

Abstract

We use a disciplined, data-driven approach to analyzing the effect that political connection has on possible excessive profits of DoD contractors. Such connections could serve to influence government acquisition and lead to non-ideal government cost outcomes. Our research follows the methodology of Wang (2014) in conducting biographical analysis of corporate governors and comparative analysis of ROA against non-defense firms, controlled for size and industry SIC. This research seeks to identify whether the political connections of Top 100 Defense Contractor leadership over 10-year period affect government cost outcomes.

Methods

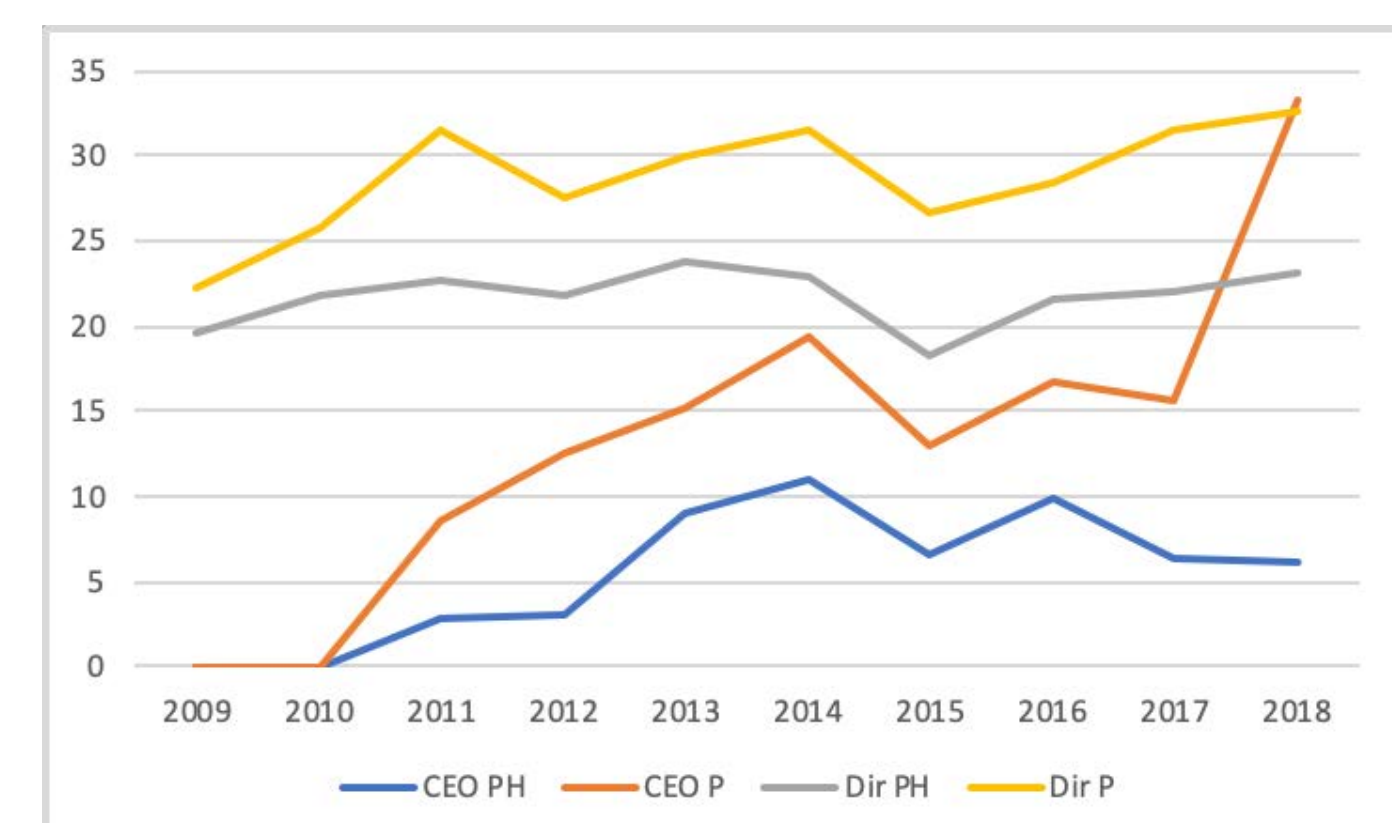
- Evaluated biographical data of 330 CEO/firm-years and 3,470 director/firm-years compiled from Compustat against two-tier evaluative criteria.
- Examine duality/independence as measure of corporate governance
- Conducted comparative analysis against non-DoD firms of ROA controlled for size and industry SIC to determine profit difference ($sample\ ROA - control\ ROA = ROA\ difference$)
- Multivariate regressive analysis to evaluate relationships

Research Summary

- Little research on excessive profit in DoD acquisition, nothing since 2008.
- Stratified, refined definition of political connection
 - Political Heavyweight: acknowledges connection inherent to presidential appointment, deputy directors of major government agencies, political action committee leadership roles
 - Political Connection: includes service on other nationally recognized boards, by-name Treasury-requested takeover of troubled firm, senior level consulting roles

Results

- DoD contractors earn 0.9% additional profit above non-defense peers, which is statistically significant in aggregate – and equates to \$11.4 billion.
- Political connection is generally increasing over time.
- Dual-appointed CEO/Chairmen earn 1.1% additional ROA above non-defense comps, though their firms derive 9.5% less of their revenue from defense.



% of CEO and Director Political Connection
2009-2018

Variable	Parameter Estimate	Std Error	t-value	Pr > t
Intercept	0.004	0.009	0.410	0.679
X1 - Duality	-0.011	0.011	-1.050	0.292
X2 - PH Dir %	0.152	0.067	1.570	0.117
X3 - Pol Dir %	-0.047	0.056	-0.850	0.396
X4 - PH CEO	0.006	0.027	0.240	0.811

Multivariate Regression Findings

- Political Connection is not the sole explanatory variable for excess profit but looks to be part of it.
- Marginally significant findings of political heavyweight CEOs earning 1.84% excessive profit, 1% greater than firms with non-politically heavy connected CEOs.

Recommendations

- Mature framework was the start, additional data is the next step
- Integrate social connection research into this model.
- Individually evaluate the Aerospace Industrial Association's relationship to excessive profits.
- We were limited by our available tools – this was done in Excel. While we dabbled in Machine Learning, additional data sets would make this an excellent candidate for ML.