

Researchers measure how sweet the deal is for corporate political donors

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Corporations making political contributions are not only more likely to

be awarded a federal contract, but these contracts more often contain conditions uniquely advantageous to the firm, says a new study from Ball State University.

Reza Houston, a Ball State finance professor, in collaboration with researchers from the University of Colorado, Colorado Springs and Florida Atlantic University, developed a measure of [contract](#) terms identified as a "sweetheart index." Companies in the study consisted of all Standard & Poor's 1,500 firms listed in COMPUSTAT from 2006 to 2013.

In the study, "It's a Sweetheart of a Deal: Political Connections and Corporate-Federal Contracting," the index captures the inclusion of company-preferred provisions like single bid contracts, cost-plus clauses and multiyear arrangements.

Researchers found that companies making larger political contributions are most often awarded contracts containing these terms.

"We conclude that there is an important political influence on the choice of terms included in a federal contract as well as the contract award decision itself," Houston said. "Political contributions affect contract terms even after controlling for the company's hiring of former [government](#) officials and expenditures on lobbying."

The researchers also found that firms with stronger political connections more frequently have these terms included in their contracts. This is reflected with higher values of the sweetheart index for these connected firms.

"We find that increases in [political contributions](#) are associated with an increase in the sweetheart index for contracts awarded to these firms," Houston said. "Overall, these results are consistent with the premise that

there is a political influence on both the contract award decision and the choice of specific terms contained in the awarded contract."

Houston noted that the study's findings have important implications for the literature on government contracting.

"First, it suggests that the true advantage of political connections for firms negotiating federal contracts might be understated," he said.

"Second, given that the government spends vast amounts on its contracts, a more complete understanding of how quid pro quo relations influence that process is necessary."

"Our findings suggest that PAC contributions provide a unique mechanism of political connectedness beyond lobbying and the employment of former government officials. Finally, since the government does not obviously benefit from the inclusion of these 'sweetheart' contract provisions, it suggests areas for reform or revision in federal acquisition regulations."

The study will be published in an upcoming issue of the *Financial Review*, a publication of the Eastern Finance Association.

More information: Stephen P. Ferris et al. It's a Sweetheart of a Deal: Political Connections and Federal Contracting, *SSRN Electronic Journal* (2016). [DOI: 10.2139/ssrn.2869878](https://doi.org/10.2139/ssrn.2869878)

Provided by Ball State University

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