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# CEO Political Ideology and Mergers and Acquisitions Decisions<sup>\*</sup>

Ahmed M. Elnahas<sup>1,\*\*</sup> and Dongnyoung Kim<sup>2</sup>

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## Abstract

We examine the relation between CEOs political ideology and their firms' investment decisions, particularly their M&A decisions. Employing individual financial contributions data for the period from 1993 to 2006, we find that firm's investment decisions vary with CEO's political ideology. Our evidence indicates that Republican CEOs are less likely to engage in M&A activities. When they do undertake acquisitions, they are more likely to use cash as the method of payment, and their targets are more likely to be public firms and to be from the same industry. Further, Republican CEOs tend to avoid high information asymmetry acquisitions that involve the use of "earnout" clauses. Conditional on the merger, CEO political ideology appears to have a significantly impact on long-run firm valuation. However, we find no evidence that CEO political ideology creates value in the short-run. All our results are robust to controlling for CEO overconfidence.

Keywords: CEO Political Ideology; Mergers and Acquisitions; Conservatism; Overconfidence.

JEL classification: G31, G34, P16.

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