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Effects of corporate lobbying on Chief Executive Officer remuneration and corporate performance

Efeitos do lobbying *corporativo na remuneração do diretor executivo e no desempenho empresarial*

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Corporate lobbying.
Chief Executive Officer remuneration.
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Abstract

According to the Theory of Economic Regulation, corporate lobbying is a productive investment for firms looking to influence legislation and public policy. Corporate political activity can generate benefits for the organization; however, in the presence of agency conflicts the advantage is often offset by agency costs borne by the shareholders. Sometimes excess remuneration is offered by the principal in exchange for the agent's commitment to shareholder wealth creation. In this study we evaluated the association between corporate lobbying, chief executive officer remuneration and corporate performance in 238 firms traded on the New York Stock Exchange, covering the period 2014-2017. Our regression analyses reveal that corporate lobbying is positively associated with chief executive officer remuneration and negatively associated with corporate performance, suggesting the existence of agency costs resulting from corporate lobbying. In such scenarios, based on our sample, corporate lobbying does not improve performance or generate benefits for shareholders, but serves as a personal and political tool for executive self-promotion.

Palavras-chave
Lobbying *corporativo.*
Remuneração do Chief Executive Officer.
Desempenho empresarial.
Teoria da Agência.
Teoria da Regulação Econômica.

Resumo

De acordo com a Teoria da Regulamentação Econômica, o lobbying *corporativo é um investimento produtivo para as empresas que procuram influenciar a legislação e as políticas públicas. A atividade política corporativa pode gerar benefícios para a organização; contudo, na presença de conflitos de agência, a vantagem é muitas vezes compensada pelos custos de agência suportados pelos acionistas. Por vezes, a remuneração excessiva é oferecida pelo principal em troca do compromisso do agente para com a criação de riqueza dos acionistas. Neste estudo, avaliamos a associação entre o* lobbying *corporativo, a remuneração do* Chief Executive Officer *e o desempenho empresarial em 238 empresas negociadas na* New York Stock Exchange*, abrangendo o período de 2014-2017. As análises de regressão revelam que o* lobbying *corporativo está positivamente associado a remuneração do* Chief Executive Officer *e negativamente associado ao desempenho corporativo, sugerindo a existência de custos de agência resultantes do* lobbying *corporativo. Em tais cenários, com base na amostra do estudo, o* lobbying *corporativo não melhora o desempenho nem gera benefícios para os acionistas, mas serve como uma ferramenta pessoal e política para a autopromoção do gestor.*

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Practical Implications

The results contribute to facilitate the evaluation of lobbying practices and their effects to organizations, support investors assessing the investment attractiveness of politically engaged firms, subsidize regulating bodies in their efforts to identify firms in need of closer monitoring, and inform the public on the monitoring of lobbying firms.

In Memoriam

We are especially grateful to our friend Alan Diógenes Góis (*in memoriam*), for his partnership in preparing this study, as well as for his great generosity in sharing the rich experience resulting from the academic research he helped to produce.

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1 INTRODUCTION

Lobbying is one of the most important strategies used by firms to influence legislation (Yu & Yu, 2011). Chen, Parsley and Yang (2015) define lobbying as political activities that special interests (including corporations) engage in to influence legislators at various levels of government.

The literature on this topic relies on the Theory of Economic Regulation (Becker, 1983; Peltzman, 1976), according to which lobbyists target regulatory agencies in order to advance their economic interests and obtain corporate exemptions. Empirical studies support the notion that corporate lobbying is a strategy for superior outcomes (Khan, Mihret & Muttakin, 2016; Sadiq & Othman, 2017), with implications for organizational performance (Dellis & Sondermann, 2017).

Although corporate lobbying can result in considerable advantages (Chen et al., 2015), it is associated with additional risks for investors (Junaidi & Siregar, 2018) and can make shareholder value creation more difficult (Coates, 2012) due to potential conflicts of interest between managers and owners. Thus, studies on the association between lobbying and chief executive officer pay have fostered debates on whether lobbying is a strategic investment made by the firm or an agency cost borne by the shareholders (Skaife, Veenman & Werner, 2013).

In light of the tenets of Agency Theory, which assumes that the purpose of a business is to generate profits (Khan et al., 2016), aligning the interests of owners and agents, firms use financial compensations as a major incentive for managers to maximize shareholder value (Core, Guay & Larcker, 2003).

In view of the conflicts of interests which may arise between managers and shareholders with regard to lobbying practices, the objective of the present study was to evaluate the influence of corporate lobbying on chief executive officer remuneration and to determine the association, if any, between corporate lobbying and corporate performance. The latter was attempted by Cao, Fernando, Tripathy and Upadhyay (2018), but their results were inconclusive. Likewise, Coates (2012) reported both positive and negative associations.

Based on a sample of non-financial firms traded on the New York Stock Exchange, for which information on lobbying expenditures was available in the Center for Responsive Politics (CRP) database and whose chief executive officers remained in office throughout the study period (2014-2017), we found corporate lobbying to have a positive effect on chief executive officer remuneration. Moreover, lobbying was not associated with the creation of shareholder wealth expressed as return on assets.

Since the strategy benefited only managers, our findings constitute empirical evidence of the existence of agency conflicts associated with lobbying. Thus, while previous studies provide the conceptual basis for a possible negative effect of corporate lobbying on firm performance, this study demonstrates empirically that lobbying firms incur higher agency costs and confirms the results of earlier investigations showing a negative effect on performance (Cao et al., 2018; Hill et al., 2013; Skaife et al., 2013; Unsal, Hassan & Zirek, 2016).

The inconclusive results of studies evaluating the impact of corporate lobbying on organizational parameters (Cao et al., 2018; Chen et al., 2015; Coates, 2012) and the need for arguments capable of explaining the competitive advantage of certain firms justify this investigation. The present study is an attempt to determine how effective and profitable corporate lobbying is, based on the Theory of Economic Regulation and Agency Theory. It should be emphasized that the study does not focus on the political dimension, but solely on the association between corporate lobbying, chief executive officer remuneration and corporate performance.

We believe our study enriches the growing literature on the intersection between corporate political activity and income-related aspects of accounting. By exploring the correlation between corporate lobbying, chief executive officer remuneration and corporate performance we seek to clarify the possible effects of such correlations on opportunistic behaviors. If firms pay higher remunerations to chief executive officers engaged in lobbying but are not rewarded with better corporate performance, it is reasonable to assume lobbying is serving as a tool of personal and political self-promotion, generating additional agency costs.

The subject of lobbying is relevant for both entrepreneurs and academics. Research in this field is necessary to test the effectiveness of political strategies such as corporate lobbying. The study also contributes to the literature by analyzing the association between corporate lobbying and two important company variables, and it is unique in that these two variables are analyzed conjointly: corporate performance and chief executive officer remuneration. Our conclusions on the ability of corporate lobbying to generate competitive advantage may be useful for business owners making strategic decisions.

2 REVIEW OF THE LITERATURE

Following the example of Peltzman (1976), Watts and Zimmerman (1986) concluded that because individuals naturally seek to maximize their own wealth, regulatory processes play a crucial role in political systems where rival groups and firms are in a permanent dispute to promote their interests.

According to Scott (2009), regulations are aligned with the interests of the lobbies with greatest political power to persuade regulators to act in their benefit. This outlook brushes aside public interest, acknowledging that the legislative process is essentially controlled by private interests (Deegan & Unerman, 2011). This brings to mind the Theory of Regulatory Capture which holds that, since regulators may be persuaded into promoting the interests of regulated parties, the general public is not the actual beneficiary of regulation (Beaver, 1968).

On the other hand, the Theory of Economic Regulation is, according to Scott (2009), not related to the progress of collective economic well-being. In fact, the theory assumes that regulation is used as a means to meet the needs and promote the interests of the lobbies which are most successful at influencing the regulatory bodies (Peltzman, 1976). Unlike the Theory of Regulatory Capture, it is far from viewing regulation exclusively from the vantage point of the regulatee.

The domain of public policies may be regarded as a competitive market with a supply side (political decision makers) and a demand side (firms) (Becker, 1983). Stigler (1971) pointed out that the political process involves the entire community and not only the direct agents and immediate stakeholders. Thus, in the process of maximizing income, some organizations rationally choose not to invest in political activities, especially those aimed at generating collective benefits in a given sector.

The unwillingness of a corporation to engage in political activity can compromise its position on the market due to the loss of privileges to lobbying competitors (Becker, 1983). Involvement in political activities may therefore be considered a strategy for growth and survival, strengthening its economic position and exercising its right to a voice in governmental matters (Mahardhika & Fitrinana, 2019).

The decision of whether to engage in lobbying is made by the manager. If lobbying creates greater shareholder wealth, then it may be said to serve the owners' interests (Skaife et al., 2013), in harmony with the definition of agent/principal relationship given by Jensen and Meckling (1976). However, as explained by Unsal et al. (2016), when corporate lobbying and other political expenditures serve the agent's interests rather than those of the shareholders, agency conflicts are likely to ensue.

Sometimes chief executive officers will involve the firm in political processes solely to boost their own utility, instead of focusing their efforts on lobbying for laws and regulations supporting the firm's operational or legal environment (Hill et al., 2013).

The conflict of interest between shareholders and managers can be attenuated by entering an agreement according to which the principal transfers certain benefits to the agent in exchange for the agent's commitment to maximizing corporate performance. In other words, corporate lobbying may be associated with higher chief executive officer remuneration with the purpose of aligning managerial decisions with shareholder preferences.

Lobbying can also indirectly inflate chief executive officer remuneration and wealth through government policies which lead to greater revenues, smaller expenses or lower taxes, all of which are reflected in the firm's earnings (Skaife et al., 2013). Since chief executive officer remuneration has been associated with parameters of corporate performance, the reportedly positive relationship between lobbying and chief executive officer remuneration may be explained by increased operating performance and greater shareholder wealth (Skaife et al., 2013).

In addition, lobbying helps firms effect changes in public policies which favor chief executive officer remuneration, for example in relation to tax issues and disclosure. In some cases, an organization may decide to compensate a chief executive officer based on the expected results of current and future efforts. Thus, the board can reward the chief executive officer for lobbying efforts immediately, even if the benefit from this activity is imperceptible to shareholders in the short or long run (Skaife et al., 2013).

When managers engage in lobbying to increase their personal utility, they affect the firm's structure and operations (Hill et al., 2013) thereby potentially producing an impact on corporate performance (Cao et al., 2018; Skaife et al., 2013).

Among the arguments which, based on Agency Theory, explain the negative relationship between corporate political activity (especially lobbying) and corporate performance is the chief executive officer's propensity to engage in risky decision making (Cojan, 2015). Junaidi and Siregar (2018) believe corporate political activity creates information asymmetry between owners and managers, associated with risk taking.

A vital question of corporate political activity is to determine whether managers are using corporate resources for private gain. Involvement in corporate political activity may not be motivated by commitment to profit maximization but by personal reasons such as ideological affinities and status building (Cojan, 2015; Unsal et al., 2016).

Thus, if the manager's personal political interests are aligned with those of the company, lobbying is optimized, agency costs are low, and the firm is likely to benefit. As shown by Cao et al. (2018) e Unsal et al. (2016), since lobbying strategies are implemented by managers, the resulting agency costs can in some cases offset the strategic advantage obtained. On the other hand, the existence of agency conflicts can induce managers to approve lobbying practices that are detrimental to the organization. As a result, lobbying expenditures and agency costs increase and market value decreases (Unsal et al., 2016).

Skaife et al. (2013) evaluated agency costs resulting from corporate lobbying by correlating lobbying with excess chief executive officer pay in US firms, based on 1999-2010 lobbying data retrieved from the OpenSecrets database. After controlling for economic determinants of remuneration, they found lobbying chief executive officers to earn significantly more than non-lobbying chief executive officers.

Unsal et al. (2016) evaluated the influence of the political leanings of 3,675 chief executive officers on corporate lobbying efforts in a sample of 2,030 US firms, covering the period 2000-2012, and observed that not only did the effects of lobbying on corporate performance vary across firms with different managerial political leanings but lobbying chief executive officers earned higher compensations than non-lobbying chief executive officers.

In a study by Cojan (2015), corporate political activity was significantly and negatively associated with financial performance in US pharmaceutical companies between 1998 and 2013. According to the author, the findings are best interpreted in light of Agency Theory since the observed negative association may be an indicator of risky decision making, inadequate assessment of political investments, inefficient monitoring and/or managers' use of political expenditures for personal gain.

Coates (2012) found lobbying to be negatively associated with financial performance and positively associated with agency costs related to managerial privileges. Finally, Cao et al. (2018) presented evidence that lobbying expenditures have a negative effect on operating and market performance.

The considerations above allow to formulate the following hypotheses:

H_1: Corporate lobbying is positively associated with chief executive officer remuneration.

H_2: Corporate lobbying is negatively associated with corporate performance.

3 METHODS

The sample population consisted of all firms traded on the New York Stock Exchange as of 16 April 2018, totaling 2,795 organizations. The choice of the New York Stock Exchange was influenced by the availability of corporate lobbying data, thanks to the Lobbying Disclosure Act of 1995 which requires firms spending over USD 10,000 per quarter towards lobbying activities in the US to disclose an estimate of such expenditures.

Information on lobbying expenditures is monitored, collected and published by the Center for Responsive Politics (CRP), a United States non-profit, nonpartisan research group that tracks the effects of money and lobbying on elections and public policy (Kong, Radhakrishnan & Tsang, 2017). Investigations based on such information can only be conducted for jurisdictions where lobbying is regulated, as in the United States.

Firms were eligible which met the following criteria: i) information on lobbying expenditures available in the CRP database, ii) non-financial area of activity, iii) information on chief executive officer remuneration and corporate performance available throughout the study period, and iv) no change in chief executive officer tenure throughout the study period.

The second criterion above was adopted due to the peculiar nature of accounting practices of financial institutions. The first and third criteria were adopted to ensure the collection of the data required to meet the study objectives, covering a 4-year period. The requirement that no change occur in chief executive officer tenure throughout the study period was adopted to minimize confounding: changes in chief executive officer tenure are likely to have a considerable impact on management style (Joskow, Rose & Wolfram, 1996) and to some extent chief executive officer remuneration depends on personal circumstances (Aslan & Grinstein, 2012).

The final sample consisted of 238 firms (933 observations), corresponding to 38.2% of the firms traded on the New York Stock Exchange that invested in lobbying. Some organizations (n=26) were listed in the OpenSecrets database as having zero expenditures on lobbying in one or more of the years covered by the study (2014-2017).

The collected data refer to the fiscal years 2014-2017. Three to five years is considered an adequate time frame for the study of how corporate political activity (in this case, lobbying) affects organizational attributes (Li, Zhou & Shao, 2008). The collected variables are considered to be relatively stable over time; thus, significant changes are unlikely to have happened since the time of collection.

Corporate lobbying was quantified by dividing lobbying expenditure by net revenues. By doing so, distortion from company size effects was avoided, making lobbying data comparable across the sample. Information on lobbying expenditure data was downloaded from the website of the non-profit organization CRP (OpenSecrets.org) which issues annually consolidated quarterly overviews based on reports from the US Senate Office of Public Records as adopted by Chen et al. (2015), Hill et al. (2013), and Cao et al. (2018).

Corporate performance was proxied by return on assets (ROA) in the period t by dividing operating income by total assets. The necessary information was retrieved from the CRSP® database.

Chief executive officer remuneration (REM) was expressed as total chief executive officer remuneration divided by the respective firm's net revenues. A wide range of components make up chief executive officer remuneration (e.g., salary, annual bonuses, stock options, long-term incentive plans, and staff benefit plans). Also, variations in remuneration play an important role in the relationship between agent wealth and corporate performance. We therefore chose to use total chief executive officer remuneration in our analysis, following the example of Skaife et al. (2013) and Aslan and Grinstein (2012). Information on chief executive officer remuneration was retrieved from one or more SEC forms (10-K, DEF 14A, 20-F, 6-K). Amounts were expressed in USD to ensure comparability.

Economic determinants such as company size (SIZE: natural logarithm of total assets), sales growth (GROW: percentage variation in net sales revenues), growth opportunity (OPP: percentage variation in stock prices) and leverage (LEV: total liabilities divided by total assets) can affect chief executive officer remuneration and corporate performance (Skaife et al., 2013) and were therefore controlled for in this study. Chief executive officer-specific variables such as duality of function (DUAL: a dummy variable scored as 1 if the chief executive officer is also chairman of the board, and 0 otherwise), age (AGE: chief executive officer's age in years) and tenure (TEN: the number of years the chief executive officer has been in office) may influence executive compensation (Ding et al., 2014). The necessary information was retrieved from the CRSP® database.

After observing the variables by means of descriptive statistics, corresponding analysis and Pearson correlation analysis, we tested the study hypotheses with robust regressions on panel data with sector and year fixed effects, and with quantile regressions.

Equation (1) was used to test H_1:

$$\text{Chief executive officer remuneration}_{i,j} = \alpha_1 + \beta_1\text{Lobbying expenditure}_{i,j} + \beta_2\text{Company size}_{i,j} + \beta_3\text{Percentage sales growth}_{i,j} + \beta_4\text{Growth opportunity}_{i,j} + \beta_5\text{Leverage}_{i,j} + \beta_6\text{Duality of function}_{i,j} + \beta_7\text{Chief executive officer age}_{i,j} + \beta_8\text{Years of tenure}_{i,j} + \text{Fixed\_Effects} + \varepsilon_{i,j} \quad (1)$$

Equation (2) was used to test H_2:

$$\text{Corporate performance}_{i,j} = \alpha_1 + \beta_1\text{Lobbying expenditure}_{i,j} + \beta_2\text{Company size}_{i,j} + \beta_3\text{Percentage sales growth}_{i,j} + \beta_4\text{Growth opportunity}_{i,j} + \beta_5\text{Leverage}_{i,j} + \text{Fixed\_Effects} + \varepsilon_{i,j} \quad (2)$$

In the following we will analyze the results of the study.

4 ANALYSIS OF RESULTS

Initially, the collected data were submitted to descriptive statistics (Table 1). All variables were winsorized at the 1st and 99th percentile.

Table 1. Descriptive statistics of continuous and discrete variables

Variable	Mean	Std. dev.	Minimum	Maximum
Corporate performance	0.0382	0.0840	-0.7051	0.2550

Table 1. Descriptive statistics of continuous and discrete variables

Variable	Mean	Std. dev.	Minimum	Maximum
Chief Executive Officer remuneration	0.0036	0.0175	0.0000	0.3000
Lobbying expenditure	0.0002	0.0007	0.0000	0.0094
Company size	21.8809	1.5633	16.8635	25.3325
Percentage sales growth	0.6421	0.1874	0.1027	1.3184
Growth opportunity	0.0439	0.1932	-0.4876	1.4135
Leverage	0.0939	0.3106	-0.7683	1.9571
Duality of function	0.8585	0.3487	0	1
Chief Executive Officer age	49.0537	7.5713	24	71
Years of tenure	9.0160	7.2673	2	55

Source: elaborated by the authors.

As shown in Table 1, mean lobbying expenditure was 0.020%, suggesting that the sampled firms invested little in this activity. It should be noted that in this study lobbying expenditure was divided by net revenues in order to avoid distortion from company size effects, and that all the sampled firms invested in lobbying at some time during the study period. Mean chief executive officer remuneration was 0.36%, which is higher than the figure reported by Burns, Jindra and Minnick (2017).

Mean corporate performance was 3.82%, revealing an overall positive result from the firms' main activities. Data dispersion was high for the control variables percentage of sales growth and growth opportunity, moderate for the variables leverage, duality of function and years of tenure, and low for the variables company size and Chief Executive Officer age.

Correspondence analysis was used to evaluate the association between lobbying expenditure and sector. To do so, we transformed lobbying data into groups of non-metric elements in accordance with the cut-off of each quartile (low, medium-low, medium-high, and high). Subsequent chi-squared testing yielded a statistic of 68.626 (significant at the level of 1%), confirming the viability of the correspondence analysis.

Figure 1 is a perceptual map showing the results of the correspondence analysis.

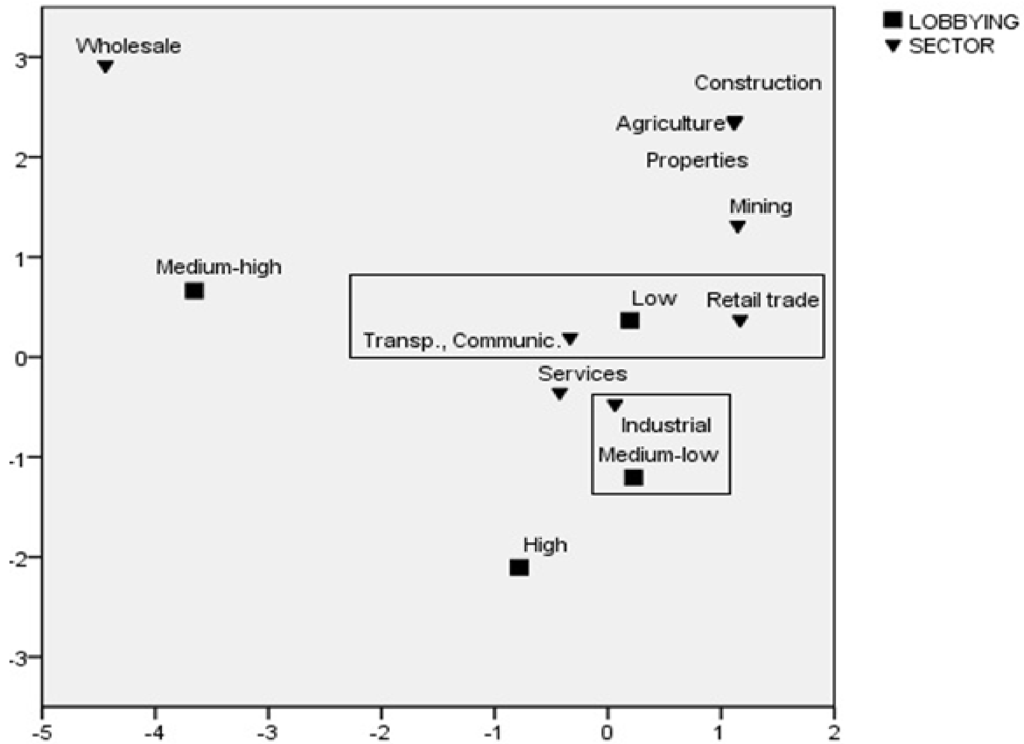

Figure 1. Perceptual map: association between lobbying expenditure and sector
Source: elaborated by the authors.

The proximity of the variables in Figure 1 indicates low levels of lobbying in the sectors retail trade, transport, communications, electricity, gas and sanitation, and medium-low levels in the industrial sector. None of the sampled sectors displayed high or medium-high levels of lobbying. Dellis and Sondermann (2017) reported lobbying expenditure to be positively associated with regulation in sectors like tobacco, health, liquor and pharmaceutics.

Subsequently, we evaluated the potential correlations and multicollinearity between the study variables (Table 2).

Table 2. Pearson correlation analysis

	ROA	REM	LOB	SIZE	GROW	OPP	LEV	DUAL	AGE	TEN
Corporate performance	1									
Chief Executive Officer remuneration	-0.15[a]	1								
Lobbying expenditure	-0.19[a]	0.60[a]	1							
Company size	0.10[a]	-0.23[a]	-0.21[a]	1						
Percentage sales growth	-0.00	-0.06[c]	-0.08[c]	-0.10[a]	1					
Growth opportunity	0.16[a]	0.02	-0.01	-0.09[a]	-0.05	1				
Leverage	0.18[a]	0.05	-0.00	-0.02	0.04	0.08[a]	1			
Duality of function	-0.03	0.03	-0.01	-0.09[a]	0.10[a]	-0.05[c]	0.00	1		
Chief Executive Officer age in years	0.02	-0.05[c]	0.03	0.14[a]	0.13[a]	-0.05	0.00	-0.03	1	
Years of tenure	0.08[a]	-0.01	-0.06[b]	-0.13[a]	-0.08[a]	0.03	0.02	0.07[b]	-0.56[a]	1

Note: [c], [b] and [a] indicate statistical significance at the level of 10%, 5% and 1%, respectively.

Source: elaborated by the authors.

As shown in Table 2, lobbying expenditure was negatively associated with corporate performance and positively associated with chief executive officer remuneration, matching the literature. Furthermore, the control variables company size, percentage sales growth, growth opportunity, leverage, chief executive officer age and years of tenure were correlated with the dependent variables corporate performance and chief executive officer remuneration and with the independent variable (lobbying expenditure).

Having verified the behavior of the data in view of the study objectives, we ran robust regressions on panel data with fixed effects and quantile regressions and tested for multicollinearity, normality of residuals and heteroscedasticity.

Table 3 shows the results of the robust panel data regression analysis and quantile regression analysis of the association between corporate lobbying and chief executive officer remuneration.

Table 3. Analysis of the association between corporate lobbying and chief executive officer remuneration

Variable	Quantile regression – median			Ordinary least squares		
	Coefficient	*T*	*p*-value	Coefficient	*T*	*p*-value
Constant	0.1739	25.41	0.000***	0.0156	26.64	0.000***
Lobbying expenditure	1.3138	2.67	0.008***	1.4242	24.07	0.000***
Company size	-0.0006	-26.26	0.000***	-0.0005	-29.24	0.000***

Table 3. Analysis of the association between corporate lobbying and chief executive officer remuneration

Percentage sales growth	0.1256	0.02	0.983	-0.0001	-0.45	0.654
Growth opportunity	0.0254	0.93	0.352	0.0002	2.40	0.017**
Leverage	-0.0011	-5.72	0.000***	-0.0026	-14.54	0.000***
Duality of function	-0.0002	-3.61	0.000***	-0.0002	-2.89	0.004***
Chief executive officer age	-0.0014	-0.84	0.401	-0.0000	-0.84	0.398
Years of tenure	-0.0000	-2.67	0.008***	-0.0000	-3.33	0.001
Fixed effects (year and sector)					Yes	
Firms					238	
Observations					933	
F test					124.58***	
Sig.					0.0000	
R^2					0.3986	
Mean VIF					1.16	
Pseudo R^2		0.2026				

Note: *, ** and *** indicate statistical significance at the level of 10%, 5% and 1%, respectively.
Source: elaborated by the authors.

As illustrated by the results of the ordinary least squares regressions (Table 3), the F test indicates that the estimation was significant at the level of 1%. The association between lobbying expenditure and chief executive officer remuneration was highly significant ($p<0.01$), with a coefficient of 1.4242, suggesting that changes in corporate lobbying can produce a positive effect on chief executive officer remuneration, matching the results of Aslan and Grinstein (2012), Skaife et al. (2013), Ding et al. (2014) and Unsal et al. (2016). The results of the quantile regressions are compatible with the results of the ordinary least squares regressions on panel data (the median lobbying coefficient was positive and significant). Thus, the analysis suggests that corporate lobbying had a positive effect on executive compensation, i.e., H1 cannot be rejected.

Percentage sales growth and chief executive officer age were the only control variables not associated with chief executive officer remuneration in the ordinary least squares regressions on panel data. In the quantile regression, in addition to these variables, growth opportunity was non-significant as well. Only growth opportunity was positively associated with chief executive officer remuneration. In other words, chief executive officer remuneration was smaller in large firms, growing firms and highly leveraged firms. The same was true for firms in which the chief executive officer doubled as chairman of the board and firms with long-tenured chief executive officers.

In view of the above, corporate political activity was shown to have a strong positive effect on chief executive officer remuneration (Aslan & Grisntein, 2012; Farrel, Hersch & Netter, 2017). Skaiffe et al. (2013) found that lobbying chief executive officers are significantly better remunerated than non-lobbying chief executive officers and that, despite the positive association between lobbying and future sales growth, no significant increase in shareholder wealth was observed. The authors also pointed out that corporate lobbying creates agency costs borne by the shareholders (Skaiffe et al., 2013).

We subsequently evaluated the association between corporate lobbying and corporate performance using panel data and quantile regression. Table 4 shows the results of the robust regression analysis and quantile regression analysis of the association between lobbying expenditure and corporate performance.

Table 4. Analysis of the association between corporate lobbying and corporate performance (ROA)

Variables	Quantile regression – median			Ordinary least squares		
	Coefficient	*T*	*p*-value	Coefficient	*T*	*p*-value
Constant	0.0738	2.53	0.012**	0.1411	4.95	0.035***
Lobbying expenditures	-20.1265	-1.67	0.095*	-18.0845	-8.60	0.000***
Company size	-0.0025	-2.29	0.022**	-0.0020	-2.06	0.040**
Percentage sales growth	0.0002	2.62	0.009***	0.0214	2.75	0.006***
Growth opportunity	0.0001	3.01	0.003***	0.0208	4.20	0.000***
Leverage	-0.0125	-1.43	0.152	-0.0618	-6.58	0.000***
Fixed effects (year and sector)					Sim	
Firms					238	
Observations					933	
F test					22.80***	
Sig.					0.0000	
R^2					0.1745	
Mean VIF					1.04	
Pseudo R^2		0.0256				

Note: *, ** and *** indicate statistical significance at the level of 10%, 5% and 1%, respectively.

Source: elaborated by the authors.

As illustrated in Table 4, the F test indicates that the estimation was significant at the level of 1%. In the regression on panel data, the association between lobbying expenditure and corporate performance was highly significant ($p<0.01$) and strong (coefficient: -18.0845), indicating that changes in corporate lobbying can have a strong negative influence on corporate performance, matching the results of Coates (2012), Skaife et al. (2013) and Cao et al. (2018). The quantile regression also revealed a negative and significant correlation between the variables. The analysis suggests that corporate lobbying has a negative effect on corporate performance, making it impossible to reject H_2.

In the ordinary least squares regressions, all the control variables significantly affected corporate performance. Similar results were reported by Hill et al. (2013) and Unsal et al. (2016). In other words, corporate performance was better in smaller and less indebted firms, and in growing firms or firms with more growth opportunities. The quantile regression yielded similar findings, differing only with regard to the variable 'leverage', which had no significant impact on corporate performance.

The finding of a negative effect of lobbying on corporate performance should be interpreted in light of Agency Theory. In this perspective, the observed effect may be the result of managerial risk-taking behaviors, inadequate assessments of political investments, insufficient monitoring, or use of political investments for personal gain.

Our study provides evidence of the existence of agency costs resulting from corporate lobbying. As explained by Hill et al. (2013), in the absence of agency problems, managers should abstain from lobbying unless a clear benefit to shareholders can be demonstrated. Indeed, based on the present findings, lobbying tends to have a negative influence on corporate performance.

The positive association observed between lobbying and chief executive officer remuneration supports the notion that the concurrence of corporate lobbying and excess chief executive officer compensation is a sign of agency problems and difficulties in harmonizing the conflicting interests of owners and managers (Aslan & Grinstein, 2012; Ding et al., 2014).

5 CONCLUSION

As shown by our results, corporate lobbying had a positive impact on chief executive officer remuneration and a negative impact on corporate performance. Based on this, the study hypotheses cannot be rejected.

From the theoretical perspective, our study confirms the tenets of Agency Theory, according to which managers tend to priorize their own goals due to the intrinsic opposition between principal and agent and due to both parties' natural tendency to maximize personal gain (Jensen & Meckling, 1976). Managers may induce the organization to become involved in politics merely for the sake of personal utility (Hill et al., 2013), increasing the likelihood of serious agency conflicts. Company owners are therefore advised to monitor lobbying executives to ascertain whether they are driven by self-interest, using the organization's resources for private gain, or oriented towards the creation of shareholder wealth.

Lobbying is not a fully observable activity. In fact, not all results are legally traceable because US firms are not required to disclose lobbying expenditures below USD 10,000 per quarter. Based on the empirical evidence presented in this study, lobbying does not appear to improve corporate performance, nor create shareholder wealth. However, the fact that many company owners offer executives benefits in order to allay agency conflicts may explain the observed positive association between lobbying and chief executive officer remuneration.

Thus, evidence was found for agency costs resulting from corporate lobbying. According to Hill et al. (2013), apart from the question of agency conflicts, lobbying should only be practiced if it can be shown to generate benefits for shareholders, a statement contradicting our findings for the relationship between lobbying and corporate performance. A positive and significant relationship was found between lobbying and chief executive officer compensation, supporting the claim of Ding et al. (2014) that lobbying firms which pay unusually high compensations to their chief executive officers may be experiencing serious agency problems in an attempt to align the interests of agents and owners.

Our analysis of corporate lobbying and its relation to the study constructs confirms the association between lobbying, executive compensation and corporate performance, a finding relevant to shareholder decision making, which is most often biased towards long-term wealth creation. Thus, our study helps mitigate the inconsistency of the results of earlier studies on corporate lobbying through new empirical data, interpreted in light of Agency Theory and the Theory of Economic Regulation.

Despite the rigorous methodology adopted and the significance of the findings, our conclusions should not be directly extrapolated to company profiles or time frames substantially different from ours. Thus, for future research, it might be interesting to evaluate the possible association between lobbying and type of executive remuneration (fixed and variable) and the association between lobbying and earnings management (since chief executive officers in lobbying firms often receive excess remuneration, they may be tempted to employ earnings management to persuade shareholders of the benefits of this practice). It would also be worthwhile to include governance parameters in the analysis to clarify the question of agency conflicts.

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