

# Political Activity and Corporate Fraud<sup>1</sup>

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## Abstract

*I examine whether firms that have been alleged to do fraud increase their political activity in the period in which allegation for misconduct is made for the first time. I find that firms increase their lobbying expenditure in that period only if the allegations are made by external monitors other than the government agency. I also find that for cases in which firms themselves reveal alleged fraud, increase in lobbying expenditure happens in the period prior to the admittance of fraud. I further examine whether politically active firms tends to evade fraud detection for a longer time than politically inactive firms and find preliminary results supporting the same.*

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## **Introduction**

Do fraudulent firms donate and lobby more in the period when external monitors allege misconduct in the firm? What benefits do these alleged firms get from their political activity? Does political activity help firm evade fraud detection for a longer time? Do politically active managers and firms face less severe consequences than inactive managers in terms of legal and regulatory punishment? These are some of the questions that this study seeks to answer.

Governmental agencies have a legal and electoral responsibility to monitor firms for fraudulent activities and punish them for any wrong doing. An effective enforcement will improve social welfare but enforcements depend on political connections of the firm as regulator and enforcer is subject to political pressure. Connected firms might have less effective enforcement because a) regulators might be pressurized by politicians to reduce monitoring and detecting fraud in connected firms, b) donation, lobbying and personal contacts might make these firms less suspect for fraud, c) donations and lobbying might reflect bribes paid to prevent fraud detection, d) political connections might make government adopt policies that reduce regulatory oversight of these firms and e) political activeness can help firm get political favors to improves its financial condition which in turn helps firm to evade fraud detection for a longer time.

There is some anecdotal evidence that suggests that political influence plays a role in corporate fraud detection. Enron for example donated more in 1999-2000 which coincides with period in which alleged fraud took place.

*“Since 1989, Enron has made a whopping \$5.8 million in campaign donations, 73 percent to Republicans and 27 percent to Democrats. Nearly half of these funds were donated during 1999-2000, when Enron was one of the top 50 organizational donors in the United States, according to an analysis of federal election.” – CBS*

The recent events in the financial market suggest complacency on the part of many actors in the financial market including the regulators. We have also seen movement of people from Wall Street to Washington and back to Wall Street for more than two decades. It’s hard to see how regulators will be tough on someone who they have worked with closely and have good interpersonal relationship. The anecdotal evidence also goes the other way where we see that politically connected managers (e.g. Enron) were caught and punished for alleged fraud. However, fraud in Enron took a while to detect and it was media and not SEC that blew the whistle (see Zingales. et. al, 2008). John Dean, a former Counsel to the President said the following about donations and lobbying by Enron.

*“It may have help slow detection of its troubles, and helped the company fly under the radar for as long as was possible given what now appear to be some egregious accounting and business practices” – John Dean, a FindLaw columnist, a former Counsel to the President of the United States*

There is no systematic large sample evidence to suggest that firm’s increase their political when allegations of misconduct are made against them or whether connected managers and firms face less or more severe legal and regulatory consequences after being caught. I

investigate the same and also plan to test whether firms involved in fraud get political favors during fraud period and after fraud detection. I will also test if managers of alleged firms increase political activity when external monitors (Media, Analyst, etc) allege misconduct in the company.

I divide the firms alleged for fraud into three categories a) Cases where allegations for misconduct was first made by external monitors such as Media, Analyst, Auditors and stakeholder other than the government, b) Cases where fraud was revealed by the action of a government agency, c) Cases where the firm itself admitted misconduct. I find that firms increase their lobbying expenditure in the period when allegations are made for the first time only for the first case. For the second case, I do not find any increase in political activity in the period when government agency starts its investigation. However, there appears to be slight increase in expenditure in the post detection period. For the third case, I find that firms increase their political activity before they admit misconduct.

Given this, I plan to test how political activity benefits the firm. I plan to test whether political activity helps firm to evade fraud detection for a longer time and whether the managers and firms that are politically active face less severe legal and regulatory consequences and whether the alleged executives are able to sell larger proportion of their shares held by delaying fraud detection.

The study does not suggest that political activity always has negative implications. This study just points out that investors need to be more cautious of politically influential firms and view period of high political activity as red flag. In the current version of the paper, I have

measured political activeness through lobbying activity. In the future version, I plan to add a) donations made by the affiliated PAC of the firm and b) donations made by the top executives of the firm.

## **Literature Review**

This paper is related to the stream of literature on Corporate Political Connection. There is limited research on whether political connections influences firm value in US setting. Goldman Racholl and So (2006) show that nomination of a politically connected director results in positive abnormal return. They also document that companies connected to the Republican Party increase in value while companies connected to the Democratic Party decrease in value after the Republican win in the 2000 Presidential Election. Existing evidence on emerging markets show that firms extract political concessions from the government. Fisman (2001) looks at companies in Indonesia that are connected to the Suharto family and shows that these companies lose value following several announcements regarding the deteriorating health of President Suharto. Faccio (2006) studies political connections across many countries and documents that most politically connected companies are listed in countries with high levels of corruption and a weak legal system. She further shows that the value of these companies increases when their executives enter politics. Faccio and Parsley (2006) show that the value of companies headquartered in politician's home town decrease upon the announcement of the politician's unexpected death. There are evidences on the other side that show that political connection could destroy firm value. Fan and Wong (2006) show that the appointment of politically connected CEOs do not enhance shareholder value but rather fulfill political goals of politicians as the connected firms underperform the sample of matched firm by almost 30%. My work examines whether political activity of the firm is related to fraud detection and whether firms increase their political activity when the chances of getting caught are high.

The literature has examined some other mechanism through which political connection influences firm behavior. There is evidence to suggest that the politically connected firms have preferential access to debt financing in developing countries. Chiu and Joh (2004), Cull and Xu (2005), Faccio (2003), Johnson and Mitton (2003), and Khwaja and Mian (2004) show that politically-connected firms have higher leverage ratios than their non-connected peers. Political connections also help the connected firms to get better access to government backed financing. Khwaja and Mian (2004) show that government owned banks give out more loans to politically connected firms even though the politically connected firms have 50% higher rate of default. Sapienza (2003) also shows evidence of loan decision being influenced by political connections. In a micro-level lending data from Italy, the author shows that state-owned banks charge lower interest rates than private banks and that this effect is larger in regions where the bank has political affiliations.

Connected firms also use political affiliation to curry political favor in the form of bailouts. Government may also use the connected firms for political gains. For example, the government may ask the connected banks to give more risky loan to a certain set of borrowers in exchange for a promise to bailout in future. Faccio et al. (2006) corroborate this by showing that politically connected firm is more likely to be bailed out by the government. Dinc (2005) shows that politicians control the actions of government owned banks in emerging countries and the government owned banks increase their lending in the election years. There is much empirical evidence to suggest corruption is emerging countries but such evidence is limited in US. This paper seeks such evidence by examining the relationship between political activity and corporate fraud.

This work is also related to the large literature on corporate fraud. Richardson, Tuna and Wu (2002), Burns and Kedia (2006), Efendi, Srivastava and Swanson examine characteristics of the firms involved in fraud. Palmrose and Schotz (2004) examine the impact of fraudulent financial reporting on firm value. Black (2001) and Coffee (2001), discuss the best mechanisms to protect investors from fraud and raise questions whether specific actors can be best thought of as reputation intermediaries who take an active role in policing the system or more simply as transaction engineers who attend to the concerns of their clients. Miller (2006) examines the role of specific whistleblower types including the press. Zingales, et. al (2008) show that there is no specific actor that dominates the revelation of fraud. SEC accounts for only 6 percent of detected frauds by external actors and the role of media, auditors and financial analysts in fraud revelation is much higher. They argue that short sellers and media are more important in cases with the largest settlement amount while both the SEC and the auditors are less important as larger cases are associated with larger companies and larger firms can have bigger influence on the regulators and on the auditors. This line of argument suggests that larger companies have influence on regulators. I argue that firms influence government agencies through lobbying and election donations.

The work is also related to the stream of literature on internal controls and characteristics of board members. Apart from external monitoring by the regulators, there are internal controls in place to prevent financial fraud. Fama and Jensen (1983) theorize that the board of directors is the highest internal control mechanism responsible for monitoring the actions of top management. Fama (1980) and Fama and Jensen (1983) argue that it is natural for the most influential members in the board to be internal managers, because they have valuable specific

information about the organization's activities that is obtained from internal mutual monitoring of other managers. Such information assists the board in being an effective device for decision control. As a result, Fama (1980) and Fama and Jensen (1983) expect the board to include several of the organization's top managers. However, the board is not effective at decision control unless it limits the decision discretion of individual top managers. Fama and Jensen (1983) argue that outside directors are more likely not to collude with top managers to expropriate stockholder wealth, so the inclusion of outside directors increases the board's ability to monitor top management effectively in agency settings arising from the separation of corporate ownership and decision control. Beasley (1996) empirically documents that the inclusion of outside directors significantly reduces the likelihood of financial statement fraud. He also finds that the likelihood of fraud decreases with increase in outside director ownership in the firm and outside director tenure on the board, and decreases with the number of outside directorships held by the outside directors. Beasley (1996) looks if the presence of an audit committee affects the likelihood of fraud but do not find any support for the hypothesis. Agrawal and Chadha (2005) show that independent directors with financial expertise provide valuable insight of firm's financial reporting practice and such firms do fewer earnings restatements. Agarwal and Knoeber (1998) argue that outside directors also play a political role, i.e. lawyers and the politically experienced aid the firm with their knowledge of government procedures and their insight in predicting government actions when politics is an important determinant of firm's profitability. They document that politically experienced directors are more likely where government acts as an ally and lawyer-directors are more likely where government acts as an adversary. This is because directors adept at politics can aid in the political dealings of the firm by using their skill to affect or predict government actions. Such skill might arise from prior

participation in government or knowledge of procedures as well as friendships with important decision-makers. It might also arise from experience in dealing with government as an adversary in administrative or legal proceedings. I argue that if executives or directors have political connections, then these firms could have lower regulatory oversight. I also hypothesize that politically connected managers alleged for fraud face less severe legal consequences than unconnected managers.

The study has important implications for investors and academicians in the area of corporate governance as fraud is an extreme case of mismanagement. Effective monitoring and punishment reduces likelihood of managers committing fraud and improves investor's confidence in the regulator. However, political connection can lower monitoring and fraud detection in connected firms. Political connection can be valuable but investors should be cautious especially when external monitoring is low and internal controls are weak.

This research has academic implications for studies that take monitoring, and regulation as given. Often in studies, regulation is taken as given but regulation and monitoring is endogenous as firms influence government policies. Researchers have to be careful whether regulatory changes are really exogenous or a result of lobbying and political pressure by certain set of firms.

## **Data and Results**

The main sample of alleged firms is taken from Zingales. et. al (2008) who generously provided their hand collected on corporate fraud to me. The samples of firms are those that have been alleged to be involved in corporate fraud in the period between 1996 and 2004. These firms have been identified through the class action law suits from Stanford Securities Class Action Clearinghouse database and more details about the cases can be obtained from the court filings. Frauds in the sample are those that have resulted from managerial misconduct. Reading of the cases from the Stanford Securities Class Action Clearinghouse database indicate that most of the fraud in the sample are cases due to a) accounting manipulation, b) failure to disclose material information, c) provide misleading information to the investors and/or a combination of the three. The dataset also includes date when the first revelation of fraud happened. This had been done by the author using lexis news search to indentify when an external monitor started to publically suspect fraud in the company.

The sample certainly has some biases. The sample does not include firms that were never caught, firms for which lawyers thought that the crime will be harder to prove or settlement amount will be low, fraud for which there was no sufficient evidence to prove it in court, minor fraud, fraud that never entered in public domain and fraud committed by smaller less monitored firms. The alleged fraud cases will also include cases where there was gross negligence or mistakes and not a real intention on the part of the executives to commit fraud. The fraud data is further enriched by hand collecting data from the court filings to get possible reasons for alleged fraud and type of alleged fraud. The documents also contain the name of executives charged in the case, their position in the company, whether executives sold their shares in the fraud period,

value of shares sold and percentage of shareholding sold by the managers, fines imposed on the company and on the managers.

The data for corporate donations is collected from US Senate's site. Firms that lobby more than \$20,000 are required to file with the Senate's Office of Public Records (SOPR) on a half yearly basis. Lobbying firms that lobby on behalf of their clients are also required to separately file a report with SOPR on a half yearly basis for each of their clients. If the Corporate self lobbies and also uses external lobbying firms then its reported expenditure is required to include both a) the expenditure that it spent through external lobbyist and b) expenditure through inside lobbyist. The dataset also includes all the issues that the firm lobbied for and all the government agencies that it lobbied in a specific period. However, the data does not provide detail on how much money was spent on each specific issue and on each specific government agency.

The data on the US Senate site covers period from 1999 to 2008 and provides half yearly lobbying expenditures by firms. Lobbying data is also available at CRP (Center for Responsive politics). The lobbying data at CRP starts from 1998 but only contains yearly information on lobbying expenditure. A Webcrawler was written to download the lobbying data from CRP's website for all firms that lobby. For the current version, I have used the data from US Senate's site but the analysis can be done using the data from CRP. The advantage of CRP data is that it has lobbying data for the year 1998. The disadvantage is that CRP only provides yearly data on its website and not half yearly data that can be obtained from SOPR. One more advantage of using CRP data is that CRP has identified the parent company and its subsidiary companies. The

lobbying expenditure reported on CRP website includes the lobbying expenditure of the subsidiary company in the parent company. A preliminary analysis show similar results that can be obtained from SOPR data.

The lobbying database lists the name of the companies but there are many cases where the same company has been referred to as by different names (e.g. Enron, Enron Corp, Advanced Micro Devices, Adv Micro dev). A data dictionary was written to standardize all the firm names in the lobbying data. COMPUSTAT company names were also standardized and then the two datasets were matched. The resulting dataset was further matched with the fraud sample resulting in a final sample of 199 firms that have been alleged for fraud. I also form a set of control firms that are matched by industry (SIC Code) and book value of the assets in the year prior to the year of fraud detection, where year of detection is defined as the year in which the first allegation of possible fraud was made against the company or when the fraud was first revealed.

The descriptive statistics of the alleged firms and matched control firms are provided in Table 1. Panel A of Table 1 provides the descriptive statistics of the firms that have been alleged to commit fraud using the sample from Zingales et al (2008). Panel B provides the descriptive statistics of the control firms. Even after matching by size, alleged firms in general are larger in size and have higher sales than the control firms. They also have significantly higher investment opportunity set and percentage growth in the last three years than the control firms.

Table 2 and Table 3 show more descriptive statistics of the firms that have been alleged for fraud. Fraud seems to be clustered in time. Most of the firms have been alleged to have

started their fraud in the period between 1998 and 2001. Fraud detected is more dispersed but still clustered in the years 1999-2002. We also see that government agencies (SEC, DOJ or other industry regulator) detect only 26 out of 199 frauds and most of them were detected in the year 2002. It seems that government is less likely to be the first one to detect fraud in the sample of alleged firms identified through lawsuits.

A significant percentage of total fraud (73 out of 199) are first disclosed by the firm itself and rest (100) are first detected by other whistle blowers such as media, analyst, employee, competitor, short seller. In un-tabulated results, there was an increase in short interest in the period just prior to fraud revelation for some of the alleged firms.

Figure 1 - 2 provides the preliminary graphical analysis of the lobbying expenditures of alleged firms and control firms over time. Time  $t$  denotes the year in which allegation for fraud was made against the alleged firms for the first time. In figure 2, we see that firms that were alleged to have been involved in fraudulent activities by whistle blowers other than the firm itself lobby more in the year in which such allegations were made. The increase in expenditure from the prior year is about 800,000 USD. In the case where firms itself admits of issues that led to lawsuit, we observe a big surge in lobbying expenditure in the year before the firm admitted the issues. The increase in lobbying expenditure from the prior year is roughly about 1,500,000 USD. In comparison, the control firms spend less on lobbying and do not show similar pattern in the year of fraud revelation. This suggests that there is no year specific effect that is causing the spike.

The data for lobbying expenditure can also be decomposed into half yearly periods. In un-tabulated results, the surge shows the same pattern. Firms that were alleged to be involved in fraudulent activities by whistle blowers other than the firm itself show a surge in lobbying expenditure in the half yearly period in which such allegations were first made.

If firms lobby to evade fraud detection, then these firms should not concurrently decide to admit misconduct and become more politically active. Consistent with the argument, observe that in cases where firms itself admitted issues that led to lawsuit, a big surge in lobbying expenditure is observed in the half yearly period prior to year of revelation and not in the year of revelation. The surge in the prior period could be attempts to get political favors to help the firm ride over the issues and evade revealing fraud. However, it needs further exploration why these firms chose to reveal the fraud and how the political activity was expected to help the firm.

Firms that have been detected for fraud by government agency (SEC, DOJ or other industry regulator), show no surge in lobbying expenditure in the year in which the fraud was detected and these firms in general are small firms with low level of lobbying expenditures.

Table 4 provides the half yearly lobbying expenditures of firms around the fraud revelation date. In Panel A, we see that firms that are detected for fraud by the government agency have low level of lobbying expenditure in the period pre and during the fraud revelation. Firms that themselves are the whistle blowers lobby more in the period prior to fraud revelation

and firms that detected for fraud by other whistle blowers such as media, analyst, etc lobby more in the period of detection. Panel B provides the list of all the whistle blowers.

Next, I formally test whether firms that are involved in fraud spend more on lobbying and whether they spend more in lobbying once they have been first alleged for misconduct. If lobbying activities are used by the firms to get regulatory benefits that help conceal fraud for a longer time, prevent it from getting detected or reduce the magnitude of legal and regulatory punishment, then we should observe a link between lobbying activity and the years in which the allegations of fraud is publically made.

I run a regression of half yearly lobbying expenditures against a set of firm characteristics, a dummy to indicate whether the firm has been alleged for fraud in a particular period and another dummy to indicate periods post the fraud detection date. The regression is also controlled for year fixed effects and year fixed effect.

The results tabulated in Table 5 indicate that firm lobbying expenditure is positively correlated with size. We also observe that firms with lower growth and firms with lower profitability in the prior period also tend to lobby more in the current period. One explanation for this is that firms whose growth are stagnating and firms which in financial difficulty are more likely to benefit from the political activity. Lobbying might help these firms get more favorable regulatory terms that might help them ride over the bad periods. Another explanation is that firms that are involved in fraud also benefit from this as bad performance is likely to be positively correlated to the fraud being detected by the market participants.

Firms also tend to lobby more in the period in which first public allegation for fraud was made and the result is statistically significant. It suggests that firms tend to lobby more in period when the chances of regulatory action are high due to alleged public allegations.

Table 6 tests whether firms increase the lobbying expenditure in the year they have been detected for fraud. The main result of the table is that a) firms that have been detected for fraud by whistleblowers other than the Firm and government agency increase lobbying expenditure in the year the allegation of fraud are made against the firm and b) in cases where firms reveals fraud, they tends to increase their lobbying expenditure before admitting the misconduct,

### **Duration of Fraud**

Table 7 shows the days taken for the fraud to be detected in firms that lobby and firms that don't lobby. The mean number of days taken to detect the fraud is higher in firms that are politically active than firms that are not politically active. A more comprehensive analysis of the same will be done in the future version to test whether day taken to detect the fraud depends on a) whether the firm is politically active and b) magnitude of lobbying expenditure.

**Table 1**

Panel A provides the descriptive statistics of the firms that have been alleged to commit fraud using the sample from Zingales et al (2009). Panel B provides the descriptive statistics of the control firms matched by industry and size. \*\* denotes 5% significance level, \*\*\* denotes 1% significance level and \* denotes 10% significance level of the statistic. The significance level indicates whether that means statistics of the alleged firm is greater than the corresponding mean statistic of the control firm.

	<b>Panel A</b>			<b>Panel B</b>		
	Fraud Firms			Control	Firms	
	MEAN	STD	MEDIAN	MEAN	STD	MEDIAN
<b>Total Leverage</b>	0.29	0.222	0.257	0.262	0.203	0.237
<b>Book Value of Assets/Market Value of Assets</b>	0.665*	0.277	0.724	0.696	0.289	0.718
<b>Consecutive losses in last 3 years</b>	0.096	0.295	0	0.082	0.275	0
<b>Market Value of Equity</b>	16367.37	42811.98	4164.26	11284.46	24382.64	3021.47
<b>Zscore</b>	2.159	4.68	1.802	2.68	2.778	2.123
<b>Book Value of Asset</b>	16174.532***	31381.19	4512.66	13640.71	30078.77	3654.69
<b>Sales</b>	8494.922**	11162.71	3637.39	6991.258	10055.11	2678.42
<b>CAPX/Book Value of Assets</b>	0.051	0.051	0.04	0.056	0.081	0.038
<b>Cash/Book Value of Assets</b>	0.101	0.147	0.046	0.114	0.156	0.057
<b>EBIT/Book Value of Assets</b>	0.061	0.122	0.072	0.069	0.086	0.071
<b>NI/Book Value of Assets</b>	0.04	0.858	0.025	0.016	0.088	0.031
<b>Market Value of Assets</b>	19786.818**	44089.04	5786.18	13886.55	26784.14	4004.808

**Table 2**

This table shows the summary statistics of the firms that have been detected for fraud using data from Zingales et. al (2008). Fraud firms are identified through lawsuits from Stanford Class Action lawsuits database. Year Started is defined as the year in which firms are alleged to have started the fraud. Year detected is defined as the year in which the fraud was first detected by any market participant. Duration of the fraud is defined as the number of days over which the fraud continued. Detected by government agencies indicate if the fraud was first detected by DOJ, SEC or any industry regulator. Detected by firm indicates if firm was the first one to reveal the fraud. Detected by others indicate if fraud was detected by other participants such as auditor, media, analyst, shareholder, competitor, short seller.

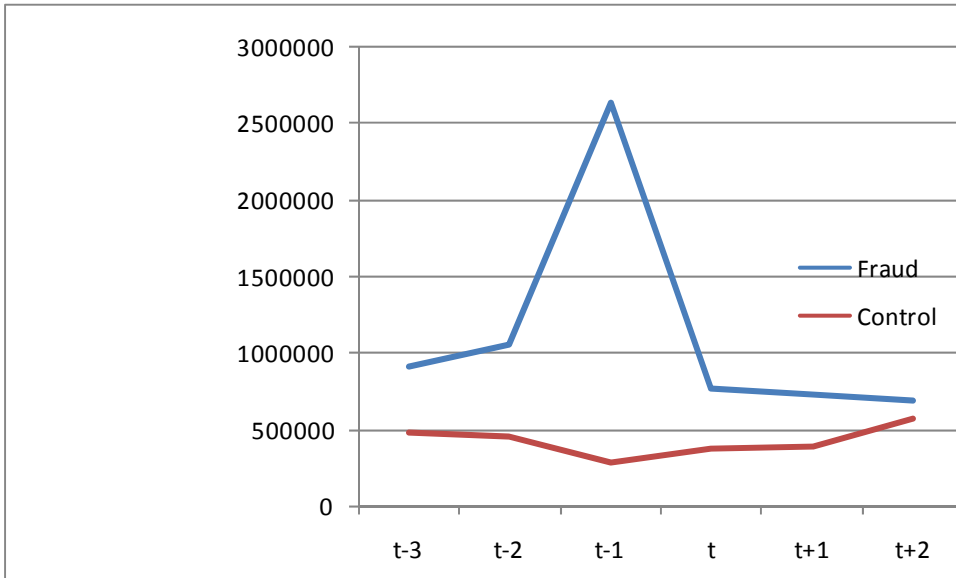
<b>Year Started</b>	<b>Number of Alleged firms</b>	<b>Detected by Government agency</b>	<b>Disclosed by Firm</b>	<b>Disclosed by Other Whistle Blowers</b>	<b>Duration of Fraud</b>
1994	3	0	0	3	758
1995	7	1	2	4	804
1996	12	1	7	4	346
1997	19	1	8	10	600
1998	30	2	11	17	656
1999	39	5	16	18	703
2000	40	6	13	21	549
2001	32	8	9	15	403
2002	13	2	6	5	308
2003	3	0	0	3	230
2004	1	0	1	0	126
	199	26	73	100	

**Table 3**

This table shows the summary statistics of the firms that have been detected for fraud using data from Zingales et. al (2008). Fraud firms are identified through lawsuits from Stanford Class Action lawsuits database. Year Started is defined as the year in which firms are alleged to have started the fraud. Year detected is defined as the year in which the fraud was first detected by any market participant. Duration of the fraud is defined as the number of days over which the fraud continued. Detected by government agencies indicate if the fraud was first detected by DOJ, SEC or any industry regulator. Detected by firms indicates if firm was the first one to reveal the fraud. Detected by others indicate if fraud was detected by other participants such as auditor, media, analyst, shareholder, competitor, short seller.

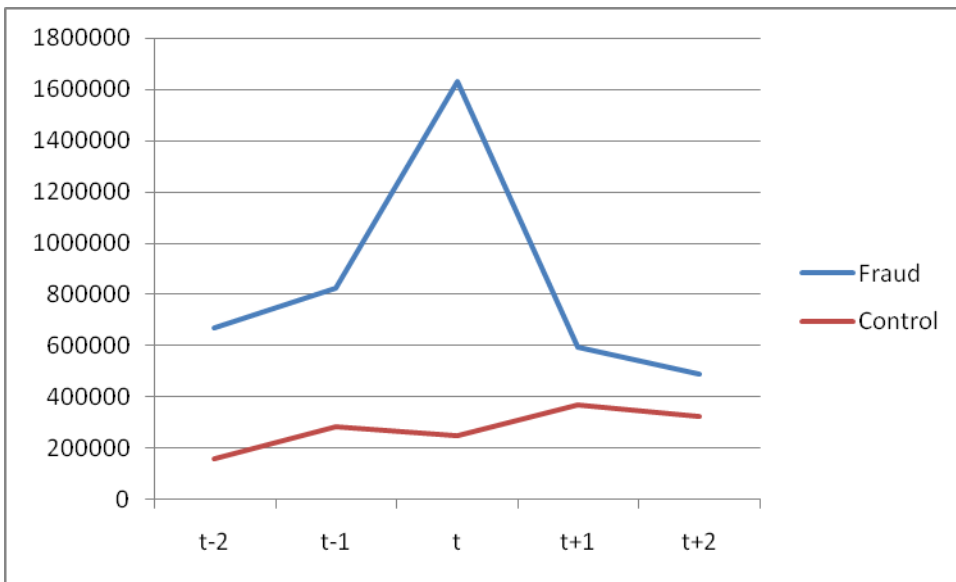
<b>Year Detected</b>	<b>Number of Alleged firms</b>	<b>Detected by Government agency</b>	<b>Disclosed by Firm</b>	<b>Disclosed by Other Whistle Blowers</b>	<b>Duration of Fraud</b>
1996	7	1	2	4	538
1997	18	2	9	7	380
1998	12	1	6	5	290
1999	27	2	12	13	442
2000	21	0	9	12	316
2001	32	3	12	17	479
2002	50	11	12	27	662
2003	21	5	8	8	1013
2004	11	1	3	7	719
	199	26	73	100	

Figure 1



T= year of detection. The above figure is for those firms in which firm itself was the whistleblower. The control sample is formed by matching by industry and size in the fiscal year prior to detection. Y axis represents annual lobbying expenditure in USD and the x axis represents time. Fraud firm have higher expenditure than control firms over the period and show a spike in the year prior to them revealing the fraud.

Figure 2



T= year of detection. The above figure is for those firms in which the whistleblower is someone else other than the firm. The control sample is formed by matching by industry and size in the fiscal year prior to detection. Y axis represents annual lobbying expenditure in USD and the x axis represents time. Fraud firm have higher expenditure than control firms over the period and show a spike in the year in which the whistle was blowed.

**Table 4**

This table shows the mean half yearly lobbying expenditures of the firms around the time when the alleged fraud was first revealed by a whistleblower. Time  $t$  denotes the half yearly period in which the whistle was blown and time  $t-1$ ,  $t+1$  denotes half yearly period before and after the period in which the whistle was blown. Panel A shows the expenditure by the type of whistleblower and Panel B lists all the whistleblowers.

**Panel A**

<b>DETECTED BY</b>	<b>t-1 MEAN</b>	<b>Rank</b>	<b>t MEAN</b>	<b>Rank</b>	<b>t+1 MEAN</b>	<b>Rank</b>
FIRM	1687472.2	1	379619.5	2	373994.1	3
GOVT	214310.82	3	103700	3	388303.2	2
OTHER	552776.97	2	1038538	1	409152.6	1

**Panel B**

Whistle Blowers
ANALYST AUDITOR BANK CLIENT COMPETITOR CUSTOMER DOJ EMPLOYEE FIRM LAWYER MEDIA REGULATOR SEC SHAREHOLDER SHORTSELLER UN

**Table 5**

This dependent variable of the regression is half yearly lobbying expenditure and the independent variable is Sales, Book to Market, Financial distress as measured by Zscore, Assets, annual growth over the last 3 years, EBIT/book Value of Assets. Detection period denotes the year in which fraud has been revealed by whistleblowers other than the firm. Post detection period denotes the periods after which the fraud is first detected by a whistleblower. Lag values denote the lagged value of the variable. DetFirmPeriod dummy denotes the period prior to which firms blew the whistle on fraud. PostdetFirm Period dummy denotes the period post the year in which firm revealed the alleged fraud (including the revelation period). All these regressions include firm and year fixed effects.

	Detected by Other Whistleblowers		Detected by Firm		Detected by Government	
	Estimate	t-stat	Estimate	t-stat	Estimate	t-stat
Intercept	492,982.05	0.46	150,059.99	0.08	-778,458.67	-1.54
Detection period dummy	771,592.40	2.97			-15,470.49	-0.1
Post detection period dummy	-143,464.91	-0.55			284,659.59	1.61
DetFirmPeriod Dummy			1,291,025.66	2.69		
PostdetFirm Period Dummy			-473,011.71	-1		
Sales	23.63	2.18	-1.00	-0.03	3.78	0.46
Book to Market	-9,038.22	-0.08	66.47	0.1	67,372.72	0.87
EBIT/Book Value of Assets	-1,927,247.74	-2.45	-2,817.40	-0.39	1,242.62	0.77
Zscore	5,603.09	0.41	1,714,003.38	0.65	856,599.95	1.25
Growth	-3,430.01	-2.97	-7,472.72	-0.13	-102,029.15	-2.32
<b>R square</b>	0.29		0.26		0.44	

**Table 6**

This dependent variable of the regression is half yearly lobbying expenditure and the independent variable is Sales, Book to Market, Financial distress as measured by Zscore, Assets, annual growth over the last 3 years, EBIT/book Value of Assets. Detection period denotes the year in which fraud has been revealed by whistleblowers other than the firm. Post detection period denotes the periods after which the fraud is first detected by the whistleblower. Lag values denote the lagged value of the variable. DetFirmPeriod dummy denotes the period prior to which firms blew the whistle on fraud. PostdetFirm Period dummy denotes the period post the year in which firm revealed the alleged fraud (including the revelation period). All these regressions include firm and year fixed effects.

	Detected by Other Whistleblowers		Detected by Firm		Detected by Government	
	Estimate	t-stat	Estimate	t-stat	Estimate	t-stat
Intercept	865,011.35	0.75	958,056.91	0.5	-815,378.65	-1.61
lag (Lobbying Expenditure)	-0.11	-0.99	-0.25	-1.55	-0.03	-0.32
Detection period dummy	589,662.01	2.1			12,808.07	0.07
lag (Lobbying Expenditure)*Detection Period dummy	0.43	2.39			-0.10	-0.3
Post detection period dummy	-99,611.83	-0.36			221,792.85	1.21
lag (Lobbying Expenditure)*Post detection period dummy	0.06	0.5			0.20	1.8
DetFirmPeriod Dummy			-429,056.20	-0.86		
lag (Lobbying Expenditure)*DetFirmPeriod Dummy			5.11	9.08		
PostdetFirm Period Dummy			-563,680.78	-1.18		
lag (Lobbying Expenditure)*PostdetFirm Period Dummy			0.19	1.2		
Sales	24.74	2.11	34.85	1.11	1.55	0.19
Book to Market	-447,765.89	-1.16	-511,010.86	-0.48	71,267.18	0.91
Growth	-3,228.71	-2.29	-6,829.96	-0.91	1,411.80	0.86
EBIT/Book Value of Assets	-2,407,198.44	-2.71	711,465.12	0.23	767,266.15	1.08
Zscore	7,969.45	0.56	1,454.60	0.03	-117,605.98	-2.54
<b>R square</b>	0.30		0.37		0.47	

**Table 7**

The table shows the duration of fraud for firms that are politically connected through lobbying activity and firms that do not lobby. The duration of fraud is defined as the number of days taken from the beginning of the fraud period (class action period) till the fraud is detected.

<b>DURATION</b>	<b>MEAN</b>	<b>STD</b>	<b>MEDIAN</b>
ALL			
NON			
LOBBYING	511.414	433.14	377
LOBBYING	602.43	473.88	477

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