&A binary variable and the level of capital expenditure normalized by total asset are used as dependent variables. Conservative CEO (Dummy) is binary where 1 signifies that the CEO donates only to Republicans. Conservative CEO is defined as the difference between the CEO's political contributions to Republican and Democratic party-affiliated candidates or party committees divided by the CEO's total contribution s to Republican and Democrat-affiliated committees. In parentheses are *t*-values based on standard errors robust to heteroskedasticity and clustering by firm and year. and clustering by firm and year. All models are estimated with the year and industry fixed effects. ***, **, and * indicate statistical significance at 1%, 5% and 10% level, respectively. The definitions of other variables are in the Appendix.

	(1)	(2)	(3)		(4)	
Variables	M&A	M&A	M&A	Capital Expenditure	M&A	Capital Expenditure
Conservative CEO Dummy	-0.0789**		-0.0181**	0.0016**		
	(-2.04)		(-2.11)	(2.10)		
Conservative CEO		-0.0596*			-0.0127*	0.0016***
		(-1.80)			(-1.75)	(2.61)
CEO age	-1.2322***	-1.2414***	-0.2814***	-0.0019	-0.2836***	-0.0018
	(-7.51)	(-7.57)	(-7.99)	(-0.63)	(-8.06)	(-0.60)
Tenure	0.1147***	0.1121***	0.0250***	0.0017***	0.0243***	0.0018***
	(4.78)	(4.67)	(4.75)	(3.74)	(4.64)	(3.87)
Female Dummy	0.1073	0.1166	0.0446	-0.0152**	0.0470	-0.0153***
	(0.34)	(0.37)	(0.65)	(-2.55)	(0.69)	(-2.58)
Founder Dummy	0.0208	0.0216	0.0034	0.0014	0.0037	0.0014
	(0.29)	(0.30)	(0.21)	(1.03)	(0.23)	(1.01)
Size	0.2316***	0.2299***	0.0507***	-0.0014***	0.0503***	-0.0013***
	(15.60)	(15.50)	(15.99)	(-4.91)	(15.87)	(-4.77)
Tobin's Q	0.0249**	0.0249**	0.0042***	0.0006***	0.0042***	0.0006***
	(2.09)	(2.09)	(3.17)	(4.93)	(3.17)	(4.93)
Free cash flow	-1.2252***	-1.2260***	-0.1647***	-0.0497***	-0.1649***	-0.0498***
	(-4.44)	(-4.43)	(-3.77)	(-13.12)	(-3.77)	(-13.14)
Leverage	0.7458***	0.7394***	0.1569***	0.0006	0.1552***	0.0007
	(5.48)	(5.43)	(5.49)	(0.24)	(5.44)	(0.29)
Capital Expenditure	-2.6636***	-2.6597***				
	(-5.25)	(-5.24)				
R&D Expenditure	0.9492**	0.9661**	0.2476**	-0.0440***	0.2516**	-0.0443***
	(2.05)	(2.08)	(2.51)	(-5.14)	(2.55)	(-5.19)
Industry Competition	-5.2498*	-5.1882	-1.3659**	0.2801***	-1.3531**	0.2800***
	(-1.66)	(-1.64)	(-2.07)	(4.91)	(-2.06)	(4.91)
High Tech Dummy	0.5896***	0.5877***	0.1457***	0.0016	0.1454***	0.0017
	(9.88)	(9.85)	(11.35)	(1.44)	(11.32)	(1.48)
Constant	2.1889***	2.2254***	0.9496***	0.0764***	0.9578***	0.0760***
	(3.30)	(3.36)	(6.63)	(6.16)	(6.69)	(6.13)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	12,928	12,928	12,928	12,928	12,928	12,928
R-squared	0.08	0.08	0.11	0.34	0.11	0.34

Table 3. CEO Conservatism and Method of Payment, Type of Target, and Focus

The table displays the results of probit regressions with different dependent variables. The dependent variable in (1) and (2) is a binary variable where 1 signifies that the M&A was financed using only stock. The dependent variable in (3) and (4) is a binary variable where 1 signifies that the type of target firm in M&A is private. In the (5) and (6), the dependent variable is a binary variable where 1 signifies that the first two digits of SICs of acquirer and target are same. Conservative CEO (Dummy) is binary where 1 signifies that the CEO donates only to Republicans. Conservative CEO is defined as the difference between the CEO's political contributions to Republican and Democratic party-affiliated candidates or party committees divided by the CEO's total contributions to Republican and Democrat-affiliated committees. . In parentheses are *t*-values based on standard errors robust to heteroskedasticity and clustering by firm and year. and clustering by firm and year. All models are estimated with the year and industry fixed effects. ***, **, and * indicate statistical significance at 1%, 5% and 10% level, respectively. The definitions of other variables are in the Appendix.

	Method of payments		Type of target		Focus-increasing	
	(1)	(2)	(3)	(4)	(5)	(6)
Variables	Model	Model	Model	Model	Model	Model
Conservative CEO Dummy	-0.3381***		-0.1959***		0.0869*	
	(-4.42)		(-3.07)		(1.79)	
Conservative CEO		-0.2768***		-0.1749***		0.0917**
		(-4.13)		(-3.19)		(2.25)
CEO age	-0.7616**	-0.8104***	-0.1644	-0.1940	0.8476***	0.8524***
	(-2.51)	(-2.68)	(-0.65)	(-0.76)	(4.07)	(4.10)
Tenure	0.1007**	0.0951*	-0.0458	-0.0506	-0.0630**	-0.0601**
	(2.07)	(1.95)	(-1.12)	(-1.24)	(-2.12)	(-2.03)
Female Dummy	0.2678	0.3092	-0.4013	-0.3776	0.5489	0.5452
	(0.55)	(0.64)	(-0.94)	(-0.89)	(1.51)	(1.50)
Founder Dummy	0.1746	0.1792	0.0020	0.0074	0.3338***	0.3325***
	(1.25)	(1.28)	(0.02)	(0.07)	(3.29)	(3.27)
Size	-0.1897***	-0.1983***	-0.1879***	-0.1934***	-0.3342***	-0.3318***
	(-6.27)	(-6.55)	(-6.92)	(-7.11)	(-17.98)	(-17.89)
Tobin's Q	0.1172***	0.1149***	0.0360**	0.0356**	-0.0152***	-0.0151***
	(3.62)	(3.57)	(2.22)	(2.23)	(-2.79)	(-2.78)
Free cash flow	-2.8990***	-2.9303***	-0.4580	-0.4614	0.4455*	0.4390*
	(-6.53)	(-6.62)	(-1.30)	(-1.31)	(1.81)	(1.79)
Leverage	-2.2610***	-2.2867***	-0.5479**	-0.5496**	-0.4040***	-0.3995***
	(-8.08)	(-8.20)	(-2.35)	(-2.37)	(-2.66)	(-2.63)
Dividend Dummy	-0.0858	-0.0719			1.5258**	1.5007**
	(-0.56)	(-0.46)			(2.08)	(2.06)
Industry Competition	-27.0132***	-27.5371***	-12.7932**	-12.7220**	8.1020**	8.1133**
	(-2.66)	(-2.69)	(-2.07)	(-2.06)	(2.00)	(2.01)
High Tech Dummy	0.3296***	0.3343***	0.3637***	0.3652***	0.1048	0.1081
	(3.30)	(3.35)	(4.61)	(4.62)	(1.48)	(1.52)
Deal Value	0.2073***	0.2064***	-0.2909***	-0.2913***	-1.0357**	-1.0459**
	(7.63)	(7.58)	(-10.91)	(-10.93)	(-2.04)	(-2.06)
Relative Value	-0.1473	-0.1569	-2.7087***	-2.7106***		
	(-1.14)	(-1.21)	(-5.26)	(-5.26)		
Focus Dummy	0.0420	0.0490	-0.3293***	-0.3265***		
	(0.53)	(0.61)	(-4.96)	(-4.92)		
Public Target Dummy	1.0376***	1.0367***				
	(12.34)	(12.31)				
Stock Payment Dummy			0.7219***	0.7237***		

			(9.00)	(9.03)		
Constant	3.0071**	3.2246**	3.4336***	3.5632***	1.9295**	1.9544**
	(2.31)	(2.49)	(3.26)	(3.39)	(2.23)	(2.25)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,830	5,830	5,830	5,830	5,830	5,830

Table 4. Market Response to Announcement of M&A Bids

The table reports market response to the announcement of M&A bids. The event window is from the one-day before through the one day after the announcement of the bid. The dependent variable is the Cumulative abnormal return on the bidder's stock from the one-day before through the one day after the announcement of the bid. Cumulative abnormal returns are calculated by taking the daily return on the bidder's common equity and subtracting expected returns. Expected returns are the daily return on the CRSP value-weighted index. In parentheses are *t*-values based on standard errors robust to heteroskedasticity and clustering by firm and year. All models are estimated with the year and firm fixed effects. ***, **, and * indicate statistical significance at 1%, 5% and 10% level, respectively. The definitions of other variables are in the Appendix.

VARIABLES	(1) Model	(2) Model	(3) Model	(4) Model
Conservative CEO dummy	0.0015		0.0049	
	(0.76)		(0.94)	
Conservative CEO		0.0009		0.0049
		(0.52)		(1.21)
Price run-up	-0.0050	-0.0049	-0.0084	-0.0083
	(-1.08)	(-1.08)	(-1.24)	(-1.24)
Target Premium			-0.0000	-0.0000
			(-0.28)	(-0.29)
Female Dummy	-0.0215	-0.0218	-0.1095**	-0.1094**
	(-0.82)	(-0.83)	(-1.99)	(-2.00)
CEO age	0.0101	0.0103	0.0310	0.0319
	(1.10)	(1.13)	(1.56)	(1.61)
Tenure	-0.0031**	-0.0031**	-0.0047	-0.0045
	(-2.15)	(-2.13)	(-1.52)	(-1.48)
Founder Dummy	0.0093**	0.0093**	0.0082	0.0082
	(2.41)	(2.41)	(0.82)	(0.82)
Focus Dummy	0.0006	0.0006	0.0017	0.0015
	(0.27)	(0.26)	(0.36)	(0.33)
Stock Payment Dummy	-0.0031	-0.0032	-0.0008	-0.0008
	(-1.01)	(-1.03)	(-0.16)	(-0.16)
Public Target Dummy	-0.0176***	-0.0176***	0.0221	0.0227
	(-5.77)	(-5.74)	(0.63)	(0.65)
Deal Attitude	0.0052	0.0053	0.0113	0.0114
	(0.63)	(0.63)	(1.31)	(1.31)
Deal Value	-0.0000	-0.0000	-0.0082***	-0.0081***
	(-0.00)	(-0.00)	(-4.43)	(-4.42)
Relative Value	-0.0169***	-0.0168***	-0.0096	-0.0096
	(-2.71)	(-2.69)	(-1.02)	(-1.02)
Tender Offer	0.0122**	0.0122**	0.0132**	0.0132**
	(2.57)	(2.57)	(2.37)	(2.39)
Size	-0.0033***	-0.0033***	0.0053**	0.0053**
	(-3.26)	(-3.24)	(2.43)	(2.46)
Tobin's Q	0.0009**	0.0009**	0.0039***	0.0039***
	(2.10)	(2.09)	(6.30)	(6.30)
Free cash flow	-0.0084	-0.0081	-0.0992	-0.0974
	(-0.24)	(-0.23)	(-0.90)	(-0.90)

Leverage	0.0132	0.0134	0.0490*	0.0495**
	(1.38)	(1.40)	(1.93)	(1.98)
Capital Expenditure	0.0245	0.0247	-0.0317	-0.0307
	(0.90)	(0.90)	(-0.38)	(-0.37)
R&D Expenditure	-0.0261	-0.0263	-0.0147	-0.0146
	(-0.79)	(-0.80)	(-0.16)	(-0.16)
High Tech Dummy	0.0009	0.0009	0.0019	0.0018
	(0.26)	(0.26)	(0.28)	(0.28)
Industry Competition	-0.2613*	-0.2620*	0.1586	0.1544
	(-1.68)	(-1.68)	(0.25)	(0.24)
Constant	0.0223	0.0213	-0.1982**	-0.2027**
	(0.57)	(0.55)	(-2.16)	(-2.23)
Firm fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	4,623	4,623	1,100	1,100
R-squared	0.04	0.04	0.13	0.13

Table 5. Long-Run Performance

This table reports the long-term buy-and-hold average abnormal returns over holding periods that extend from one to five years following M&A announcements. The buy-and-hold abnormal return (BHAR) for each event firm is calculated in the table as:

$$BHAR_{(i,a,b)} = \prod_{t=a}^{b}(R_{it} + 1) - \prod_{t=a}^{b}(R_{mt} + 1)$$

Where *ER(i,a,b)* = Excess return for event firm *i* over the time period from day *a* to day *b*, *Rit* is the return on the common stock of event firm *i* on day *t*, and *Rmt* is the return on the stock of the matched firm on day *t*. Matched firms are selected using the following sets of matching criteria: size and ratio of book to market value of equity. The post-announcement long-term abnormal returns do not include the abnormal returns over days -1 through 0 relative to the announcement date. If an event firm is delisted before the end of a buy-and-hold period, its truncated return series is still included in the analysis, and it is assumed to earn the daily return of the benchmark for the remainder of the period. The statistical significance of each of the BHAARs is tested using the parametric *t*-test, based on the cross sectional standard deviations. ***, **, and * indicate statistical significance at 1%, 5% and 10% level, respectively.

Mean Buy-and-Hold Average Abnormal Returns (%)

	Number of obs.	1 year	2 years	3 years	4 years	5 years
(1) Full sample	3,557	-4.42	-7.83	-5.88	-5.67	-5.74
(2) Conservative	637	0.65	-0.21	-1.74	7.05	11.27
(3) Non-conservative	2,920	-5.53	-9.95	-6.79	-8.45	-9.46
Difference(2)-(3)		6.19**	9.3*	5.05	15.5**	20.73**
t-statistic for difference		(2.15)	(1.77)	(0.84)	(2.26)	(2.31)

Table 6. Cross Sectional Regression of BHAR on Conservative CEOs

This table reports the results of the cross-sectional regression analysis of the post-announcement buy-and-hold abnormal returns to the M&A-event firms *BHARj* on conservative CEO measures with the several control variables. The specified model is:

$$BHAR_j = \beta_0 + \beta_1 CONSERVATIVE\_CEO + CONTROLS + \varepsilon_J$$

In parentheses are *t*-values based on standard errors robust to heteroskedasticity. ***, **, and * indicate statistical significance at 1%, 5% and 10% level, respectively. The definitions of other variables are in the Appendix.

Variables	(1)	(2)
Conservative CEO(Dummy)	**0.220****	
	(1.93)	
Conservative CEO		**0.109***
		(1.73)
CEO age	0.878***	0.859***
	(2.77)	(2.72)
Tenure	-0.105***	-0.104***
	(-2.78)	(-2.77)
Female dummy	0.365	0.384
	(1.25)	(1.32)
Deal size	-0.001	-0.001
	(-0.97)	(-0.84)
Relative size	0.340**	0.342**
	(2.08)	(2.09)
Private target	0.133	0.129
	(1.57)	(1.52)
Subsidiary target	0.146	0.151
	(1.54)	(1.58)
Stock payment	0.0001	0.001
	(0.24)	(0.14)
Cash payment	-0.0001	-0.001
	(-1.40)	(-1.39)
Acquirer Size	0.03	0.025
	(1.29)	(1.08)
Deal attitude	-0.206	-0.216
	(-1.08)	(-1.13)
Tender offer	-0.111	-0.106
	(-1.00)	(-0.96)
Adj. R-squared (%)	0.50	0.42
Observations	3,501	3,501

Table 7. CEO Conservatism and Overconfidence

The panel A in the table shows the correlation between conservative and overconfidence measure (Malmendier and Tate (2005)). The panel B repeats the previous regression analysis with overconfidence measure. The dependent variable in model (1) is binary where 1 signifies that the CEO engages in M&A in a given year. The dependent variable in model (2) is binary where 1 signifies that the CEO use stock as a method of payment for merger bid. The dependent variable in model (3) is binary where 1 signifies that the firm made a focus-increasing merger bid in a given year. The dependent variable in model (4) is the CAR (cumulative abnormal return) on the bidder's stock from the two-day before through the two day after the announcement of the bid. The dependent variable in model (5) is the 5-year BHAR (post-announcement buy-and-hold abnormal returns. The coefficients in model (1), (2) and (3) are presented as odds ratios. All standard errors in Panel B are robust to heteroskedasticity and clustering by firm and year. *p*-values are reported in parentheses. ***, **, and * indicate statistical significance at 1%, 5% and 10% level, respectively. The definitions of other variables are in the Appendix.

Panel A. Correlations with confidence and conservatism

	Conservative	Overconfidence
Conservatism	1	
Overconfidence	-0.033	1

Panel B. Previous regressions with confidence and conservatism measures

	(1)	(2)	(3)	(4)	(5)
Conservatism	0.85**	0.69***	1.21*	-0.00	0.22**
	(0.02)	(0.003)	(0.09)	(0.99)	(0.04)
Overconfidence	1.42***	1.59***	0.86	0.65***	0.29
	(0.00)	(0.00)	(0.16)	(0.00)	(0.67)
Controls	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	No
Year fixed effects	Yes	Yes	Yes	Yes	No
Observations	9,766	3,569	3,569	3,568	3,501

Table 8. 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.

							Type of targets			Method of payment		
year	Number of Acquisitions	Percentage of Acquisitions	Deal Value ($ Mil)	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 9. 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.

	Homogeneous (1)			Heterogeneous (2)				
Variables	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Difference	*t*-statistic
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 ($mil)	534.8	80	2501.7	768.1	74.9	5105.4	-233.4**	(-2.31)
Relative deal size	0.51	0.12	3.68	0.32	0.11	1.25	0.03	(0.62)
Tender offer	0.05	0	0.23	0.05	0	0.23	0	(0.00)
Panel B. Bidder Characteristics								
Variables	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	Difference	*t*-statistic
Total asset($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 10. 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	0.0056
	(0.39)	(0.31)
CAR[-1,1]	0.6062**	0.6013**
	(2.54)	(2.52)
Focus acquisition	0.1250**	0.1234**
	(2.57)	(2.53)
Deal attitude(Friendly)	3.2920***	3.2848***
	(23.62)	(23.58)
Litigation Dummy	-0.1976	-0.1940
	(-1.09)	(-1.07)
Repeated bidder	-0.0192***	-0.0192***
	(-5.31)	(-5.31)
High tech	0.1769***	0.1765***
	(2.86)	(2.86)
Tender	1.8084***	1.8075***
	(10.64)	(10.63)
Public target	-0.1489**	-0.1536**
	(-2.14)	(-2.21)
Private target	0.0276	0.0238
	(0.46)	(0.40)
Firm age	-0.0286	-0.0294
	(-0.86)	(-0.89)
Firm Size	0.1615***	0.1618***
	(10.38)	(10.43)
Free cash flow	0.3345***	0.3319***
	(3.04)	(3.04)
Leverage	-0.1728	-0.1713
	(-1.03)	(-1.02)
Population	-0.0095	-0.0085
	(-0.75)	(-0.67)
Education	0.0053	0.0058
	(1.32)	(1.42)
Income	-0.0112	-0.0078
	(-0.58)	(-0.40)

Gender	0.0273	0.0806
	(0.05)	(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

Table 11. 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%***	1.29%***

Panel B. Announcement Abnormal Returns By Political Orientation

Full Sample			Method of Payment			Type of Target		
		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]

Table 12. Market Response to 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.

	Full sample		10%> Margin of Victory		15%> Margin of Victory		20%> Margin of Victory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Model	Model	Model	Model	Model	Model	Model	Model
Homogenous (Dummy)	0.0057***		0.0091***		0.0136***		0.0199***	
	(2.99)		(3.01)		(3.33)		(2.65)	
Homogeneous acquisition(Continuous)		-0.0099**		-0.0148**		-0.0206***		-0.0241*
		(-2.03)		(-2.38)		(-2.83)		(-1.82)
Focus acquisition	-0.0005	-0.0005	0.0060**	0.0060**	0.0063*	0.0065*	0.0018	0.0017
	(-0.23)	(-0.22)	(1.98)	(1.99)	(1.72)	(1.77)	(0.33)	(0.31)
Relative size	0.0038	0.0038	0.0137***	0.0138***	0.0195***	0.0196***	0.0199***	0.0198***
	(1.55)	(1.55)	(3.99)	(4.01)	(5.27)	(5.31)	(3.10)	(3.08)
High tech	-0.009***	-0.0100***	-0.0134***	-0.0138***	-0.0129***	-0.0132***	0.0040	0.0031
	(-3.75)	(-3.80)	(-3.47)	(-3.56)	(-2.77)	(-2.85)	(0.45)	(0.36)
Public target	-0.031***	-0.0308***	-0.0353***	-0.0358***	-0.0434***	-0.0438***	-0.0438***	-0.0439***
	(-10.97)	(-11.00)	(-8.38)	(-8.47)	(-8.45)	(-8.50)	(-5.82)	(-5.80)
Cash payment	0.0046**	0.0045**	0.0028	0.0028	0.0004	0.0005	-0.0024	-0.0034
	(2.35)	(2.33)	(0.98)	(0.97)	(0.11)	(0.14)	(-0.43)	(-0.59)
Tender offer	0.0109***	0.0109***	0.0071	0.0071	0.0056	0.0058	-0.0002	-0.0008
	(3.40)	(3.42)	(1.55)	(1.57)	(1.01)	(1.05)	(-0.02)	(-0.08)
Deal attitude(Friendly)	-0.0054	-0.0059	-0.0079	-0.0082	-0.0111	-0.0119	0.0013	0.0015
	(-1.09)	(-1.19)	(-1.14)	(-1.19)	(-1.41)	(-1.52)	(0.12)	(0.14)
Firm age	0.0024	0.0024	-0.0032	-0.0032	-0.0042	-0.0042	-0.0018	-0.0019
	(1.53)	(1.51)	(-1.48)	(-1.46)	(-1.55)	(-1.56)	(-0.45)	(-0.49)
Firm size	-0.005***	-0.0052***	-0.0025**	-0.0024**	-0.0009	-0.0008	-0.0037*	-0.0036*
	(-6.98)	(-6.90)	(-2.56)	(-2.48)	(-0.72)	(-0.65)	(-1.78)	(-1.76)
Free cash flow	-0.0030	-0.0032	0.0191	0.0193	0.0196	0.0195	0.0169	0.0174
	(-0.26)	(-0.28)	(1.14)	(1.15)	(0.99)	(0.99)	(0.66)	(0.68)
ROA	-0.043***	-0.0432***	-0.0436***	-0.0442***	-0.0451**	-0.0451**	-0.0152	-0.0162
	(-2.85)	(-2.86)	(-2.67)	(-2.69)	(-2.37)	(-2.37)	(-0.43)	(-0.45)
Leverage	0.0035	0.0032	0.0086	0.0084	0.0093	0.0095	0.0025	0.0028
	(0.67)	(0.61)	(0.98)	(0.96)	(0.94)	(0.96)	(0.15)	(0.17)
Tobin's q	-0.002***	-0.0019***	-0.0018***	-0.0018***	-0.0011**	-0.0011**	-0.0014	-0.0015*
	(-5.13)	(-5.11)	(-4.11)	(-4.09)	(-2.46)	(-2.41)	(-1.59)	(-1.69)
Industry competition	0.0130	0.0113	0.0685	0.0678	-0.0526	-0.0577	0.0966	0.0631
	(0.15)	(0.13)	(0.54)	(0.53)	(-0.35)	(-0.38)	(0.41)	(0.27)
Population	0.0004	0.0003	0.0011	0.0009	0.0012	0.0011	-0.0001	-0.0003
	(0.93)	(0.67)	(1.62)	(1.38)	(1.48)	(1.25)	(-0.11)	(-0.23)
Income	-0.0012*	-0.0011	-0.0019*	-0.0016	-0.0019	-0.0016	-0.0011	-0.0009
	(-1.77)	(-1.54)	(-1.87)	(-1.58)	(-1.50)	(-1.21)	(-0.63)	(-0.47)

Gender	-0.0428**	-0.0406**	-0.0095	-0.0035	-0.0086	0.0032	-0.0189	-0.0117
	(-2.08)	(-1.97)	(-0.34)	(-0.12)	(-0.24)	(0.09)	(-0.44)	(-0.28)
Religious	-0.0214**	-0.0208**	-0.0422***	-0.0410***	-0.0594***	-0.0591***	-0.0406*	-0.0389*
	(-2.43)	(-2.36)	(-3.26)	(-3.17)	(-3.71)	(-3.70)	(-1.75)	(-1.69)
Ethnicity	-0.0078	-0.0048	-0.0026	0.0000	-0.0017	0.0020	0.0635**	0.0587*
	(-0.92)	(-0.54)	(-0.21)	(0.00)	(-0.11)	(0.13)	(2.23)	(1.80)
MSA	-0.0091	-0.0091	-0.0031	-0.0037	-0.0004	-0.0013	0.0155	0.0161
	(-1.05)	(-1.05)	(-0.22)	(-0.27)	(-0.03)	(-0.09)	(1.03)	(1.06)
Constant	0.0721***	0.0782***	0.0610***	0.0712***	0.0630***	0.0787***	0.0292	0.0501
	(5.20)	(5.71)	(2.96)	(3.50)	(2.72)	(3.48)	(0.88)	(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 13. Local Political 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.

	Full sample		Full sample		Full sample		10%> Margin of Victory		15%> Margin of Victory		20%> Margin of Victory	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
VARIABLES	Model	Model	Model	Model	Model	Model	Model	Model	Model	Model	Model	Model
Homogenous (Dummy)	0.0051***		0.0055***		0.0055***		0.0088***		0.0132***		0.0204***	
	(2.67)		(2.89)		(2.89)		(2.90)		(3.24)		(2.69)	
Homogeneous acquisition(Continuous)		-0.0088*		-0.0103**		-0.0105**		-0.0154**		-0.021***		-0.0247*
		(-1.80)		(-2.10)		(-2.16)		(-2.47)		(-2.94)		(-1.85)
In-state (Dummy)	0.0074***	0.0079***										
	(2.59)	(2.77)										
Local (Dummy)			0.0067*	0.0075**								
			(1.79)	(1.99)								
Geographical Distance					-0.002***	-0.002***	-0.002**	-0.003**	-0.003**	-0.003***	-0.003	-0.002
					(-2.95)	(-3.10)	(-2.34)	(-2.52)	(-2.38)	(-2.58)	(-1.16)	(-1.10)
Focus acquisition	-0.0004	-0.0004	-0.0004	-0.0004	-0.0004	-0.0004	0.0060**	0.0060**	0.0064*	0.0066*	0.0020	0.0019
	(-0.18)	(-0.17)	(-0.19)	(-0.18)	(-0.21)	(-0.20)	(1.99)	(2.00)	(1.75)	(1.81)	(0.36)	(0.34)
Relative size	0.0038	0.0038	0.0038	0.0038	0.0038	0.0038	0.0136***	0.0136***	0.0193***	0.0195***	0.0198***	0.0197***
	(1.56)	(1.56)	(1.55)	(1.56)	(1.56)	(1.56)	(3.93)	(3.95)	(5.27)	(5.30)	(3.10)	(3.07)
High tech	-0.010***	-0.010***	-0.010***	-0.010***	-0.009***	-0.009***	-0.013***	-0.014***	-0.013***	-0.013***	0.005	0.004
	(-3.84)	(-3.89)	(-3.81)	(-3.87)	(-3.71)	(-3.76)	(-3.46)	(-3.56)	(-2.79)	(-2.88)	(0.52)	(0.43)
Public target	-0.031***	-0.031***	-0.031***	-0.031***	-0.031***	-0.031***	-0.035***	-0.036***	-0.043***	-0.044***	-0.044***	-0.044***
	(-11.07)	(-11.10)	(-11.01)	(-11.05)	(-10.96)	(-11.00)	(-8.36)	(-8.45)	(-8.43)	(-8.49)	(-5.86)	(-5.84)
Cash payment	0.0047**	0.0046**	0.0046**	0.0046**	0.0046**	0.0046**	0.0028	0.0028	0.0004	0.0005	-0.0027	-0.0036
	(2.41)	(2.38)	(2.37)	(2.36)	(2.36)	(2.35)	(0.97)	(0.97)	(0.12)	(0.15)	(-0.47)	(-0.63)
Tender offer	0.0110***	0.0110***	0.0110***	0.0110***	0.0111***	0.0112***	0.0072	0.0073	0.0057	0.0059	0.0000	-0.0005

	(3.45)	(3.46)	(3.45)	(3.46)	(3.49)	(3.50)	(1.59)	(1.62)	(1.03)	(1.07)	(0.01)	(-0.06)
Deal attitude(Friendly)	-0.0052	-0.0056	-0.0052	-0.0056	-0.0051	-0.0056	-0.0075	-0.0078	-0.0103	-0.0110	0.0022	0.0024
	(-1.04)	(-1.12)	(-1.04)	(-1.13)	(-1.02)	(-1.12)	(-1.08)	(-1.13)	(-1.31)	(-1.41)	(0.20)	(0.21)
Firm age	0.0025	0.0025	0.0024	0.0024	0.0023	0.0023	-0.0033	-0.0032	-0.0042	-0.0042	-0.0020	-0.0021
	(1.57)	(1.56)	(1.55)	(1.53)	(1.48)	(1.46)	(-1.49)	(-1.48)	(-1.56)	(-1.57)	(-0.51)	(-0.54)
Firm size	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.005***	-0.0025**	-0.0024**	-0.0009	-0.0008	-0.0036*	-0.0036*
	(-6.95)	(-6.87)	(-6.98)	(-6.90)	(-6.97)	(-6.89)	(-2.55)	(-2.48)	(-0.73)	(-0.65)	(-1.77)	(-1.75)
Free cash flow	-0.0025	-0.0027	-0.0034	-0.0036	-0.0025	-0.0026	0.0197	0.0199	0.0210	0.0211	0.0190	0.0194
	(-0.22)	(-0.23)	(-0.29)	(-0.31)	(-0.21)	(-0.22)	(1.17)	(1.18)	(1.06)	(1.06)	(0.73)	(0.74)
ROA	-0.043***	-0.043***	-0.042***	-0.043***	-0.044***	-0.044***	-0.044***	-0.045***	-0.046**	-0.047**	-0.017	-0.0175
	(-2.88)	(-2.89)	(-2.81)	(-2.82)	(-2.89)	(-2.90)	(-2.71)	(-2.73)	(-2.43)	(-2.43)	(-0.46)	(-0.48)
Leverage	0.0038	0.0036	0.0037	0.0034	0.0036	0.0034	0.0088	0.0087	0.0098	0.0100	0.0029	0.0032
	(0.74)	(0.69)	(0.71)	(0.66)	(0.70)	(0.64)	(1.02)	(1.00)	(0.99)	(1.02)	(0.17)	(0.19)
Tobin's q	-0.002***	-0.002***	-0.002***	-0.002***	-0.0019***	-0.0019***	-0.0018***	-0.0019***	-0.0011**	-0.0011**	-0.0015*	-0.0016*
	(-5.20)	(-5.19)	(-5.17)	(-5.16)	(-5.15)	(-5.13)	(-4.14)	(-4.12)	(-2.48)	(-2.43)	(-1.66)	(-1.75)
Industry competition	0.0006	0.0005	0.0007	0.0007	0.0011**	0.0010**	0.0018**	0.0017**	0.0021**	0.0020**	0.0007	0.0005
	(1.22)	(1.00)	(1.51)	(1.34)	(2.14)	(1.97)	(2.49)	(2.34)	(2.33)	(2.20)	(0.50)	(0.35)
Population	-0.0011	-0.0009	-0.0011	-0.0009	-0.0010	-0.0008	-0.0017*	-0.0014	-0.0017	-0.0013	-0.0010	-0.0007
	(-1.59)	(-1.37)	(-1.57)	(-1.30)	(-1.47)	(-1.20)	(-1.68)	(-1.37)	(-1.36)	(-1.04)	(-0.52)	(-0.37)
Income	-0.0341	-0.0316	-0.0419**	-0.0392*	-0.0363*	-0.0332	-0.0014	0.0058	0.0004	0.0137	-0.0162	-0.0090
	(-1.63)	(-1.51)	(-2.04)	(-1.90)	(-1.77)	(-1.61)	(-0.05)	(0.21)	(0.01)	(0.38)	(-0.38)	(-0.22)
Gender	-0.0154*	-0.0145	-0.0197**	-0.0189**	-0.0179**	-0.0170*	-0.0375***	-0.0359***	-0.0529***	-0.0520***	-0.0371	-0.0355
	(-1.70)	(-1.60)	(-2.25)	(-2.15)	(-2.03)	(-1.93)	(-2.90)	(-2.78)	(-3.31)	(-3.26)	(-1.62)	(-1.57)
Religious	-0.0042	-0.0013	-0.0071	-0.0037	-0.0077	-0.0042	-0.0023	0.0009	-0.0013	0.0033	0.0640**	0.0592*
	(-0.49)	(-0.14)	(-0.84)	(-0.42)	(-0.90)	(-0.47)	(-0.19)	(0.08)	(-0.09)	(0.21)	(2.24)	(1.81)
Ethnicity	-0.0087	-0.0086	-0.0095	-0.0095	-0.0090	-0.0089	-0.0030	-0.0036	-0.0006	-0.0014	0.0159	0.0164
	(-0.99)	(-0.99)	(-1.09)	(-1.09)	(-1.03)	(-1.02)	(-0.22)	(-0.26)	(-0.04)	(-0.10)	(1.04)	(1.08)
MSA	0.0648***	0.0699***	0.0654***	0.0706***	0.0751***	0.0812***	0.0644***	0.0745***	0.0666***	0.0821***	0.0317	0.0530*
	(4.61)	(5.00)	(4.54)	(4.94)	(5.39)	(5.90)	(3.13)	(3.67)	(2.87)	(3.63)	(0.96)	(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 14. 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**		0.0071**	
	(2.37)		(2.28)	
Homogeneous acquisition(Continuous)		-0.0182*		-0.0184*
		(-1.68)		(-1.70)
Geographical Distance			-0.0019	-0.0020*
			(-1.56)	(-1.66)
Focus acquisition	0.0034	0.0035	0.0033	0.0038
	(1.04)	(1.06)	(1.00)	(1.17)
Relative size	0.0025*	0.0025*	0.0024*	0.0025*
	(1.84)	(1.84)	(1.89)	(1.82)
High tech	-0.0113***	-0.0112***	-0.0108**	-0.0120***
	(-2.65)	(-2.64)	(-2.52)	(-2.84)
Public target	-0.0395***	-0.0396***	-0.0394***	-0.0323***
	(-8.60)	(-8.61)	(-8.48)	(-8.43)
Tender offer	0.0063**	0.0062**	0.0057*	0.0080***
	(2.02)	(2.00)	(1.82)	(2.64)
Deal attitude(Friendly)	0.0138***	0.0139***	0.0141***	0.0128**
	(2.71)	(2.74)	(2.78)	(2.53)
Firm age	-0.0157*	-0.0160*	-0.0170*	-0.0152*
	(-1.79)	(-1.83)	(-1.90)	(-1.73)
Firm size	-0.0035	-0.0035	-0.0035	-0.0032
	(-1.58)	(-1.58)	(-1.59)	(-1.47)
Free cash flow	-0.0059***	-0.0058***	-0.0058***	-0.0055***
	(-5.47)	(-5.40)	(-5.31)	(-5.10)
ROA	0.0025	0.0024	0.0041	0.0034
	(0.13)	(0.12)	(0.20)	(0.18)
Leverage	-0.0319*	-0.0320*	-0.0352*	-0.0334*
	(-1.75)	(-1.76)	(-1.90)	(-1.83)
Tobin's q	0.0096	0.0096	0.0098	0.0102
	(1.02)	(1.02)	(1.02)	(1.09)
Industry competition	-0.0019***	-0.0019***	-0.0019***	-0.0019***
	(-3.75)	(-3.68)	(-3.72)	(-3.74)
Population	-0.0001	-0.0003	0.0003	0.0003
	(-0.20)	(-0.41)	(0.41)	(0.35)
Income	-0.0012	-0.0010	-0.0009	-0.0008
	(-1.12)	(-0.92)	(-0.86)	(-0.76)
Gender	-0.0579*	-0.0553*	-0.0593**	-0.0501

	(-1.95)	(-1.83)	(-1.98)	(-1.64)
Religious	-0.0035	-0.0033	0.0044	0.0015
	(-0.25)	(-0.24)	(0.31)	(0.11)
Ethnicity	-0.0269*	-0.0244	-0.0256*	-0.0238
	(-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

Appendix 1: Definitions of Variables

Variables	Definitions
CEO characteristics	
Conservative CEO	Defined as the difference between the CEO's political contributions to Republican and Democratic party-affiliated candidates or party committees divided by the CEO's total contribution s to Republican and Democrat-affiliated committees.(Hutton, Jiang and Kumar(2011)
Conservative CEO dummy	Binary where 1 signifies that the CEO donates only to Republicans
CEO age	Log of CEO age in the given year
CEO tenure	Log of the number of years the CEO had held his/her current position in a given year with a given firm
Gender	Binary variable where 1 signifies that the CEO is female
Founder	Binary variable where 1 signifies that the CEO is founder
Overconfident CEO	Binary variable where 1 signifies that the CEOs hold stock options that are more than 67% in the money (Malmendier and Tate(2005) and Campbell et al (2011))
Firm characteristics	
Firm size	Log of book value of total assets (item6).
Book leverage	Book value of debts (item34 + item9) over market value of total assets (item6−item60 + item25 ∗ item199).
Cash holdings	Cash and short term investments(Item1) divided by total assets(Item6)
R&D expenditures	R&D expenditures (Item46) divided by total assets (Item6). Missing values are substituted with zero, unless indicated
Capital expenditures	Capital expenditures divided by total assets(Item6)
Tobin's *Q*	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)
High tech	Binary variable where 1 signifies that acquirer and target are both from high tech industries whose SICs are in 3571,3572,3575,3577,3578,3661,3663,3669,3674,3812,3823,3825, 3826,3827,3829,3841,3845,4812,4813,4899,7370,7371,7372,7373,7374,7375,7378,7379. This classification is defined by Loughran and Ritter (2004)
Sales Growth	Sales(Item12) divided by lag sales
Profitability	Operating income before depreciation(item13)+Total interest rate and related expense(Item15)-Deferred taxes and investment tax credit(Item35) divided by total asset(Item6)
Operating margin	Operating income before depreciation(item13) divided by sales(Item12)
ROA	Operating income before depreciation(item13) divided by total asset(Item6)
Industry competition	Measured by the Herfindahl index
Tangibility	Total property, plant and equipment(Item 141) divided by total assets(Item6)
Deal Characteristics	
Public target	Binary variable where 1 signifies 1 that the target is public
Private target	Binary variable where 1 signifies1 that the target is private

Subsidiary target	Binary variable where 1 signifies1 that the target is subsidiary
Cash payment	Binary variable where 1 signifies that the payment is cash
Stock payment	Binary variable where 1 signifies that he payment is cash
Focus	Binary variable where I signifies that the first 2 digits of SICs of the acquirer and the target are same
Relative value	Deal value (from SDC) over bidder market value of equity defined above
Deal attitude	Binary variable where 1 signifies when the deal is defined as "friendly"
Tender	Binary variable where 1 signifies when a tender offer is launched for the target

Appendix 2: 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, *et al.* (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 *Q*	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 I 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 target in a given year (Data: CENSUS)
Gender	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