



# Sudden deaths: Taking stock of geographic ties

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# Motivations

- Growing literature pointing out channels through which *political* connections “benefit” companies:
  - preferential access to credit (Chiu and Joh, 2004, Cull and Xu, 2005, Johnson and Mitton, 2003, Khwaja and Mian, 2005);
  - preferential treatment by government owned enterprises (Backman, 1999, Dinç, 2005);
  - relaxed regulatory oversight of the company in question or stiffer regulatory oversight of its rivals (Kroszner and Stratmann, 1998, De Soto, 1989);
  - lighter taxation (De Soto, 1989); and
  - government bailouts in the event of distress (Faccio, Masulis and McConnell, 2005).
- Since attempts at political influence are generally illegal, observing the establishment and maintenance of political connections is not easy. Hence, estimates of the value of political ties have been made in only a few cases, e.g., Roberts (1990), Fisman (2001), and Faccio (2006).

# Research questions

- How valuable are geographic ties?
  - Measure the full value of corporate ties by focusing on the sudden death of politicians
- Do geographic ties matter at all? Or do only personal and family ties count? Does the value of ties depend on the strength of the relationship?
- Do companies lose access to “benefits” once the connection dies?

# Sudden deaths

- We employ a number of data sources to identify politicians who died suddenly.
  - keyword searches in *Factiva*
    - Search terms: "died" or "dies" or "dead" or "stroke" or "crash" or "heart attack" or "killed" or "shot" plus the terms "member of parliament" or "minister"
    - The search is restricted to those deaths occurring prior to the end of July 2004
    - Searches were performed in English, French, Spanish, Portuguese, Italian, Japanese and Russian.
  - rulers.org
  - www.parl.gc.ca
  - politicalgraveyard.com
- Initial sample of 203 deaths in countries with equity markets covered in DS and WS.

## Specific company ties

- We read all articles in *Factiva* (in any available language) concerning the death of each of the politicians in our sample to identify ties (of any kind) with specific companies;
- Keyword searches in *Factiva* for any date;
  - We included the terms "board" or "director" or "officer" or "manager" or "management" or "CEO" or "CFO" or "COO" or "chairman" or "president" or "consultant" or "consulting" or "partner" or "official" or "administrator" or "counselor" or "adviser" or "advisor" or "owner" or "founder" or "founding" or "shareholder" or "insider" or "controlling" or "investor" or "developer" or "friend\*" or "corrupt\*" or "illegal" or "allied" or "ally" or "allies" or "alliance" or "tie\*" or "relationship\*" or "link\*" or "interlink" or "associate\*" or "bribe\*" or "kickback\*" or "scandal" or "ethic\*".
- Marquis "*Who's who.*"

## Specific company ties - Examples

- Florida Governor **Lawton Chiles** was an “original investor in Red Lobster restaurants.”
- **Baroness Brigstocke** (of the UK House of Lords) was connected to Westminster Health Care Holdings Plc, since her husband Lord Griffiths was chairman of that company.
- French Senator **Claude Cornac** was labeled as connected to Renault and Gas de France because of prior directorships.
- A British-born aristocrat who became the wife or mistress to a string of the 20th century's richest and most powerful men, **Ms Harriman**, 76, died two days after suffering a stroke at the Ritz Hotel in Paris.... The list of prominent men known to have shared her bed reads like a Who's Who of the century....

# Specific company ties: Sample and value (CARs)

## Panel A: Selection criteria

Sudden deaths of politicians from countries covered in DS and WS	203
Identification of specific company ties:	
Politicians with specific ties identified from the press	37
- Politicians with only ties to privately held companies/unspecified companies	<u>-14</u>
Remaining sample	23
- Companies without stock prices in DS	<u>-5</u>
Deaths w/specific company ties (21 companies)	18

## Panel B: The value of specific connections

	Event window:	(-1,+1)	(-1,+5)	(-1,+10)
Mean		0.06%	-0.72%	-1.68%
<i>p-value (adjusted for clustering)</i>		0.92	0.34	0.30
Median		-0.02%	-0.73%	-2.55%
Negative CAR (%)		52%	62%	67%
<i>Sign-test p-value</i>		0.95	0.37	0.03
Number of observations		21	21	21

# Geographic connections

- 'Geographic' approach to inferring political connections.
- We consider connected to a politician all companies headquartered in the same town as the one in which the politician lived or the town in which the politician was born.
  - The location of corporate headquarters is identified based on the corporate address reported in *Worldscope*.
  - The politician's geographic ties are identified from *Factiva* and the political Graveyard web site (192 events).
- Sample of 122 sudden deaths where we could identify city of birth or city of residence, and 8,191 companies based in those cities at the time of the death.
  - Roberts (1990), Bertrand, Kramarz, Schoar, and Thesmar (2004), and Siegel (2005), who argue that the basis of social and political networks is primarily based on geographic origin and education;
  - The notion that location is important is echoed in the financial economics literature on local investment bias (e.g., French and Poterba (1991), Coval and Moskowitz (1999), Grinblatt and Keloharju (2001), Loughran and Schultz (2004)).

***Panel A: Selection criteria***

Sudden deaths of politicians from countries covered in DataStream and Worldscope	203
Identification of geographic connections (from the 203 cases above)	
Sudden deaths: with information on city of birth or city where politician was living	192
with companies in their city (8,191 companies)	122

***Panel B: Distribution of sudden deaths and geographic ties, and associated Cumulative Abnormal Returns (CARs), by country***

Country	Sudden Deaths	Companies	Mean CAR	Median CAR	Country	Sudden Deaths	Companies	Mean CAR	Median CAR
Argentina	1	11	11.78%	4.41%	Mexico	1	32	-0.77%	0.03%
Australia	3	456	-1.81%	-0.84%	Netherlands	1	8	0.69%	1.64%
Austria	1	33	0.50%	-0.23%	Norway	2	77	-0.05%	-1.12%
Belgium	1	51	0.97%	-0.20%	Pakistan	1	1	-10.04%	-10.04%
Brazil	1	79	-1.38%	3.31%	Philippines	1	70	-3.01%	-5.66%
Canada	5	126	1.97%	1.11%	Poland	1	11	-2.07%	-2.20%
Colombia	1	8	-1.29%	0.01%	Portugal	1	41	3.07%	3.35%
Egypt	1	14	3.05%	1.82%	Russia	11	107	6.31%	0.55%
France	2	265	-1.08%	-0.57%	Singapore	1	5	-1.67%	0.05%
Ghana	1	1	-0.23%	-0.23%	South Africa	3	34	1.95%	-1.47%
Greece	1	48	-3.82%	-7.50%	Spain	2	2	-1.55%	-1.55%
Hungary	1	9	-5.60%	-9.31%	Sri Lanka	8	156	-0.43%	-0.43%
India	6	76	-1.50%	-1.23%	Sweden	2	163	2.46%	2.16%
Israel	1	26	-3.14%	-2.48%	Switzerland	1	1	-1.10%	-1.10%
Italy	5	15	1.55%	1.83%	United Kingdom	10	1,812	-2.05%	-1.52%
Japan	2	3,192	-1.46%	-1.20%	United States	37	1,207	-4.19%	-1.02%
Luxembourg	1	27	2.25%	2.19%	Zimbabwe	3	21	-10.24%	-6.93%
Malaysia	2	6	3.90%	2.19%	<b>Total</b>	<b>122</b>	<b>8,191</b>	<b>-1.68%</b>	<b>-0.97%</b>

# CARs around sudden deaths

Panel A: Overall sample				
	Event window:	(-1,+1)	(-1,+5)	(-1,+10)
Mean		-0.60%	-1.01%	-1.68%
<i>p-value (adjusted for clustering)</i>		<i>0.07</i>	<i>0.01</i>	<i>0.01</i>
Median		-0.35%	-0.53%	-0.97%
Negative <i>CAR</i> (%)		54%	53%	57%
<i>Sign-test p-value</i>		<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
Number of observations		8,191	8,191	8,191

# CARs around sudden deaths

Panel B: Results by Strength of the Connection; (-1,+10) Event Window.

	N. of Obs.	Mean (%) <i>CAR</i>	p-value <sup>a</sup>	Median (%) <i>CAR</i>	p-value <sup>b</sup>
Influence = 1	1,996	-2.42	0.00	-2.05	0.00
Influence = 0	6,195	-1.45	0.04	-0.61	0.00
Difference	8,191	-0.97	0.23	-1.44	0.00
Same city = 1	4,105	-2.22	0.07	-1.22	0.00
Same city = 0	3,424	-1.30	0.01	-0.86	0.00
Difference	7,529	-0.92	0.44	-0.36	0.02
Same power = 1	7,323	-1.26	0.02	-0.96	0.00
Same power = 0	842	-5.52	0.15	-1.34	0.00
Difference	8,165	4.26	0.25	0.38	0.29
Family = 1	524	-1.40	0.00	-1.56	0.00
Family = 0	1,997	-0.49	0.30	-0.46	0.00
Difference	2,521	-0.91	0.05	-1.10	0.02
<i>M/B</i> > median	2,939	-2.14	0.02	-1.01	0.00
<i>M/B</i> ≤ median	2,939	-0.77	0.36	-0.60	0.00
Difference	5,878	-1.38	0.13	-0.42	0.04
<i>Corruption</i> ≥ median	4,283	-1.13	0.18	-0.99	0.00
<i>Corruption</i> < median	3,908	-2.29	0.01	-0.94	0.00
Difference	8,191	1.17	0.34	-0.04	0.80

<sup>a</sup> Adjusted for clustering

<sup>b</sup> Bootstrapped by resampling observations 1,000 times.

# CARs around the sudden death of politicians: Regression results

Model:	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Family				-1.09 <sup>a</sup>	-1.16 <sup>a</sup>	-0.65 <sup>c</sup>	-1.06 <sup>a</sup>
<i>M/B</i> ratio			-0.46 <sup>a</sup>	-0.54 <sup>b</sup>	-0.54 <sup>b</sup>	-0.55 <sup>a</sup>	-0.55 <sup>a</sup>
Influence	-2.36 <sup>a</sup>	-2.24 <sup>a</sup>	-2.81 <sup>a</sup>	-4.45 <sup>a</sup>	-1.70 <sup>a</sup>	-1.70 <sup>a</sup>	
Same city	-1.84	-3.29	-2.58	-2.65	1.28	2.00	
Same power	3.39 <sup>c</sup>	1.96	4.19 <sup>c</sup>				
Elected	-0.89	-0.28	-1.32	2.17	-1.60	-2.70	
Years in power	0.03	0.00	-0.01	-0.04	0.11 <sup>a</sup>	0.11 <sup>a</sup>	
Ln{#companies}	-0.46	-1.24 <sup>c</sup>	-0.35	-1.26 <sup>a</sup>	-0.03	0.80	
Corruption	-0.55		-0.74 <sup>c</sup>	-1.90 <sup>a</sup>			
Democratic	-4.79 <sup>a</sup>		-5.07 <sup>b</sup>	-8.96 <sup>b</sup>			
Federal	0.85		1.83	-0.97			
Ln{mktcap}			0.71 <sup>a</sup>	0.57 <sup>a</sup>	0.58 <sup>a</sup>	0.56 <sup>a</sup>	0.53 <sup>a</sup>
Intercept	3.81		1.68	15.90 <sup>b</sup>			-2.53 <sup>a</sup>
Country dummies	No	Yes	No	No	Yes	Yes	No
Industry dummies	No	No	No	No	No	Yes	No
Politician dummies	No	No	No	No	No	No	Yes
Number of obs.	7,444	7,444	5,368	1,997	1,997	1,997	2,210
Adjusted $\bar{R}^2$	1.30%	2.09%	3.48%	5.36%	6.20%	9.38%	5.43%

## Robustness tests

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- CARs in millions of dollars
- Individual countries
- Current vs. historical ties
- MB outliers
- Alternative event windows
- Alternative measures of corruption
- Alternative definition of city size
- Cause of death
- Political position
- Rule out alternative explanations for price reductions
  - instability or uncertainty

Motivations

Research questions

Definitions & Data

Results

Conclusions

# Other robustness tests

	(1) Control for the city where the politician was born	(2) Exclusion of companies with <i>M/B</i> ratio above 10	(3) Alternative event window (-2,+10)	(4) Alternative event window (-1,+5)	(5) Alternative proxy for corruption	(6) Control for capital of the country	(7) Control for the cause of death
Born	0.66						
Average legal & illegal corruption					-0.18 <sup>a</sup>		
Capital						7.42 <sup>a</sup>	
Health							-0.65
Suicide							-0.50
Assassination							0.71
Family		-0.62 <sup>c</sup>	-0.74	-0.30	-1.10 <sup>a</sup>	-0.63 <sup>c</sup>	
<i>M/B</i> ratio	-0.35 <sup>a</sup>	-0.68 <sup>a</sup>	-0.27 <sup>c</sup>	-0.71 <sup>a</sup>	-0.55 <sup>b</sup>	-0.52 <sup>a</sup>	-0.35 <sup>a</sup>
Influence	-1.62	-1.72 <sup>a</sup>	-0.86 <sup>a</sup>	0.85 <sup>a</sup>	-1.89 <sup>a</sup>	-1.54 <sup>a</sup>	-3.23
Same city	-5.11	1.98	2.28	1.14	-2.89	2.52	-5.09
Same power	3.66						4.40
Elected	2.47	-2.47	-4.22	-2.20	0.58	-6.27 <sup>b</sup>	1.14
Years in power	-0.05	0.10 <sup>a</sup>	0.17 <sup>a</sup>	0.42 <sup>a</sup>	0.06	0.12 <sup>a</sup>	-0.01
Ln{#companies}	-1.33	0.73	1.08	1.71 <sup>a</sup>	-0.91 <sup>a</sup>		-1.37
Ln{mkcap}	0.64 <sup>a</sup>	0.58 <sup>a</sup>	0.54 <sup>a</sup>	0.25 <sup>a</sup>	0.57 <sup>a</sup>	0.55 <sup>a</sup>	0.64 <sup>a</sup>
Democratic					-7.22 <sup>b</sup>		
Federal					2.34		
Intercept					-5.11 <sup>c</sup>		
Country dummies	Yes	Yes	Yes	Yes	No	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes	No	Yes	Yes
Number of obs.	5,368	1,998	1,993	1,989	1,997	1,997	5,368
Adjusted $\bar{R}^2$	3.84%	9.49%	5.40%	10.60%	5.37%	9.60%	3.81%

## Specific benefits

	T-1	T+1	Difference	P-value of difference	Number of companies
	Sales growth				
Mean	12.18	6.60	-5.58	0.00	5,443
Median	5.65	1.89	-3.76	0.00	
	Leverage				
Mean	25.30	24.57	-0.73	0.00	5,537
Median	21.63	21.09	-0.54	0.00	

## Specific benefits: Regression results

Dependent variable:	Sales growth "T+1" – Sales growth "T-1"			Leverage "T+1" – Leverage "T-1"			
	Model:	(1)	(2)	(3)	(4)	(5)	(6)
Family			-0.21 (0.96)	-5.35 (0.04)		-0.98 (0.06)	-1.32 (0.09)
<i>M/B</i> ratio		-2.45 (0.00)	-2.29 (0.08)	-1.55 (0.03)	-0.17 (0.33)	0.25 (0.19)	0.04 (0.85)
Influence		-3.66 (0.18)	-0.89 (0.77)	7.39 (0.00)	-2.42 (0.00)	-2.48 (0.00)	-1.30 (0.00)
Ln{mkcap}		-0.64 (0.09)	-0.57 (0.20)	-1.11 (0.05)	-0.22 (0.09)	-0.17 (0.19)	-0.08 (0.57)
Corruption		0.12 (0.93)	-1.50 (0.51)		-0.46 (0.01)	-0.36 (0.15)	
Intercept		1.59 (0.66)	5.83 (0.27)		2.69 (0.00)	2.09 (0.07)	
Country dummies		No	No	Yes	No	No	Yes
Industry dummies		No	No	Yes	No	No	Yes
Number of obs.		5,089	1,978	1,978	5,218	2,135	2,135
Adjusted $\bar{R}^2$		1.98%	0.99%	3.93%	1.42%	1.49%	3.86%



## Conclusions

- Geographic ties, identified from the (common) location of a company's headquarters and the city of the deceased politician, are particularly valuable for shareholders
  - Average price drop of -1.68% around the death of the politician for a sample of 8,191 companies
  - Comparisons with previous studies suggest the value of (political) connections has previously been underestimated
  - The price drop is even larger for those companies that are more likely to have *stronger* political links
- We also document that connected firms suffer a statistically significant decline in sales growth and leverage between the year prior to the sudden death, and the year after.
  - These results provide evidence on the source of stock market price decline of connected firms.

