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Incorporated in Westminster: Channels and Returns to Political Connection in the United Kingdom

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In 2002, an amendment to UK parliamentary regulations removed restrictions on the participation of Members of Parliament (MPs) in parliamentary proceedings related to their corporate interests. Using this amendment, we demonstrate higher equity returns for FTSE 350 firms connected to an MP due to the increase in the expected value of political access. Following the amendment, MPs with corporate connections are more likely to be members of parliamentary select and joint committees where legislative bills are drafted. They also attend more committee meetings relative to MPs without corporate connections. Firms react to the increased value of direct political access by rebalancing their political activities. We demonstrate that firms shift board appointments towards sitting MPs, away from other politicians, and reduce their political donations. The benefits of higher political access are greater for firms with family ownership and lower accounting transparency.

I. INTRODUCTION

In many countries, elected politicians are legally permitted to carry out paid corporate jobs in addition to their legislative roles. This includes, for instance, Members of the UK House of Commons, the European Parliament, and the German Bundestag (Djankov *et al*. 2010). Yet the extent to which this form of corporate political connection should be permitted, and whether corporate influence on the political process is socially desirable, is controversial. While some degree of interaction is inevitable, a concern is that allowing these dual positions and allowing the corporate sector to engage with elected representatives directly can potentially lead to the 'co-option' and politicians not working in the interests of their electorate. In this sense, these interactions are viewed as a threat to the democratic process. Along these lines, a body of work has demonstrated a range of benefits to firms from political connections that seem unlikely to be of wider value to society. These benefits include preferential access to government contracts, lower costs of bank loans, higher bailout probability, and lighter regulatory oversight (Shleifer and Vishny 1994; Dinç 2005; Khwaja and Mian 2005; Faccio *et al*. 2007; Houston *et al*. 2014; Schoenherr 2019). The concerns about politicians working in the corporate interest appear particularly strong when oversight of their activities is weaker (Kaplan *et al*. 2018). These concerns have led to enhanced disclosure rules for politicians' (un)paid jobs in many countries (Geys and Mause 2013).

We return to this issue in the context of the United Kingdom (UK), where an amendment to parliamentary regulations substantially reduced barriers to corporate political connections. We use this amendment that came into effect in 2002 to examine the impact of increased political access on connected firms, channels through which politicians can influence lawmaking, and how firms take coordinated action to build political networks. This setting, as discussed below, allows us to provide a range of evidence that, we argue, is missing from the previous literature on the effects of political connections. Consistent with previous research in the context of the USA, Germany and Italy, we demonstrate that increased financial returns to UK firms are due to an increase in the expected value of political access (Geys and Mause 2013; Niessen and Ruenzi 2010; Gagliarducci *et al*. 2010). We go beyond this and show how the regulatory change led politicians to change their parliamentary activities in ways that are consistent with the interests of their corporate affiliations. Furthermore, we provide evidence that suggests that indirect political strategies (political donations) and direct political access (board appointment of MPs) are substitutes in broader corporate political strategies. Finally, we provide suggestive evidence on the social desirability of increased political access for firms.

The focus of our analysis is an amendment to the UK parliamentary regulations that removed the restrictions on parliamentary activities of MPs with corporate interests. Historically, there has been a range of specific restrictions in the House of Commons that limited the parliamentary activities of MPs who held directorships on corporate boards. Notably, under a Resolution of the House (1995), MPs could not themselves or urge other members to advocate or initiate any matter on behalf of an outside body or individual with whom the MP had a financial relationship. This regulation did not prevent MPs from being appointed as directors on corporate boards or taking up consultancy roles. However, this regulation restricted MPs on corporate boards from initiating parliamentary debates on issues that could reasonably be related to the corporation's activities in which they have business interests. It also *de facto* restricted MPs with corporate affiliations from being included in parliamentary select and joint committees, which play central roles in developing legislation in the UK. On 14 May 2002, the 1995 Resolution was amended (HC 841 (2001–02)). Through this amendment, restrictions on the participation of MPs with outside jobs in parliamentary proceedings were withdrawn. We use this amendment to examine the returns to political connections for FTSE 350 firms with MPs on their corporate boards at the time of the amendment.[1]

We argue that this amendment to the UK parliamentary regulation presents a setting akin to a natural experiment. With effect from 14 May 2002, MPs with outside business interests could initiate parliamentary proceedings on issues related to their registered outside interests.[2] In the short run, this amendment increased the value of existing connections through, for instance, informational advantages and/or more direct access to political decision-making for firms that are connected to an MP. As we show later, there was no sample attrition from the control to the treatment group in the few days surrounding the amendment. Therefore the amendment provides a unique lens to estimate the short-run market returns to political connections. Before the amendment, it is likely that any benefits of MP connections (skills of the MPs or influence) were already reflected in the equity prices of the connected firms compared to unconnected firms. Therefore any abnormal equity returns for the politically connected firm around 14 May 2002 should capture the firms' returns from informational advantages and more direct influence on the legislative process. Using two alternative identification approaches, an event study approach of abnormal returns for connected firms in narrow windows around the change in parliamentary legislation,[3] and a conventional difference-in-difference (DiD) in the long-term value of politically connected firms, we demonstrate value gains to firms with MPs on the board relative to unconnected firms following the amendment. Connected firms experienced approximately 1.3% higher abnormal returns compared to a control group of firms with no political connections around announcing the change in legislation. Controlling for the post-amendment stability of the control group, we also find a 4–5% increased shareholder value for politically connected firms over the following three years.

We then seek to examine how MPs with corporate affiliations change their parliamentary activities and firms change their activities related to political appointments. First, we analyse *ex post* appointments to investigate the effect of regulation change at the extensive margin. The ability to initiate parliamentary proceedings and the memberships of parliamentary select and joint committees provides greater influence on lawmaking. For instance, MPs on committees can influence the drafting of legislative bills, over and above their ability to vote on them.[4] Therefore comparing the relative likelihood of members of parliamentary committees gaining a first-time corporate affiliation after the amendment provides indirect evidence on the mechanisms through which MPs can affect firm outcomes.[5] After the amendment, MPs with corporate affiliations are more likely to get appointed to parliamentary select and joint committees. Second, to examine the intensive margin, we employ data-mining algorithms to gather data on parliamentary committees from the public records of the UK parliament. We collect information on the attendance in parliamentary committee meetings to examine the behaviour of MPs with corporate affiliations. Relative to MPs with no corporate connections, connected MPs are more likely to sit on select and joint committees after the amendment and attend more meetings.

Next, we provide evidence on how firms rebalance their allocation of political activities following the 2002 amendment. We focus on two aspects. First, we examine how the increased value of MP politicians to firms affected the appointment of other politicians to corporate boards, such as Members of the European Parliament (MEPs) and ex-MPs. MEPs, for instance, provide a useful comparison group as firms have previously been shown to benefit from connections to EU policy-making through these representatives (Biguri and Stahl 2020). This reflects the fact that the European Parliament legislates in areas such as antitrust, cartels, mergers, and state aid likely to impact UK firms' business interests in the EU. However, the 2002 amendment should not affect the value of MEPs, or other non-MP politicians, to firms. Consistent with this, we show that firms shift away from appointing non-MP politicians after the amendment. MPs were 8% more likely to be appointed to FTSE 350 firms in the post-2002 period, relative to MEPs and ex-MPs. This result shows that post-amendment, UK firms increased the representation of MPs at the cost of other politicians.

Additionally, we examine how the increased value of direct political access through MPs affected corporate political donations. There are two reasons why direct access to MPs through board appointments can be more attractive than political donations in the post-amendment period. First, appointment on the board is an ongoing contractual transaction between the MP and the firm, whereas donations are one-off and (potentially) give the firm lower leverage on the MP. Second, returns from donations to a political candidate are contingent on the candidate winning the election, whereas appointing an MP on the corporate board draws from the winners of the election. Consistent with these arguments, we show that politically connected firms decrease political donations in the post-2002 period with respect to unconnected firms. One concern might be that our results may reflect general downward trends in political donations over the relevant period. To address this concern, we examine firms with other forms of political connections (again access to Members of the European Parliaments and ex-MPs) and demonstrate that these firms did not reduce contributions to political parties post-2002. Together, the results on MP appointments and political donations demonstrate how firms seek to rebalance their political activities when they can rely on more direct access to political influence.

Finally, we provide suggestive evidence on the social desirability of higher political access following the amendment. We find that the higher returns from the 2002 amendment are concentrated among politically connected firms with family control, with lower accounting transparency (measured by the ratio of intangible assets to total assets and earnings accruals) and lower social performance (measured by corporate social responsibility (CSR) expenses and greenhouse gas (GHG) emissions). These results are consistent with the view that the returns to higher access to political capital are more significant for firms characterized by lower transparency.

Our paper makes several contributions to the literature on connections between the political and corporate worlds.

First, existing evidence typically estimates the value of new political appointments. It shows that connections to politicians are valuable for connected firms, not only in countries with weak institutions and high corruption, but also in strong institutions (Acemoglu *et al.* 2016). For example, Goldman *et al.* (2009) estimate that the abnormal stock return following the announcement of the appointment of a politically connected director is approximately 1.2% in the USA. Cooper *et al.* (2010) estimate 2.6% higher abnormal returns for US firms from political donations to candidates who eventually win elections. We extend this literature by examining changes in the value of existing connections when the value of political access increases. We do so in the context of the UK, where there is currently a paucity of evidence. We demonstrate effects in the order of a 4–5% increase in firm value for connected firms. The magnitude of our estimates fits with several reports of conflicts of interest that have emerged since the change in parliamentary regulations, where MPs with outside business interests have increasingly taken part in parliamentary committees, contributed to debates, or raised questions in Parliament that are closely related to their personal financial interests (Newman 2011).[6]

Second, we provide evidence that investors value politicians on corporate boards when they have a greater influence on the legislative process. Several previous studies focus on the financial returns to politically connected firms. For example, Houston *et al.* (2014) show that politically connected firms have a lower cost of borrowing, whereas Goldman *et al.* (2009) find positive abnormal stock returns following the announcement of the nomination of politically connected directors. In these cases, there is a simultaneous change to both expertise and political access of the firm. One advantage of our setting is that we provide the value effects of changes in the strength of the existing political connection. At the same time, the expertise of the connected politician is likely to remain unchanged, at least in the short event window of few days around the amendment. Therefore the gain in firm value following the amendment should only reflect the returns to direct access of firms to the legislative process.

Third, we provide evidence on how politicians with corporate affiliations can affect the process of lawmaking. Some studies have focused on the election of business leaders to political positions and subsequent benefits to their business (Bunkanwanicha and Wiwattanakantang 2009). Others have compared interest groups' policy positions with the final policy output (Klüver 2009). We contribute to this literature by documenting how UK MPs with corporate affiliations sort into select and joint committees where legislative bills are drafted. Our approach of focusing on committee composition and attendance is similar to using congressmen's roll-call votes to examine the effect of campaign contributions on lawmaking (Snyder 1992). This indicates a mechanism through which MPs' corporate affiliations can impact the legislative process.[7]

Furthermore, we contribute to the literature on corporate political strategies by documenting a substitutive relationship between direct access to serving politicians and political donations. Most studies focus on a single aspect of corporate political strategy. The study by Akey (2015) is, to the best of our knowledge, the only one to focus on cohesive political strategies of firms by examining the overlap between corporate political contributions and the engagement of professional lobbyists. How firms combine different channels of political influence is an essential question for regulators concerned with, for instance, revolving door arrangements.[8]

Finally, we show that the 2002 amendment and the associated increase in the direct access of firms to political decision-making are unlikely to be in the interests of social welfare. Several studies have noted that politicians' outside jobs can lead to the shirking of parliamentary duties and thereby reduce social welfare (Eggers and Hainmueller 2009; Gagliarducci *et al.* 2010). In contrast, our results show that MPs with corporate affiliations attend more select committee meetings. This highlights that a focus on parliamentary attendance alone may not be adequate to gauge the welfare effects of corporate political connections. If firms with lower social and ethical concerns are more likely to have direct access to political influence, then that is also likely to reduce social welfare (Borisov *et al.* 2016; Amore and Bennedsen 2013; Fulmer *et al.* 2012; Yu and Yu 2011). We find that the returns to higher access to political capital are larger for firms characterized by lower transparency. We argue that this makes it less likely that the increase in direct access of firms to political decision-making was in the interests of social welfare.

I. Institutional Details and Background

Background on legislation on political connections in the UK

Politically connected firms in the UK have long been standard (Braggion and Moore 2013). Yet the committee that oversees these interactions, the Committee on Standards in Public Life, has been a feature of the UK parliamentary democracy only since 1995. The role of this committee is to review and recommend changes to the code of conduct for Members of Parliament, including arrangements relating to extra-parliamentary commercial and financial activities of individual members.[9] In December 2001, the committee announced a new review of the code of conduct for members of the House of Commons. On 22 February 2002, the committee published a consultation paper setting out the areas of focus. The paper was circulated widely between both houses of the Parliament, and to members of the Scottish Parliament, the Northern Irish Assembly and the National Assembly of Wales. The consultation paper was published on the committee's website, advertised in selected local and national publications, and circulated among several academics, political commentators and interested members of the public. In May 2002, eight full days of public hearings on the report were organized in London and Edinburgh. See Figure 1 for a timeline of the key events related to this legislation.

The committee recommended that the arrangements put in place in 1995 relating to the initiation of the parliamentary proceedings were unduly harsh.[10] The committee noted that prohibiting MPs with outside interests from initiating parliamentary proceedings resulted in their experience and expertise not being used effectively in making policy decisions. Given these recommendations, the amendment of 14 May 2002 removed the prohibition on MPs with outside business interests from initiating and participating in parliamentary affairs related to their business interests. This amendment applied to members of both houses of the Parliament. Under the new regulations, advocacy by MPs with outside commercial interests is prohibited if it seeks to confer benefit exclusively on a body (or individual) outside Parliament with which the member has a commercial connection.[11] Otherwise, a Member can speak freely on matters related to the affairs and interests of a body (or individual) from which they receive a financial benefit, provided that the benefit is appropriately registered and declared.

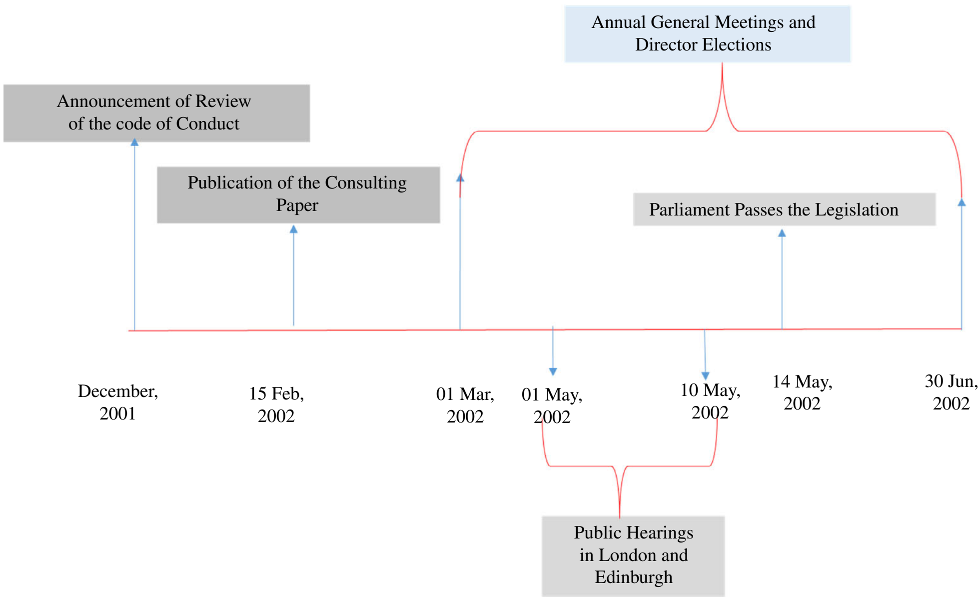

FIGURE 1. Timeline of events, amendment to the parliamentary regulation on the members' outside interests, 2002.
Notes: In this figure, we present the timeline of events related to the amendment of the UK Parliament's regulation on the participation of MPs with corporate interests in parliamentary affairs. The event date is 14 May 2002, and other important milestones in the legislative process are shown here.

In summary, the amendment to the code of conduct enhanced the influence of MPs with corporate affiliations on parliamentary affairs. Even though paid advocacy remained banned, the MPs could now represent the issues of the firms to which they were connected in parliamentary debates more openly after the change in regulations. This amendment represents an exogenous shock to the value of the political connection to firms. It did not, however, affect the expertise of the politicians with pre-amendment corporate affiliations, at least in the short run. Therefore any benefit that accrues to politically connected firms is likely due to enhanced political access and not added expertise.

Parliamentary committees

One of the main ways in which the UK Parliament operates and holds the government accountable is through select and joint committees.[12] These committees (and subcommittees) are cross-party organizations charged by Parliament with a specific role or to investigate a specific issue. These committees are permanent entities, but their composition changes in each parliament. After each general election is over, the Speaker's office allocates Committee Chair positions to each party based on the number of seats in the Parliament.[13] Party whips subsequently negotiate among themselves for the set of select committee chairs that each party gets.[14] The MPs elect the chairs from the party. To contest an election for a select committee chair, an MP needs the support of 15 MPs elected to the Commons as members of the same party, or 10% of MPs elected to the Commons as members of the same party (whichever number is the lowest). Following the chair election, ordinary committee members are appointed through internal party elections, and each party uses a slightly different process. Therefore MPs have to generate the support of their colleagues to be appointed to these committees. Only backbench MPs are entitled to be members of select committees. MPs on the government payroll, like cabinet ministers, whips and parliamentary private secretaries, are excluded. Therefore being on these committees is a way for backbench MPs to exert influence on lawmaking by attending the committee meetings. This aspect of committee formation is an important consideration for the empirical analysis later in the paper.

The main role of these select committees is to conduct inquiries and publish reports that form the basis of new legislation. These committees also raise questions for government ministers and call for debates on the floor of one of the Houses of Parliament. The government is required to respond to every select committee report within 60 days of publication. It starts the dialogue between the parliament and the government over the implementation of policies and legislation. Benton and Russell (2013) provide evidence of how influential select committee recommendations are in the legislative process. They highlight that 40% of select committee recommendations are accepted in the initial government response, and 44% are eventually implemented. Therefore the members of select committees have considerable influence in shaping future legislation.

Value of political connections

Political connections of firms may take several forms, ranging from passive connections such as those based on the voting districts of politicians, to more active connections from campaign donations, lobbying and appointment of politicians on corporate boards or as advisers to firms. Firms may benefit from such connections in a variety of ways. These include preferential access to credit (Khwaja and Mian 2005), increased likelihood of receiving government contracts and lower probability of being detected for fraud (Goldman *et al.* 2013; Yu and Yu 2011; Duchin and Sosyura 2012; Baltrunaite 2020), and better access to government bailouts (Faccio *et al.* 2007). These potential benefits of political connections imply that politicians facilitate preferential access to resources, which might be more costly to the firm otherwise.

Alternatively, benefits can stem from the advice and counsel of politicians on regulations and compliance. For example, Lester *et al.* (2008) find that the general bureaucratic experience of politicians is vital for appointing firms. To what extent corporate appointments of politicians reflect the value of their expertise relative to the influence in lawmaking is relatively unexplored. One reason for the lack of evidence is that it is difficult to decouple the expertise channel and the influence channel empirically. Ideally, an exogenous shock to the legislative influence of the politicians that does not alter the expertise in the short run can be used to examine this issue. Many studies that examine the returns to political connections for firms rely on an exogenous shock to the connection itself, such as the death of a politician or close elections (Goldman *et al.* 2009; Faccio and Parsley 2009; Fisman 2001). In these settings, there is a simultaneous shock to the expertise channel and the influence channel. The 2002 amendment of the UK parliamentary regulations offers a unique setting where the value of existing political connections increased for the firms, but there is arguably no change to the expertise of the appointed politician in the short run.

While the financial benefits of political connections to firms are well documented, it is more difficult to isolate the actions of the politicians that lead to those benefits. Snyder

(1992) uses information on roll-call votes to examine the effect of campaign funding on politicians' parliamentary actions. However, such an approach is mostly absent in the studies focusing on politicians' corporate jobs (Geys and Mause 2013). One difficulty in observing the actions of politicians that benefit connected firms is that the vast majority of studies on direct connections focus on ex-politicians. For example, focusing on businessmen who get elected to political office, Bunkanwanicha and Wiwattanakantang (2009) show that the businessmen-politicians make legislative changes that benefit their business empire through tax and licence fee cuts, new state contracts and market entry barriers. Such egregious political favours are less likely in countries with stronger legal protection—Thailand ranks 101st in the 2019 Corruption Perceptions Index, while the USA and the UK rank 23rd and 12th, respectively (Transparency International 2019). An alternative approach is to use textual analysis of the minutes of committee meetings where legislative proposals are drafted. Politicians serving on important committees are more attractive to firms, and their activities in these committees can shed light on how corporate connections influence the legislative process (Akey 2015).

Existing studies focus on two forms of political connections: political donations by firms and the explicit connection of firms to a politician (Goldman *et al.* 2009; Di Giuli and Kostovetsky 2014). Following the death of Senator Henry Jackson, Roberts (1990) finds a decline in the value of firms that contributed to his presidential campaigns. Similar positive (negative) value effects are reported for firms connected to Democratic (Republican) candidates following Senator James Jeffords' decision to leave the Republican Party (Jayachandran, 2006). Direct connections to politicians are arguably more durable than contributions to political campaigns (Faccio 2006). For a cross-section of firms drawn from 47 countries, Faccio (2006) shows that direct political connections through corporate directors or large shareholders are valuable, particularly in institutional settings with inadequate legal protection and high corruption. Using the sudden death of legislators as an exogenous shock to political connections, Faccio and Parsley (2009) show a decline in the value of the politically connected firms following the unexpected deaths.

The two broad channels of political connections are not mutually exclusive but can be viewed as instruments of the overall corporate strategy for political engagement. For example, Akey (2015) shows that US firms combine direct political access (employing former government staffers) and indirect lobbying. His paper also highlights the substitutive nature of these two forms of political strategies. How corporations substitute direct and indirect political access is crucial to regulating corporate political access, but there is little evidence in this regard. However, there is a near absence of evidence on the substitutive nature of corporate political strategies in the non-US context.

Ultimately, notwithstanding the form of political strategies, the social desirability of politically connected firms depends on the channels through which firms benefit from the political connection. There are two primary welfare concerns. First, politicians with corporate interests will shirk their parliamentary responsibilities (Becker *et al.* 2009). Eggers and Hainmueller (2009) find that outside employment of UK MPs in the postwar period of 1950–70 had a statistically significant negative effect on their parliamentary attendance rate. MPs facing a lower degree of electoral competition are more likely to trade off parliamentary activities for outside interests (Norris 1996; Becker *et al.* 2009). Gagliarducci *et al.* (2010) show similar effects on parliamentary activities of Italian politicians with outside jobs. The second concern is that if political connections disproportionately benefit firms with lower shareholder returns, poor history of social responsibility, and opaque accounting standards, then such arrangements are unlikely to be in the interests of social welfare. However, it is particularly challenging to examine the mechanism that leads to the returns to political access from observational data. Proxies for unethical behaviour or opacity of financial accounting are often used to examine the value that political connections bring to firms. For example, Borisov *et al.* (2016) examine whether the value of lobbying is more significant for firms with poor social performance and a lower degree of accounting transparency.

II. Data

The primary data used for this study cover the set of firms featured in the FTSE 350 listings as of 2002, and in the primary analysis, we focus on the period 1999–2005. The sample period is chosen due to the following considerations. First, reliable data on the composition of boards for UK firms are not available before the year 1999. Further, our sample period ends in 2005 as the general election results in the UK may be affected by this amendment. Contamination is also possible if politicians prioritize electoral interests leading up to the elections, and the corporate affiliation of MPs might not be orthogonal to election outcomes (Franzese 2002).[15]

We collect information from BoardEx on board composition, experience and backgrounds of individual directors, and director pay, which is updated annually. We follow the set of FTSE 350 firms as of the event year before and after 2002. We exclude firms that do not feature in the FTSE 350 for at least two years after our event of interest or do not have the full set of board characteristics and financial data available. These constraints restrict our sample to 338 firms. We collect stock price information and firm-level covariates from Datastream. The firm-level controls include firm size as measured by the natural log of sales, MTBV measured as the market value of assets over book value of total assets, variance in the daily stock returns as a proxy for operational risks, and debt-to-equity ratio. Data on ownership structure are obtained from Thomson Eikon and Datastream. We also collect information on GHG emissions and CSR expenses from Datastream. GHG emissions are normalized based on the methodology used in Homroy and Slechten (2019). Firms in certain industries are more likely to have political connections (Agrawal and Knoeber 2001). Therefore we control for the industry using the two-digit UK Standard Industrial Classification as of 2003.

Our measure of political connection is constructed using information from two sources. We begin with information on board composition obtained from BoardEx. Directors with political backgrounds are likely to be non-executives. We undertake a series of matching exercises to identify a politician on the board of an FTSE 350 firm. BoardEx reports the main occupation for every non-executive director in the form of information on current and historic non-board roles. We adopt a text-mining approach to identify non-executives whose non-board employment is coded as ‘Government’, ‘UK Ministry of . . .’, ‘UK Home Office’, and so on. We also search for titles of non-executive directors. We include members of both the first chamber (House of Commons) and the second chamber (House of Lords). The politically related titles for members of the lower house are ‘Right Honourable’, which identifies a member of the cabinet, and ‘Honourable’, which identifies a non-cabinet member. The political titles for the second chamber are ‘Lord’ and ‘Baroness’.[16]

This information is then matched to the list of MPs published on the UK Parliament website. In 2002, there were a total of 659 members in the House of Commons and 690 members in the House of Lords. For all MPs, we use the listings of outside interests listed in the Register of Members’ Financial Interests on the UK Parliament’s website to obtain information on paid outside positions. In particular, we focus on MPs with paid director and consultant positions on corporate boards. In conjunction with the BoardEx data on Director Employment, this information helps us to locate the firms that were connected to at least one MP in the year 2002. In the final sample, we have 203 MPs with paid positions as directors or consultants, which is approximately 15% of all MPs. Naturally, firms that anticipated the amendment could have appointed MPs earlier. Yet we observe only six director appointments in the three months before the amendment. This likely reflects the timing of the appointment season relative to the discussion and passing of the legislation. The shareholder voting season in the UK primarily runs from April to June (with some at the end of July), with director nominations finalized months before the Annual General Meeting where the voting is conducted. The Consulting Paper with the proposal for the amendment was published on 15 February. Subsequently, the parliamentary debates and public consultations were held in March–May 2001. Hence the public consultation overlapped with the peak of the director-election season (see Figure 1). This, when combined with the fact that the passage of the amendment through Parliament was not certain, likely explains why companies did not move to appoint additional MP-directors until after the amendment passed.[17]

We also identify 187 other non-MP politicians connected to our sample firms: 73 are Members of the European Parliament from the UK (MEPs), 66 are ex-MPs, and 48 are members of the Scottish Parliament and the Welsh Assembly.[18] 53% of our sample firms have at least one politician on the board, MPs or otherwise, with the mean firm having 0.6 MPs on the board in a given year.[19] Politicians from the Conservative Party were more likely to have an outside business interest: 209 when compared to 113 from the Labour Party. This partisan effect is consistent with the evidence from a large global sample of politicians (Geys and Mause 2013).

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

In our sample, 66% of eligible MPs are members of at least one select committee. The median number of committee memberships for eligible MPs is 2.20. There are over 100 such committees, and new committees are formed to deal with specific sociopolitical requirements.[20] In particular, we focus on the select committees through which firms are more likely to benefit, specifically committees directly related to government contracts and regulatory affairs. These are the Backbench Business Committee, Business Innovation and Skills Committee, Energy and Climate Change Committee, Health Committee, Regulatory Reform Committee, Defence Committee, Economic Affairs Committee, Environmental Audit Committee, International Trade Committee, and Science and Technology Committees. We do not include the Constitution Committee, Ecclesiastical Committee, Foreign Affairs Committee, Members Expenses Committee, Refreshment Committee, or Scottish and Welsh Affairs Committees.

Data-mining techniques are used to extract historical committee compositions and the minutes of the meetings from the archives of publications of the UK Parliament for the period 2001–5.[21] The number of meetings per year varies quite widely across committees. For example, the Committee for Environment and Climate Change had 45 meetings in 2012–13, whereas the Regulatory Reform Committee had 13 meetings in the 2007–8 session. We extract information on the minutes of the meetings of all committees year on year. The contents of the minutes are heterogeneous across committees and not consistently digitized before the year 2006. Typically, the minutes note the meeting date, list the members who attended, and give the topics discussed. The meetings also contain a declaration of interests by members of the committee. This declaration allows the corroboration of our classification of MPs' outside interests. However, a limitation is that the minutes do not systematically identify by name those individuals who initiate and participate in discussions. For example, a standard entry into the minutes is noted as 'A Member raised the question'. Therefore it is not possible to conclusively assign the topics of discussion to the committee members. In our algorithm, we aggregate the attendance of each member of the committees for every year as a proxy for the likelihood of politically connected firms to benefit from the MP's select committee membership.

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

Finally, we collect information on political donations to the major political parties from the Electoral Commission database that records donations made to political parties by individuals, trade unions, firms and other donors. These data are available only from 2001 onwards. Within the sample period (2001–5), we have approximately 14,300 donations made, totalling £96 million.[22] We consider only donations that are reported to be made by 'Companies', 'Trusts' and 'Building Societies'.[23] The mean (median) political donations of sample firms in the 1999–2005 period are GBP 26,000 (GBP 10,900).

Table 1 provides descriptive statistics on firms with and without political connections. Political connections are defined based on having MPs as corporate directors and/or consultants as of 2001. Politically connected firms, on average, are larger and more profitable, and have higher leverage and higher CSR performance. Also, firms with a politically connected director or consultant have higher GHG emissions, have more family ownership, have marginally lower accounting transparency (measured by earnings accruals and intangible assets), and make smaller political donations. There are no statistically significant differences in the fraction of independent directors, the fraction of intangible assets, or auditor choice.

III. Empirical Strategy

Our first step is to provide evidence on whether the 2002 amendment affected the shareholder value of connected firms. While we argue that this amendment can be treated as a source of exogenous variation in the value of political connections, we face several

TABLE 1
COMPARISON OF POLITICALLY CONNECTED AND UNCONNECTED FIRMS IN 2002

	MP Political Connections			Non-MP Political Connections			
	N	Mean	SD	*N*	Mean	SD	Mean test
Political Donations (£000)	180	30.308	19.247	158	46.713	12.186	0.00
Size	180	8.578	2.494	158	7.920	1.926	0.00
ROA	180	0.098	0.089	158	0.046	0.122	0.00
MTBV	180	2.048	0.856	158	1.835	0.638	0.18
Board Size	180	9.882	2.020	158	8.935	2.875	0.36
Family Ownership	180	0.073	0.088	180	0.024	0.016	0.02
Board Independence	180	0.591	0.290	158	0.540	0.255	0.26
Proportion of Female Directors	180	0.158	0.136	158	0.121	0.183	0.40
Risk	180	0.014	0.087	158	0.021	0.083	0.05
Leverage	180	0.212	0.150	158	0.178	0.130	0.10

Notes
In this table, we describe the observable characteristics of the group of FTSE 350 firms that were connected to an MP in 2002 and the group of FTSE 350 firms that have no connections to an MP as of 2002. MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Non-MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a politician who is not a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Political Donations is the monetary value of the annual political contribution made by FTSE 350 firms; ROA is defined as the ratio of earnings before interest and taxes over total assets; MTBV is the market value of equity over book value of assets; Family Ownership is an indicator taking value 1 if the proportion of equity ownership of members of the same family is greater than 5%; Board Independence is defined as independent directors on the corporate board as a percentage of Board Size; Proportion of Female Directors is female directors on the corporate board as a percentage of Board Size; Risk is defined as the variance in monthly stock returns; Leverage is the ratio of Total Debt to Total Equity. The mean test displays the *p*-value for the equality of sample means.

empirical difficulties in practice, which we discuss below. Our main approach is to adopt two alternative empirical strategies, which we argue provide complementary evidence.

Our first approach is to conduct an event study around the announcement of the amendment. The setup is similar to a natural experiment because at the time of the announcement, a subset of sample firms had an MP on the board of directors, while others were unconnected. Within a short event window of a few days around the legislation, firms cannot easily recruit politicians as directors to move from the control to the treatment group, because director recruitment generally requires a nomination process followed by shareholder voting.

Therefore if the value of existing political connections depends solely on the expertise of the MP-directors, then it should already be reflected in the higher share prices of politically connected companies. In that case, there will be no additional effect on the cumulative abnormal returns (CARs) around the event date for politically connected companies. However, if the increased influence drives the value of political connection, then the news of the change in parliamentary regulation should be associated with a positive CAR. The abnormal returns are calculated using the Fama–French–Carhart four-factor model. We use daily data from days −250 to −7 (i.e. days before the event) to estimate the parameters of the market model.[24] We calculate the returns in 3-day and 7-day windows around the event day of 14 May 2002. Since the event affects all treated firms simultaneously, we control for the event-induced volatility and the cross-sectional correlations by calculating the standard errors using the Kolari and Pynnönen (2010) approach.

One concern is that the value gains from the amendment are correlated to firm and industry characteristics. We address this concern by estimating the following cross-sectional regressions of CARs:

$$R_{i;t} = \mathrm{E}[R_{i;t}|X_t] + \xi_{i,t}, \tag{1}$$

where we decompose stock returns $R_{i;t}$ around the announcement of the regulatory change, allowing MPs with board memberships to participate in parliamentary discussions around issues closely aligned to their corporate interests. X_t is the conditioning vector of firm characteristics at time t, and $\xi_{i,t}$ is the abnormal returns within the event windows. There were no legislative changes at the same time that were likely to influence firm value systematically and contaminate our estimated abnormal returns.[25] Estimates of equation (1) provide the effect of the amendment (and hence the increased value of political connections) on the stock returns of connected firms relative to the overall market.

Our second approach is to estimate DiD models of the form

$$Y_{jt} = \alpha_1 Connected_j + \alpha_2 Connected_j \cdot Post2002_t + X_{jt}\theta + \delta_t + \epsilon_{jt}, \tag{2}$$

where Y_{jt} is a measure of the value of firm j for year t. $Connected_j$ is a dummy variable indicating whether the firm is politically connected before the amendment; *Post2002* takes value 1 for the years 2002 onwards.[26] δ_t is a set of year fixed effects such that γ provides the DiD estimate of the effect of the 2002 amendment for connected firms. X_{jt} are firm-level controls. α_2 shows whether increased political influence affects firm value at the extensive margin.[27]

The DiD estimates, when compared to the event study approach, have the primary advantage of providing longer-term estimates of the effect of political connection on firm value. These estimates are likely to reflect if the investors are systematically willing to pay a premium for the shares of politically connected firms compared to unconnected firms, over and above a short-term gain in the few days around the event window. This longer-term analysis poses a challenge for constructing the control group as political connectedness can change over the longer time horizon, particularly after the amendment. Our main approach is to define the treatment group as those firms with an MP political connection for at least 12 months before the amendment that continue to have such connection in subsequent years. In practice, no treatment firms in our sample cease to have a political connection in our observation period. The control group is comprised of firms that did not have an MP-director or MP-consultant for at least 12 months preceding the amendment. These firms continue to be in the control group, even if they subsequently appoint an MP as a director or a consultant. (In the post-2002 period, 45 firms or 28% of the control group firms appoint an MP director or consultant.)

This design leads to a difference-in-difference estimate of the gains from political access from our models that is likely to be a lower bound of the real effect. We subsequently examine the potential bias induced by the endogenous switching of firms from the control group to the treatment group. We estimate alternative models where the control group includes only those firms who remain unconnected to an MP until the end of our sample period in 2005, and all firms that move from the control group to the treatment group are excluded.

We next examine amendment-induced changes in the parliamentary activities of the MPs with corporate affiliations. We start by estimating a linear probability model of appointment to parliamentary select and joint committees of the form

$$CommitteeAppointment_{kt} = \beta_1 MPswithCorporateAffiliations_{kt-1} + \beta_2 Z_{kt} + \delta_t + \epsilon_{jt}, \quad (3)$$

where Z_{kt} is a vector of characteristics for the kth MP. The primary independent variable is an indicator for MPs with pre-amendment corporate connections.[28] Hence the parameter estimate of the indicator will be the probability of these MPs becoming members of select and joint committees relative to MPs with no corporate connections. Our estimate, β_1, captures the change in parliamentary activities of MPs with corporate affiliations at the extensive margin.

A difference-in-difference approach is not possible in this context as MPs with corporate affiliations could not be members of parliamentary select and joint committees before the amendment. The likelihood of appointment to select committees of MPs with corporate connections is arguably mechanical—it was one of the restrictions that the amendment sought to revoke. Therefore these estimates do not seek to produce causal evidence but highlight the endogenous matching of MPs with corporate affiliations to parliamentary committees.

Further, we focus on attendance in the select committee meetings to measure MPs' voluntary parliamentary activities in the intensive margin. We estimate an ordinary least squares specification, with the percentage of select and joint committee meetings attended in the 2003–5 period as the dependent variable. The main independent variable is an indicator for MPs with corporate affiliations. We control for MP characteristics such as age, gender, tenure, party affiliation and electoral majority. The direction of the association between MPs with corporate connections and committee attendance is ultimately an empirical question. On the one hand, MPs with outside jobs are known to reduce parliamentary activities (Eggers and Hainmueller 2009; Gagliarducci *et al.* 2010). On the other hand, backbench MPs can directly influence lawmaking in favour of corporate interests by being appointed to these committees and then attending committee meetings.

In addition, we examine broader corporate political strategies following the amendment by focusing on political donations. We hypothesize that the post-amendment increase in the value of direct political connection will increase the attractiveness of this form of political access to firms relative to other ways of seeking political connections. We test this by estimating a DiD specification of corporate political donations:

$$(4) \quad PoliticalDonations_{jt} = \alpha Connected_j + \gamma Connected_j \cdot Post2002_t + X_{jt}\theta + \delta_t + \epsilon_{jt},$$

where $Connected_j$ is a dummy variable indicating whether the firm is politically connected before the amendment, and *Post2002* takes value 1 for years 2002 onwards. δ_t is a set of year fixed effects such that γ provides the DiD estimate of the effect of the 2002 amendment on political donations for connected firms. X_{jt} are firm-level controls.

Finally, we estimate triple-difference models to examine the heterogeneous effect of the amendment on firms with different ownership structures, social responsibility and accounting transparency. We estimate variants of equation (2) where treatment effect is allowed to vary by family ownership (greater than 5% ownership by a family), low expenditure on corporate and social responsibility measures (CSR expenses lower than the industry median), and high GHG emissions (GHG emissions greater than the industry median). Additionally, we examine two measures of accounting transparency: Intangible Assets (ratio of intangible assets to total assets) and Earnings Accruals (defined as the difference between annual earnings and cash flow from operating activities (Sloan 1996). We use a triple difference estimator of MP Political Connection, Post-2002 and the indicators for Family Ownership, Low CSR, High GHG, Intangible Assets and Earnings Accrual, respectively.

IV. Results

Effect of the amendment on value of connected firms

Table 2 presents initial estimates of the value of political connections based on abnormal returns around the announcement of the change in parliamentary regulation on 14 May 2002 using the Fama–French–Carhart four-factor model. For each politically connected firm, we calculate the cumulative abnormal returns (CARs) following the amendment, and then we calculate mean CARs for all the connected firms for two even windows: (−3, +3) and (−1, +1). In panel A, we report CARs for firms with pre-existing connections to an MP on the event date. These firms, on average, experience 1.34% CARs in the seven-day window surrounding the event date. These value effects are statistically significant at the 5% level.

Figure 2a provides a corresponding graphical depiction of the returns (in percentages) for politically connected firms around the event date, with respect to the control group. It shows that market returns of both connected and unconnected firms exhibited parallel trends before the event date. At the event date, there was a positive jump in the returns of the connected firm but no change in the returns of unconnected firms. This graph shows that the information on increased political access of connected firms is valued positively by investors, compared to the expected returns on the market

Table 2
Mean Cumulative Abnormal Returns Around the Announcement

	Equally weighted CARs		Value weighted CARs	
	(+3, −3)	(+1, −1)	(+3, −3)	(+1, −1)
Panel A				
MP Political Connections	1.34	0.901	1.513	0.923
	(0.565)	(0.278)	(0.583)	(0.374)
Panel B				
Non-MP Political Connections	0.233	0.178	0.262	0.251
	(0.190)	(0.242)	(0.234)	(0.292)

Notes
This table presents the results for the market reaction to the change in regulation on MPs' outside interests. In panel A, we present the mean CARs (in percentages) for firms connected to an MP around the event date, and in panel B, we present the mean CARs for firms connected to non-MP politicians. The estimation period is from day 250 to day 7 before the parliamentary legislation. Abnormal returns are calculated using the Fama–French–Carhart four-factor market model. The standard errors reported in parentheses account for cross-sectional correlation in abnormal returns following Kolari and Pynnönen (2016).

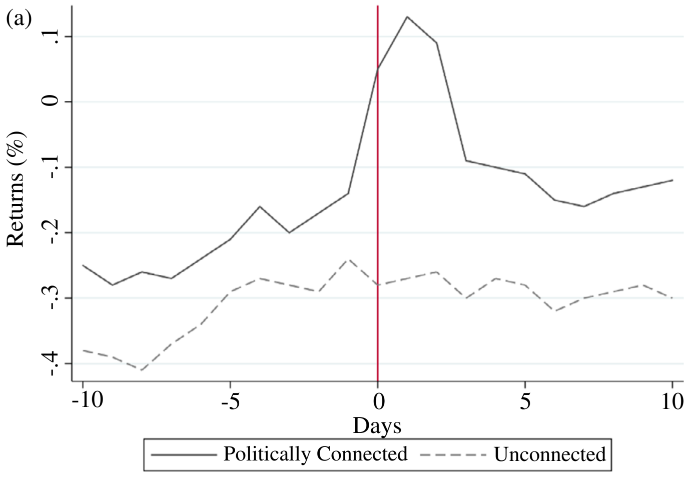

FIGURE 2A. Returns by political connection around the amendment of 14 May 2002 to MPs' outside interests.
Notes: This figure shows the returns for the politically connected and unconnected firms during a 20-day event window centred on the amendment to parliamentary regulations on 14 May 2002. 180 firms had an MP-director on the event date, and 158 firms did not.

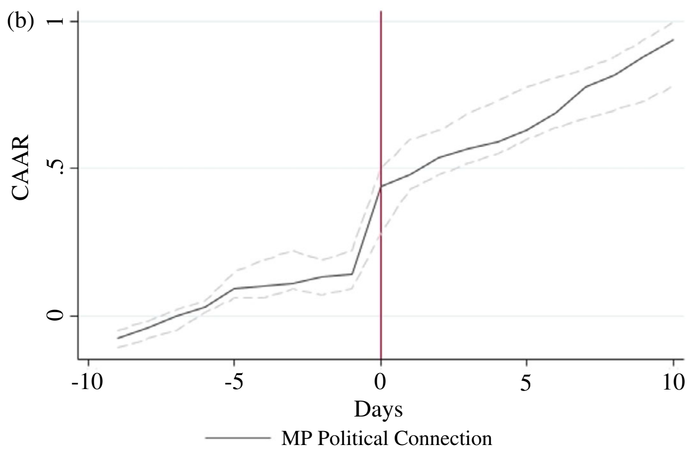

FIGURE 2B. Abnormal returns for connected firms around the amendment of 14 May 2002.
Notes: This figure shows the Cumulative Average Abnormal Returns (CAAR) for the politically connected firms during a 20-day event window centred on the amendment to parliamentary regulations on 14 May 2002. The dashed lines show the 95% confidence intervals.

portfolio. Over time, this change in the legislative environment is internalized by the market participants. Hence we do not detect any excess returns for the connected firms relative to the market portfolio after a few trading days. Figure 2b shows the CAR for connected firms over a 20-day window, centred on the event date. It shows a moderate upward trend in cumulative returns for the connected firms before the event date. There is a jump in cumulative abnormal returns on the event date, and the slope of the graph after the event date is steeper than the slope of the graph before the event date.

The magnitude of the effect for our event is comparable to, for instance, the announcement effect of appointing politically connected directors in US firms. For example, Goldman *et al.* (2009) show that the announcement returns to the appointment of a politically connected director are approximately 1.2% for the connected firms.

Panel B of Table 2 reports placebo tests for firms connected to non-MP politicians. As the amendment of 14 May 2002 affects only the political value of MPs at Westminster, the value of other politicians—such as MEPs, ex-MPs and members of the Scottish Parliament and Welsh Assemblies—should be unaffected.[29] We report the average CARs for these companies following the amendment, and find no statistically significant price reaction for firms connected to non-MP politicians in our event windows.

Table 3 provides the cross-sectional results for the value effects. We control for several firm characteristics and two-digit UK industry codes in multivariate tests with value-weighted CARs for (−3, +3) days as the dependent variable. Column (1) presents the baseline specification for the firm value effect of connection to MPs. While MPs can be appointed as a director or consultant to the board, the former dominates numerically. In column (2), we re-estimate excluding all 76 firms with MP-consultants. The fraction of connected firms drops from 53% to 44%. In practice, excluding consultants does not affect the estimate of interest. The estimates from columns (1) and (2) again suggest that politically connected firms experienced a statistically significant gain in value because of the amendment. In column (3), we show the results from a placebo test for firms with non-MP political connections. Here, the control group is firms with no political connections, and we exclude firms with connections to MPs. We find that companies with connections to non-MPs experienced no statistically significant value gains following the 2002 amendment to parliamentary regulations. These results highlight that the value gains from the amendment were due to existing connections, net of the MPs' expertise. Therefore these gains are likely to be driven by the market's expectation of the increased political influence of connected firms.

We next employ a DiD setup as an alternative approach to estimating the impact of the amendment on firm value. Figure 3 plots MTBV by connected and non-connected firms for 1997–2005.[30] The illustrative evidence is suggestive of parallel trends before the amendment.[31]

The corresponding regression estimates are reported in Table 4. We report two sets of main estimates. The first set includes the FTSE 350 sample (panel A), while the second set excludes firms that hire an MP *after* the amendment (panel B). In both sets of results, we find qualitatively similar estimates for the interaction term *MP Political Connections* * *Post2002*. These DiD estimates (columns (1) and (3)) are statistically significant at the 1% level. Our results are also unaffected by alternative treatments of the time dimension, that is, linear time trends in columns (2) and (4). These results suggest a value gain of 4–5% for connected firms in the three years following the amendment.

MPs with corporate connections and parliamentary committees

Next, we focus on the parliamentary activities of MPs with corporate connections following the amendment. We examine the composition and minutes of parliamentary select and joint committees. First, we investigate if MPs with corporate affiliations before the amendment are more likely to be members of parliamentary joint and select committees compared to all other MPs in the post-amendment period.[32] The dependent variable in column (1) of Table 5 is an indicator for membership of any of the committees listed in Online Appendix 1. We control for MPs' demographic characteristics and the electoral majority. We demonstrate that MPs with pre-2002

TABLE 3
THE EFFECT OF POLITICAL CONNECTIONS ON FIRM VALUE: MULTIVARIATE CAR ESTIMATES

	(1)	(2)	(3)
MP Political Connections	0.088		
	(0.031)		
MP-director appointments only		0.092	
		(0.030)	
Non-MP Political Connections			0.011
			(0.008)
ROA	0.013	0.020	0.017
	(0.006)	(0.008)	(0.006)
Size	0.034	0.038	0.045
	(0.011)	(0.016)	(0.020)
Board Size	0.007	0.012	0.011
	(0.010)	(0.015)	(0.009)
Board Independence	0.002	0.005	0.007
	(0.003)	(0.004)	(0.007)
Leverage	−0.004	−0.003	−0.009
	(0.006)	(0.003)	(0.008)
Industry dummies	Yes	Yes	Yes
Constant	0.082	0.028	0.118
	(0.031)	(0.015)	(0.073)
N	338	309	229
R^2	0.184	0.134	0.091

Notes
Dependent variable: CAR (−3, +3).
This table presents the cross-sectional regressions of CARs. The sample comprises firms in the FTSE 350 as of the year 2002. The dependent variable is CAR in the (−3, +3) days window around the amendment in UK parliamentary regulations on 14 May 2002. Column (1) shows the baseline results for all firms with political connections to MPs. Column (2) shows the results for a subsample of firms appointing MPs as directors and not as consultants. Column (3) shows the results for firms connected to non-MP politicians. MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Non-MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a politician who is not a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; ROA is defined as the ratio of earnings before interest and taxes over total assets; Size is defined as the natural log of Annual Sales Turnover; Board Size is the number of directors on the corporate board; Board Independence is defined as independent directors on the corporate board as a percentage of Board Size; Leverage is the ratio of Total Debt to Total Equity. All independent variables are lagged by 1 year. Robust standard errors are reported in parentheses below the estimates.

corporate affiliations were 23 percentage points more likely to be appointed to select and joint committees after the amendment than MPs without prior corporate affiliations. Senior MPs with longer parliamentary tenure were more likely to be appointed to committees. Male MPs, Conservative Party MPs, and MPs from constituencies with a large electoral majority are also more likely to be committee members. Our results demonstrate the endogenous sorting of MPs into parliamentary committees following the amendment. These results reflect the actions of MPs when the constraint to political influence was withdrawn. We present the results in Table 5.

We then examine the percentage of these committee meetings attended by member MPs in 2003–5. We show the estimates of the difference in average committee attendance of MPs with a corporate affiliation relative to MPs with no corporate affiliations in

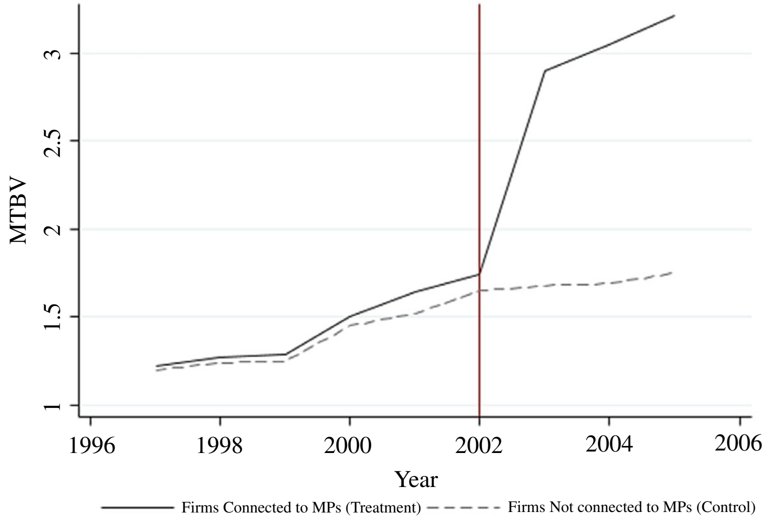

FIGURE 3. Firm value (MTBV) by connected versus non-connected firms, 1997–2005.
Notes: In this figure, we present the change in the average MTBV (market value of assets over book value of total assets) of UK firms that employed an MP at the time of the amendment compared to firms that never had any connection to an MP in the period 1997–2005.

column (2) of Table 5. MPs with a corporate affiliation attended 7% more meetings than MPs without an affiliation in the period following the amendment. Senior MPs are marginally more likely to attend committee meetings than junior MPs. Collectively, the estimates in Table 5 show that connected MPs acted at both the extensive margin (joining committees) and the intensive margin (attending meetings) to be more involved in the vital political decisions from which they were prohibited before the amendment. Given that these committees are generally tasked with the draft proposals and enquiries that inform future legislation, these results highlight a direct channel through which a politician can work in the interests of their corporate affiliations.

Rebalancing of corporate political strategies

How do firms react to increased access to political influence? Descriptive statistics on the characteristics of politician directors before and after the amendment (reported in Online Appendix 3) show that the proportion of non-executive directors who were MPs increased markedly from 8% to 14% after the amendment. This rate of increase is consistent with the findings of Geys and Mause (2013) that approximately 27% of UK MPs had directorships by 2010. In contrast, in our sample, 15% of all MPs in 2002 had corporate affiliations. There is no increase in the proportion of other politicians (MEPs and ex-MPs) in the post-amendment period.

We estimate DiD models of the probability of MPs being on a corporate board or holding a consulting position in an FTSE 350 firm. The treated group is comprised of all MPs of the UK Parliament (less the cabinet), and the control group is composed of MEPs and ex-MPs. Hence the DiD estimate is the change in the probability of MPs holding such a position relative to non-MPs, following the amendment. We present the results in Table 6. We find that the likelihood of MPs' corporate appointments increases by 8 percentage points in the post-2002 period (column (1)). This effect is subsequently

TABLE 4
DIFFERENCE-IN-DIFFERENCE ESTIMATES: EFFECT OF THE AMENDMENT ON FIRM VALUE

	Panel A: All firms		Panel B: Excluding switchers from the control group	
	(1)	(2)	(3)	(4)
MP Political Connections * Post2002	0.042	0.049	0.051	0.057
	(0.013)	(0.015)	(0.023)	(0.020)
MP Political Connections	0.026	0.036	0.030	0.038
	(0.008)	(0.010)	(0.012)	(0.013)
Post2002		0.011		0.014
		(0.004)		(0.005)
ROA	0.118	0.056	0.134	0.077
	(0.052)	(0.026)	(0.046)	(0.037)
Size	0.248	0.167	0.266	0.199
	(0.109)	(0.082)	(0.112)	(0.086)
Board Size	0.055	0.047	0.037	0.032
	(0.036)	(0.041)	(0.025)	(0.028)
Board Independence	0.022	0.015	0.019	0.018
	(0.017)	(0.013)	(0.016)	(0.016)
Leverage	−0.030	−0.024	−0.040	−0.031
	(0.015)	(0.013)	(0.017)	(0.014)
Risk	−0.018	−0.012	−0.022	−0.020
	(0.007)	(0.006)	(0.010)	(0.010)
Industry dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	No	Yes	No
Linear time trend	No	Yes	No	Yes
N	2366	2366	2105	2105
R^2	0.44	0.33	0.34	0.28

Notes
Dependent variable: Market to Book Value.
This table shows the difference-in-difference in the valuation for firms connected to MPs with respect to unconnected firms before and after the 2002 amendment. The sample comprises FTSE 350 firms as of 2002 for the 1999–2005 period. The treatment group consists of firms with MP connections as of 2002, and the control group consists of firms without any political connections. The dependent variable in all specifications is the Market to Book Value. Panel A includes all previously unconnected firms that appointed an MP in the post-2002 period in the control group. Panel B excludes these firms from the control group. Columns (1) and (3) report estimates with year dummies; columns (2) and (4) report estimates with a linear time trend. MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Non-MP Connection is an indicator taking value 1 if an FTSE 350 firm had employed a politician who is not a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Post2002 is an indicator taking value 1 for all years after 2002. The year 2002 is considered a treatment year because the amendment passed in May is closer to the beginning of the UK's April–March tax year. ROA is defined as the ratio of earnings before interest and taxes over total assets; Size is defined as the natural log of Annual Sales Turnover; Board Size is the number of directors on the corporate board; Board Independence is defined as independent directors on the corporate board as a percentage of Board Size; Risk is defined as the variance in monthly stock returns; Leverage is the ratio of Total Debt to Total Equity. All independent variables are lagged by 1 year. Robust standard errors, clustered at the firm level, are reported in parentheses below the estimates.

(column (2)) split by whether the MP had a corporate affiliation as of 2001. There is some indication that the amendment had a slightly higher effect on previously unattached MPs joining a corporate board. Therefore the amendment of the parliamentary regulation

TABLE 5
PARTICIPATION OF MPS WITH CORPORATE AFFILIATIONS IN PARLIAMENTARY ACTIVITIES

	Indicator of committee appointment		Percentage of committee meetings attended	
	(1)	(2)	(3)	(4)
MPs with Pre-2002 Corporate Affiliations	0.233	0.199		
	(0.062)	(0.055)		
MPs with Corporate Affiliations			7.143	5.557
			(2.508)	(2.013)
MPs with Pre-2002 Corporate Affiliations * MP Tenure		0.059		
		(0.024)		
MPs with Corporate Affiliations * MP Tenure				0.867
				(0.313)
MP Age	0.154	0.148	0.023	0.027
	(0.066)	(0.060)	(0.016)	(0.015)
Male MP	0.403	0.400	1.098	1.235
	(0.194)	(0.190)	(0.353)	(0.322)
MP Tenure	0.108	0.067	1.543	1.409
	(0.043)	(0.033)	(0.742)	(0.703)
Electoral Majority	0.307	0.323	2.120	2.012
	(0.135)	(0.128)	(1.004)	(0.096)
Conservative Party Affiliation	0.118	0.120	0.983	0.980
	(0.062)	(0.057)	(0.380)	(0.363)
N	1896	1896	1896	1896
R^2	0.334	0.377	0.252	0.279

Notes
This table presents the results of the changes in the parliamentary activities of MPs with corporate affiliations, conditional on MPs' seniority in Parliament. The sample consists of all MPs in the House of Commons as of 2002, less the Cabinet members. The dependent variable in columns (1) and (2) is an indicator for MPs with pre-2002 corporate affiliations appointed to parliamentary select and joint committees. The dependent variable in columns (3) and (4) is the percentage of select and joint committee meetings attended by an individual MP. The control group consists of MPs with no corporate affiliationsMP Age is the age of individual members of the UK Parliament in years; Male MP is an indicator taking value 1 if the member of the UK Parliament is male; MP Tenure is the number of consecutive years for which an individual is a member of the UK Parliament; Electoral Majority is the margin of the win (in terms of percentage of votes) for the member of the UK Parliament in the 2001 UK general elections; Conservative Party Affiliation is an indicator taking value 1 if the member of the UK Parliament is from the Conservative Party. Robust standard errors, clustered at the individual level, are reported in parentheses below the estimates.

increased the demand for MPs relative to other politicians, indicating firms' desire for enhanced political access through these MPs.

Next, we examine how the enhanced value of direct political access impacted on indirect channels of political influence such as corporate political donations. Figure 4a shows the evolution of corporate political donations in the UK over the 2000–10 period, where aggregate donations vary with the election cycle. Firms connected to an MP have a lower level of political donations from 2001 to 2010 compared to firms without such connections. The gap in political donations between connected and unconnected firms marginally widens in the post-2002 period. Figure 4b shows that the time series of political donations made by firms with connections with non-MP politicians is similar to that shown in Figure 4a.

TABLE 6
DIFFERENCE-IN-DIFFERENCE ESTIMATES: EFFECT OF THE AMENDMENT ON THE PROBABILITY OF MPS' CORPORATE CONNECTIONS

	(1)	(2)
MP * Post2002	0.088	
	(0.029)	
MP with Prior Corporate Experience * Post2002		0.034
		(0.015)
MP without Prior Corporate Experience * Post2002		0.057
		(0.019)
MP	0.051	
	(0.013)	
MP with Prior Corporate Experience		0.068
		(0.017)
MP without Prior Corporate Experience		0.021
		(0.013)
MP Age	0.067	0.013
	(0.031)	(0.008)
Male MP	0.567	0.610
	(0.137)	(0.171)
MP Tenure	0.242	0.166
	(0.103)	(0.075)
Conservative Party Affiliation	0.334	0.375
	(0.123)	(0.144)
Electoral Majority	0.277	0.218
	(0.115)	(0.111)
Year dummies	Yes	Yes
N	5313	5313
R^2	0.238	0.294

Notes
Dependent variable: Appointment to an FTSE 350 Board.
This table presents the likelihood of MPs holding a corporate affiliation before and after the amendment to UK parliamentary regulations. The dependent variable in all specifications is an indicator for an MP's appointment in an FTSE 350 firm. The treatment group consists of all MPs in the House of Commons as of 2002 (659), less the number of Cabinet members who do not hold outside positions (27). The control group consists of all the members of the European Parliament from the UK (73) and the MPs who lost their seats in the 2001 UK general elections (27). Column (1) shows the likelihood of all MPs to be appointed in an FTSE 350 company in 1999–2005. Column (2) shows the likelihood of all MPs with and without corporate affiliations before 2002 to be appointed in an FTSE 350 company. Post2002 is an indicator taking value 1 for all years after 2002. MP Age is the age of individual members of the UK Parliament in years; Male MP is an indicator taking value 1 if the member of the UK Parliament is male; MP Tenure is the number of consecutive years for which an individual is a member of the UK Parliament; Electoral Majority is the margin of the win (in terms of percentage of votes) for the member of the UK Parliament in the 2001 UK general elections; Conservative Party Affiliation is an indicator taking value 1 if the member of the UK Parliament is from the Conservative Party. Robust standard errors, clustered at the firm level, are reported in parentheses below the estimates.

We estimate a DiD specification as shown in equation (4), where the dependent variable is the natural log of corporate political donations. Table 7 provides the DiD results. The results in column (1) show that firms with MP political connections make lower political donations than firms with no political connections and non-MP political connections after the amendment. Column (2) shows no statistically significant change in the political donations of firms connected to non-MP politicians.

TABLE 7
DIFFERENCE-IN-DIFFERENCE ESTIMATES: EFFECT OF THE AMENDMENT ON POLITICAL DONATIONS

	(1)	(2)
MP Political Connections * Post2002	−0.191	
	(0.070)	
Non-MP Political Connections * Post2002		0.143
		(0.083)
MP Political Connections	0.333	
	(0.182)	
Non-MP Political Connections		0.286
		(0.191)
Control variables	Yes	Yes
Industry dummies	Yes	Yes
Year dummies	Yes	Yes
N	1621	1621
R^2	0.202	0.138

Notes
Dependent variable: ln(Political Donations).
This table presents the difference-in-difference in political donations of firms connected to MPs versus unconnected firms before and after the 2002 amendment. The sample consists of FTSE 350 firms for the period 2001–5. The dependent variable in all specifications is the natural log of annualized corporate political donations. Column (1) shows the results for firms with political connections to MPs. Column (2) shows the results for firms with connections to non-MP politicians. The control group consists of firms with no political connections. In all the specifications, we use donations information for the period 2001–5. MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Non-MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a politician who is not a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Post2002 is an indicator taking value 1 for all years after 2002. All specifications contain the set of lagged control variables as used in Table 3. Robust standard errors are reported in parentheses below the estimates.

The effect is substantial: connected firms reduce political donations by 20%. The implication of this is that firms jointly optimize direct (appointment of MPs) and indirect (political donations) forms of political access.

Heterogeneous effects of the amendment on connected firms

To further examine the consequences of the amendment for social welfare, we examine whether firms characterized by family control, poorer social and environmental performance, and lower accounting transparency benefited more from the parliamentary regulation change. We estimate triple difference estimators where the dependent variable is the MTBV. The main regressor is the triple interactions of *MP Political Connections* * *Post2002* and indicators for the types of firms mentioned above. These specifications also include the double-difference estimator as well as the indicators for MP political connections and post-2002. For the sake of brevity, we report only the triple difference interactions in Table 8.

Column (1) of Table 8 demonstrates that family firms with connections to MPs had a higher value gain in the post-2002 period compared to non-family firms. In columns (2) and (3), we show that firms with high GHG emissions and MP political connections gain in the post-2002 period. In contrast, there is no significant value gain for politically

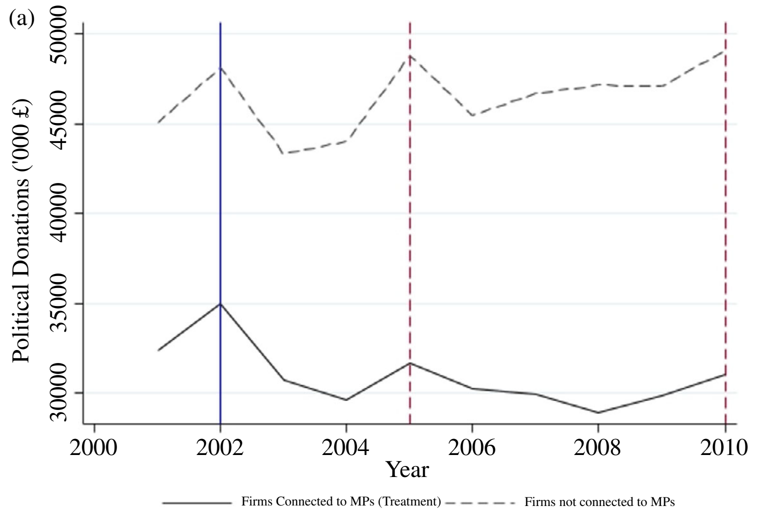

FIGURE 4A. Political donations around the change in parliamentary regulations (2001–10).
Notes: This figure shows the time series of mean political donations made by FTSE 350 firms connected to MPs (solid curve) and not connected to MPs (dashed curve) in the period 2001–10. The solid vertical line represents the year of the parliamentary amendment, and the dashed vertical lines denote the years of UK general elections.

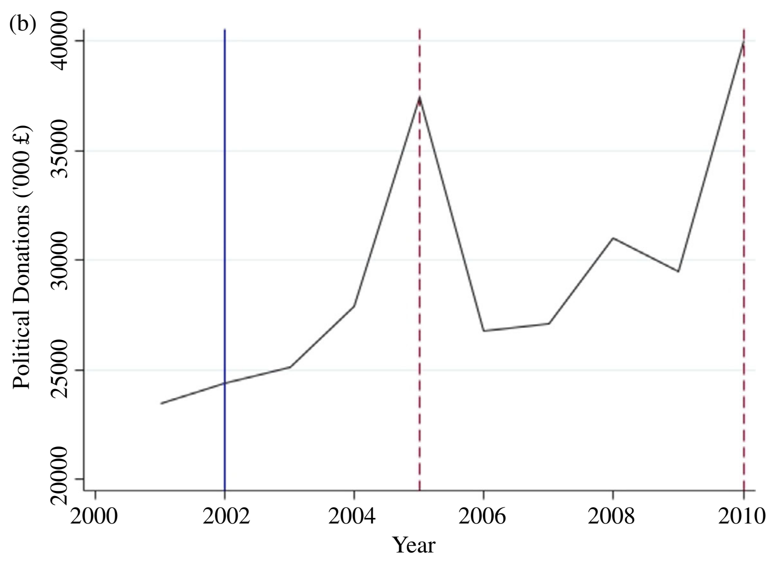

FIGURE 4B. Political donations of firms with non-MP political connections (2001–10).
Notes: This figure shows the time series of mean political donations made by FTSE 350 firms with non-MP political connections in the period 2001–10. The solid vertical line represents the year of the parliamentary amendment, and the dashed vertical lines denote the years of UK general elections.

connected firms with low CSR spending. In terms of accounting transparency, firms connected with MPs with lower accounting transparency gained value after the amendment. In essence, Table 8 suggests that firms with arguably fewer desirable characteristics (family control, poorer environmental performance, and lower accounting transparency) gained value from increased access of the connected MPs to parliamentary decision-making.

Robustness tests and extensions

We conduct a range of robustness tests and extensions to examine the effects of potential confounding factors.

First, we check for the number of appointments of politician directors in the six months before the amendment to examine if firms start to appoint more MPs in anticipation of this amendment. Between December 2001, when the review was first announced, and when the recommendations were finally adopted, nine firms announced directors' appointments. All of these were reappointments. Of the 28 reappointed directors, none were MPs. The small number of appointments in anticipation can reflect the timing of the appointment season relative to the discussion and passing of the legislation, combined with the quite short timeline of the legislation from initial steps to implementation. Given that the shareholder voting season in the UK runs from April to June (some very few votes happen at the end of July), director nominations are finalized months before the Annual General Meeting, where the voting is conducted. The Consulting Paper containing the proposal for the amendment was published on 15 February, and the parliamentary debates were held in March–May 2001. The public consultation overlapped with the peak of the director-election season (as shown in Figure 1).

Second, to ensure that we are not capturing idiosyncratic trends in stock prices, we simulate the policy experiment for the 'treated' and 'control' groups for 100 randomly defined dates in the 24 months before the event, and calculate the CAR for 3-day event windows. We find no statistically significant value effects in any of these time windows for the politically connected firms. Next, we check the robustness of our results to anticipation and other timing effects. We examine the change in the value of connected firms around the publication of the Consulting paper (22 May 2002) and the public consultations in London and Edinburgh. The consultations happened from 1 May to 10 May 2002, and we estimated the effects in a [−1, +1] window around 2 May and 8 May 2002.[33] There was no price reaction around the initial announcement of the review of MPs' Code of Conduct and the public hearings, but there is a statistically significant gain in value for connected firms around the publication of the Consulting Paper. The result indicates that investors may have had some prior knowledge of the committee's recommendations and acted accordingly. We report these results in Online Appendices 3 and 4, respectively.

Furthermore, we examined the CARs, allowing the effect of political connections to vary by whether firms are connected to MPs from the Conservative Party or to MPs from other parties (Labour, Liberal-Democrats and Green Party). We find weak evidence that firms connected to Conservative Party MPs experience a higher price reaction in the event windows compared to firms connected to MPs from other parties. We present the results in Online Appendix 5.

One concern is that our results reflect a general increasing return to political expertise over the period and that the post-amendment dummy captures the trend in the value of political expertise. In Online Appendix 6, we estimate a DiD specification for the gain in value for firms connected to a non-MP politician relative to firms with no political connections. We find no statistically significant effect of the amendment on the value of

TABLE 8
HETEROGENEOUS EFFECTS OF THE AMENDMENT ON FIRM VALUE

	Family firm (1)	Low CSR (2)	High GHG (3)	Intangible assets (4)	Earnings accruals (5)
MP Political Connections * Post2002 * …	0.050	0.017	0.033	0.015	0.011
	(0.017)	(0.014)	(0.015)	(0.006)	(0.003)
DID estimates, and MP Political Connections dummy	Yes	Yes	Yes	Yes	Yes
Control variables	Yes	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes
N	2366	2366	2366	2366	2366
R^2	0.122	0.212	0.191	0.223	0.232

Notes
Dependent variable: Market to Book Value.
This table presents the heterogeneous treatment effects of the 2002 amendment of the UK Parliamentary regulations. The sample consists of FTSE 350 firms for the period 1999–2005. The dependent variable in all specifications is the Market to Book Value. Each column provides the triple interaction of a firm being politically connected to an MP, a post-amendment dummy and firms with more than 5% family ownership (column (1)); low CSR expenditure (column (2)); high GHG emissions (column (3)); the high proportion of intangible assets as a fraction of total assets (column (4)); and the difference between annual earnings and cash flow from operating activities (column (5)). MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Non-MP Political Connections is an indicator taking value 1 if an FTSE 350 firm had employed a politician who is not a concurrent member of the UK Parliament on the corporate board as of 1 January 2002; Post2002 is an indicator taking value 1 for all years after 2002. All specifications contain the set of lagged control variables as used in Table 3. Robust standard errors are reported in parentheses below the estimates.

these firms compared to the control group. This result suggests that the amendment led to sharp increases in the value and profitability of firms connected specifically to MPs, and our results do not reflect broader increases in the value of general political expertise.

In the results reported in the Online Appendix, we conducted a battery of further robustness tests. First, we estimate the CARs using a market model. Our results remain unchanged. Next, we show that the demand for MP-directors increases in the post-amendment period. We examine if firms appoint more MPs as directors or consultants in the post-event period. Online Appendix 8 provides preliminary information on the characteristics of MP-directors before and after the amendment. Additionally, we report limited demographic characteristics for all non-executive directors for comparison. There is some evidence that older MP-directors were appointed in the post-amendment period and were (in the case of those in the House of Commons) elected from more marginal seats.

A stylized result from the corporate board literature is that there are stock price reactions to the appointment of non-executive directors who are valuable to the firm (Defond *et al*. 2005; Fich and Shivdasani 2012; Dass *et al*. 2014). If political connections have higher value after the amendment, then the announcement returns should reflect this. We examine the announcement effects for MPs and other non-executive directors (including other politicians, such as MEPs and ex-MPs) in the 2000–1 and 2003–5 periods.[34] We have 114 announcements of MPs' appointment on corporate boards in the 2000–1 period, and 135 announcements of MPs' appointment to corporate boards in the

2003–5 period.[35] The control group is a random selection of 100 other non-executive appointments in the same period.[36] We find statistically significantly higher announcement returns for MPs in 2003 compared to 2001.

In our baseline estimates, we have focused on all members of the UK Parliament. MPs of both houses are guided by the same Standards of Conduct in Public Life. However, there can be differences in corporate value gains from connections to members of the House of Commons compared to the House of Lords members. We examine the difference in price reaction for firms connected to Commons MPs and those connected to Lords MPs. Firms connected to MPs in the Commons gained in value more than those connected to MPs in the Lords. This result may be driven by the access of members of the lower house to the Commons Select Committees that shadow every government department, and therefore can potentially influence policies more directly.

As a final step, we examine the returns to MPs in the form of income from their corporate affiliations. Increased influence on the political process increased MPs' market value in the labour market for corporate directors. We estimate a difference-in-difference model where non-MP non-executive directors form the control group[37] and MP-directors form the treated group. Perhaps unsurprisingly, we find no wage gain for MP-directors relative to other non-executives. Within a given firm's board, non-executive pay varies primarily with the roles of individual directors: that is, chairs of the board and chairs of audit, nomination and remuneration committees are paid more than the other non-executives. MPs are unlikely to take on any of these roles as they require much higher time commitments. In fact, in our sample, there are no MPs in these roles within the boards. It should be noted that returns to individual MPs may take the form of higher post-political career pay in the corporate world that we are unable to detect (Eggers and Hainmueller 2009).

V. CONCLUSION

While it is well recognized that political connections are beneficial to large corporations, direct evidence on whether those benefits reflect political influence or the general expertise of the connected politicians is less common. This paper focuses on a shock to the value of existing political connections for UK firms due to an amendment to parliamentary regulations. A unique feature of this context is that it allows us to track the actions of politicians with corporate connections within the parliamentary setup after the amendment. We also examine corporate political strategies of firms by investigating trade-offs between direct access to MPs and corporate political donations.

We demonstrate that firms with existing connections to MPs experienced positive abnormal returns around the date of the amendment (14 May 2002), and subsequently gains in value. These financial effects were absent for firms connected to non-MP politicians in the same period. After the amendment, MPs were increasingly likely to have a corporate affiliation than other politicians, and markets reacted more positively to these new MP-director appointments. Moreover, connected MPs became, relative to other MPs, more likely to be members of parliamentary select committees and had higher attendance at these committee meetings. Committee memberships provide MPs with direct access to influence the drafting of legislation, over and above their right to vote on it. The increased access of MPs to lawmaking is associated with a reduced political donation by connected firms following this amendment. The returns to increased political access are statistically and economically significant for firms where influence is more important, for instance, those with concentrated (family) ownership, low attention to corporate and social responsibility, poorer environmental performance, and less transparent accounting practices.

The role of corporate leaders in influencing democratic processes is increasingly coming under scrutiny. Our results have implications for the design of policy aimed at regulating and restricting these political and corporate interactions, particularly considering the substitution between the different forms of corporate political connections.

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NOTES

1. The motivation for the amendment was that the rule led to members with better knowledge from the industry being excluding from contributing to parliamentary debates. For instance, one member of the Opposition argued that since he is a farmer himself and represents a rural constituency with farming interests, he should be allowed to initiate proceedings related to agriculture, notwithstanding his affiliation with an agricultural corporation. The Committee on Standards in Public Life shared this view that the 1995 Resolution was 'operating unnecessarily harshly' (The Stationery Office 2002).
2. Initiating parliamentary proceedings includes presenting a bill, presenting a petition, tabling and asking parliamentary questions, seeking to initiate an adjournment (or other) debates, tabling or moving any motion and amendment to a bill, proposing a draft report, or moving an amendment to a draft report, in a select committee, etc.
3. Such regulations may not be entirely exogenous and there are some expectations leading to the day of the event. If that is the case, then the regulation change will be priced in the securities of the affected firms and will lead to a conservative bias in our estimates. In the empirical analysis, we examine the robustness of our results to anticipation effects, and a range of falsification tests.
4. For a detailed description of the UK legislative process, see https://www.parliament.uk/about/how/laws/passage-bill/commons/coms-commons-comittee-stage (accessed 5 October 2021).
5. There is some anecdotal evidence that MPs with prior experience of being members of parliamentary select committees were in high demand in the market for corporate directors after the amendment. For example, Quentin Davies, who was in the Treasury Committee from 1995 to 1998, was appointed by Lloyds Bank in 2004. MPs with corporate affiliations were also appointed to parliamentary select and joint committees: Kenneth Clarke, who held directorships in Alliance UniChem (now Alliance Healthcare) and British American Tobacco in May 2002, was appointed to the joint committee on Tax Law Rewrite in December 2002.
6. The concerns about MPs' conflicts of interest since the 2002 regulation was reflected in the Ninth Report of the Standards and Privileges Committee in 2010, whereby they recommended that the rules be revisited in light of the evidence of conflict of interest regarding the corporate affiliation of MPs. For example, the Chairman of the Climate Change Select Committee of the Parliament as of 2011 was also concurrently a director of three renewable-energy companies.
7. To cite an example of overlapping corporate and legislative interests, the Rt Hon. Nigel Evans was on the board of several telecommunications companies (such as Newsmax.com) in 2003, and in the same period he was a member of the Trade and Industry Committee, which collected evidence and produced the consultation paper that formed the basis of the Communications Act 2003. This act aimed to 'make provision about the regulation of the provision of electronic communications networks and services and of the use of the electro-magnetic spectrum; to make provision about the regulation of broadcasting and of the

provision of television and radio services; to make provision about mergers involving newspaper and other media enterprises'.

8. Recent papers show that debt financing of political campaigns and corporate philanthropy can be used by corporations to gain political access (Ovtchinnikov and Valta 2021; Bertrand *et al.* 2018).
9. Naturally, it would be interesting to understand the effect of the original publication of the 1995 report on firm outcomes and behaviour. Unfortunately, data on board composition for UK firms prior to 1999 is both incomplete and not digitized.
10. The UK Parliamentary Guide entitled *Guide to the Rules relating to the Conduct of Members* (HC 735) is available at https://publicofficialsfinancialdisclosure.worldbank.org/sites/fdl/files/assets/law-library-files/United%20Kingdom_Guide%20to%20Rules%20relating%20to%20MPs%20conduct_2009%20amended%202010_en.pdf (accessed 5 October 2021).
11. In 1995, the Office of the Parliamentary Commissioner for Standards was set up for investigating breaches of the Code of Conduct. When the Commissioner finds a relatively minor breach of the rules, the concerned MP can agree to apologise and take necessary actions to put matters right. In the event of a more serious breach of the rules, the findings of the internal investigations are reported to the Committee on Standards (a cross-party select committee of MPs), which then makes recommendations for appropriate actions.
12. For example, a delay in committee appointments may have affected parliamentary activities leading up to UK's withdrawal from the European Union (White 2020).
13. The exact formula used to allocate the select committee chairs to each party is kept as classified information by the Parliament.
14. Legally, the Public Accounts Committee must always be chaired by an Opposition member. Treasury, Defence and Foreign Affairs are usually taken by the party that forms the government.
15. The elections were held in May 2005, after the financial year ended in March 2005.
16. 'Lord' titles are awarded for achievement in the political sphere but can sometimes be inherited. Only two hereditary peers had a corporate directorship and/or consulting role in a FTSE 350 firm in 2002. We exclude them from our sample.
17. As discussed later, there is no significant increase in the number of politically connected firms from 2001 to 2002, which also mitigates the concern of anticipation effects in director recruitment.
18. The appointments of politicians to boards are sometimes referred to as Advisors or Consultants. These roles, like that of the directors, are reappointed annually.
19. A significant majority of the sample of firms had a maximum of one MP on the board at any given year. There are only 6 firm–year observations with more than one MP-director, pertaining to two firms.
20. For example, the Exiting the European Union Select Committee was instituted in 2017 to deal with issues related to UK's withdrawal from the EU.
21. A schema of the data extraction process is provided in Online Appendix 1. The minutes of meetings prior to 2006 are not consistently digitally archived. The lack of digitized data limits the scope of textual analysis of the contents. We note this as an avenue for future research.
22. The year 2001 was the year of a general election in the UK, which may lead to bunching of political donations before the election. In our sample, we include both pre-poll and post-poll donations for the year 2001. Data on political donations are available only from 2001. This follows the introduction of the Political Parties, Elections and Referendums Act 2000.
23. It is possible that corporate political donations do not adequately capture the monetary transfers between firms and the parties. Disclosure of corporate loans and the terms of these loans to political parties have been widely debated in the UK in the lead up to the 2006 general election. Unfortunately, the disclosure requirements of political loans were not well formed during our sample period.
24. We also use an alternative estimation window of −250 to −15 days to avoid potential contamination by the public hearings in London and Edinburgh in early May 2002. Doing so does not change our results qualitatively.
25. In May 2002, the legislation passed in the UK Parliament included the Football Disorder Act, Electoral Fraud Act, National Heritage Act and Commonhold and Leasehold reform.
26. An additional issue is that our event occurs in May 2002, which is in the middle of the calendar year. Therefore there is no straightforward choice of whether to characterize 2002 as a treatment year or a control year. In the UK, the corporate tax cycle runs from 1 April to 31 March, which is also the most common accounting cycle. As a result, 22 May is close to the beginning of the accounting year, and we choose to use the financial year 2002–3 as a treatment year.
27. We explore the robustness of our results to alternative specifications, including treatment-specific time trends.
28. In the two tests on parliamentary activities, the sample consists of MPs in the House of Commons, and Cabinet members are excluded because they do not hold concurrent outside appointments.
29. Even though the recommendations of the Standards in Public Life broadly apply to UK MEPs and members of the Scottish Parliament and the Welsh and Northern Irish Assemblies, the change in regulation on participation of Members in parliamentary procedures applies only to politicians in Westminster. Other politicians are bound by the regulations of the Houses and Assemblies that they attend.

30. In extrapolating the MTBV to dates prior to the year 1999, we make the assumption that firms with MP connections in 1999 also had this connection in 1997. This is because there are no reliable data on board composition data prior to 1999.
31. We find similar results for Total Shareholder Returns.
32. The initial round of appointments to select committees happens in the first few weeks of a new parliament. In principle, select committee members can remain until the end of the parliamentary cycle, but in practice, the membership of committees frequently changes (UK Parliament 2021).
33. Within the eight-day period of public hearings in London and Edinburgh, we choose two randomly selected days as the event dates. Our results are robust to the choice of event days within the eight-day period.
34. Data on board appointments prior to 2001 are incomplete, and the exact dates are not systematically recorded.
35. MPs appointed in the year 2002 are omitted from the baseline estimates.
36. We exclude all announcements of multiple director appointments, or appointments surrounding a major event for the firm.
37. We include MEPs and ex-MPs who are non-executive directors in the control group.

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SUPPORTING INFORMATION

Additional Supporting Information may be found in the online version of this article:

Appendix 1 Protocol to extract data from parliament website.

Appendix 2 Falsification event studies.

Appendix 3 Anticipation effects and alternate dates, event study estimates.

Appendix 4 Event study estimates for firms connected to conservative MPs.

Appendix 5 Difference in difference estimates: firms with other political connections and firm value.

Appendix 6 Directors in FTSE 350 firms in 2002.

Appendix 7 Event study estimates using a market model.

Appendix 8 Characteristics of MP directors before and after the regulation.

Appendix 9 Event study estimates for firms connected to House of Commons MPs.

Appendix 10 Announcement effects of MP directors and other non-executive directors before and after the regulation change.

Appendix 11 The effect of the parliamentary amendment on the pay of MP-directors compared to other NEDs.

Appendix 12 Anticipation effects.