

# Who pays a visit to Brussels? The firm value of cross-border political access to European Commissioners

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# Motivation

- ▶ Extensive literature documents value effects of firm-politician connections - limited to **domestic** setting  
*(e.g., Fisman 2001; Faccio 2006; Akey 2015)*
- ▶ Strong increase in share of multinational enterprises (MNEs)  
- **2017**: half of US public firms operate in more than one country  
*(Erel, Jang, and Weisbach 2020)*
- ▶ Interactions with foreign policymakers far less explored

# Motivation

- ▶ Political access may be more valuable for foreign than for domestic firms
- ▶ Operating globally implies risk from political factors
  - ▶ Different legislation and regulation than in home country
  - ▶ Discriminatory behavior of foreign regulators
- ▶ Indeed, increase of cross-border lobbying efforts; e.g., Google lobbying expenses at European Union (EU) institutions:
  - ▶ 2011: €0.6 million; 2020: €6 million

# This paper

- ▶ Study value effects of cross-border political access
- ▶ Novel data set on meetings of Commissioners of the European Commission (EC) with US and EU firms
  - ▶ Direct measure of political access
- ▶ Analyze channel of value effects that relates to executive powers of EC

# Importance of cross-border political access to EC

## European Commission is executive of EU

- ▶ Influencing M&A decisions of particular importance for MNEs
  - ▶ Often enter foreign markets by acquisitions
  - ▶ Evidence that European policymakers treat foreign firms unfavorably in M&A decisions  
*(e.g., Aktas, de Bodt, and Roll 2007; Dinc and Erel 2013)*
  
- ▶ “Donald Trump..., lashing out at Brussels for aggressively pursuing **antitrust cases against US technology groups** as actions by an EU regulator who ‘hates’ America.”  
*Financial Times, June 2019*

## Preview of results

- ▶ Analyze 1,410 meetings of Commissioners with 269 firms (November 2014 to November 2019)
  - ▶ 447 meetings with 71 US firms
  - ▶ 963 meetings with 198 EU firms
  
- ▶ Significant positive abnormal returns around Commissioner meetings for US firms, but **not** for EU firms
  
- ▶ US firms with access significantly more likely to receive favorable outcome in M&A decisions than EU counterparts

# Data

- ▶ Webpages of European Commissioners
- ▶ EU Integrity Watch
- ▶ Transparency Register
- ▶ Lobbyfacts.eu
- ▶ CRSP
- ▶ Compustat
- ▶ Orbis
- ▶ Thomson Reuters
- ▶ Zephyr

# EU Commission: meetings

Meetings of Commissioner Günther Oettinger with organisations and self-employed individuals

◀ ◀ 1, 2, 3, 4 ▶ ▶

Date	Location	Entity/ies met	Subject(s)
23/11/2016	Stuttgart	American Chamber of Commerce to the European Union (AmCham EU)	digitising European industry
22/11/2016	Berlin	Axel Springer SE (AS SE)	copyright
22/11/2016	Berlin	United Internet AG	online platforms
18/11/2016	Brussels	Google	DSM
16/11/2016	Hamburg	Commerzbank AG	digitisation in the geopolitical context
15/11/2016	Brussels	Airbus	digitising European industry
15/11/2016	Brussels	European Magazine Media Association (EMMA)	copyright & e-privacy
15/11/2016	Brussels	Uber	technology in mobility services
15/11/2016	Brussels	Helmholtz-Gemeinschaft Deutscher Forschungszentren e.V. (Helmholtz)	information technologies & Big Data
15/11/2016	Brussels	Deutscher Sparkassen-und Giroverband (DSGV)	digitisation of finance sector

Meeting information: name of organization, date, location, subject  
To be provided within 2 weeks following the meeting



# Most frequent visitors

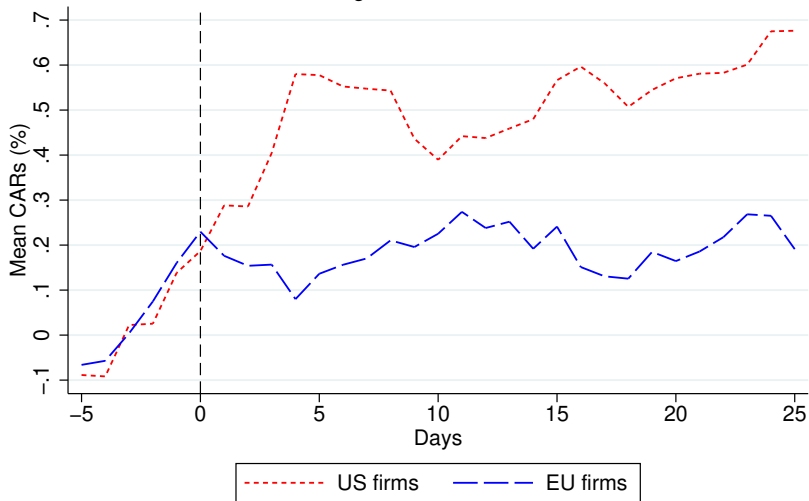
	# meetings	US	EU
Google	55	1	0
Airbus	31	0	1
Facebook	30	1	0
Microsoft	30	1	0
Vodafone	29	0	1
Deutsche Telekom	27	0	1
IBM	27	1	0
Scania	21	0	1
Telefonica	21	0	1
Amazon	20	1	0
Goldman Sachs	20	1	0
Deutsche Bank	19	0	1
Engie	18	0	1
General Electric	16	1	0
Cisco Systems	14	1	0

# Meetings by industry

Industry	Total	US	EU
Manufacturing	448	138	310
Transport. & Public Util.	393	16	377
Financials	240	78	162
Services	238	195	43
Retail Trade	32	20	12
Mining	24	0	24
Wholesale Trade	19	0	19
Construction	15	0	15
Agriculture	1	0	1
Total	1410	447	963

# Mean Cumulative Abnormal Returns

## Meetings with Commissioners



## Mean cumulative abnormal returns (CARs)

	Event window				
	(-3, 3)	(-3, 5)	(-3, 10)	(-3, 15)	N
<hr/>					
US firms					
Mean CARs	0.50%	0.67%	0.48%	0.66%	312
(t-stat)	(3.39)***	(3.80)***	(2.28)**	(2.49)**	
<hr/>					
EU firms					
Mean CARs	0.14%	0.09%	0.16%	0.29%	872
(t-stat)	(1.09)	(0.57)	(0.81)	(1.34)	

ARs from Fama-French-Carhart model; standardized cross-sectional t-stats

# Robustness

- ▶ Results robust to using industry-adjusted returns
- ▶ No significant value effects for placebo meetings 8 weeks before actual meeting

# Sum stats

## Firm-year observations

	US firms		EU firms		Diff means
	Mean	Std. Dev.	Mean	Std. Dev.	
Meetings	1.05	2.03	0.80	1.40	0.26***
Lobbying exp.(m)	0.81	1.01	0.55	0.74	0.27***
Total assets (m)	217,113.7	471,485.4	209,286.5	483,775.1	7,827.3
Market-to-book	8.82	15.02	4.06	9.58	4.75***
Book leverage	0.22	0.14	0.21	0.15	0.01
ROA	0.06	0.08	0.04	0.07	0.02***
Tangibility	0.18	0.22	0.26	0.24	-0.08***
# (firm-year)	426	426	1212	1212	

# OLS regression: # of meetings on lobbying expenses

	Dependent variable			
	ln # meetings US		ln # meetings EU	
Ln lobbying exp.	0.025***	0.016***	0.011***	0.005
Ln total assets		0.082***		0.083***
Market-to-book		-1.34e-05		-0.005***
Book leverage		-0.403		-0.033
ROA		0.447		0.212
Tangibility		-0.044		-0.09
# (firm-year)	426	426	1,212	1,212
R-squared	0.034	0.101	0.009	0.071

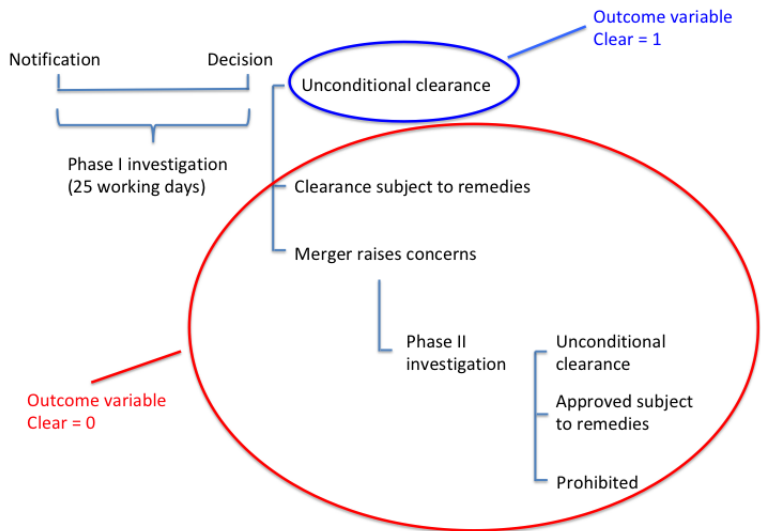
All regressions include year, industry, and country (EU) fixed effects; SEs clustered at firm level

## Channel of value creation - Regulatory outcomes

- ▶ Commission as executive authority of EU
  - ▶ Competition cases: antitrust, cartels, mergers, state aid
- ▶ Does political access affect likelihood of positive regulatory outcomes?
  - ▶ Compile dataset of merger cases at EC (2014 to 2019)
  - ▶ All M&As with participation of US and EU acquirers with Commissioner meetings
  - ▶ **Treatment group:** M&As of US acquirers with political access (n=41)
  - ▶ **Control group:** M&As of EU acquirers with political access (n=77)
- ▶ Binary outcome variable *Clear*:
  - ▶ Equal to 1 if “unconditional clearance” of merger, and 0 else (*similar to Aktas et al., EJ 2007*)



# Merger cases at European Commission



# Merger decisions and political access

- ▶ There are differences between the two regional subsamples
- ▶ Apply nearest neighbor matching approach
  - ▶ Match each US acquirer merger case to nearest neighbor among sample of EU merger cases
  - ▶ Matching on deal size, total assets, market-to-book, roa, leverage, tangibility, lobbying expenses and exact matching on industry

# Matching

Nearest neighbor matching - Treatment: US acquirer

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Outcome variable: Clear (binary)

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	NN (1)	NN (2)	NN (3)	N
US acquirer	0.439*** (0.121)	0.378*** (0.112)	0.350*** (0.112)	118

Outcome variable: Decision (4 categories)

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	NN (1)	NN (2)	NN (3)	N
US acquirer	-0.585*** (0.171)	-0.463*** (0.158)	-0.439*** (0.151)	118

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# Conclusion

- ▶ Novel results on cross-border political access
  - ▶ Direct measure of access to identify and estimate value of access
- ▶ Positive value effects of meetings of US firms with EC Commissioners
- ▶ Influence on regulatory outcomes (M&As) as channel of value creation