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Empirical Essays on Corporate Political Responsibility

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Abstract

Corporate social responsibility (CSR) is hardly a new concept, but corporate political responsibility (CPR) is still fledgling and growing. As such, our understanding of factors shaping CPR is limited. This thesis contains three essays that examine the antecedents of CPR, proxied through political spending disclosure (PSD), in S&P 500 firms and deepens our understanding of drivers of CPR.

The first essay examines the link between ownership structure and PSD. Using a unique dataset provided by CPA-Zicklin for PSD and a panel dataset from S&P 500 companies between 2015 and 2018, the results reveal that institutional and governmental ownership are positively associated with the level of PSD, while insider ownership is negatively associated with the level of PSD. Additionally, the cross-sectional tests provide evidence that insider owners exhibit more PSD if they are pursing tax-related lobbying expenses and tax avoidance practices. Additionally, governmental owners demand lower PSD in firms with higher nonfinancial and financial reporting quality. Finally, institutional owners demand more PSD in the case of lower industry concentration.

The second essay investigates the pivotal policy question of whether corporate governance influences PSD. Using a sample of S&P 500 firms from 2011 to 2019, I provide the following results. First, extending agency theory-driven expectations, the study provides evidence on the monitoring role of the board emanating from female monitoring directors, non-excessive board tenure, audit committee (AC) size, AC meetings, and AC education in enhancing PSD. Second, extending resource dependence theory, the study provides evidence on the advisory role of the board emanating from female advisory directors, CEO duality, additional directorships, AC size,

AC meetings, AC age, and AC education in promoting PSD. As such, my dual theoretical approach comprehensively recognizes the dual roles that board members play in promoting PSD.

The third essay investigates how political risks, political strategy, and institutional blockholders' political spending influence PSD. Using a panel dataset from S&P 500 companies between 2011 and 2019, I show that firms with higher levels of political risks exhibit higher levels of PSD. I also show that the intensity of corporate political strategy and the utilization of revolving door lobbyists are positively associated with PSD. Additionally, I provide evidence that blockholders' political spending is negatively associated with PSD and such negative association is less pronounced in firms with robust governance structures. Finally, firms led by Republican institutional blockholders exhibit less transparent PSD.

The research's empirical findings are largely in line with the predications of agency, resource dependence, and legitimacy theories. Overall, the study contributes to disclosure, corporate governance, and corporate political activity literatures.

Conferences and publications from this thesis

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- Nottingham University Business School Accounting PhD conference (University of Nottingham / April 2020)
- Nottingham University Business School Accounting PhD conference (University of Nottingham / April 2021)
- Emerging Markets Inspiration Conference (Stockholm University / May 2021)
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List of Abbreviations

Abbreviation	Definition
PSD	Political Spending Disclosure
CPR	Corporate Political Responsibility
GLS	Generalised Least Square
RE	Random Effects
LM	Breusch-Pagan Lagrange Multiplier
ETR	Effective Tax Rate
GRI	Global Reporting Initiative
FEC	Federal Election Commission
IMR	Inverse Mills Ratio
CFA	Chartered Financial Analyst
PAC	Political Action Committee
CSR	Corporate Social Responsibility
CRP	Centre for Responsive Politics
US	United States
CEO	Chief Executive Officer
SEC	Securities and Exchange Commission
RDT	Resource Dependence Theory
VIF	Variance Inflation Factors
2SLS	Two-Stage Least Squares
OLS	Ordinary Least Squares

GMM	Generalized Method of Moments
CPA	Corporate Political Activity
CG	Corporate Governance
AC	Audit Committee
IPE	Independent Political Expenditures
PSI	Politically Sensitive Industries

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1 Chapter 1: Introduction

1.1 Background

Corporate reporting has metamorphosed from conventional financial reporting to new reporting trends that provide financial information and non-financial information that are not necessarily required by laws or international accounting standards. The extent and type of voluntary disclosures differ by industry, company size, geographic region, corporate governance, top executives' and managers' personal backgrounds, and ownership structure (Eng & Mak, 2003b; Ho & Wong, 2001). Voluntary disclosures include but are not limited to risk disclosures, sustainability disclosures, intellectual capital disclosures, forward-looking financial disclosures, and political spending disclosure (PSD). Extensive research has been conducted to the previous voluntary disclosure practices. However, and to the best to my knowledge, PSD is one of the most under-researched topics in the disclosure literature. Despite the fact that politics affect many aspects of our lives, it is relatively shocking how little we know about this kind of accounting disclosure (Goh et al., 2020).

Regulators and corporate stakeholders such as Parliament of United Kingdom, United States Congress, and some professional institutions such as CFA (Chartered Financial Analyst) Institute have raised some concerns about companies' political transparency and have called for more transparent disclosure of firms' political activities and spending (Deboskey & Luo, 2018). In a similar vein, elected officials, shareholder activist groups, and advocacy groups have put political pressure on companies to report coherent PSD policies, which include comprehensive disclosure of their political contributions (Deboskey & Luo, 2018).

Corporations spend a substantial amount of shareholder wealth on corporate political activity (CPA), which could be defined as a firm's attempts to change government policy in ways preferable to the firm (Hillman et al., 2004; Lawton et al., 2013). Corporations achieve this through various methods such as campaign contributions, direct and indirect lobbying, government/political membership on company boards, voluntary agreements with political parties, donations to political candidates, and, at times, even bribery (Lawton et al., 2013). For example, according to the Center for Political Accountability, in 2016, $3.15 billion was spent on corporate lobbying and this figure is expected to significantly increase in the future. While corporate political spending may attract considerable benefits to the company, managers' motivations to conduct political spending may not always be aligned with those of shareholders (Chen et al., 2015). Indeed, political spending may bring many additional risks to investors (Aggarwal & Zhai, 2013) and may decrease shareholder value (Coates, 2012).

Since PSD has come to the forefront of the investor agenda, drawing substantial attention from the corporate community, regulators, and the media (Kong et al., 2017), multiple large corporations in the US have begun to voluntarily issue PSD to communicate these activities with shareholders. For instance, according to the Center for Political Accountability, the percentage of S&P 500 firms that voluntary engage in PSD increased from 5% in 2004 to over 60% in 2016, which signals an important research avenue for future researchers.

Although corporate political spending tends to be a significant amount for most public companies, corporations generally lack a comprehensive and coherent framework to disclose such spending to shareholders and investors. Accordingly, investors in most public companies currently lack the information they need about firm's political spending. This is also evident through a survey by the Center for Political Accountability in 2006, which reveals that 85% of investors

believe that the disclosure of political activities is very poor. In a similar vein, Baloria et al. (2018) state that there is a lack of transparency regarding political spending and that the PSD level is very low. As a consequence, investors cannot determine the benefits or risks of such investments, resulting in greater information asymmetry. While some information regarding corporate political spending is accessible by the public, such information is generally scattered because of separate filings requirements with different organizations such as state-level offices, Secretary of the Senate, Federal Election Commission, etc. So, gathering information about corporate political spending from such public resources tends to be time-consuming and costly from an investor's perspective. Also, the amount of political spending that is reported by firms can be significantly understated because political spending that is conducted through intermediaries can be undisclosed in any public record (Goh et al., 2020). Although firms do voluntarily disclose information about their political spending, this practice differs widely and does not comply with uniform framework as there are no formal rules regulating PSD.

Since the US Supreme Court decision of Citizens United vs. Federal Election Commission in 2010, corporations have substantial leeway in providing unlimited pecuniary support for politicians and political causes.[1] This legal change confirmed the firm's right to spend unlimited funds on political activities, although it restricted the manner of funding. More specifically, while direct corporate political donations to political parties are still prohibited, political donations in a separate segregated fund, which is also known as a political action committee (PAC), is allowed

[1] For more information about the history of corporate political spending in the USA, please refer to Deboskey & Luo (2018).

(Deboskey & Luo, 2018).[2] For more details about the mechanics of corporate political spending in the US, please consult Cohen et al. (2019).

Recent research shows that this legal change allowed firms to make extensive political donations to trade associations, political campaigns, and lobbyists in order to influence governmental policies (Mithani, 2019; Skaife & Werner, 2020). Societies in general, regardless of political preferences, assent that giant corporations have a severe corrupting influence on the political system. According to a New York Times article, the public feels that corporate political donations as a bribe undermines the credibility of corporations and politicians (Sorkin, 2021). This skepticism around the mixing politics with business made various parties and society in general fundamentally curious about corporate political spending and its transparency. Given the unobservability of corporate political spending, stakeholders are unlikely to find annual reports useful when trying to assessing such activity (Beets & Beets, 2019), thereby significant spending occurs without the public's consent. So, the current level of political spending cannot be definitely determined. Given the vast amount of owners' funds spent on CPA and the growing societal anxieties for PSD, firms have a fiduciary responsibility to disclose this information to prove their accountability to the public (Richter, 2014). Lyon et al. (2018) argue that the well-known concept of corporate social responsibility (CSR) needs corporate political responsibility (CPR) to have real long-term sustainability. CPR can be defined as the extent to which corporations are transparent about their political spending activities to enable public monitoring (Lyon et al., 2018). CPR could be achieved through PSD which can be defined as a voluntary disclosure that informs stakeholders about a firm's utilization of shareholders' resources towards political activities (Ali et al., 2022).

[2] The direct implication of this legal change (Citizens United v. Federal Election Commission ruling in 2010) is documented in a report provided by the Federal Election Commission that the PAC accumulated approximately $4 billion in the 2015-2016 election cycle (Adrian et al., 2022).

This thesis will use the concepts of PSD, CPR and corporate political transparency interchangeably, all of which are considered parts of CPA.

While the current level of corporate political donations is unknown, it is obvious that the vast resources of public companies combined can enable them to have significant influence on political affairs and political process should they choose to do so. For example, the aggregate profits of S&P 1500 firms were about $1.2 trillion in 2017 (Cohen et al., 2019). Directing even an extremely trivial amount of these profits could have a major impact. For instance, using just 0.1% of such profits means $1.2 billion of political spending only in 2017. Because of such severe implications, and the fact that this political spending is not typically transparent, studying PSD is of interest to many stakeholders around the world. Also, investors might be concerned about their money being injected into the political systems and about their firm being involved in political affairs that they do not favor or even actively oppose. While corporate political spending could take many forms (Baloria et al., 2019; Werner, 2017), the PSD index used in this study includes election-related spending with corporate funds that are available on firms' websites, such as contributions to political candidates, parties, committees, and 527 groups. Hence, the PSD index used in this thesis does not include corporate lobbying expenditures which are already controlled for in the empirical models. It also does not include data that are available in other public domains such as Federal Election Commission (FEC), Center for Responsive Politics, and Sunlight Foundation.

Based on this brief background, the purpose of this essay is to examine what drives corporations to be politically transparent about their political spending.

1.2 Research aims and objectives

The aim of this thesis is to explore corporate political accountability of US firms by investigating the drivers of PSD. In order to achieve this aim, this thesis adopted several theories

during the investigation including agency theory, resource dependence theory, and legitimacy theory.

This thesis is established based on three empirical essays (Paper-based PhD). The objectives of these essays are to seek answers to the following research questions:

- Does ownership structure influence PSD? If so, what are the channels through which ownership structures influence PSD? (First essay)
- What is the influence of corporate governance on PSD? (Second essay)
- What is the influence of political risks, intensity of corporate political strategy, and institutional blockholders political spending on PSD? (Third essay)

The motivation and the rationale for those research questions are discussed in the next section.

1.3 Motivation

The decision to focus on PSD is motivated by the following reasons. First, there have been increasing calls in the literature for research that investigates the antecedents of PSD, a growing yet relatively under-researched disclosure area (Ali et al., 2022; Goh et al., 2020). Also, there have been several calls to explore political donations, corporate political spending, and non-financial aspects of corporate political activities (Andrew & Baker, 2020; Beets & Beets, 2019; Min, 2016). As such, my study is a direct response to all of these prior calls in the literature to explore the drivers of the PSD. Second, as dark money (i.e., political donations made without public disclosure) not only destroys the credibility of the democratic process but also brings out severe business risks to corporations and the overall economy, exploring mechanisms driving corporate political transparency bodes well for the future health of the political system. The problem of dark money is an increasing threat that was mentioned by several US presidents. Therefore, this study

may inform the practice or the regulatory bodies of possible mechanisms that could be configured to enhance corporate political transparency.

Third, while there has been extensive empirical research on social responsibility initiatives on environmental and social reporting, there is very little empirical work on political reporting (Andrew & Baker, 2020). Indeed, the literature on CSR reporting has witnessed significant improvement in the last couple of years. However, such scholarly improvement is yet to happen in corporate political transparency literature (Mithani, 2019). The fact that the scholarly response has been limited is down to the difficulty in accurately quantifying corporate political transparency. However, the availability of the CPA-Zicklin Index has led to the emergence of studies investigating this hot topic (Ali et al., 2022; DeBoskey et al., 2020; Goh et al., 2020). Hence, this study contributes to the limited literature on PSD by investigating the determinants of PSD. Fourth, there has been rapid growing societal attention on political issues because of the massive resources spent on political activities. More specifically, according to the Center for Responsive Politics (CRP), the total annual spending on political activities in the US increased from $3.3 billion in 2008 to $3.45 billion in 2018, implying that corporations spend a significant amount of funds over CPA. As such, the percentage of S&P 500 firms which voluntarily report PSD increased from 5% in 2004 to over 60% in 2016 (CPA, 2016), indicating an important research avenue (Ali et al., 2022). In this study, I focused on the political spending transparency in the United States (US) because of the unprecedented amount of funds that firms put towards political activities and the increasing societal demand for political transparency. More specifically, political spending in the US far exceeded that of Canada and the United Kingdom combined, and such spending is expected to significantly increase in the future (Horncastle, 2020).

Fifth, there is increasing pressure on firms to address their lack of political transparency as many stakeholders are continuously clamoring for transparent corporate PSD, especially after the Supreme Court's decision in Citizens United, which allowed corporations to make unlimited political expenditures with no strict public disclosure requirement (Beets & Beets, 2019; Skaife & Werner, 2020). Surprisingly, the Securities and Exchange Commission (SEC) has been exposed to mounting pressure from various stakeholders to require corporations to disclose their political contributions (Cohen et al., 2019). More specifically, shareholder proposals on PSD are among the leading submitted proposals to SEC and are the most commented-on proposals in SEC's history, with roughly 1.2 million comment letters (Goh et al., 2020). As such, the demand for PSD is unlikely to fade away. Sixth, without PSD, shareholders are left in the dark about significant decisions that influence their firms' bottom line. Consequently, shareholders themselves are cheated as they are kept uninformed about how their funds are put at risk with uncertain outcomes (Lyon et al., 2018). Therefore, this study investigates what drives corporations to be politically transparent about their political spending and hopes to provide some recommendations and insights to policymakers, regulators, stakeholders, and investors to allow more corporate political accountability, which I expect will be the theme of contemporary accounting research in the next years.

1.3.1 Motivation for first essay

Ownership structure has a significant effect on organisational relationships, decision-making, R&D spending, capital structure, diversification, innovation and labour decisions (Hall, 2016; Oh et al., 2011). Also, ownership structure significantly influences voluntary disclosure in general (Allaya et al., 2018; Chau & Gray, 2002; Huafang & Jianguo, 2007; Zaini et al., 2020), and specifically CSR (Khan et al., 2013), integrated reporting (Raimo et al., 2020b), forward-looking

financial disclosure (Liu, 2015) and risk disclosure (Ntim et al., 2013). However, the relationship between ownership structure and PSD is largely unexplored. Recently, there have been calls for more understanding of the fundamental role of ownership structure because of its strong effect on governance and global monitoring (Judge, 2011, 2012). Owners would be very much interested in more corporate political transparency for many reasons because it is the shareholders' funds that are being injected into corporate political spending with very risky outcomes (Beets & Beets, 2019; Prabhat & Primo, 2019; Skaife & Werner, 2020).

However, several studies found divergence of interests and potential differences between managers and owners regarding firms' political strategies (Aggarwal et al., 2012; Ozer & Alakent, 2012). Due to the unexpected nature and inherent complexity of a firm's political disclosures, shareholders experience information asymmetries when evaluating the success of their political investments. This is especially true after the Supreme Court's decision in Citizens United that facilitated the concealment of corporate political spending and made it easier for corporations to engage in politics with no transparent disclosures (Beets & Beets, 2019; Jia et al., 2021; Skaife & Werner, 2020). Additionally, executives may conduct riskier and short-term strategic political decisions that exhibit managerial opportunism. Therefore, shareholders have become more vigilant about questioning political investments' returns and demanding more transparent PSD.

Yet existing research, examining the influence of ownership on corporate political strategy, has not examined how corporate owners view PSD; much of the research to date has instead examined how ownership structure influences lobbying expenses or PAC (Hadani, 2007; Ozer & Alakent, 2012), which do not represent a firm's political transparency. I address this gap in the first essay.

While there is extensive research on principal-agents problems, recent research provides evidence on the principal-principal conflicts within firms (Hill & Jones, 1992; Velte, 2022). Additionally, since different owners have divergent preferences regarding corporate political transparency, the ownership structure-PSD nexus may depend on various mechanisms that can change owners' perceptions regarding corporate political transparency. Observably, Ozer & Alakent (2012) call for more research on examining the channels that operationalise the interactions between ownership structure and corporate political strategy. To address this gap, this study examines the channels through which ownership structures affect corporate political strategy by focusing on issue-specific lobbying expenditures, tax avoidance, nonfinancial and financial reporting quality, as well as industry concentration. Therefore, I hope that the first essay will deepen our understanding of how different owners shape PSD and the channels that may influence shareholders' perceptions of PSD. Through agency theory, the first essay provides evidence that indeed different owners have distinct impacts and preferences on a firm's political strategy and various mechanisms uniquely operationalise the interactions between different owners and political transparency. Specifically, institutional and governmental ownership are positively associated with the level of PSD, while insider ownership is negatively associated with the level of PSD. Additionally, the cross-sectional tests provide evidence that insider owners exhibit more PSD if they are pursuing tax-related lobbying expenses and tax avoidance practices. Furthermore, governmental owners demand lower PSD in firms with higher nonfinancial and financial reporting quality. Finally, institutional owners demand more PSD in the case of lower industry concentration. Through agency theory, these results advance heated debates on PSD – an emerging, yet hitherto less examined, category of voluntary disclosure – and show how shareholders shape corporate political reporting in S&P 500 companies.

1.3.2 Motivation for second essay

Since corporate governance (CG) is the system of laws and regulations that hold management accountable and safeguard shareholders from executives' opportunistic behavior, it is expected to meet stakeholders' demand for more corporate political transparency in the form of increasing PSD. Indeed, recent research shows that CG motivates firms to make more transparent disclosures such as risk disclosures (Ntim et al., 2013), corporate social responsibility disclosures (Jizi et al., 2014), internet financial reporting (Kelton & Yang, 2008), forward-looking disclosures (Elgammal et al., 2018; Wang & Hussainey, 2013), intellectual capital disclosures (Cerbioni & Parbonetti, 2007; Li et al., 2012), and environmental disclosures (Post et al., 2011). However, how CG influences PSD is an important research gap that is yet to be examined.

Indeed, while we know that CG fosters business ethics, motivates CSR, and enhances the transparency of corporate information (Adegbite et al., 2011, 2013; Aguilera et al., 2021; Beji et al., 2020; Jain & Jamali, 2016; Mangena et al., 2012; Mangena & Tauringana, 2007; Ntim et al., 2017; Post et al., 2011; Raimo et al., 2020a), it is puzzling how little we know about how CG influences PSD. Interestingly, PSD is expected to hold a significant proportion of board agendas in the future with the ultimate aim of enhancing political transparency (Scott, 2020). As such, the relationship between CG and PSD can be strongly predicted. Studying whether CG influences PSD is important as societal expectations regarding CG's role in fulfilling long-term strategic goals of owners and considering the needs of communities and the environment are very high. Additionally, the skepticism around the intersection of politics and business made various stakeholders and the society in general largely inquisitive about how firms invest politically (Richter, 2014). Having said that, it can be argued that CG mechanisms may have lost some of their regulator powers especially when regulating CPA (Scherer et al., 2012).

Additionally, the second essay makes an important theoretical contribution to the literature. Ironically, the role of CG was expanded from its conventional one of monitoring the management (agency theory) to enhancing continuous relationships with numerous stakeholders and with society (Resource Dependence Theory (RDT)) (Adegbite, 2010, 2012a; Giannarakis et al., 2019). Indeed, in addition to the CG monitoring function, CG has motivated firms to pursue other types of socially responsive practices such as CSR, ecological performance, and environmental disclosure (Aguilera et al., 2021; Jain & Jamali, 2016; Villiers et al., 2011; Yekini et al., 2021) to maintain healthy networks with various stakeholders and with the outside environment. Consistent with the dual roles of boards of directors (monitoring the management and providing resources), the second essay provides evidence that CG can increase corporate PSD to reduce agency costs and alleviate information asymmetries on corporate political involvement (agency theory) and can foster PSD to achieve political advantage and secure access to critical resources (RDT). The dual theoretical framework of agency and RDT is also consistent with the previous literature that supports this integration (Beji et al., 2020; Hillman & Dalziel, 2003; Pugliese et al., 2014; Zona et al., 2015). Therefore, I hope that the second essay would deepen our understanding regarding the CG–PSD nexus and show the importance of combining agency theory and RDT in investigating how corporate boards influence corporate political transparency. I extend agency theory-driven predictions that the monitoring role of the board emanates from female monitoring directors, non-excessive board tenure, larger AC size, more frequent AC meetings, and higher AC education, all of which enhance PSD. I also extend RDT-driven predictions that the advisory role of the board emanates from female advisory directors, CEO duality, additional directorships, larger AC size, more frequent AC meetings, younger AC age, and higher AC education, all of which promote PSD. As such, the dual roles of the board can thereby transform the firm's CPA vulnerability into

sustainability through PSD. Additional analyses suggest that firms with more monitoring and advising capabilities from females on ACs and AC members graduating from elite universities exhibit higher PSD. Overall, the second essay reflects on the scholarly intersections between businesses, governance/accountability, society, and politics.

1.3.3 Motivation for third essay

The third essay investigates how the political climate the firm is operating on shapes its PSD. More specifically, I investigate whether corporate political risks, intensity of political strategies, and institutional blockholders' political spending influence PSD.

Since political risks are major concerns for different stakeholders, firms usually devote significant portions of their quarterly earnings conference calls about the political risks facing their companies (Hassan et al., 2019). Indeed, political risks leads to fewer investment decisions (Gulen & Ion, 2016; Jens, 2017), less efficient mergers and acquisitions (Bonaime et al., 2018; Nguyen & Phan, 2017), higher cost of debt (Kaviani et al., 2020; Pástor & Veronesi, 2013), depressing initial public offerings (Çolak et al., 2017), and deteriorating external finance environment (Pan et al., 2019). To mitigate political risks, balance the attendant risks of political donations, and achieve political advantage, firms should actively make transparent PSD to transform the vulnerability of political activity into long-term sustainability (Lyon et al., 2018). As such, investigating how political risks are translated into PSD is a pivotal policy question and is an important research gap that needs to be investigated.

Regarding corporate political strategy, Rudy & Johnson (2019) assert that corporate political strategy is as important as its motivation for engaging in political involvement. When firms engage in lobbying to attain access to policy makers, they use different forms of political strategies including relational and transactional strategies (Hillman & Hitt, 1999; Ozer & Alakent, 2012).

However, whether such political strategies shape corporate PSD is still unclear. This is important as there are several calls from society for more ethical and responsible corporate lobbying (Barron & Skountridaki, 2020). Also, individual lobbyists would like to prove that they understand the ethical dimensions of their lobbying industry by demanding transparent PSD from their clients. In this case, corporate owners will be interested in understanding which type of corporate political strategy (relational and transactional) is associated with more ethical behavior in the form of transparent PSD.

Regarding institutional blockholders' political spending, the annual political spending of institutional investors in the US averaged $40 million between 2012 and 2016, and such spending is expected to significantly rise going forwards (Kim et al., 2020). Such political spending is expected to reflect institutional investors' preferences on their investee-firms' PSD. Indeed, Kim et al. (2020) provide evidence that Republican-oriented institutional shareholders are less likely to issue environmental disclosures. Given the prior evidence of the dark side of institutional blockholders' in limiting transparent disclosure practices (Ali et al., 2022; Ge et al., 2021), investigating whether institutional investors' political spending and political ideology can shape corporate PSD is critical from both a regulatory and monitoring perspectives.

Motivated by the previous discussions, the third essay explores whether corporate political risks, political strategies, and institutional blockholders' political spending influence PSD. I find that corporate political reporting increases with firm-level political uncertainties. Second, the study finds a positive association between the intensity of corporate political strategy and PSD. More specifically, firms with more in-house and outside lobbyists exhibit greater PSD. Additionally, I provide evidence that firms with more revolving door lobbyists exhibit better political transparency, shedding some light on the economic implications of revolving door lobbyists on

PSD. Third, institutional blockholders' political spending is negatively associated with PSD, suggesting a dark side of blockholders' political donations from a political reporting perspective. This negative association is less pronounced in firms with superior governance structures. Lastly, firms led by Republican-oriented institutional blockholders exhibit lower PSD. Overall, I provide evidence of the political drivers of corporate political reporting and argue that a firm's political climate plays an important function in shaping PSD. As such, the third essay contributes to several interesting streams of literature on CPA and CPR and deepens our understanding of the political determinants of corporate political transparency (Hillman et al., 2004; Lawton et al., 2013; Lyon et al., 2018; Mithani, 2019; Schuler et al., 2019).

1.4 Institutional context

For a long time, little attention was made to corporate political transparency in the USA. That little attention was fundamentally because of a ban imposed by the Tillman Act of 1907 on corporate political donations and subsequently by the Federal Election Campaign Act of 1974 and the Bipartisan Campaign Reform Act of 2002 (Deboskey & Luo, 2018). Nevertheless, the public concern about firms' political spending in the USA is increasing given the complexity of and the diversity of the rules regarding corporate political spending. Similarly, the academic debate over the influence of CPA on firm outcomes has increased dramatically because of the growing firm investments in CPA, and more substantially following the Supreme Court's decision in Citizens United (Werner, 2017). Indeed, Citizens United, and subsequent court and regulatory decisions, generated several new mechanisms through which companies may legally inject substantial funds in the political arena both directly and indirectly. Such political investments take the form of limitless independent political expenditures (IPE) that firms, through their general treasury funds, could directly or indirectly fund to IPE-only committees (so-called "Super PACs"). Such options

allow for covert use of CPA to shape electoral outcomes and the political process which in turn complicates things.

Companies can participate, and thereby influence, the political process through different mechanisms such as spending through established firms' PAC, donations to 527 organizations, state-level donations, and lobbying, all of which are subject to some periodic filings/disclosures (Baloria et al., 2019). However, such information is provided through several independent governmental organizations such as the Secretary of State, the Clerk of the House of Representatives, the FEC, and state-level offices and is not directly available to the market (Almaghrabi & Tsalavoutas, 2022). As such, market participants who look for information about corporate political spending must search through different sources and filings to have a clear picture about such spending, which requires significant research time and costs. Additionally, these mandatory filings are not complete or coherent and may not allow average stakeholders to truly evaluate corporate political spending (Goh et al., 2020).

As outlined in Table 1, which compares and contrasts the legal regulations of the most widely used forms of CPA, there are several important differences between IPEs allowed after Citizens United and PAC which is the traditional way firms use to engage in the electoral process. First, unlike traditional PAC contributions, IPEs can be funded through firms' funds; PAC contributions are created by a PAC affiliated with a firm but the firm's employees and stockholders are the main source of the donations, imposing several restrictions on how much a PAC can raise and contribute. In other words, while those IPEs can channel unlimited funds to the electoral process, traditional PACs cannot. Second, the amounts companies can spend on individual IPEs and in aggregate are limitless; PAC donations are subject to considerably low donation limit to any individual political or political party. While these two differences may suggest that they break firms free from the

limits of political and campaign finance, they may create several opportunistic opportunities and potential corruption, necessitating the importance of CPR to limit such fraudulent opportunities. Covert mechanisms that do not require public disclosure that firms utilize include trade associations (501[c]6 business leagues) (Barnett, 2009), informal sponsorships of social movements' boycotts against competing firms (Werner, 2017), and "grassroots" campaigns developed to indirectly influence politicians on companies' behalf.

Table 1. Legal regulations on corporate political donations

Political spending category/type	Source of funds	Funds given to/spent on	Limits on contributions/spending	Disclosure of firm's role required?
Lobbying expenditures	Corporate treasury	In-house/contract lobbyists, research, informational advocacy	None	Yes, quarterly (post-2007)
Political action committee (PAC) contributions	Restricted class of employees and shareholders, and their spouses	Candidate, party campaign committees; other PACs (administrative costs of PAC may be paid by firm directly from corporate treasury)	$5,000 to candidate/election; $15,000 to national party/year; $5,000 to state party or other PAC/year	Yes, quarterly
Contributions to a national party committee account				
Directly by firm	Corporate treasury	Local nonpartisan host committee for national party convention	None	Yes, during presidential cycle
via a PAC	Restricted class of employees and shareholders, and their spouses	Recount/legal fees; facilities; national party convention	$45,000 to each party committee (i.e., national, Senate, House)/year	Yes, quarterly
Communications costs	Corporate treasury	Informs employees/shareholders of political issues, firm endorsements	None	Yes, quarterly and in communication
Issue advocacy (excluding "grassroots campaigns")				
Directly by firm	Corporate treasury	Advocates for a public policy position without expressly advocating for/against a candidate	None	Yes, quarterly and in advertisement
via 527	Corporate treasury	Tax-exempt organization that advocates for a public policy position without expressly advocating for/against a candidate	None	Yes, quarterly
Independent expenditures (post-Citizens United)				
Directly by firm	Corporate treasury	Advertising, etc., that can expressly advocate for/against a candidate	None	Yes, quarterly and in advertisement

via "Super PAC"	Corporate treasury	Candidate- or party-affiliated (though independent) or ideological committees that engage in express advocacy	None	Yes, quarterly
via 501(c)(4) or (c)(6)	Corporate treasury	Nonprofit, tax-exempt organization that can expressly advocate for/against a candidate	None, but political activity may not be "primary purpose" of a 501(c)(4)	No, as long as funds are not earmarked for political activity

Source: (Werner, 2017)

In sum, to the extent that Citizens United boosts the attractiveness of political markets through increasing the financial support that companies can provide (directly or indirectly) to the political candidates and allowing politicians to secretly accept such financial support, we do not know what drives firms to be politically transparent. Investigating what enhances corporate political transparency is important not only from the shareholder perspective but also from the regulatory perspective.

1.5 Literature review

The concept of corporate political transparency remains to be formally introduced in the accounting literature (Jia et al., 2021; Mithani, 2019). Despite receiving significant interest from many stakeholders, corporate political transparency has been largely unexplored in academic literature. The reason for receiving such a limited scholarly response is the difficulty of accurately measuring corporate political spending transparency at firm level. However, with the availability of CPA-Zicklin Index data, studies investigating this issue started to flourish. Using descriptive and comparative trend analysis of corporate PSD, Deboskey & Luo (2018) observe an increase in corporate PSD over the course of years. The reason for the increase is mainly the investors' concerns over corporate dark money and the continuous demand for CPA transparency (Baloria et al., 2019; Cohen et al., 2019).

Goh et al. (2020) reported that institutional ownership, corporate lobbying, and political connections have a positive effect on PSD. They argue that institutional investors are one of the groups most interested in political transparency as it may reduce their concerns regarding the influence of a firm's political participation on its performance and reputation. Additionally, they found that PSD improves the relationship between corporate political spending and corporate financial performance. These results suggest that PSD can help to align executives' interests with those of investors.

Relatedly, DeBoskey et al. (2020) provide evidence that corporate political transparency is associated with lower cost debt, suggesting that PSD can help firms achieve better access to resources. In a similar vein, Adrian et al. (2022) provide evidence that PSD is associated with lower cost of equity and higher stock liquidity.[3] Again, these results highlight PSD's important role in reducing investors' concerns over CPA, alleviating information asymmetries of corporate political affairs, and in enhancing firm value.

Other studies provide evidence on what drives corporations to be politically transparent. For example, Lei et al. (2019) argue that having a presence on social media exerts pressure on firms to voluntarily make PSD. Specifically, they provide evidence that Twitter-adopting corporations are typically more transparent regarding their CPA in the form of increased PSD. They also document that companies with more Twitter followers and companies whose CPA is targeted more in Twitter messages exhibit higher PSD. As such, it can be concluded that firms' visibility could increase public scrutiny and investigation, which thereby motivates firms to exhibit more PSD.

[3] This evidence is also consistent with Mangena et al. (2014) who found a significant negative relationship between intellectual capital disclosure and cost of equity capital in a sample of 125 U.K. firms.

Other studies provide evidence that corporate governance structures can shape PSD. For example, Deboskey et al. (2018a) provide evidence that the existence of specialized board committees relating to CPA can enhance PSD. However, such practice is yet to be common as many corporations do have specialized committees relating to CPA. Deboskey et al. (2018b) provide evidence that board gender diversity can enhance corporate PSD and argue that gender-diversified boards can enhance corporate governance through PSD. Similarly, Wang & Zhang (2022) provide evidence that more independent board directors enhance PSD. However, they also provide evidence that the intensity of board monitoring can weaken a firm's PSD, suggesting that intense monitoring can come at the expense of the advising function. Baloria et al. (2019) also provide evidence that shareholder activism is one of the mechanisms through which corporate shareholders can push companies to exhibit greater PSD. Another stream of literature argues that executives' political orientations may shape corporate PSD. For example, Cohen et al. (2019) provide evidence that firms led by Republican CEOs tend to exhibit less PSD.

Although there is an increasing demand for more PSD, there are controversial results regarding investor reaction to greater political transparency. While Werner (2017) documents positive investor reaction to PSD and argues that such reaction is attributed to the revelation of corporate political strategies and reduced information asymmetry, Prabhat and Primo (2019) evidence a negative investor reaction to mandating PSD and shareholder approval of political engagement as they argue that such requirement may give firms' competitors an opportunity to attack the firm and create possible unfavorable media coverage, reducing the stock return stability and firm value of politically participant firms.[4]

[4] There is evidence of public concerns over corporate political donations especially when such donations do not conform to companies' set of values. For example, Target corporation was subject to severe public scrutiny for a political donation which the firm made to support some political candidates (Adrian et al., 2022). Such public backlash

In brief, while corporate political transparency attracted significant attention from the public, PSD literature is still fledgling (Beets & Beets, 2019; Mithani, 2019). For example, while scholars provided evidence on the drivers of PSD including institutional ownership, corporate lobbying, and analyst following (Goh et al., 2020), gender diversity (Deboskey & Luo, 2018), specialized political committees (Deboskey et al., 2018a), corporate governance (Wang & Zhang, 2022), presence on social media (Lei et al., 2019), and shareholder activism (Baloria et al., 2019), others provided evidence on the consequences of PSD on cost of debt and cost of equity (Adrian et al., 2022; DeBoskey et al., 2020). Observably, prior literature on PSD generally focused on the determinants of the PSD not the informativeness (consequences) of PSD. In general, prior literature on PSD generally relies on agency theory (Jensen & Meckling, 1976) that CPA is naturally characterized by severe agency problems and that some tools such as CG, specialized political committees, and shareholder activism may reduce such agency costs through PSD. I argue that other theories could be naturally applicable to PSD, such as RDT and legitimacy theory, which will be discussed further in the second and third essays of this thesis.

In this thesis, I differ from the prior literature by investigating different drivers of PSD, such as ownership structure and contingencies that operationalize the ownership structure-PSD nexus, the influence of unique governance devices such as board tenure, board busyness, and audit committees, and the influence of the political climate the firm is operating in, which includes political risks, political strategy, and institutional blockholders' political spending. Hopefully, addressing the previous research gaps can offer fertile opportunities to make significant contributions to voluntary disclosure, CG, CPR, ownership structure, and CPA literature.

led Target's investors to demand a rigorous investigation and review of its political donations and to call for more transparent PSD.

1.6 Research methodology

1.6.1 Research philosophy

According to Lopes (2015), there are four philosophical approaches that are mainly used in the accounting and finance literatures. They are positivism, constructionism or interpretivism, critical realism, and pragmatism, with positivism on one extreme and constructionism or interpretivism on the other extreme (Collis & Hussey, 2013).

Constructionism assumes that human behaviors are not deterministic, reality is mentally constructed, and thus multiple realities exist. From this philosophical approach, reality is relativistic or self-referential, subjective, and non-material. Accordingly, reality is internally constructed, experienced, and interpreted by the mind (Bisman, 2010). Hence, the individual is unique and significant in this paradigm. Also, this philosophy assumes that research is an interpretive act, which is usually approached naturalistically through the usage of qualitative methodologies. Since constructionism assumes subjective and multiple realities, it greatly disagrees with positivism.

Positivism, on the other hand, is a highly objectivist view of single reality. Positivists look at science and scientific research as a way to get the one objective truth out there (Sekaran & Bougie, 2016). Positivists usually try to evidence their way to achieve truth, and they believe that it is always possible to forecast the world. The featured assumptions of positivism are that: the research can be replicated, adopts deductive reasoning and tests cause and effect relationships, tries to find generalizations, mainly employs quantitative methods, and the researcher is just a passive observer who assumes that human behaviors are deterministic. Also, this philosophy depends on objective measures and the dismissal of research thoughts and emotions (Ryan et al., 2002; Sekaran & Bougie, 2016).

The choice of the philosophical approach rests entirely on the nature of the research questions being investigated. My research questions in this thesis are: 1) What is the influence of ownership structure on PSD? 2) What is the influence of CG on PSD? 3) What is the influence of political risks, political strategies, and institutional blockholders' political spending on PSD? Given the quantifiability feature of my research questions, I believe that the most appropriate and suitable research philosophy is positivism because of the following reasons: 1) All of my variables can be objectively measured (at least to a great extent). For example, PSD is measured through an index called disclosure index. This index tells us how much a company discloses about its political activity. The higher this index, the higher company political disclosures, and vice versa. Also, the characteristics of the board of directors (such as board size, its independence, gender diversity, age, and education) can be objectively measured. Moreover, institutional ownership and governmental ownership for example can be calculated and measured with a high degree of objectivity from secured and dedicated databases. In a similar vein, the level of political risks, the intensity of corporate political strategy, and the institutional blockholders' political spending can be measured or calculated with a high degree of reliability from trusted and reliable sources; 2) Over the past couple of decades, positivism has been and continues to be considered the most suitable philosophy for conducting research in accounting, especially in the field of financial accounting, which includes PSD; corporate governance, which includes boards of directors (Lopes, 2015); and corporate political literature, which includes political risks, political strategies, and institutional blockholders' political spending (Kelly et al., 2016; Kim et al., 2020; Rudy & Johnson, 2019); 3) Positivism assumes that scientific research is structured, has a prior theoretical base, employs statistical analysis and empirical validation to test and confirm theories, and seems to establish relationships between the underlying variables (Bisman, 2010). This is exactly what I

am planning to do in my research. I want to examine the nature of the relationships between ownership structure, CG, and the political climate with PSD. I have a theoretical base and hypothesis for testing the relationships between these variables; 4) As a research philosophy, positivism implies that the researcher is deemed to be independent from the study and that there are no provisions for human interferences or interests within the study (Crowther & Lancaster, 2012). By employing positivistic paradigm in my study, I will maintain objective judgement and rely on facts and statistical tests results to generate conclusions; 5) I am going to use quantitative methodologies, which focus on quantification of variables in the data collection process and employing statistical and mathematical models that can capture cause and effect relationships and correlations and can test my underlying theories. The quantitative strategy is very appropriate in positivism (Crotty, 1998); 6) The nature of research questions and objectives suggests the adoption of quantitative methodology, which allows for the quantification in data collection and its analysis to test and interpret the relationships between variables. I believe it will be more likely to answer my research questions and to generalize the results; 7) I am using the deductive approach in my research. This approach starts from theory, then hypotheses are established based on that theory. Then, the research is executed to test the hypothesis based on collected data (Saunders et al., 2009). In addition to that, positivists usually adopt a deductive approach in their research process (Crowther & Lancaster, 2012); and 8) since I am going to use a relatively large data set (the 500 largest firms listed in the US) over a relatively long period of time (from 2011 to 2019), constructivism and interpretivism may not be appropriate, making positivism a better choice.

1.6.2 Research strategies

There are two fundamental research strategies that are being used in social sciences: qualitative and quantitative research strategies. The qualitative research strategy focuses on words

and interpretation to create the new knowledge (Adegbite, 2015; Nakpodia & Adegbite, 2018). In doing so, qualitative research generally relies on interviews, case studies, and ethnography (Sekaran & Bougie, 2016). On the other hand, the quantitative research strategy focuses on the quantification of the data collection and analysis using mathematical and statistical models that attempt to establish a cause and effect relationship and tests the hypotheses of the investigated theories (Saunders et al., 2009). As mentioned in the discussion above, the quantitative strategy is well suited to the positivism philosophy. In addition, the nature of the research questions and objectives puts forward the use of quantitative research strategy. Such strategy allows the quantification of variables in the data collection and during the analysis to finally test and interpret the relationships between variables of interest. Hence, it is more likely to answer my research questions and potentially generalize my results.

1.6.3 Research approach

Generally, there are two main research approaches that are used in social sciences, which are inductive and deductive approaches. In the inductive approach, the data related to the phenomenon under investigation is collected and analyzed. Then, the theory is built up as a result of data analysis (Saunders et al., 2009). On the other hand, the deductive approach starts from the theory or theories and then hypotheses are established based on this theoretical framework. Then, the research model is designed to test the hypotheses based on the collected data. As mentioned above, the deductive approach is well suited to my current thesis. Within the deductive approach, I first form my research questions. Then, based on the theoretical frameworks that are relevant to my work, I develop various hypotheses. Then, I use some statistical models to test the hypotheses which can thereby lead me to either accept or reject the relationships between variables of interest. This can help me to confirm, modify or extend the theory.

1.6.4 Data collection

The data used in the analysis of the essays are collected from many sources as follows. First, my initial sample included all companies listed in the S&P 500 index with available Disclosure Index and Corporate Political Accountability data provided by the CPA-Zicklin Center.

In the first essay, the data, including financial information, ownership structure and corporate lobbying expenses, were collected from Bloomberg, Bloomberg Terminal Ownership Summary, and CRP. The data on corporate political connections were collected from BoardEx. More details about data sources are provided in the first essay.

In the second essay, data regarding female monitoring and advisory directors, AC age, and education were collected from BoardEx. If biographical data may be incomplete on BoardEx, I conducted a comprehensive search on the internet and used alternative sources such as LexisNexis Academic, Complete Marquis Who's Who (R) Biographies, MarketScreener, Bloomberg personal-profile, directors' LinkedIn, Business Wire, proxy statements, and Official Board Biographies. Finally, I merged these data with financial and governance data obtained from Bloomberg. More details about data sources are provided in the second essay.

In the third essay, corporate political risk data was obtained from Hassan et al.'s (2019) database. Data on corporate political strategy was manually collected from the Center for Responsive Politics (Opensecrets.com). Data on institutional blockholders' political spending and corporate political donations were manually collected from the Federal Election Commission Database. Finally, all remaining governance and control variables were collected from Bloomberg. More details about data sources are provided in the third essay.

1.6.5 Data analysis

In this thesis, several statistical techniques have been employed to analyze the relationships between the variables of interest. I used many statistical methods that are widely used in social sciences in general and in accounting research in particular. More specifically, this thesis used descriptive statistics, correlation matrix, OLS regression, two-stage least square regression (2SLS), panel data regression, propensity score matching, generalized method of moments (GMM), Heckman selection model, variance inflation factors (VIF), lagged regression structure, average regression structure, and other statistical tests. Details of how the statistical techniques are used in the data analysis are further discussed in each individual essay.

1.7 Structure of the thesis

This thesis consists of five main chapters. The current chapter (chapter 1) has presented an overview of the study including background, motivation for the PSD, motivation for first, second, and third essays, research philosophy, research strategy, research approach, data collection, and data analysis. My empirical essays are discussed in later chapters.

Specifically, the second chapter discusses my first essay on the influence of ownership structure on PSD. This chapter is based on the data sample of US S&P 500 firms over a four-year period (2015-2018). Through agency theory, the second chapter (first essay) outlines how different owners shape PSD and also investigates the channels through which ownership structures influence PSD.

The third chapter discusses my second essay on the influence of CG on PSD. This chapter is based on the data sample of US S&P 500 firms over a nine-year period (2011-2019). Through agency theory and resource-dependence theory (RDT), the third chapter (second essay) outlines

how CG influences PSD and provides evidence on the importance of combining both agency theory and RDT when studying CG-PSD nexus.

The fourth chapter discusses my third essay on the influence of the political climate the firm is operating on PSD. Specifically, I investigate the influence of political risks, intensity of corporate political strategy, and institutional blockholders' political spending on PSD. This chapter is also based on the data sample of US S&P 500 firms over a nine-year period (2011-2019). Through agency and legitimacy theories, the fourth chapter (third essay) provides evidence on how the political metrics surrounding firms can shape their PSD.

The last chapter (chapter 5) presents a summary of the findings of the thesis, the contributions that this thesis makes to the literature, the implications and recommendations drawn from this study, and some limitations which are suggestions for future research.

2 Chapter 2

Essay 1

Ownership Structure and Political Spending Disclosure[5]

Abstract

This study examines the link between ownership structure and political spending disclosure (PSD). The study breaks down ownership into four different groups of shareholders: institutional, insider, governmental and foreign. Using a unique dataset provided by CPA-Zicklin for PSD and a panel dataset from S&P 500 companies between 2015 and 2018, my results reveal that institutional and governmental ownership are positively associated with the level of PSD, while insider ownership is negatively associated with the level of PSD. Additionally, while prior literature mainly investigated how ownership structure influences disclosure practices, I analyse the mechanisms through which ownership characteristics influence PSD. My cross-sectional tests provide evidence that insider owners exhibit more PSD if they are pursing tax-related lobbying expenses and tax avoidance practices. Additionally, governmental owners demand lower PSD in firms with higher nonfinancial and financial reporting quality. Finally, institutional owners demand more PSD in the case of lower industry concentration. Overall, I conclude that different owners have distinct impacts and preferences on a firm's political strategy and various mechanisms uniquely operationalize the interactions between different owners and political transparency.

[5] This essay is published in the Accounting Forum Journal as follows: Ali, H., Adegbite, E., & Nguyen, T. (2022). Ownership Structure and Political Spending Disclosure. Accounting Forum, 46(2), 160–190. https://doi.org/10.1080/01559982.2021.1929006.

Through agency theory, the results advance heated debates on PSD – an emerging, yet hitherto less examined, category of voluntary disclosure.

2.1 Introduction

Corporate political spending disclosure (PSD) continues to draw substantial attention from firms, regulators and the media (Kong et al., 2017). Multiple large corporations in the US have begun to voluntarily issue PSD to communicate their activities to shareholders. According to the Centre for Political Accountability (CPA), the percentage of S&P 500 firms which voluntarily report PSD increased from 5% in 2004 to over 60% in 2016 (CPA, 2016), signalling an important research avenue.[6] Corporate PSD is a voluntary disclosure that informs stakeholders about a firm's utilisation of shareholders' resources towards political activities. It communicates useful, yet sensitive, information that may bring additional risk, public scrutiny and reputation cost (Goh et al., 2020). However, PSD is one of the most under-researched topics in the disclosure literature. Mithani (2019) highlights the dearth of research on PSD despite significant demand from multiple stakeholders for more political transparency. This paper addresses this lacuna in literature by answering this research question: *what is influence of ownership structure on PSD?*

Firms are increasingly spending significant amount of owners' funds on political activities to bring more benefits to shareholders (Chen et al., 2015).[7] As ownership structure is heterogeneous in nature, given owners' diverse horizons and objectives, the relationship between PSD and ownership structure tends to be unclear and requires more examination. Moreover, it is important for policy makers to capture the role of ownership identity as a monitoring mechanism in corporate

[6] Also, since more transparent political reporting became a major concern for many activist groups, the public and regulators, US Steel Corporation, for example, was forced to disclose its political contributions (Porter, 2015).

[7] According to the Center for Responsive Politics (CRP), the total annual spending on political activities in the US averaged more than $3.3 billion since 2008. In 2018, $3.45 billion was spent on corporate lobbying.

PSD policy. Recently, shareholder proposals on PSD are among the most frequently submitted proposals (Baloria et al., 2019) to the US Securities and Exchange Commission (SEC) and have become the most commented proposals in the SEC's history, with approximately 1.2 million comment letters (Goh et al., 2020). My research enquiry is timely given the significant increase in the level of PSD and its attendant regulatory implications.

Theoretically, my research proceeds with the notions that corporate political spending can be indicative of agency problems (Aggarwal et al., 2012) and that undisclosed political spending can also increase agency costs. Undisclosed political contributions have led activist groups such as the CPA to become more active and vocal in demanding higher transparency over political spending (Baloria et al., 2019). Such demands were intensified when the US Supreme Court banned direct donations from firms to candidates, while allowing firms to freely advertise their opposition or advocacy for political candidates. Also, the SEC has received substantial pressure to mandate PSD. As a result, there have been calls for more understanding of the fundamental role of ownership structure because of its strong effect on governance (Adegbite, 2010), global monitoring (Judge, 2011, 2012) and for investigating determinants and consequences of PSD (Beets & Beets, 2019; Deboskey et al., 2018a, 2018b; Deboskey & Luo, 2018; Goh et al., 2020). Using a sample of S&P 500 firms from 2015 to 2018, I explore the effects of different ownership structures on PSD. The results are as follows.

First, institutional ownership has a positive association with PSD, implying that institutional investment can be considered as an internal corporate governance mechanism for promoting PSD transparency. Second, insider ownership is negatively associated with PSD, suggesting that insiders tend to withhold important, yet sensitive, information about political spending because of their concerns about its potential negative outcomes and to preserve their influence. Third,

governmental ownership has a positive association with PSD, indicating that higher governmental ownership increases firm's visibility and public scrutiny and, thereby, leads to more transparent PSD. Fourth, foreign ownership is not significantly associated with PSD. Consistent with agency theory, these results suggest that different types of owners have divergent preferences toward a firm's PSD. The results are robust to relevant econometric models that consider various types of endogeneity problems, and to an alternative PSD proxy.

Additional analyses provide evidence about the channels through which ownership characteristics influence PSD. Since diverse owners have divergent preferences regarding corporate political transparency, the ownership structure-PSD nexus may depend on various mechanisms that can change owners' perceptions regarding corporate political transparency. Observably, Ozer and Alakent (2012) call for more research on investigating the channels that operationalize the interactions between ownership structure and corporate political strategy. In response, this study examines the mechanisms through which ownership structures affect corporate political strategy by focusing on issue-specific lobbying expenditures, tax avoidance, nonfinancial and financial reporting quality, as well as industry concentration.

As corporate lobbying can create agency problems because such expenses can represent manager's personal political orientation and not the interest of shareholders (Chen et al., 2015; Kong et al., 2017), certain types of lobbying expenses may influence ownership structure-PSD association. Additionally, prior research shows that ownership structure can influence corporate tax avoidance strategies (McGuire et al., 2014; Minnick & Noga, 2010). Similarly, Bauer et al. (2020) provide evidence on how aggressive tax planning may allow certain shareholders to extract benefits from firm's operations at the expense of other shareholders. Motivated by these insights, I explore the effect of issue-specific lobbying expenses and the degree of tax avoidance. Here, I

provide evidence that insider owners issue more PSD in the case of pursuing tax-related lobbying expenses and tax avoidance. This implies that insider owners may strategically exhibit greater political transparency to convince other stakeholders that they are not extracting rents through tax lobbying and tax avoidance strategies.

Next, the study examines how firm's overall reporting quality operationalizes the relationship between ownership structure and PSD. Since owners' demand for more transparent PSD depends on the level of information asymmetry, it is expected that firm's overall financial reporting quality (as a proxy for information asymmetry) may influence the ownership structure-PSD relationship. DeBoskey et al. (2020) argue that firms that exhibit higher PSD could have higher nonfinancial and financial reporting quality. Further, Chaney et al. (2011) provide evidence that politically connected firms can afford the consequences of poor financial reporting quality because of political connections' protection. So, it can be argued that both nonfinancial and financial reporting quality may subsume the influence of ownership structure on PSD. To address that, I examine whether nonfinancial and financial reporting quality influence the ownership structure-PSD nexus and provide evidence that governmental owners demand lower PSD in firms with higher nonfinancial and financial reporting quality. This is consistent with the argument that owners' demand for more political transparency is lower when information asymmetry is lower.

Then, I investigate how industry concentration affects owners' perceptions regarding political transparency. Industry competitors may use firm's PSD to make inferences about firm's political connections and spending which can weaken firm's political position (Isidro & Marques, 2020). However, severe competition may motivate firms to exhibit more PSD to reduce information asymmetry and secure additional capital (DeBoskey et al., 2020; Goh et al., 2020). Motivated by such mixed views of industry competition, I provide evidence that institutional investors demand

more PSD in the case of high industry competition (low industry concentration), suggesting that institutional owners prefer greater political transparency in investee firms operating in competitive industries to reduce information asymmetry and possibly secure external capital.

This paper contributes to the literature in several ways. First, it adds to the debate on PSD, which is an emerging and topical disclosure practice by investigating the influence of ownership structure in driving firm's political transparency. Second, this study extends the drivers of corporate political reporting, beyond those already identified in the literature such as political connections, political donations and institutional investors (Goh et al., 2020), gender diversity (Deboskey et al., 2018b), shareholder activism (Adegbite et al., 2012; Baloria et al., 2019), CEO political preference (Cohen et al., 2019), corporate community involvement disclosures (Yekini et. al. 2017) and corporate presence on social media platforms (Lei et al., 2019). Third, while prior studies examined the influence of ownership structure on corporate disclosure policy, evidence on the analysis of mechanisms that influence the ownership structure-PSD association is rare. Hence, this study advances the literature by analysing the mechanisms through which ownership structure affects PSD by exploring the influence of issue-specific lobbying expenditures, tax avoidance, nonfinancial and financial reporting quality and industry concentration. In sum, this study outlines mechanisms through which the public and shareholders can influence PSD. Accordingly, policy makers and regulators may be able to configure ownership structures to reflect better PSD. This paper proceeds as follows. Section 2.2 reviews relevant literature. Section 2.3 presents the theoretical framework and hypothesis development. Research methodology is in section 2.4. Section 2.5, 2.6, and 2.7 report the main, robustness, and additional analyses respectively. Section 2.8 concludes the study.

2.2 Literature Review

2.2.1 Corporate Political Involvement

Firms connect politically using a combination of different tactics such as lobbying, political action committee (PAC) contributions, soft-money donations to political candidates and grassroots lobbying to gain access to politicians (Hillman et al., 2004). I argue that PSD is a part of corporate political strategy. Corporations actively involved in political activities may use PSD to signal their commitment and accountability regarding the firm's management of corporate treasury and owners' funds. Thus, PSD can facilitate lobbying objectives of corporations and their stakeholders. Politically connected corporations enjoy various benefits, for example, reduced tax rates, better access to credit, better prospects in obtaining government contracts (Goh et al., 2020), fewer enforcement actions and penalties from the SEC (Correia, 2014) and achieving better firm performance even in low-corruption contexts (Amore & Bennedsen, 2013).

However, some studies argued that politically connected firms may be opaque and often engage in risky activities that may bend existing rules (Correia, 2014; Yu & Yu, 2011). Given political connections' superior knowledge regarding tax law and enforcement changes, Kim & Zhang (2016) provide evidence that politically connected firms are more tax-aggressive than their counterparts. Besides, politically connected firms enjoy lower fraud detection rates, indicating that political connections can twist corporate governance attributes at firm-level (Yu & Yu, 2011). Likewise, Chaney et al. (2011) report that politically connected firms exhibit lower earnings quality than their counterparts, implying that poor-quality accounting information is not penalised because of politicians' protection. Recently, Elemes and Chen (2020) demonstrate that clients of politically connected audit firms are less probable to engage in earnings restatements, implying that political connections of audit firms have implications for audit quality. However, political

connections and spending may lead to the deterioration of a firm's reputation, with attendant financial, legal and performance risks (Mullins & Zimmerman, 2010), raising a debatable question regarding the benefit of political connections to wider stakeholders.

2.2.2 Political Spending Disclosure

PSD is quite different from other types of voluntary disclosure. First, while some types of voluntary disclosure (e.g., corporate social responsibility – CSR) have guidance for their own form of reports, there is no specific guidance to report corporate political activities. Second, while some voluntary disclosures have "specified" places in annual reports, there is no requirement to include PSD in a specific place in annual reports, raising concerns regarding consistency, readability and comparability of PSD. Likewise, corporate political reporting is confusing and filled with terminologies that are difficult to understand by various stakeholders who are unfamiliar with such nomenclature (Nathan & Finsbury, 2014). Third, while some voluntary disclosure types are associated with a board committee, for instance the risk committee and CSR committee respectively oversee risk and CSR disclosures, it is still uncommon for the establishment of a specific committee for PSD. Fourth, PSD suggests a firm's willingness to spend significant amounts of owners' funds on risky non-business purposes.[8] Disclosure of such activities signals a surplus in firm's financial resources that could have otherwise been spent on increasing shareholder wealth. Additionally, PSD tends to be riskier than other forms of voluntary disclosure. While many forms of voluntary disclosure do not invite social media backlash, PSD provides an opportunity for firm's competitors to assault the firm, produce negative media coverage and entice

[8] For example, in 2019, $3.5 billion was spent by US firms on lobbying activities.

greater scrutiny from various stakeholders (Lei et al., 2019). Indeed, Bagley et al. (2015) argue that various firms have been damaged by media reporting due to financing of political parties.

However, PSD can be considered as a socially responsible practice because corporations fund their political activities through shareholders' funds. Given the financial (Adegbite et. al, 2019) and political (Uddin et al., 2018) dimensions of socially responsible practices, corporations should be under fiduciary responsibility to be transparent regarding PSD. Besides, corporations can strategically use PSD to relieve any media backlash. For example, during the 2020 US elections, as pro-Trump political contributions may lead to social media criticisms, corporations strategically utilised anti-Trump PSD to derive social media commendations. Similarly, many companies such as Facebook, Deloitte, the Bank of America, Coca-Cola and Google suspended their political donations after the violent events that took place in the Capitol riots, suggesting that corporations review their political contributions in light of recent events to satisfy their stakeholders (Goodwin, 2021).

Notably, empirical research on PSD is still limited. Goh et al. (2020) reported that institutional ownership, socially responsible institutional investors, political connections and political contributions all have a positive effect on PSD. In addition, some studies have recently explored factors influencing PSD, such as gender diversity (Deboskey et al., 2018b), the existence of political contribution committee (Deboskey et al., 2018a) and shareholder activism (Baloria et al., 2019). Furthermore, using data compiled by the Federal Election Commission, Cohen et al. (2019) provided evidence that companies led by Republican CEOs exhibit lower PSD transparency. Finally, some studies argue that firms that are actively present on social media platforms such as Twitter are under high pressure to be more transparent about their PSD (Lei et al., 2019).

2.2.3 Ownership Structure and Political Spending Disclosure

Ownership structure has a significant effect on organisational relationships, decision-making, R&D spending, capital structure, diversification, innovation and labour decisions (Alhababsah, 2019; Duqi et al., 2020; Hall, 2016; Oh et al., 2011). Also, ownership structure significantly influences voluntary disclosure in general (Allaya et al., 2018; Chau & Gray, 2002; Huafang & Jianguo, 2007; Ntim & Soobaroyen, 2013a; Zaini et al., 2020), and specifically CSR (Khan et al., 2013), integrated reporting (Raimo et al., 2020b), forward-looking financial disclosure (Liu, 2015) and risk disclosure (Ntim et al., 2013). However, the relationship between ownership structure and PSD is largely unexplored. Corporate political transparency has significant implications for the firm and its shareholders. Several studies found divergence of interests and potential differences between managers and owners regarding firms' political strategies (Aggarwal et al., 2012; Ntim & Soobaroyen, 2013a; Ozer & Alakent, 2012). Due to the uncertain nature and inherent complexity of firm's political disclosures, shareholders experience information asymmetries when evaluating the success of their political investments. Additionally, executives may conduct riskier and short-term strategic political decisions that exhibit managerial opportunism. Therefore, shareholders have become more vigilant about questioning political investments' returns and demanding more transparent PSD. Yet existing scholarship, investigating the influence of ownership on corporate political strategy, has not examined how shareholders view PSD; much of the existing research has instead examined how ownership structure influences lobbying expenses or PAC (Hadani, 2007; Ozer & Alakent, 2012), which only partially reflect firm's PSD. I address this gap in this essay.

2.3 Theoretical Framework and Hypotheses Development

Theoretical foundations of voluntary disclosure in general and PSD in particular predominantly originate from the agency theory. Agency theory assumes goal-conflict between principals and agents, self-interest by each party and an information asymmetry gap (Jensen & Meckling, 1976). It indicates that firms utilise different sources to allay information asymmetry. In this case, firms may voluntarily disclose their political participation activities to decrease the differences between owners' expectations and company's performance and to persuade shareholders that executives are performing according to shareholders' interests. Furthermore, agency costs could be minimised through corporate governance regulations such as independent and diverse directors. Given the information asymmetry gap and managers' unwillingness to disclose their political spending, corporate governance through ownership structure (Connelly et al., 2010) rather than regulation (Okike & Adegbite, 2012) may motivate corporations to be politically transparent. However, as not all owners have the same motivations and preferences, I argue that certain owners may have incentives to reduce corporate political transparency to maintain their influence.

Signaling theory (Hughes, 1986; Morris, 1987; Spence, 1973) indicates that increased disclosure signals the quality of the firm, and thus reduces adverse selection risk. While firms issue PSD to signal their commitment to political transparency, their readiness to respond to shareholders' demand for PSD and their credibility about political contributions (Deboskey et al., 2018a), proprietary cost concerns can disincentivize firms to voluntarily disclose information regarding their political activities and spending. Following this, political spending can be seen as a classification of spending that exhibits proprietary information including corporate regulatory changes and political connections (Baloria et al., 2019). In this case, disclosure of such sensitive

information can attract investor activism and public attention that can otherwise be evaded. Observably, Schepers and Gardberg (2011) argue that companies seem to be less transparent when they participate heavily in political activities.

In sum, while agency theory suggests that firms use PSD to reduce information asymmetry, relieve shareholders and obtain legitimacy, certain owners may have motivations to reduce PSD. Notably, existing evidence reveals that different shareholders have divergent, rather than convergent, views about corporate strategic decisions. Accordingly, the ownership structure-PSD nexus may vary depending on the percentage of stocks owned by heterogeneous owners. Hence, I analyse my research (which is hinged on the question: what is the influence of ownership structure on PSD?) through the following four hypotheses relating to different types of ownership.

2.3.1 Institutional Ownership

Institutional ownership has a substantial impact on organisational decisions and strategies by having informational, influential and voting power advantages over other shareholders (Shleifer & Vishny, 1997). Since they usually own a significant proportion of firms' stock which is not expected to be sold in the short run, they are more attentive to firm's significant events and meetings than non-institutional shareholders. Although some institutional investors have short-term profit incentives, the majority are interested in long-term performance, which can be strengthened by good management practices such as transparent reporting (Mahoney & Roberts, 2007). Siegel and Vitaliano (2007) argue that institutional shareholders such as banks and pension funds provide credence services, which are characterised by significant information asymmetry between these institutions and their clients. They can signal their credibility and reliability to potential clients, and thereby differentiate their services, through more transparent reporting including that of PSD. In this case, institutional investors may insist on more PSD in their investee

firms. Similarly, institutional investors' demand for more transparency is well-documented in the literature (Baloria et al., 2019). Empirically, Goh et al. (2020) provide evidence that institutional owners have significant positive relationship with PSD. Based on agency theory, if more PSD reduces institutional investors' concerns regarding corporate political performance, a positive relationship is expected. Formally:

H1: Institutional ownership is positively associated with the level of PSD.

2.3.2 Insider Ownership

An effective mechanism to reduce agency problems is to provide stocks to managers as this may align managers' and shareholders' interests. So, if managers hold a substantial proportion of firm's shares, they will implement decisions that increase shareholders' wealth and reduce information asymmetry. Johnson and Greening (1999) support that argument, showing a positive association between managerial ownership and CSR disclosures. Further, insiders with political connections tend to appoint one of the Big 4 auditors to enhance accounting information quality in order to convince shareholders that insiders are not using their political connections to extract private benefits (Guedhami et al., 2014). However, if managerial ownership exceeds a certain limit, entrenchment effect may take place (Jensen & Ruback, 1983). Similarly, Shleifer and Vishny (1997) state that when managers hold large portions of firms' shares, they may have motivations to decrease corporate disclosure to avoid public scrutiny, preserve their influential voting power and serve their own interests. Chau and Gray (2002) reported a negative relationship between insider ownership and voluntary disclosures. Regarding PSD, on the one hand, managers with large portions of a firm's shares may tend to be more politically transparent to support their legitimacy from political parties. On the other hand, self-interested managerial owners may have incentives to reduce corporate political transparency to facilitate asset expropriation and insider

trading. In a similar vein, insiders with great share ownership may be so powerful that they do not consider shareholders' interests (Morck et al., 1988), and thereby, they may exhibit less political transparency. Likewise, higher insider ownership can decrease dismissal risk, induce insiders to influence firm's disclosure practices based on their self-interest and allow insiders to execute tighter control over corporate information flow and possession (Forst et al., 2019). Therefore, higher insider ownership can reduce financial reporting informativeness and PSD transparency. Nevertheless, insider owners may strategically utilize the time of political disclosures to conceal certain organizational practices. Ozer and Alakent (2012) provided evidence that insider ownership is negatively associated with firm's relational political approach. Overall, the study develops the following hypothesis:

H2: Insider ownership is negatively associated with the level of PSD.

2.3.3 Governmental Ownership

The government has the compelling authority of the nation through laws and regulations used to control the behaviour of all social actors at the personal and organisational levels (DiMaggio & Powell, 1983). Only a handful of studies have investigated the association between governmental ownership and corporate transparency, making it a fertile area for more research. While agency theory indicates that higher PSD can alleviate agency costs between managers and the government as an influential owner, governmental ownership can exacerbate agency costs through the impairment of effective managerial monitoring, including disclosure practices (Ntim et al., 2013). According to Ghazali (2007), government-owned firms tend to be politically sensitive as their activities are more visible in the public eye and there is a higher expectation that such firms will be responsible and conscious of their public duty. Furthermore, it is expected that government ownership will create pressure for companies to be more transparent as the government is trusted

by the public and those companies would want to meet the public's expectations (Muttakin & Subramaniam, 2015), especially in developed economies. Following these lines of arguments, I posit that government ownership motivates managers to be more politically transparent, thereby increasing PSD. In the same vein, governmental owners may motivate corporate political transparency to convince shareholders that corporate insiders with political connections are not behaving opportunistically. Empirically, Khan et al. (2013), Muttakin and Subramaniam (2015), Ntim and Soobaroyen (2013) and Alshbili et al. (2018) provide evidence that government ownership has positive effects on the extent of voluntary disclosure. However, other studies report that government ownership lowers corporate transparency (Dam & Scholtens, 2012; Raimo et al., 2020b). Despite mixed evidence, the study predicts positive association. Formally:

H3: Governmental ownership is positively associated with PSD.

2.3.4 Foreign Ownership

Foreign shareholders face greater information asymmetry than domestic shareholders because of geographical separation, lack of knowledge of local operating environments and language barriers between shareholders and management (Huafang & Jianguo, 2007). Likewise, Mangena and Tauringana (2007) state that foreign shareholders incur more agency costs when investing in a foreign country. Further, Khanna et al. (2004) reveal that foreign shareholders from countries with better disclosure standards request higher disclosures to allay information asymmetry. One way for companies to signal their trustworthiness, reduce information asymmetry and minimise home bias for foreign shareholders is to increase their PSD. Analogously, Haniffa and Cooke (2005) show that managers use voluntary environmental and social disclosures to legitimise themselves, satisfy foreign investors and encourage flows of foreign capital. Following this, I argue that managers may use PSD to reduce agency problems among foreign investors and to aid

their decision-making. However, if foreign ownership became substantial, companies would be less motivated to obtain equity finance from the domestic market as the funds are obtained from the foreign market (Laidroo, 2009). Accordingly, foreign shareholders' demand for public information including political spending may decrease. Given the exploratory nature of this study, and as the literature is limited on PSD drivers, the study develops a null hypothesis for this variable:

H4: Foreign ownership is not associated with PSD.

2.4 Research Methodology

2.4.1 Data and Sample

The initial sample included all companies listed in the S&P 500 index with available Disclosure Index and Corporate Political Accountability data supplied by the CPA-Zicklin Center for a period of four years from 2015 to 2018.[9] After removing companies with missing accounting variables, and firms with missing data in the CPA-Zicklin database in all years,[10] the final sample consisted of 382 firms with 1,528 firm-year observations. Table 2 reports industry classification and the number of firms in each industry. It indicates an uneven distribution between 11 industrial classifications. However, such an imbalance will not influence my analysis as the adoption of a panel dataset overcomes this concern (Baltagi, 2008; Gujarati, 2003). The data, including financial information, ownership structure and corporate lobbying expenses, were collected from Bloomberg, Bloomberg Terminal Ownership Summary and CRP.

[9] It starts with 2015 because 2015 is the first year in which data about entire S&P 500 companies became available. For example, in 2011, CPA-Zicklin database was available for only top 100 firms in S&P 500 index. In 2012 and 2013, CPA-Zicklin database was available for only top 200 firms in S&P 500 index. In 2014, CPA-Zicklin database was available for only top 300 firms in S&P 500 index. The period ends with 2018, the most recent annual reports available at the time of the analysis.

[10] Following previous studies (Hany, 2012; Ntim, 2016; Ntim et al., 2013; Oliveira et al., 2011), this criteria ensured that my data will be classified as a balanced panel data. There are many benefits of employing panel data such as less multicollinearity amongst variables and incorporating both cross-sectional and time-series observations (Gujarati, 2003; Wooldridge, 2010)

Table 2. Industry classification and number of firms in each industry

GICS (Global Industry Classification standard)	Number of companies	Percentage
Health Care	44	11.52%
Industrials	55	14.39%
Information Technology	51	13.35%
Consumer Staples	28	7.33%
Utilities	26	6.81%
Financials	52	13.61%
Real Estate	19	4.97%
Consumer Discretionary	57	14.92%
Energy	27	7.07%
Materials	20	5.23%
Telecommunication Services	3	0.78%
Total	382	100%

Notes: This table presents number and proportion of firms in each industry based on GICS (Global Industry Classification Standard).

2.4.2 Variables and Model

To answer my research questions, I use the following empirical model as follows:

$$PSD = \beta_0 + \beta_1 INSTITUT + \beta_2 INSIDER + \beta_3 GOV + \beta_4 FOREIGN + Firm_Controls + Year_Indicators + Industry_Indicators + \varepsilon \quad (1)$$

Dependent variable: Political spending disclosure (PSD)

Using the CPA-Zicklin Index (Baloria et al., 2019; Deboskey et al., 2018a, 2018b; DeBoskey et al., 2020; Deboskey & Luo, 2018; Goh et al., 2020), PSD Index for each company in each year was calculated based on a total of 24 items, which is classified into three major dimensions:

disclosure, policy and oversight.[11] The disclosure sub-index indicates whether firms disclose political contributions to government associations, trade associations, tax-exempt organisations, political parties, candidates or any other political organisation. The policy sub-index indicates whether the company discloses their policies regarding political spending and recipients' characteristics. The oversight sub-index considers the standards of board committees that are responsible for approvals and reviews of political spending, including their composition. It also indicates whether the firm publicly produces a political spending report and the internal processes to ensure compliance with policy. Full PSD index indicators and score assignments are provided in Panel B of Table 3.

Independent and control variables

In this study, the main independent variables represent different forms of ownership. To start with, institutional ownership (*INSTITUT*) is the percentage of shares held by institutions (Goh et al., 2020). Insider ownership (*INSIDER*) is the proportion of shares directly held by executives or managers (Ozer & Alakent, 2012). Governmental ownership (*GOV*) is the percentage of shares owned by the government (Ntim et al., 2013). Foreign ownership (*FOREIGN*) is the percentage of shares held by foreign investors (Haniffa & Cooke, 2005; Khan et al., 2013). The definitions and measurements of all variables are summarised in Panel A of Table 3.

Table 3. Definition of Variables

Panel A: Variables Definitions

Variable	Definition and Measurement	References

[11] The CPA-Zicklin Index is a unique dataset provided by the Carol and Lawrence Zicklin Center for Business Ethics Research of the Wharton School of University of Pennsylvania and the CPA.

PSD	Political Spending Disclosure Index Percentage, measured by total summed raw score of the CPA-Zicklin Index divided by total points of 72 (CPA–Zicklin data items 1–24)	(Goh et al., 2020)
INSTITUT	Institutional Ownership, which is measured as the percentage of shares held by institutions to the number of float shares outstanding	(Goh et al., 2020; Ozer & Alakent, 2012)
INSIDER	Insider Ownership, which is percentage of shares directly held by individuals who are in firm management	(Ozer & Alakent, 2012)
GOV	Governmental Ownership, which is measured by percentage of shares owned by the government	(Ntim et al., 2013)
FOREIGN	Foreign Ownership, which is measured by percentage of shares held by foreign investors	(Haniffa & Cooke, 2005; Khan et al., 2013)
ROA	Return on Asset, which is measured by net income divided by average total assets	(Elamer et al., 2019)
LEV	Leverage, which is measured by total liabilities divided by total assets	(Yekini et al., 2015)
ANALYST	Measured as the total number of analysts recommending for the security, at the end of each fiscal year	(Deboskey et al., 2018b; Irani & Oesch, 2013)
TOBINSQ	Calculated as follows: the market value of equity plus the book value of total liabilities, preferred stocks and minority interest divided by the book value of total assets	(Peters & Romi, 2014)
SIZE	Measured as the natural log of the market value of equity	(Goh et al., 2020)
GOVERNANCE	Governance Quality, which is a proprietary Bloomberg score depending on firm's governance disclosure of environmental, social, and governance (ESG) data. This score ranges from 0 for firms that do not disclose governance data to 100 for firms that disclose maximum governance data	(Deboskey et al., 2018a)
IndustryCon	The Herfindahl-Hirschman Index (HHI), which is measured as the aggregated value of the square of the market share of each firm competing in the industry (based on the Fama-French 48-industry classifications). A high HHI implies high industry concentration or low competition.	(Berger & Hann, 2007; Goh et al., 2020)
LobbyExp	Annual lobbying spending (in $millions). I divided this number by 1,000,000 to make the coefficient more interpretable.	(Chen et al., 2015)

Panel B: PSD Dimensions[12]

	Disclosure	Max Score

[12] For more information on the nature of political disclosures and how they were captured by the PSD index, please visit https://politicalaccountability.net/index

1	Does the company publicly disclose corporate contributions to political candidates, parties and committees, including recipient names and amounts given?	4
2	Does the company publicly disclose payments to 527 groups, such as governors' associations and super PACs, including recipient names and amounts given?	4
3	Does the company publicly disclose independent political expenditures made in direct support of or opposition to a campaign, including recipient names and amounts given?	4
4	Does the company publicly disclose payments to trade associations that the recipient organization may use for political purposes?	6
5	Does the company publicly disclose payments to other tax-exempt organizations, such as 501(c)(4)s, that the recipient may use for political purposes?	6
6	Does the company publicly disclose a list of the amounts and recipients of payments made by trade associations or other tax-exempt organizations of which the company is either a member or donor?	2
7	Does the company publicly disclose payments made to influence the outcome of ballot measures, including recipient names and amounts given?	4
8	Does the company publicly disclose the company's senior managers (by position/title of the individuals involved) who have final authority over the company's political spending decisions?	2
9	Does the company publicly disclose an archive of each political expenditure report, including all direct and indirect contributions, for each year since the company began disclosing the information (or at least for the past five years)?	4
	Policy	
10	Does the company disclose a detailed policy governing its political expenditures from corporate funds?	6
11	Does the company have a publicly available policy permitting political contributions only through voluntary employee-funded PAC contributions?	2
12	Does the company have a publicly available policy stating that all its contributions will promote the interests of the company and will be made without regard for the private political preferences of executives?	2
13	Does the company publicly describe the types of entities considered to be proper recipients of the company's political spending?	2
14	Does the company publicly describe its public policy positions that become the basis for its spending decisions with corporate funds?	2
15	Does the company have a public policy requiring senior managers to oversee and have final authority over all the company's political spending?	2
16	Does the company have a publicly available policy that the board of directors regularly oversees the company's corporate political activity?	2
	Oversight	
17	Does the company have a specified board committee that reviews the company's policy on political expenditures?	2
18	Does the company have a specified board committee that reviews the company's political expenditures made with corporate funds?	2
19	Does the company have a specified board committee that reviews the company's payments to trade associations and other tax-exempt organizations that may be used for political purposes?	2
20	Does the company have a specified board committee that approves political expenditures from corporate funds?	2
21	Does the company have a specified board committee, composed entirely of outside directors, that oversees its political activity?	2

22	Does the company post on its website a detailed report of its political spending with corporate funds semiannually?	4
23	Does the company make available a dedicated political disclosure web page found through search or accessible within three mouse-clicks from homepage?	2
24	Does the company disclose an internal process for or an affirmative statement on ensuring compliance with its political spending policy?	2

Following prior studies (Chan et al., 2014; Goh et al., 2020; Hyun et al., 2014; Irani & Oesch, 2013; Peters & Romi, 2014; Yekini et al., 2015), this study covers a number of control variables which potentially influence PSD including performance (*ROA*), leverage (*LEV*), size (*SIZE*), governance quality (*GOVERNANCE*), analyst following (*ANALYST*) and growth opportunities (*TOBINSQ*). Furthermore, Ali et al. (2014) provide evidence that industry concentration influences firm's disclosure strategy. Similarly, Goh et al. (2020) claim that a firm's industry concentration can represent the firm's proprietary costs and may influence its disclosure strategy. So, I control for industry competition as a proxy for proprietary costs. Further, while disclosures of political activities are voluntary for businesses, the Lobbying Disclosure Act of 1995 requires the disclosure of firms' lobbying expenditures and their PAC contributions. Therefore, I control for corporate lobbying expenditures from CRP. Finally, I include both industry and year-fixed effects. Industry indicators are based on the Global Industry Classification standard codes (GICS).

To minimise the influence of outliers, I winsorized all continuous variables at the 1st and 99th percentiles. Following Wang and Hussainey (2013) and Yekini et al. (2015), the analysis was conducted using the Random Effects (RE) estimator with Generalised Least Square (GLS) regression after executing the Breusch-Pagan Lagrange Multiplier (LM) test for panel data. Further, random effect panel regression mitigates potential problems caused by unobserved firm effect (autocorrelation) and time effect (heteroscedasticity). It also controls for residual

dependency problems that are often ignored in market-based accounting research (Gow et al., 2010).

2.5 Results and Discussions

2.5.1 Descriptive Statistics

Descriptive statistics are reported in panel A of Table 4. The mean score of *PSD* is 46.46. The maximum is 100 and the minimum is 0, indicating a large variance across firms regarding their political transparency. *INSTITUT* has a mean score of 90.79, with a maximum of 99 and a minimum of 59.24, indicating that institutional investors control most S&P 500 firms.[13] *INSIDER* has a mean score of 1.72, with a maximum of 20.97 and a minimum of 0.02, indicating that S&P 500 firms are still providing their managers considerable stock ownership to incentivise them for better performance and to reduce agency conflicts. *GOV* has a mean score of 1.353, with a maximum of 2.59 and a minimum of 0, indicating limited state participation. *FOREIGN* has a mean of 18.35, indicating a considerable presence of foreign investors. *GOVERNANCE* has a mean of 60.60, suggesting superior governance disclosure in S&P 500 firms. Companies had an average annual lobbying expenditure of $1,848,869, as reported under the Lobbying Disclosure Act of 1995.[14] Panel B of Table 4 reports the degree of within and between groups' variances. A greater level of variance in PSD can be observed in between-group variance. One possible explanation is the voluntary nature of PSD, leading to wide differences in political reporting across firms. The larger proportion of between-group variation yields more support for the use of RE. Panel B of Table 4 reports an increasing trend of PSD over the years. Using t tests, I found evidence at 1%

[13] This is consistent with Mcgrath (2017) who noted that institutional investors own about 80% of S&P 500 firms.

[14] Since some political spending can be conducted through financial intermediaries, and thereby remains undisclosed in any public record, reported lobbying expenditures tend to be largely understated (Kong et al., 2017).

(P<0.05) that there are statistical differences in PSD between years 2015 and 2017, 2015 and 2018, and 2016 and 2018.

Table 4. Descriptive statistics for all variables

Panel A

Variable	Obs	Mean	Std. Dev.	Min	Max
PSD	1,528	46.47	33.90	0	100.00
INSTITUT	1,528	90.79	9.98	59.24	99.70
INSIDER	1,528	1.72	3.64	0.03	20.97
GOV	1,528	1.35	0.45	0	2.59
FOREIGN	1,528	18.35	6.57	7.69	45.77
ROA	1,528	6.19	6.44	(14.66)	24.32
LEV	1,528	29.92	17.17	0	82.11
ANALYST	1,528	22.84	7.77	6.00	46.00
TOBINSQ	1,528	2.19	1.28	0.95	7.27
LOGSIZE	1,528	4.41	0.42	3.68	5.55
GOVERNANCE	1,528	60.61	7.14	50.00	76.79
IndustryCon	1,528	0.20	0.17	0.04	1.00
LobbyExp	1,528	1,848,869	2,795,328	0	13,900,000

Panel B

Year	Variable		Mean	Std. Dev.	Min	Max	Observations	
2015-2018	PSD	overall	46.47	33.90	0.00	100.00	N =	1528
		between		31.99	0.00	100.00	n =	382
		within		11.30	-20.68	110.75	T =	4
2015		overall	42.10	32.95	0.00	100.00	N =	382
		between		32.95	0.00	100.00	n =	382
		within		0.00	42.10	42.10	T =	1
2016		overall	45.80	33.31	0.00	100.00	N =	382
		between		33.31	0.00	100.00	n =	382
		within		0.00	45.80	45.80	T =	1
2017		overall	47.89	34.28	0.00	100.00	N =	382
		between		34.28	0.00	100.00	n =	382
		within		0.00	47.89	47.89	T =	1
2018		overall	50.08	34.65	0.00	100.00	N =	382
		between		34.65	0.00	100.00	n =	382
		within		0.00	50.08	50.08	T =	1

Notes: Panel A of this table presents the descriptive statistics of all variables. For variable definitions, see Table 3. Panel B of this table presents the degree of within and between group variances of PSD each year.

Table 5 reports the descriptive statistics for PSD by industry. Firms in real estate have the lowest average of 23.19 and firms in telecommunication services have the highest average of 70.35. The consumer discretionary sector, which has the highest representation of my sample, has an average PSD of 36.79. Further, firms in certain industries such as telecommunication services, utilities and health care make exceedingly high PSD in comparison with real estate and consumer discretionary firms. This suggests that firms' PSD varies across different industries, implying that different business sectors have inherent pressures to push firms to become politically transparent.

Table 5. Descriptive statistics for PSD according to industry

PSD	Obs	Mean	Std.Dev.	Min	Max
Consumer Discretionary	228	36.79	30.62	0	97.14
Consumer Staples	112	52.08	30.94	0	94.29
Energy	108	55.12	27.93	0	100
Financials	208	54.07	36.54	0	100
Health Care	176	57.32	32.27	0	100
Industrials	220	41.14	32.07	0	97.14
Information Technology	204	39.23	37.81	0	100
Materials	80	44.18	32.76	0	97.14
Real Estate	76	23.20	27.99	0	94.29
Telecommunication Services	12	70.36	6.62	58.57	81.43
Utilities	104	60.56	28.27	5.71	97.14

Notes: This table presents the descriptive statistics for PSD in each industry based on GICS (Global Industry Classification Standard).

2.5.2 Correlation Matrix

The correlation matrix in Table 6 reveals low correlation across all variables. Also, the variance inflation factor (VIF) was computed to check the multicollinearity. The mean VIF is 1.78,

which is much lower than 10 and indicates that there is no issue of multicollinearity. The correlations between *PSD* and (*GOV* and *LobbyingExp)* are significantly positive. However, the correlations between *PSD* and (*INSTITUT* and *INSIDER)* are significantly negative, indicating that higher institutional, and insider ownership structures is correlated with lower *PSD*.

2.5.3 Regression Results

2.5.3.1 PSD and Ownership Structure

The results in Table 7 suggest that ownership structure has significant effects on the level of PSD. These results are consistent with Ozer and Alakent (2012) who note that ownership structure affects corporate choices regarding political strategies. Specifically, I find that institutional ownership is positively associated with PSD, supporting the first hypothesis (H1). The importance of institutional ownership in relation to PSD ties in with prior studies that found positive association between institutional ownership and voluntary disclosures, such as earnings forecasts and CSR disclosures (Ajinkya et al., 2005; Lin et al., 2017; Oh et al., 2011). This positive relationship implies that institutional investors demand more political transparency from their investments. This may imply that institutional investors such as financial institutions and banks may use PSD to demonstrate their transparency to future clients and enhance their credibility (Bushee & Noe, 2000).

In addition, the results show that insider ownership is negatively associated with PSD. This confirms my second hypothesis (H2) and is consistent with prior studies (Elshandidy et al., 2013; Ghazali, 2007; Khan et al., 2013; Oh et al., 2011; Raimo et al., 2020b). However, this negative relationship should be considered with caution given that there are possibilities that insiders (i.e., executives and managers) and politicians may collude to extract private benefits (Guedhami et al., 2014). In doing so, managers and politicians may insist on reducing PSD to avoid public scrutiny.

Consistent with type II agency conflict, I argue that self-interested managers may have incentives to reduce PSD to facilitate asset expropriation, extract perquisites at the cost of minority shareholders, manage informational possession in the firm and thereby safeguard themselves against political information leakage. As political information dissemination may have severe corporate reputational risks (Deboskey & Luo, 2018), insiders with higher share ownership may issue less transparent PSD to prevent public accountability and stock price fluctuation. As Prabhat and Primo (2019) provide evidence that mandating corporate political donations is associated with greater corporate risk and stock price volatility, I add to this insight by arguing that insiders with greater share ownership may prefer to decrease PSD to maintain firm's stock price stability.

Table 6. Correlation matrix

Variables	PSD	INSTITUT	INSIDER	GOV	FOREIGN	ROA	LEV	ANALYST	TOBINSQ	LOGSIZE	GOVERNANCE	IndustryCon	LobbyExp
PSD	1.00												
INSTITUT	-0.30***	1.00											
INSIDER	-0.13***	0.07**	1.00										
GOV	0.21***	-0.33***	-0.14***	1.00									
FOREIGN	-0.07**	0.02	0.58***	0.10***	1.00								
ROA	-0.07**	-0.00	0.08**	0.16***	0.15***	1.00							
LEV	-0.04	-0.00	0.04	0.04	0.05*	-0.04	1.00						
ANALYST	0.25***	-0.09***	0.05*	0.06*	0.03	0.06*	-0.08**	1.00					
TOBINSQ	-0.08**	0.09***	0.07*	0.09***	0.08**	0.62***	0.00	0.21***	1.00				
LOGSIZE	0.46***	-0.46***	-0.05*	0.28***	-0.04	0.17***	-0.05*	0.50***	0.21***	1.00			
GOVERNANCE	0.46***	-0.33***	-0.19***	0.24***	-0.09***	-0.11***	0.05	0.08**	-0.18***	0.32***	1.00		
IndustryCon	-0.08**	0.02	-0.00	-0.02	-0.07**	0.12***	0.09***	-0.10***	0.11***	-0.02	-0.05	1.00	
LobbyExp	0.42***	-0.43***	-0.06*	0.15***	-0.10***	-0.01	-0.04	0.21***	-0.05*	0.61***	0.32***	0.10***	1.00

Notes: This table presents the correlation matrix of all variables. For variable definitions, see Table 3. *** p<0.01, ** p<0.05, * p<0.1

Similarly, Shleifer and Vishny (1997) argue that when managers have a high percentage of firm's stocks, they are likely to reduce corporate disclosure (PSD in this case). Drawing on agency theory, while managerial ownership should incentivise managers to be more transparent, this may not be applicable to all kinds of accounting disclosures, especially risky ones such as PSD.

Table 7. Main regression results

VARIABLES	1	2	3	4	5
INSTITUT	0.149**				0.183**
	(0.072)				(0.089)
INSIDER		-0.705***			-0.761***
		(0.266)			(0.269)
GOV			3.475***		3.319**
			(1.322)		(1.371)
FOREIGN				0.111	0.078
				(0.127)	(0.131)
ROA	-0.047	-0.045	-0.055	-0.048	-0.072
	(0.098)	(0.103)	(0.103)	(0.106)	(0.104)
LEV	0.080	0.076	0.072	0.077	0.068
	(0.061)	(0.061)	(0.062)	(0.062)	(0.062)
ANALYST	-0.074	-0.075	-0.064	-0.070	-0.061
	(0.125)	(0.158)	(0.157)	(0.157)	(0.156)
TOBINSQ	-3.377***	-3.004***	-3.262***	-3.191***	-3.180***
	(0.912)	(0.952)	(0.945)	(0.950)	(0.961)
SIZE	16.936***	14.607***	14.634***	15.748***	13.999***
	(2.879)	(3.090)	(3.073)	(3.044)	(3.152)
GOVERNANCE	0.815***	0.785***	0.786***	0.806***	0.748***
	(0.108)	(0.129)	(0.129)	(0.129)	(0.128)
IndustryCon	-15.543*	-15.234*	-14.521*	-14.518*	-14.880*
	(8.767)	(7.880)	(7.881)	(7.933)	(7.916)
LobbyExp	2.040***	1.884***	2.039***	2.000***	2.055***
	(0.433)	(0.475)	(0.475)	(0.477)	(0.483)
Constant	-85.799***	-58.620***	-65.406***	-69.220***	-76.413***
	(14.911)	(14.868)	(14.403)	(14.484)	(17.627)
Overall R^2	0.343	0.353	0.344	0.344	0.353
Year Indicators	Yes	Yes	Yes	Yes	Yes
Industry Indicators	Yes	Yes	Yes	Yes	Yes
Observations	1,528	1,528	1,528	1,528	1,528

Notes: This table presents my main results regarding the influence of ownership structure (*INSTITUT*, *INSIDER*, *GOV*, and *FOREIGN*) on *PSD*. For variable definitions, see Table 3. The above table represents regression coefficients and standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

In terms of the impact of governmental ownership, Table 7 shows that it is positively associated with PSD, which clarifies findings from prior studies that government ownership fosters corporate transparency (Eng & Mak, 2003a; Khan et al., 2013; Ntim et al., 2012; Ntim & Soobaroyen, 2013b). This result confirms my third hypothesis (H3) and finds support in the argument of Muttakin and Subramaniam (2015), who claim that since the government is trusted by the public and would demand to meet the public's expectation, governmental ownership creates pressures for firms to be more transparent. Since state-owned enterprises may attract attention from the public, it is expected that they behave more transparently regarding their political participation. The study argues that as governmental ownership increases, the issue of public accountability becomes very important and influential in firm's political strategies. Such companies tend to exhibit greater political transparency to ensure organisational legitimacy.

Finally, I do not find a statistically significant relationship between foreign ownership and PSD, supporting the fourth null hypothesis (H4). My justification is that foreign investors, who suffer from information asymmetry, may not be fully aware of the local political environment and events that occur in other countries, leading to indifference towards PSD. Also, this insignificant relationship can be justified through the increasingly restricted laws regarding foreign ownership in the US, which minimise foreign-influenced political spending (Sozan, 2019).

2.5.3.2 PSD and Firm Specific Characteristics

PSD is significantly higher for firms with larger size (*SIZE*) and better governance quality (*GOVERNANCE*) and lower for firms with more growth opportunities (*TOBINSQ*). Lobbying

expenses (*LobbyExp*) is positively associated with PSD. This can be attributed to signalling, materiality and the desire to alleviate shareholders' concerns by increasing transparency regarding such expenditures (Kong et al., 2017). The level of industry concentration is negatively associated with PSD, indicating that firms exhibit more PSD in the case of lower industry concentration (higher industry competition). This finding is consistent with the argument that industry competition increases the difficulty of securing external funds, represented by a higher cost of capital. Hence, PSD can lessen information asymmetry and improve access to external capital (Valta, 2012). The findings are also consistent with DeBoskey et al. (2020) who provide evidence of a negative association between political transparency and cost of debt, and with Isidro and Marques (2020) who provide evidence of the positive association between industry competition and firm transparency of non-GAAP disclosures.

Table 8. Robustness tests

	1	2	3	4	5	6	7
VARIABLES	Robust	DISC	Political	2SLS	GMM	Tobit	HT
Panel A: Independent: Ownership Structure Variables							
laggedPSD					0.084**		
					(0.036)		
INSTITUT	0.183**	0.067*	0.187***	27.143**	0.678***	0.204***	0.200**
	(0.089)	(0.034)	(0.072)	(11.376)	(0.257)	(0.075)	(0.099)
INSIDER	-0.761***	-0.302***	-0.778***	-2.056	-0.603*	-0.765**	-0.562*
	(0.269)	(0.109)	(0.286)	(5.893)	(0.319)	(0.302)	(0.324)
GOV	3.319**	1.277**	3.319***	777.616***	10.809***	3.431***	3.608**
	(1.371)	(0.589)	(1.247)	(282.038)	(3.258)	(1.296)	(1.438)
FOREIGN	0.078	0.027	0.077	-23.683***	-0.329	0.081	0.061
	(0.131)	(0.053)	(0.103)	(6.650)	(0.303)	(0.107)	(0.144)
Panel B: Control Variables							
ROA	-0.072	-0.061	-0.077	0.338	0.071	-0.069	-0.070
	(0.104)	(0.044)	(0.098)	(0.435)	(0.092)	(0.101)	(0.104)
LEV	0.068	0.014	0.063	0.701***	0.387*	0.079	0.068
	(0.062)	(0.025)	(0.061)	(0.173)	(0.209)	(0.064)	(0.064)
ANALYST	-0.061	0.035	-0.060	2.904***	-0.432***	-0.095	-0.133
	(0.156)	(0.055)	(0.124)	(0.764)	(0.157)	(0.132)	(0.159)
TOBINSQ	-3.180***	-1.002***	-3.034***	-37.660***	-2.989**	-3.393***	-3.237***

	(0.961)	(0.387)	(0.916)	(13.034)	(1.313)	(0.951)	(0.978)
SIZE	13.999***	4.366***	13.495***	-21.353*	8.579**	15.303***	13.702***
	(3.152)	(1.229)	(2.972)	(12.447)	(4.302)	(3.136)	(3.191)
GOVERNANCE	0.748***	0.319***	0.742***	-4.065*	0.207*	0.760***	0.709***
	(0.128)	(0.051)	(0.109)	(2.278)	(0.122)	(0.113)	(0.131)
IndustryCon	-14.880*	-5.593*	-14.691*	-88.268***	-34.412	-17.072*	-15.808*
	(7.916)	(3.138)	(8.667)	(26.083)	(40.841)	(9.318)	(8.188)
LobbyExp	2.055***	0.692***	1.975***	17.763***	0.876	2.044***	2.034***
	(0.483)	(0.186)	(0.435)	(6.561)	(0.634)	(0.450)	(0.506)
PoliticalConnection			2.864*				
			(1.716)				
Constant	-76.413***	-30.687***	-75.911***	-2,705.309**		-84.225***	-72.982***
	(17.627)	(6.885)	(15.204)	(1,098.873)		(16.173)	(18.232)
Overall R^2	0.353	0.334		0.369			
Year Indicators	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Indicators	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,528	1,528	1,528	1,528	1,007	1,528	1,528

Notes: This table presents my robustness analysis regarding the influence of ownership structure (*INSTITUT*, *INSIDER*, *GOV*, and *FOREIGN*) on *PSD*. The above table represents regression coefficients and standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

2.6 Robustness & sensitivity tests

2.6.1 Robust Regression

The main regression was re-run with robust standard errors to adjust all p-values and standard errors for any potential influence of heteroscedasticity, outliers and other irregularities. Additionally, I used clustered robust standard errors by firm to account for any residual dependence caused by firm effect as well as to reduce the impact of time series dependence (autocorrelation). The results reported in column 1 of Table 8 are consistent with my main findings.

2.6.2 Using the Disclosure Dimension Only of PSD

I reproduced the main regression model using only the disclosure component of PSD, which is the total summed raw score of items 1-9 of the CPA-Zicklin data. It represents the disclosure

dimension of the overall PSD index. The results reported in column 2 of Table 8 are consistent with my main findings.

2.6.3 Corporate Political Connections

As firm's political transparency can be affected by its political involvement, I include firm's political connections (*PoliticalConnection*) as an additional control variable, which equals 1 if any board member has a political connection, 0 otherwise. Consistent with prior studies (Goh et al., 2020; Kim & Zhang, 2016), I recognise board members who have a past or current relationship with the Republican or Democratic parties, or who have been members of Congress, the Senate, White House, or a party-affiliated association, institution or campaign organisation.[15] My results in column 3 of Table 8 are still consistent. Coefficient *PoliticalConnection* is positive and significant at $p<0.1$, implying that firms with political connections exhibit higher PSD.

2.6.4 Endogeneity Check using 2SLS and GMM

Endogeneity is a statistical problem in disclosure and corporate governance research (Larcker & Rusticus, 2010). Omitted variable bias and simultaneity are common reasons for potential endogeneity. So, the study carried out G2SLS (generalised two-stage-least-squares) which is widely employed to address endogeneity concerns in regression analysis (Nguyen & Soobaroyen, 2019; Yekini et al., 2017). Following Ntim et al. (2013), in the first stage, I conjecture that my four ownership structure variables would be determined by all eight control variables. In the second stage, I use their predicted parts as instruments and re-estimated equation 1. The results reported

[15] I collected political connections data from BoardEx.

in column 4 of Table 8 are mainly consistent with the initial findings, implying that my results are robust to possible endogeneity problems.

Additionally, I re-estimate my results by executing the dynamic panel Generalized Method of Moments (GMM) estimator to control for unobserved heterogeneity between PSD and independent variables (Adegbite et al., 2019; Elamer et al., 2019; Wintoki et al., 2012). Specifically, the lagged dependent variable (PSD_{it-1} *-prior year PSD*) is added to my dynamic two-step GMM model. The results presented in column 5 of Table 8 are similar to my main findings, indicating that my results are robust to various endogeneity problems.[16]

2.6.5 Different Estimation Models

Furthermore, I employ the panel Tobit model with random effect, a procedure that considers the fact that some observations for PSD are censored at zero, given that some firms may not issue PSD in some years. The results in column 6 of Table 8 are consistent with my main test. Further, I use Hausman-Taylor estimation to check the robustness of my analysis (Oh et al., 2016). It has an amelioration over random effects and fixed effects models. Unlike fixed effects, it allows for inclusion of regressors that are time invariant such as industry effects. Compared with random effects, it deals with endogeneity problems by utilising both within-variation and between-variation of exogenous variables as instruments for specific endogenous variables (Baltagi et al., 2003). Results in column 7 of Table 8 are consistent with my main analysis.

[16] Some diagnostics should be met for GMM results to be reliable and consistent (Fosu et al., 2020; Kwabi et al., 2019). My GMM estimation are robust to these diagnostics: Hansen tests assures instruments' validity (P value is 0.01), Sargan test suggests model's validity (P value is 0.84), AR(1) test indicates existence of first-order autocorrelation (P value is 0.01) and AR(2) test suggests non-existence of second-order serial correlation (P value is 0.31).

2.6.6 *Political Sensitive Industries and the Governance Component of ESG*

I tried to investigate whether politically sensitive industries could influence my results. Therefore, I followed prior literature (Atanassov et al., 2015; Herron et al., 1999) and introduced a new variable which is as an indicator variable that equals to one for firms that belong to the following industries: tobacco products (5), pharmaceuticals (13), health care services (11), defense (26), petroleum and natural gas (30), telecommunications (32) and transportation (40), where industries are classified based on the 48 industry classification scheme of Fama and French (1997). It will be 0 otherwise. The results are reported in column 1 of Table 9 and they are still consistent with the main results. I found that the coefficient of politically sensitive industries (PSI) is insignificant. It seems that firms adopt the same PSD strategies regardless of whether they are politically sensitive or not.

Additionally, the researcher aimed to investigate whether the use of the governance-only measure (i.e., the 'G' in the ESG) does not substantially change the main results. So, I replaced GOVERNANCE variable with the G component of the ESG index and reported the results in column 2 of Table 9. Again, the results are still consistent with the main analysis.

Overall, the results are robust with alternative regression clustered by firm, different proxy for PSD, controlling for political connections, endogeneity tests, and various estimation models.

Table 9. Additional robustness tests

	1	2
VARIABLES	PSI	G of ESG
INSTITUT	0.183**	0.178**
	(0.089)	(0.088)
INSIDER	-0.765***	-0.784***

	(0.267)	(0.270)
GOV	3.312**	3.450**
	(1.370)	(1.403)
FOREIGN	0.077	0.064
	(0.131)	(0.129)
ROA	-0.070	-0.055
	(0.104)	(0.103)
LEV	0.069	0.053
	(0.062)	(0.061)
ANALYST	-0.055	-0.079
	(0.156)	(0.155)
TOBINSQ	-3.173***	-3.001***
	(0.959)	(0.956)
SIZE	14.016***	12.856***
	(3.150)	(3.163)
GOVERNANCE	0.749***	0.483***
	(0.128)	(0.077)
IndustryCon	-14.977*	-14.514*
	(7.959)	(7.786)
LobbyExp	2.091***	1.977***
	(0.492)	(0.489)
PSI	-2.622	
	(4.000)	
Constant	-76.577***	-43.356**
	(17.646)	(16.907)
Overall R^2	0.354	0.354
Year Indicators	Yes	Yes
Industry Indicators	Yes	Yes
Observations	1,528	1,528

Notes: This table presents my robustness analysis regarding the influence of politically sensitive industries and the G component of the ESG. In column 2, GOVERNANCE is replaced with the G component of the ESG. The above table represents regression coefficients and standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

2.7 Analysis of Mechanisms

In this section, I explore the channels through which ownership characteristics affect PSD. I argue that the effect of ownership structure variables on PSD may change based on different

contexts and circumstances. Investigating these channels is important as owners have different preferences regarding corporate political strategies. As such, studying these mechanisms can deepen our understanding regarding ownership structure-PSD nexus. As foreign ownership does not show significant results, I suppress the estimated coefficients on foreign ownership in the next tables.

2.7.1 Issue-specific Lobbying Expenditures and Tax Avoidance

Regarding lobbying expenditures, I chose the three largest categories (Federal Budget & Appropriations, Health Issues and Taxes) based on dollars spent on lobbying activities, according to the CRP, from 2015 to 2018.[17] I then created interaction variables between ownership structure variables and certain lobbying expenditures in Table 10. Observably, the coefficient of *INSIDER*Taxes* is significant and positive at 1%, offering new evidence that the insider owners exhibit greater political transparency if they are pursing tax-lobbying activities. Since aggressive tax planning is one potential way through which corporate insiders can extract rents (Desai et al., 2007), managerial rent extraction through tax lobbying may incentivise corporate insiders to limit PSD. However, insider owners may increase PSD when they engage in tax-lobbying to convince the public that insiders are not extracting private benefits through aggressive tax planning. This appears to confirm that politicians and insiders, who insist on lobbying for certain issues, specifically tax-issues, may collude and reduce PSD to extract private benefits (Guedhami et al., 2014), but some pressures (e.g., from social activists demanding information regarding political influence on corporate tax) may force them to increase PSD. In this case, insider owners may

[17] I was unable to identify how much of annual lobbying expenses were directed toward each issue. However, CRP provides data regarding types and number of lobbied issues. So, I adopted Brown et al., (2014) methodology for calculating issue-specific lobbying expenditures by dividing number of specific issues by all other issues. I then multiplied this ratio by total amount of lobbying expenses to obtain issue-specific lobbying expenditures.

increase PSD to convince the public that they are not behaving opportunistically through tax lobbying. These findings are consistent with the idea of tax planning being a means through which insiders can divert corporate resources, which could explain why certain stakeholders demand more PSD for tax-related lobbying activities.[18] Another argument is that tax-lobbying expenditures are spent on official state entities, meaning that these expenditures are kept in public records and can hardly be disguised. Therefore, insiders may increase PSD in such cases to reduce agency costs.

In the light of my prior findings, as well as previous research suggesting that aggressive tax planning exacerbates agency costs (Bauer et al., 2020) and those indicating insider owners' tendency towards tax avoidance (Cabello et al., 2019), I investigate how tax avoidance strategies operationalize the ownership structure-PSD nexus. Following prior studies (Hoopes et al., 2012; Huseynov et al., 2017; McClure et al., 2018), I use cash Effective Tax Rate (ETR), instead of GAAP ETR, as my proxy for tax avoidance which is calculated as percentage of cash tax payments to pretax book income.[19] Lower values of cash ETR represent higher level of tax avoidance. Interestingly, I find the coefficient of *INSIDER*CASHETR* in Table 11 to be negative and significant, indicating that insider owners exhibit more PSD when they engage in tax avoidance strategies. I interpret this interesting result in the light of the following arguments. First, as the demand for PSD has intensified significantly in the latest years, it is important for insiders with incentives to reduce tax payments to increase their engagement with PSD practices as this may

[18] For example, the coefficient of *INSTITUT*Taxes* is significant and positive at 1%, suggesting that institutional investors demand more PSDs when firms pursue tax-related lobbying expenditures.

[19] Please refer to Huseynov et al. (2017) and McClure et al. (2018) for details on how cash ETR has many improvements over GAAP ETR. The study follows prior research and subtracts other special items from the pretax book income as they can introduce some volatility in my tax avoidance measure (Dyreng et al., 2008; Minnick & Noga, 2010). Following prior research, Cash ETR is winsorized at 0 and 1 (Hjelström et al., 2020). I collected the data necessary to calculate tax avoidance from Compustat.

develop a positive public perception regarding firm's ethical conduct and political transparency. This argument is in line with agency theory and with prior research that managers engaging in tax avoidance strategies tend to exhibit more ESG disclosures to create positive media reputation (Laguir et al., 2015; Lin et al., 2017). Second, given prior evidence that politically connected firms are more likely to engage in tax avoidance tactics (Kim & Zhang, 2016), and that insiders owners utilize tax avoidance to expropriate wealth from shareholders (Cabello et al., 2019; McGuire et al., 2014), insiders owners, especially entrenched managers with great share ownership, may increase PSD. They may do this as a mechanism of gaining legitimization from their political connections to facilitate their exploitation of corporate resources. I further argue that insider owners may strategically utilize the timing of claiming political transparency to conceal their tax avoidance strategies. My evidence is also in line with Sikka (2010) who argue that firms claiming social conduct practices indulge in tax avoidance and evasion. Overall, I provide evidence that insider owners exhibit more PSD if they are pursing tax-related lobbying expenses and tax avoidance.

2.7.2 Non-financial Disclosure Quality and Financial Reporting Quality

It can be argued that firm's PSD behaviour is influenced by its overall reporting strategy and the level of information asymmetry. Namely, firms with higher PSD could be firms with superior non-financial disclosure quality and financial reporting quality (DeBoskey et al., 2020). Also, prior research suggests that politically connected firms are more opaque and have lower financial reporting quality (Chaney et al., 2011). Since different owners have divergent preferences toward firm's political transparency, their orientations toward PSD can differ because of different levels of information asymmetry and overall reporting quality. For example, influential owners such as institutional and governmental owners, who already have access to corporate private and confidential information (Raimo et al., 2020b), may demand lower PSD for firms with lower levels

of information asymmetry. Therefore, I investigate how non-financial reporting quality and financial reporting quality operationalize the ownership structure-PSD nexus. The study follows prior research and uses the Bloomberg governance score as proxy for nonfinancial reporting quality (DeBoskey et al., 2020). To proxy for financial reporting quality, I follow McNichols (2002) and draw my measure for accruals quality based on the absolute value of Accruals Estimation Errors (*Abs_AEE*).[20]

Observably, the coefficient of *GOV*GOVERNANCE* in Table 12 is significantly negative, implying that governmental owners' demand for PSD is lower in firms with higher nonfinancial reporting quality. It seems that governmental owners heavily rely on governance quality in demanding PSD. This provides evidence that governmental ownership and governance quality can be substitutive, instead of complementary, in their impact on PSD. This suggests that governmental owners' monitoring over corporate political activities is weaker in firms with higher environmental, social and governance (ESG) disclosures. Additionally, governmental owners' presence may allay information asymmetry because such owners have inherent authority to acquire political information from other privileged sources, even in the obscurity of political reporting

[20] The study follows prior research and employs Accruals Estimation Errors (AEE) as a proxy for accruals quality (Owusu et al., 2020; Srinidhi et al., 2011). Accruals' quality definition was subject to many debates in the accounting literature. For example, Jones (1991) defines it as the degree to which accruals are not opportunistically used by managers. Dechow and Dichev (2002) portray it as the degree to which current year accruals are affiliated with prior, current, and next year operating cash flows. Interestingly, McNichols (2002) integrated these two methods and develops a more robust measurement for accruals quality. Accordingly, consistent with McNichols (2002), I compute my proxy for accruals quality based on AEE through the following estimation model:

$$\frac{ACC_{i,t}}{AT_{i,t-1}} = \alpha_0 + \alpha_1 \frac{OCF_{i,t-1}}{AT_{i,t-2}} + \alpha_2 \frac{OCF_{i,t}}{AT_{i,t-1}} + \alpha_3 \frac{OCF_{i,t+1}}{AT_{i,t}} + \alpha_4 \frac{\Delta SALES_{i,t}}{AT_{i,t-1}} + \alpha_5 \frac{PPE_{i,t}}{AT_{i,t-1}} + \varepsilon_{i,t}$$

where ACC is the accruals computed as the difference between income before extraordinary items and operating cash flows (OCF). AT refers to total assets. ΔSALES represents changes in sales. PPE refers to gross property, plant, and equipment. I execute the equation annually for each Fama and French's 12 industry group having at least 8 observations to get an estimation for all the coefficients in the equation. These were utilized to compute the AEE as the residuals from the equation. Consistent with Srinidhi et al. (2011), I used the absolute values of the AEE where higher AEE suggests poor accruals quality.

(Raimo et al., 2020b). So, governmental ownership, especially in firms with higher nonfinancial reporting quality, may push firms to issue less PSD.

Similarly, the coefficient of *GOV*Abs_AEE* in

Table *13* is significantly positive, implying that the positive relationship between governmental ownership and PSD is more pronounced in firms with poorer financial reporting quality. In other words, governmental owners demand lower PSD in firms with higher financial reporting quality. This finding is consistent with my earlier analysis that governmental owners demand for transparent PSD is lower in firms with greater non-financial reporting quality. Overall, the findings are consistent with the notion that demand for more PSD is higher when information asymmetry is higher (Bhattacharya et al., 2013; Brown & Hillegeist, 2007; Eliwa et al., 2019).

2.7.3 Industry Concentration

Prior evidence suggests that the level of industry concentration shapes corporate disclosure policy (Ali et al., 2014). Similarly, it is possible that industry concentration level may change owners' perceptions regarding corporate political disclosure policy as different industry concentration and competition levels may have inherent forces that can change owners' preferences for political transparency. Correspondingly, I explore whether and how industry concentration level operationalizes the interactions between ownership structure characteristics and PSD. I observe that the coefficient of *INSTITUT *IndustryCon* in Table 14 is negative and significant at 1%, implying that institutional investors demand more PSD in the case of lower industry concentration or higher industry competition. Given the recent evidence that corporate political transparency reduces firm's cost of debt (DeBoskey et al., 2020), institutional owners

may insist on increasing PSD of their investee firms when they are operating in high competition environment to ease their access to external funds. Given the difficulty of securing external capital in industries with intensive competition, institutional owners can reduce information asymmetry by pressing firms to enhance PSD to reduce investee firms' cost of debt. This finding is in line with the premises of agency theory regarding the monitoring function of institutional ownership and with prior research that institutional ownership stability reduces corporate cost of debt (Elyasiani et al., 2010).

Overall, the results of the cross-sectional analyses indicate that the relationship between ownership structure and PSD depends on contingencies or conditions that corporations face. Consistent with agency theory, they indicate that different shareholders have divergent preferences regarding political transparency. Also, the foregoing shows how critical it is to consider the channels or mechanisms that configure the interactions between different owners and PSD such as issue-specific lobbying expenditures, the degree of tax avoidance, nonfinancial and financial reporting quality and industry concentration as these mechanisms uniquely operationalize ownership-structure-PSD nexus.

Table 10. Analysis of Mechanisms – Issue Specific Lobbying Expenditures

VARIABLES	1	2	3	VARIABLES	4	5	6	VARIABLES	7	8	9
Panel A: Independent: Ownership Structure Variables											
INSTITUT	0.119	0.117	0.063	INSIDER	-0.801***	-0.853***	-1.069***	GOV	2.793*	2.793**	3.312**
	(0.095)	(0.097)	(0.099)		(0.277)	(0.275)	(0.283)		(1.460)	(1.391)	(1.553)
FedBudget	-5.036			FedBudget	6.908**			FedBudget	3.474		
	(21.673)				(2.875)				(3.793)		
INSTITUT*FedBudget	0.145			INSIDER*FedBudget	0.326			GOV*FedBudget	2.607		
	(0.253)				(0.573)				(1.901)		
HealthIssues		-0.688		HealthIssues		4.182*		HealthIssues		-2.295	

		(10.607)				(2.492)				(4.020)	
INSTITUT*HealthIssues		0.053		INSIDER*HealthIssues		0.730		GOV*HealthIssues		4.078*	
		(0.127)				(0.473)				(2.303)	
Taxes			-22.995**	Taxes			4.913***	Taxes			4.334
			(9.855)				(1.693)				(2.804)
INSTITUT*Taxes			0.331***	INSIDER*Taxes			1.056***	GOV*Taxes			-0.145
			(0.120)				(0.357)				(1.534)
Panel B: Control Variables											
ROA	-0.050	-0.055	-0.064	ROA	-0.049	-0.056	-0.057	ROA	-0.059	-0.065	-0.061
	(0.104)	(0.104)	(0.104)		(0.103)	(0.103)	(0.103)		(0.104)	(0.104)	(0.104)
LEV	0.082	0.080	0.071	LEV	0.078	0.075	0.069	LEV	0.073	0.075	0.071
	(0.062)	(0.062)	(0.062)		(0.062)	(0.062)	(0.062)		(0.062)	(0.062)	(0.062)
ANALYST	-0.051	-0.056	-0.030	ANALYST	-0.052	-0.058	-0.046	ANALYST	-0.045	-0.051	-0.036
	(0.160)	(0.160)	(0.157)		(0.160)	(0.159)	(0.158)		(0.159)	(0.158)	(0.157)
TOBINSQ	-4.094***	-4.225***	-4.152***	TOBINSQ	-3.653***	-3.757***	-3.536***	TOBINSQ	-4.000***	-4.161***	-3.962***
	(0.953)	(0.955)	(0.934)		(0.940)	(0.939)	(0.924)		(0.928)	(0.926)	(0.928)
SIZE	20.429***	21.024***	20.477***	SIZE	17.802***	18.383***	17.049***	SIZE	18.427***	19.059***	17.976***
	(2.905)	(2.889)	(2.912)		(2.949)	(2.921)	(2.916)		(2.866)	(2.834)	(2.936)
GOVERNANCE	0.823***	0.832***	0.826***	GOVERNANCE	0.791***	0.802***	0.792***	GOVERNANCE	0.799***	0.807***	0.800***
	(0.131)	(0.132)	(0.131)		(0.130)	(0.130)	(0.129)		(0.130)	(0.130)	(0.130)
IndustryCon	-13.470	-10.566	-11.906	IndustryCon	-12.729	-10.924	-11.312	IndustryCon	-11.692	-9.655	-11.410
	(8.563)	(8.587)	(8.217)		(8.276)	(8.363)	(7.934)		(8.329)	(8.502)	(8.123)
Constant	-95.753***	-98.658***	-92.413***	Constant	-70.072***	-72.805***	-67.782***	Constant	-78.769***	-81.827***	-78.600***
	(17.149)	(17.021)	(17.096)		(14.462)	(14.318)	(14.264)		(13.738)	(13.615)	(13.871)
Overall R^2	0.337	0.329	0.352	Overall R^2	0.35	0.343	0.359	Overall R^2	0.34	0.331	0.34
Year Indicators	Yes	Yes	Yes	Year Indicators	Yes	Yes	Yes	Year Indicators	Yes	Yes	Yes
Industry Indicators	Yes	Yes	Yes	Industry Indicators	Yes	Yes	Yes	Industry Indicators	Yes	Yes	Yes
Observations	1,528	1,528	1,528	Observations	1,528	1,528	1,528	Observations	1,528	1,528	1,528
Number of Serial	382	382	382	Number of Serial	382	382	382	Number of Serial	382	382	382

Notes: This table presents how issue specific lobbying expenditures operationalize ownership structure-PSD interaction. For variable definitions, see Table 3. *FedBudget*, *HealthIssues*, and *Taxes* represents issue specific lobbying expenditures for federal budget issues, health issues, and tax issues respectively following Brown et al., (2014) methodology. The above table represents regression coefficients and standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 11. Analysis of Mechanisms - Tax Avoidance

VARIABLES	1	2	3
CASHETR	-15.345	-0.612	2.716
	(23.172)	(2.537)	(6.768)
INSTITUT	0.102		
	(0.098)		
INSTITUT*CASHETR	0.147		
	(0.255)		
INSIDER		-0.484*	
		(0.294)	
INSIDER*CASHETR		-1.027*	
		(0.597)	
GOV			4.178***
			(1.569)
GOV*CASHETR			-3.861
			(4.552)
ROA	-0.036	-0.041	-0.043
	(0.103)	(0.102)	(0.103)
LEV	0.080	0.076	0.075
	(0.062)	(0.062)	(0.062)
ANALYST	-0.061	-0.060	-0.051
	(0.161)	(0.159)	(0.159)
TOBINSQ	-3.406***	-2.988***	-3.326***
	(0.982)	(0.964)	(0.956)
LOGSIZE	16.923***	14.566***	14.755***
	(3.099)	(3.113)	(3.098)
GOVERNANCE	0.843***	0.807***	0.810***
	(0.134)	(0.133)	(0.132)
IndustryCon	-15.306*	-15.538**	-14.450*
	(8.088)	(7.923)	(7.935)
LobbyExp	2.055***	1.912***	2.047***
	(0.505)	(0.493)	(0.495)
Constant	-82.904***	-59.761***	-67.880***
	(17.663)	(15.218)	(14.704)
Overall R2	0.344	0.355	0.344
Year Indicators	Yes	Yes	Yes
Industry Indicators	Yes	Yes	Yes
Observations	1,508	1,508	1,508

Notes: This table presents how tax avoidance (CASHETR) operationalizes ownership structure-PSD interaction. For variable definitions, see Table 3. The above table represents regression coefficients and standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 12. Analysis of Mechanisms - Nonfinancial Reporting Quality

Variables	1	2	3
Panel A: Independent: Ownership Structure Variables			
GOVERNANCE	1.162	0.832***	1.183***
	(1.303)	(0.124)	(0.233)
INSTITUT	0.375		
	(0.917)		
INSTITUT*GOVERNANCE	-0.004		
	(0.015)		
INSIDER		1.014	
		(1.885)	
INSIDER*GOVERNANCE		-0.029	
		(0.031)	
GOV			21.763**
			(9.596)
GOV*GOVERNANCE			-0.298*
			(0.155)
Panel B: Control Variables			
ROA	-0.046	-0.049	-0.055
	(0.103)	(0.103)	(0.098)
LEV	0.080	0.076	0.071
	(0.062)	(0.062)	(0.061)
ANALYST	-0.074	-0.085	-0.067
	(0.156)	(0.157)	(0.125)
TOBINSQ	-3.390***	-3.034***	-3.208***
	(0.980)	(0.957)	(0.908)
SIZE	16.951***	14.533***	14.354***
	(3.091)	(3.085)	(2.885)
IndustryCon	-15.486*	-15.652**	-14.314
	(8.022)	(7.906)	(8.753)
LobbyExp	2.030***	1.876***	2.068***
	(0.481)	(0.475)	(0.432)
Constant	-106.532	-60.890***	-88.521***
	(81.801)	(14.582)	(17.240)
Overall R^2	0.342	0.35	0.345
Year Indicators	Yes	Yes	Yes
Industry Indicators	Yes	Yes	Yes
Observations	1,528	1,528	1,528
Number of Serial	382	382	382

Notes: This table presents how nonfinancial reporting quality (*GOVERNANCE*) operationalizes ownership structure-PSD interaction. For variable definitions, see Table 3. The above table represents regression coefficients and standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 13. Analysis of Mechanisms - Financial Reporting Quality

VARIABLES	1	2	3
Abs_AEE	22.804	-0.217	-12.212**
	(16.673)	(2.018)	(5.694)
INSTITUT	0.204**		
	(0.091)		
INSTITUT*Abs_AEE	-0.267		
	(0.182)		
INSIDER		-0.555*	
		(0.318)	
INSIDER*Abs_AEE		-0.586	
		(0.493)	
GOV			1.608
			(1.558)
GOV*Abs_AEE			7.820**
			(3.984)
ROA	-0.079	-0.074	-0.093
	(0.102)	(0.101)	(0.101)
LEV	0.071	0.069	0.065
	(0.062)	(0.062)	(0.062)
ANALYST	-0.041	-0.037	-0.037
	(0.132)	(0.132)	(0.132)
TOBINSQ	-3.203***	-2.883***	-3.171***
	(0.941)	(0.941)	(0.938)
LOGSIZE	15.851***	13.754***	13.518***
	(3.015)	(3.043)	(3.024)
GOVERNANCE	0.912***	0.863***	0.872***
	(0.118)	(0.119)	(0.118)
IndustryCon	-14.787*	-14.603*	-14.185
	(8.743)	(8.685)	(8.750)
LobbyExp	2.014***	1.869***	2.008***
	(0.450)	(0.448)	(0.449)
Constant	-92.178***	-60.200***	-62.878***
	(16.474)	(13.710)	(13.198)
Overall R2	0.337	0.346	0.336
Year Indicators	Yes	Yes	Yes
Industry Indicators	Yes	Yes	Yes
Observations	1,417	1,417	1,417

Notes: This table presents how financial reporting quality (Abs_AEE) operationalizes ownership structure-PSD interaction. For variable definitions, see Table 3. The above table represents regression coefficients and standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 14. Analysis of Mechanisms – Industry Concentration

VARIABLES	1	2	3
Panel A: Independent: Ownership Structure Variables			
IndustryCon	94.485***	-16.594**	-17.273**
	(35.055)	(8.048)	(8.699)
INSTITUT	0.415***		
	(0.151)		
INSTITUT*IndustryCon	-1.221***		
	(0.386)		
INSIDER		-0.853**	
		(0.433)	
INSIDER*IndustryCon		0.701	
		(1.296)	
GOV			3.055*
			(1.716)
GOV*IndustryCon			2.132
			(4.234)
Panel B: Control Variables			
ROA	-0.053	-0.045	-0.056
	(0.103)	(0.103)	(0.103)
LEV	0.086	0.075	0.072
	(0.062)	(0.062)	(0.062)
ANALYST	-0.069	-0.075	-0.066
	(0.157)	(0.158)	(0.157)
TOBINSQ	-3.431***	-3.002***	-3.273***
	(0.977)	(0.952)	(0.944)
SIZE	16.548***	14.572***	14.607***
	(3.094)	(3.088)	(3.083)
GOVERNANCE	0.824***	0.783***	0.786***
	(0.129)	(0.129)	(0.129)
LobbyExp	2.054***	1.903***	2.044***
	(0.485)	(0.474)	(0.475)
Constant	-108.763***	-58.125***	-64.657***
	(20.228)	(14.844)	(14.727)
Overall R^2	0.343	0.353	0.344
Year Indicators	Yes	Yes	Yes
Industry Indicators	Yes	Yes	Yes
Observations	1,528	1,528	1,528
Number of Serial	382	382	382

Notes: This table presents how industry concentration (*IndustryCon*) operationalizes ownership structure-PSD interaction. For variable definitions, see Table 3. The above table represents regression coefficients and standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

2.8 Conclusion

Significant funds that corporations devote to political activities highlights the need for better understanding of the drivers of corporate political transparency. Using a sample from S&P 500 firms between 2015 and 2018, this essay sheds light on these drivers, advancing the literature on the ownership structure-PSD nexus. First, my findings show that ownership structures play a vital role in shaping a firm's PSD. Second, while institutional ownership has a positive association with PSD, institutional owners demand more PSD in firms operating in higher competition. Third, I provide evidence that insider ownership negatively affects PSD, but insider owners exhibit more PSD for firms that engage in tax-lobbying activities and tax avoidance tactics. Fourth, governmental owners demand more PSD, but this demand is lower in firms with higher nonfinancial and financial reporting quality. Therefore, my findings suggest that the effect of ownership structure on PSD is contingent upon mechanisms that the operationalize ownership structure-PSD nexus such as issue-specific lobbying expenditures, tax avoidance, nonfinancial and financial reporting quality and industry concentration. Put together, these contributions to the literature shed light on the determinants of PSD – an important, yet relatively unexplored, disclosure practice.

This study has several implications for regulators and policy makers. First, regulators should prevent corporate insiders from holding significant proportions of shares because large ownership worsens corporate political transparency. Second, my results show that different shareholders have

divergent or competing views regarding PSD.[21] Accordingly, companies should create more developed intervention mechanisms including specialised political committees (see: Deboskey et al., 2018a) or PSD-focused divisions to handle conflicting views. Third, it is important to consider various boundary conditions including issue-specific lobbying expenditures, tax avoidance, nonfinancial and financial reporting quality and industry concentration in order to better understand how ownership structure drives PSD. Further, the increasing PSD indicates that efforts by many stakeholders (such as the UK Parliament, US Congress and some professional institutions such as the Chartered Financial Analyst Institute) are having a positive influence at enhancing political reporting.[22] However, as PSD is voluntary in nature, the study recommends more attention to be paid to PSD quality. Namely, regulatory authorities can strengthen political reporting by informing managers to make "forward-looking" and "quantitative-oriented" political disclosures. The study also suggests using a disclosure framework that satisfies the minimum criterion of reliability and relevance. For example, adopting a PSD framework consistent with the Global Reporting Initiative (GRI) can provide companies with standards, guidelines and rules regarding PSD, increasing its comparability, consistency, understandability and readability across firms. Furthermore, given that PSD information is dispersed in many places because of separate filings requirements with different organisations, making their collection a time-consuming process, I suggest the unification of the political reporting process into a single *"political performance report".* The results will help regulators and policy makers in framing legislation and regulatory reforms to make ameliorations in both PSD and corporate governance. I acknowledge that the

[21] For example, while institutional ownership generally has a positive effect on PSD, some groups within institutional owners such as large institutional investors have a negative influence on PSD. Also, while governmental ownership has a positive influence on PSD, insider ownership has negative influence. Such competing strategic preferences may cause problematic and inefficient procedures in political investment decisions.

[22] More US firms than ever before become transparent over political spending (The Guardian, 2019).

statistical relationships presented in this essay do not necessarily imply causal relations. Since my disclosure and governance proxies may not fully represent managerial practice in totality, future research may utilise qualitative approaches such as case studies, interviews and observations. Furthermore, some aspects of ownership – whether US/foreign, family ownership or nationality of foreign shareholders – have not been considered in this essay, which could be further investigated in future research. Also, given the rapid growing attention on political issues, the study calls for more research investigating the divers of corporate political spending transparency as it becomes an inescapable priority for businesses.

3 Chapter 3

Essay 2

Corporate Governance and Corporate Political Responsibility[23]

Abstract

Given the significant amount of funds that firms put towards political activities and the increasing societal demand for political transparency, this study investigates the pivotal policy question of whether corporate governance (CG) influences firms' political spending disclosure (PSD), a growing yet hitherto less investigated disclosure practice. Using a sample of S&P 500 firms from 2011 to 2019 and drawing on a combination of agency theory and resource dependence theory, I provide evidence that corporate governance mechanisms—such as female representation on monitoring and advisory directory positions, board tenure, CEO duality, director interlock, and audit committee—influence PSD. My dual theoretical approach comprehensively recognizes the dual roles board members play in promoting corporate political responsibility: monitoring the management and providing resources. The study answers calls for more transparent political disclosure and offers regulators and policy makers insights into configuring CG for more political

[23] This essay is currently conditionally accepted in Business and Society journal.

accountability. Overall, the study reflects on the scholarly intersections between business, governance/accountability, society, and politics.

3.1 Introduction

Firms face increasing pressure to address their lack of political transparency, as many stakeholders clamor for transparent corporate political spending disclosure (PSD), especially after the US Supreme Court's 2010 decision in *Citizens United v. Federal Election Commission*, which allowed corporations to make unlimited political expenditures with no strict public disclosure requirement (Beets & Beets, 2019; Skaife & Werner, 2020). According to the Center for Responsive Politics, firms spent $3.5 billion on corporate lobbying in 2020, and this expenditure is expected to increase significantly in the future (Ali et al., 2022). Typically, stakeholders of US corporations are uninformed regarding corporate political spending, as companies are not required to disclose their political spending in reports submitted to authoritative bodies (Cohen et al., 2019; Goh et al., 2020). Given the vast amount of owners' funds spent on corporate political activity (CPA) and the growing societal demand for PSD, firms have a fiduciary responsibility to disclose this information to prove their accountability to the public (Richter, 2014). Lyon et al. (2018) argue that the well-known concept of corporate social responsibility (CSR) needs corporate political responsibility (CPR) to have real long-term sustainability.

Considering the vast corporate resources devoted to political purposes, corporate stakeholders and many other prominent entities such as the Global Reporting Initiative, the OECD, and Vigeo Eiris are demanding greater corporate political accountability; therefore, the demand for PSD is unlikely to fade away (Lyon et al., 2018). In fact, stakeholders' demand for political transparency has intensified to unprecedented levels (Baloria et al., 2019). Surprisingly, the Securities and Exchange Commission (SEC) has been facing mounting pressure from various stakeholders to

require corporations to disclose their political contributions (Cohen et al., 2019). Similarly, the heated demand for PSD has led to a surge in the number of proxy proposals for greater political transparency submitted by institutional investors, and leading institutional investors in the United States recently created corporate governance (CG) policies to motivate firms to exhibit greater PSD (Goh et al., 2020).

Although corporate political transparency can bring several benefits including reducing information asymmetry and cost of debt (DeBoskey et al., 2020; Hillman & Hitt, 1999), many companies strategically conceal their CPA using several tactics to evade customer boycotts, dodge CPA's ethical concerns, and eschew political contestation (Jia et al., 2021). Political transparency is needed, as secrecy can breed a host of troubles. Without PSD, shareholders are left in the dark about significant decisions that influence their firms' bottom line. Consequently, shareholders are cheated as they are kept uninformed about how their funds are put at risk via political actions with uncertain outcomes (Lyon et al., 2018). Worsening the situation, dark money,[24] i.e., political donations made without public disclosure (Chand, 2017; Mithani, 2019), recently skyrocketed after the *Citizens United* decision (Massoglia, 2020). Additionally, unobservable CPA represents another channel for managerial opportunism and aggravates the divergence between firms' social responsiveness and political responsiveness (Lyon et al., 2018). Because of the potentially significant influence of CPA and the fact that it is not typically transparent (Jia et al., 2021), studying PSD's drivers is important and of interest to many stakeholders across countries.

Since CG is the distribution of rights and responsibilities within corporations, which warrants proper assignment of power and resources to various corporate actors and governs the potential

[24] The term "dark money" was used by former US President Barack Obama, who described it as lack of transparency in corporate political spending (Mithani, 2019).

tensions among these actors (Aguilera et al., 2021), it is expected to increase CPR by promoting PSD. Accordingly, my aim is to investigate whether and how CG can enhance PSD, and my research question is *What is the influence of CG on the transparency of corporate political spending?* While we know that CG fosters business ethics, motivates CSR, and enhances corporate transparency (Adegbite et al., 2011; Aguilera et al., 2021; Beji et al., 2020; Jain & Jamali, 2016; Ntim & Soobaroyen, 2013; Post et al., 2011), it is puzzling that we know so little about how CG influences PSD. PSD has recently accounted for a significant proportion of board agendas, with the ultimate aim of enhancing political transparency (Scott, 2020). Since CPA not only affects corporate resources but also impacts society and the political system, CG, as a mechanism to hold management accountable and safeguard shareholders from executives' opportunism, is expected to enhance CPA's ethicality through greater transparency about corporate dark money. Indeed, Dahan et al. (2013) argue that weak CG systems allow executives to abuse CPA, which may diminish political sustainability and cause additional conflicts with shareholders.

Given that ethical behavior is associated with improved CG and that superior CG motivates corporations to pursue socially responsive practices (Adegbite, 2012b; Adegbite & Nakajima, 2011; Aguilera et al., 2021; de Villiers et al., 2011; Ntim & Soobaroyen, 2013b), there is a strong need to investigate the relationship between CG and CPA transparency. Interestingly, the Center for Political Accountability considers CG a critical mechanism in promoting PSD and political governance (CPA, 2022b, 2022a). As corporate directors access information about their companies' political spending and activities that enable them to effectively monitor and advise on CPA, a strong relationship between CG and PSD can be envisioned (Dahan et al., 2013). Studying whether CG influences PSD is important, as society has high expectations regarding CG's role in fulfilling the long-term strategic goals of owners and considering the needs of communities and

the environment. Additionally, skepticism around the intersection of politics and business has made various stakeholders extremely inquisitive about CPA (Richter, 2014). As dark money not only undermines democracy but also brings severe risks to corporations and the overall economy (Chand, 2017; Mithani, 2019; Skaife & Werner, 2020), exploring mechanisms driving PSD bodes well for the political system's future health and is of interest to several stakeholders who want to identify elements of board governance that may deserve further regulatory focus to enhance CPR.

Theoretically, corporate political donations are intrinsically characterized by severe agency and information asymmetry problems (Aggarwal et al., 2012). Thus, CG mechanisms such as boards of directors are expected to monitor CPA and reduce agency costs by enhancing PSD. Simultaneously, from the perspective of resource dependence theory (RDT), corporate directors, who are well positioned to advise the firm about recent CSR practices and current societal expectations, may insist on engaging in higher levels of CPR to achieve access to critical financial resources (Pfeffer & Salancik, 2003). Hence, my dual theoretical framework enables us to explain directors' motivation to pursue PSD. This motivation is based on 1) their monitoring incentives to reduce agency costs, prove their ethics, and address societal responsiveness, and 2) their advisory incentives to enhance their firm's reputation, achieve strategic advantage, and secure access to resources.

This study offers four contributions to the literature. First, this study is a direct response to many calls for a better understanding of PSD (Ali et al., 2022; Beets & Beets, 2019; Deboskey & Luo, 2018; Goh et al., 2020; Mithani, 2019). Second, most of the prior literature on CPA investigates CPA in the forms of political expenditure, corporate lobbying (Hadani, 2012; Hadani et al., 2016; Hadani & Coombes, 2012; Shi et al., 2021), and political strategies (Hadani et al., 2019; Ozer & Alakent, 2012; Rudy & Johnson, 2019). Departing from prior studies, I contribute

to the CPA literature by investigating how CG shapes corporate political decision-making, with a specific focus on political transparency (Mithani, 2019; Schuler et al., 2019).

Third, this study contributes to the CG literature in many ways. First, this study extends prior studies examining the contribution of women on the board with regard to corporate disclosures (Cabeza-García et al., 2018; Deboskey et al., 2018b; Elmagrhi et al., 2019; Jizi, 2017). Notably, this paper differs from these prior studies in that I examine both the monitoring and advisory roles of female directors in association with PSD. I find that both monitoring and advisory female directors enhance PSD. Second, I complement the CG literature by providing evidence that board busyness fosters corporate political transparency, which supports the reputational hypothesis of busy directors. Third, this paper relates to studies that investigate the role of Chief Executive Officer (CEO) duality and board tenure on corporate disclosure policies (Cai et al., 2014; Jizi et al., 2014; Katmon et al., 2019). This study, however, differs from prior studies in that it focuses on PSD, and it advances prior studies by providing evidence that while CEO duality enhances PSD, board tenure reduces it. Additionally, this study opens up interesting possibilities for research on the role of audit committees (ACs) in shaping CPA. As ACs serve as the watchdog for financial and non-financial reporting transparency (Beasley et al., 2009; Raimo et al., 2020a), AC directors are motivated to enhance corporate transparency about political spending by promoting PSD. Therefore, I investigate the AC's wider governance role in PSD and provide evidence that larger AC size, more frequent AC meetings, younger AC age, and higher AC educational levels enhance PSD. Additional analysis shows that PSD increases when AC members are graduates of elite universities.

Fourth, this essay empirically and theoretically extends prior research analyzing PSD. Prior research provides evidence on the drivers of PSD, including institutional ownership and corporate

lobbying (Goh et al., 2020), ownership structure (Ali et al., 2022), specialized political committees (Deboskey et al., 2018a), corporate Twitter accounts (Lei et al., 2019), and shareholder proposals (Baloria et al., 2019). This essay empirically and theoretically extends the work of Goh et al. (2020) by looking at PSD through the lens of CG and by applying a dual theoretical perspective that incorporates insights from both agency theory and RDT. The study thereby advances our understanding of the CG–PSD nexus, shows the importance of combining agency theory and RDT in investigating how corporate boards motivate PSD, and provides evidence consistent with two theories.

Section 3.2 presents the theoretical framework. Section 3.3 reviews relevant literature and develops the hypotheses followed by research methodology in section 3.4. My main and robustness analyses are in sections 3.5 and 3.6. Section 3.7 presents my discussion while section 3.8 concludes.

3.2 Dual Theoretical Framework

The study follows Hillman and Dalziel's (2003) and Villiers et al.'s (2011) dual theoretical framework. In this view, the board of directors has two roles: to monitor (an agency theory–driven role) and to increase access to resources (an RDT-driven role). According to agency theory, managers initiate and execute, whereas directors are there to monitor them (Jensen & Meckling, 1976). However, RDT argues that directors increase access to resources through their expertise in and knowledge about corporate strategies (Pfeffer & Salancik, 2003). My use of the multi-theoretical framework is a direct response to Jain and Jamali (2016), who suggest the employment of multi-theoretical lens when studying CG–CSR outcomes (see also Johnston et al. (2021)). Likewise, Mellahi et al. (2015) argue that CPA research should be conducted through a multi-theoretical lens that emanates from at least one theory related to external drivers (RDT) and one

theory related to internal drivers (agency theory). Juxtaposing agency theory and RDT, this study shows that board monitoring (agency-driven) and advisory (RDT-driven) characteristics shape corporate PSD, taking a modest step toward an integrated theoretical approach to understanding the CG–CPA relationship. While Goh et al. (2020) investigate how directors' political connections influence PSD, they do not consider how the dual roles of board members influence PSD.

My choice of the dual theoretical framework is motivated by the reasons firms and their boards of directors pursue political transparency. First, corporate boards are responsible for making strategic decisions such as identifying the firms threats/opportunities and shaping long-term strategy, monitoring and evaluating strategy execution, building external relations and bolstering their company's reputation, and advising on major decisions such as CPA (Hillman & Dalziel, 2003). Indisputably, as firms spend significant funds on CPA that can bring risky, yet rewarding, opportunities, PSD is a major topic for corporate boards to consider because shareholders will be concerned about how their money influences official elections. Indeed, a recent report by the Center for Political Accountability puts CG front and center in addressing the lack of corporate political governance (CPA, 2022b). Hence, board members may find themselves under mounting pressure to disclose details about corporate political spending (Scott, 2020). Second, corporate political spending is naturally associated with acute agency costs that threaten corporate legitimacy and credibility, and shareholders are concerned about how their money is injected into the political arena without their consent (Beets & Beets, 2019; Mithani, 2019). Thus, boards of directors attempt to monitor corporate dark money by fostering CPR and enhancing PSD to reduce agency costs and to show their ethics of transparency. Third, the Citizens United ruling in 2010, which facilitated the concealment of corporate political spending, provoked widespread outrage and intensified demands for political accountability (Lyon et al., 2018). Boards of directors can advise

their firms on how best to transform these heated demands into strategic opportunities through PSD, bring competitive and reputational advantages, enhance their relationships with stakeholders, and secure access to resources. Hence, my dual theoretical framework fully elucidates boards' behaviors regarding corporate political transparency, as boards of directors can utilize PSD to monitor their firms' managers and use of dark money (agency theory) and to tighten relationships with communities (RDT).

Interestingly, the role of CG has expanded from its conventional one of monitoring the management (agency theory) to enhancing continuous relationships with stakeholders and society (RDT) (Adegbite, 2010, 2012a; Giannarakis et al., 2019). Indeed, in addition to serving the CG monitoring function, CG has motivated firms to pursue several socially responsible practices such as CSR, ecological performance, and environmental disclosure (Aguilera et al., 2021; Jain & Jamali, 2016; Villiers et al., 2011; Yekini et al., 2021) to maintain healthy networks with stakeholders and the outside environment. Consistent with this view, numerous studies argue that the role of the board of directors is not just to monitor management (agency theory) but also to act as advisors to provide sustainable strategies and resource acquisition (RDT) (Beasley et al., 2009; Sultana et al., 2015).

3.2.1 Agency theory

Agency theory suggests the monitoring role of the board and the goal-conflict between management and shareholders, characterizing firms as having inherent information asymmetry problems (Jensen & Meckling, 1976). However, the conflicts between executives and owners can be mitigated through CG and an effective board of directors that closely monitors the firm's management (Aguilera et al., 2021). Hence, directors demand clarifications regarding executives' strategic decisions and exhibit more accountability to shareholders. Extant literature provides

evidence of the strong effect of board oversight on corporate transparency (Al-Shaer & Zaman, 2018; Beji et al., 2020; Raimo et al., 2020a), supporting the effective monitoring role of the board.

As much of the debate about owners' rights for corporate political transparency is essentially a power struggle between corporate owners and executives (Beets & Beets, 2019), I argue that vigilant boards closely monitor CPA and demand explanations for corporate political spending. Also, since the board is primarily responsible for monitoring the firm's activities, such as CPA, that have a significant impact on the organization's financial resources and reputation, the board is expected to monitor CPA transparency to reduce agency costs. While CPA plays substantial role in organization's value-creation process, politically connected companies can twist existing rules such as lower SEC enforcement actions and penalties, lower fraud detection rates, and political protection against lower earnings quality (Ali et al., 2022; Goh et al., 2020; Hillman et al., 2004; Shi et al., 2021), implying that political spending can destroy firm value and create inevitable agency problems. Relatedly, prior studies provide evidence that institutional investors and board members, as critical CG monitoring mechanisms, put firms' executives under significant pressure to exhibit higher PSD (Ali et al., 2022; Goh et al., 2020), suggesting CG's critical role in relieving shareholders' concerns about CPA. However, the board's ability to effectively monitor CPA and demand PSD must be contextualized, as evidence from the agency perspective indicates that gender-diversified boards, non-excessive board tenure, larger boards, active boards, and those with more educated directors are more likely to be associated with superior monitoring capabilities and are more willing to demand transparent disclosures because of their freshness and diversity of thinking, their tendency to challenge the management, and their high ethical standards (Chen, 2013; Elmagrhi et al., 2019; Katmon et al., 2019; Raimo et al., 2020a). Hence, I investigate how these board characteristics impact PSD.

3.2.2 Resource Dependence Theory

RDT suggests the advisory role of the board and argues that directors can bring several gains through their resource-provision role including advice and counsel, information flow channels, and better access to resources (Pfeffer & Salancik, 2003; Shirodkar & Mohr, 2015). Hence, directors are considered "resource rich" as they have more firm-specific information and operational expertise, extensive experience, and prior relationships, making them business experts, support specialists, and community influencers (Aguilera et al., 2021; Villiers et al., 2011). Therefore, a rich literature supports the advisory role of the board (Beji et al., 2020; Villiers et al., 2011; Sultana et al., 2015).

RDT can be extended to consider the role of PSD. First, RDT explains how entities use their relationships with the outside environment to reduce uncertainty (Pfeffer & Salancik, 2003). Specifically, it suggests that corporations strategically utilize some options to lessen environmental dependencies such as an effective board of directors, mergers and acquisitions, interorganizational relationships, and political actions (Hillman et al., 2009).[25] Corporations form direct relationships with officials, as they can act as potential executives, block-holders, legislators, and board members (Rudy & Johnson, 2019). Organizations are also motivated to lobby to take advantage of new legislation or lessen the impact of unfavorable policies (Shi et al., 2021).[26] With this in mind, and given the opaqueness of CPA, corporate directors may advise their firms on how to transform the vulnerability of CPA into sustainability through PSD. Given the growing awareness

[25] Hillman et al. (2009, p.1415) note that these five domains have been partitioned in research work employing RDT. Correspondingly, this study of the CG–political transparency nexus is a direct response to Hillman et al. (2009), who call for more research that integrates some dimensions of RDT. In this paper, I aim to bridge the research streams on boards of directors and political action.

[26] For example, the recent plan by US President Joe Biden to raise taxes on wealthy businesses may incentivize corporations to make political connections in order to strategically lobby to affect the proposed legislation and reduce uncertainties (Jagoda, 2021).

of the importance of political transparency in alleviating shareholders' anxieties over dark money (Goh et al., 2020), I argue that resource-rich directors, who have superior advisory capabilities due to their experience and education, are more likely to be knowledgeable about the importance of CPR and are well placed to ensure that firms pursue PSD to reduce uncertainty and to enhance legitimacy. Indeed, Hadani and Coombes (2012) provide evidence that firms engage in CPA and political philanthropy to minimize their political uncertainty. If firms make political donations, they can balance their attendant risks through transparent PSD, which can bring competitive advantage and reduce uncertainty (Shi et al., 2021). It naturally follows that one of the board's advisory duties is to address the ethicality of CPA, which is one of the political actions suggested by RDT, to lessen uncertainty and improve access to critical resources (Hillman et al., 2009).

Second, RDT emphasizes that changing demands from stakeholders and the external environment can shape a firm's corporate strategies in general and its CPA in particular (Sutton et al., 2021). Currently, shareholder proposals on PSD are among the leading proposals submitted to the SEC and are the most commented-on proposals in the SEC's history, with roughly 1.2 million comment letters (Goh et al., 2020). Similarly, there is evidence of heated shareholder activism demanding transparent PSD (Baloria et al., 2019). Relatedly, Hadani et al. (2016) demonstrate that CPA can be used as a strategy to silence shareholder activism and to secure firm legitimacy. Correspondingly, the strategic advisory function of the board would translate such external needs into more politically responsible behaviors to silence shareholder activism and provide relief to shareholders through PSD.

3.3 Literature Review and Hypothesis Development

3.3.1 Corporate Political Transparency

Corporations use several means of hiding their political spending, including organizational strategies (i.e., employing organizational intermediaries) and informational strategies (such as obfuscation and diversion) (for more details, please refer to Jia et al. (2021)). Additionally, firms can conceal their CPA through political action committees (PAC), 527 organizations, independent expenditure-only committees (super PACs), state-level spending, 501 organizations, and direct lobbying (for more details, please refer to Baloria et al. (2019)). Thus, substantial spending occurs without the public's knowledge. However, the recipients or politicians must disclose the sources of political contributions. Also, some nonprofit entities, such as the Sunlight Foundation, oversee such payments using the information that recipient entities must provide (Beets & Beets, 2019). From the corporate owners' perspective, such one-sided disclosure has many shortcomings, as political spending information can be scattered across many separate filings with many different agencies, making the collection of corporate political spending costly and time-consuming (Jia et al., 2021). Also, political spending can be channeled and concealed via financial intermediaries and thereby remains undisclosed in any public record, leaving corporate owners with significant information-asymmetry gaps (Ali et al., 2022).

Although there is an increasing demand for PSD, there are mixed results on investor reaction to political transparency. While Werner (2017) documents a positive investor reaction to PSD because of reduced information asymmetry, Prabhat and Primo (2019) show that investors respond negatively to mandatory PSD, arguing that such a requirement gives a firm's competitors an opportunity to attack the firm and create unfavorable media coverage. Similarly, Skaife and Werner (2020) argue that companies engaging in political contributions risk not only their tangible

resources but also their precious intangible assets such as brands and reputations. Relatedly, many corporations limit their PSD, as public disclosure can attract social movements, public scrutiny, reputation threats, and potential boycotts (Beets & Beets, 2019; Prabhat & Primo, 2019). The clearly discreditable characteristics of political spending induce corporate executives to strategically silence the publication of such risky information to maintain organizational prestige (Carlos & Lewis, 2017; McDonnell & King, 2018).

Notably, various giant corporations such as Facebook, Amazon, Microsoft, and Goldman exhibited greater political transparency after the violent incident at the US Capitol on January 6, 2020 (BBC, 2021). This change indicates that firms review and amend their political donations and transparency policies to deal with external environmental needs and to gain the support of shareholders (Hillman & Hitt, 1999; Sutton et al., 2021; Yoffie, 1987). It is arduous for corporations engaging in political activities to maintain a positive reputation about their political spending without making PSD. Therefore, if CPA makes firms vulnerable to high agency costs, firms' PSD can change this vulnerability to sustainability.

3.3.2 Hypothesis Development

Various financial scandals have been attributed to poor CG quality (Wang & Hussainey, 2013). To address these issues, regulators strive to execute new rules to enhance CG quality through an effective board of directors. Arguably, firm's board of directors and its composition are the focal point of governance practice that directly influences financial and non-financial reporting (Anderson et al., 2004; Soobaroyen & Mahadeo, 2012). Thus, I expect that the board monitoring function (agency theory) and the board advisory function (RDT) can strategically shape PSD.

AC can be considered the heart of CG to ensure financial and non-financial reporting transparency (Beasley et al., 2009; Mangena & Pike, 2005; Raimo et al., 2020a). Most empirical studies have focused on the AC's influence on financial reporting quality. However, given the increasing monitoring and advising responsibilities of ACs (Beasley et al., 2009; Sharma & Iselin, 2012; Sultana et al., 2015), a growing stream of research argues that the AC's role can be extended to cover other non-financial disclosures such as CSR (Appuhami & Tashakor, 2017), intellectual capital disclosures (Li et al., 2012), sustainability reporting (Al-Shaer & Zaman, 2018), integrated reporting (Raimo et al., 2020a), environmental, social, and governance reporting (Bravo & Reguera-Alvarado, 2019), and management discussion/analysis reporting (Lee & Park, 2019). Correspondingly, the role of the AC is not just to monitor the management, but also to serve as strategic advisors on matters of significant financial and strategic importance such as CPR. Indeed, Beasley et al. (2009) argue that ACs consider both agency and RDT variables when planning their duties. This study draws on two theories to argue that ACs can enhance PSD. First, according to agency theory, CPA is intrinsically associated with significant agency costs and opportunistic executive behavior. Given the substantial rise in corporate political spending, ACs can monitor spending on CPA and demand transparent PSD to reduce agency problems and to make sure that political spending is not conducted opportunistically (Ozer & Alakent, 2012; Raimo et al., 2020a). Second, RDT suggests that transparent PSD can reduce investors' concerns about corporate dark money and bring strategic advantage. Relatedly, DeBoskey et al. (2020) provide evidence that PSD is associated with better access to resources through lower cost of debt. Hence, AC directors, who are naturally concerned about CSR and access to resources (Appuhami & Tashakor, 2017; Dao et al., 2013), may strategically advise their firms to exhibit greater CPR to ensure access to resources and to convey information about strong CG and reliable corporate disclosure regarding

CPA (Lawati et al., 2021). Briefly, ACs can push firms to enhance their PSD to alleviate agency problems (agency theory), gain competitive advantage, and ensure access to resources (RDT).

I examine the impact of board structural characteristics including female monitoring and advisory directors, board tenure, CEO duality, AC size, and meetings, as well as board demographic characteristics including director busyness, AC age, and educational level on firm's PSD. Table 24 outlines how I used the dual theoretical approach in explaining my results.

3.3.2.1 Female monitoring and female advisory directors

Female directors enhance board effectiveness by increasing managerial oversight and bringing a diverse range of ideas, views, perspectives, and skillsets (Hoobler et al., 2016). Indeed, prior research shows that female board representation is associated with better firm performance (Post & Byron, 2015), stronger business and equity practices (Glass & Cook, 2018), and earnings quality (Zalata et al., 2019). Similarly, female directors are more likely to advance CSR practices because their psychological characteristics, backgrounds and experiences, and leadership styles and beliefs make them more likely to consider stakeholder interests (Cook & Glass, 2017; Galbreath, 2018; Mahadeo et al., 2012). In their significant roles in enhancing firm value and promoting positive change (Glass & Cook, 2018), female directors perform both monitoring and advisory roles on boards.

Female monitoring directors are mainly independent directors; sit on monitoring committees such as audit, compensation, nomination, and governance; and dedicate substantial time to oversight (Post & Byron, 2015; Zalata et al., 2019). Prior research provides evidence that female directors are more effective in monitoring activities. From an agency perspective, female directors improve board monitoring as they are not part of the "old-boys' club", which makes them

inherently independent directors (Zalata et al., 2019). Indeed, rigorous meta-analytic studies indicate that, compared to men, females have more stringent ethical standards, tend to report unethical behaviors and become internal whistle-blowers, and are more likely to challenge the management and demand transparent information (Pan & Sparks, 2012; Post & Byron, 2015). In this case, the stricter ethical standards of female directors are expected to translate into stronger monitoring capabilities that reduce agency costs (Post & Byron, 2015). Also, women are more likely than men to need higher credentials to advance into leadership positions because they face greater levels of public scrutiny (Cook & Glass, 2017). Consequently, female directors tend to have MBAs and doctorate degrees, which are associated with a greater commitment to ethics and transparency, including those associated with CPA. I extend these arguments and contend that female monitoring directors provide ethical behavior in CPA through PSD that minimizes agency costs and corporate political opaqueness. Given their superior monitoring ability to detect corporate threats and their broader care for stakeholders' concerns (Galbreath, 2018), female monitoring directors can transform the discreditable nature of CPA into responsibility through PSD.

Female advisory directors are mainly executive directors; sit on advisory committees such as investment, finance, risk, and strategy; provide strategic counseling to the firm's executives; and engage in decision-making on how firms compete in the marketplace (Faleye et al., 2011; Post & Byron, 2015). Drawing on RDT, Hillman et al. (2007) argue that female directors provide strategic counseling by bringing valuable resources including expertise, creativity, commitment, and diversity of thinking. Indeed, firms intentionally appoint female directors not only to benefit from their legitimacy but also to take advantage of their unique advice and counsel (Post & Byron, 2015). Arguably, female directors' communal orientation and creativity better situate them to

perform the key advisory function of providing strategic counsel and advice to senior management (Faleye et al., 2011). Consistent with RDT, female directors bring strategic resources to their boards, generate new ideas, promote responsible practices, and improve corporate transparency (Lawati et al., 2021; Turrent, 2021). For example, compared with their male counterparts, female directors are more likely to bring a set of societal interests that include philanthropy, community service, and transparency (Cook & Glass, 2017). Bringing these resources to CPA, along with their kindness, friendliness, and community orientation, female advisory directors are more likely to advance responsible practices related to political ethics, leading to greater PSD. Additionally, compared with men, female directors are more likely to serve on multiple directorships, which increases their awareness of innovative CSR practices such as CPR (Cook & Glass, 2017). In extending prior arguments and RDT, this study claims that female advisory directors may advise corporate insiders to enhance the firm's PSD because it strategically relieves shareholders' apprehensions about corporate political spending. Formally:

H_{1a}: Female monitoring directors are positively associated with PSD.

H_{1b}: Female advisory directors are positively associated with PSD.

3.3.2.2 Board tenure

There are mixed insights regarding the implications of director tenure. Consistent with the expertise hypothesis, long-tenured boards have higher experience and understanding of their firms' policies, monitoring processes, and internal capabilities (Katmon et al., 2019). Nonetheless, Chen (2013) argues that long-tenured boards are less likely to pursue innovative initiatives, as they tend to be risk-averse. Similarly, Katmon et al. (2019) argue that long-tenured directors tend to repeat the same processes, as long service on a board keeps them in their comfort zone; thus they tend to

produce the same informational content. Likewise, directors' independence deteriorates with longer tenure because long-tenured directors often form significant social ties or friendships with management, which compromises their monitoring capability and increases information asymmetry and agency problems (Sharma & Iselin, 2012). Empirically, board tenure increases the cost of debt (Anderson et al., 2004), augments the likelihood of financial misstatements (Sharma & Iselin, 2012), and reduces firm performance (Huang & Hilary, 2018).

Drawing on agency theory, I argue that longer board tenure reduces PSD because long-tenured directors have lower monitoring capabilities. Additionally, Deboskey and Luo (2018) argue that PSD is a new and emerging corporate disclosure practice. Given long-tenured directors' higher resistance to applying new and innovative decisions and their higher tendency to stay in their comfort zone (Katmon et al., 2019), they are less likely to engage in emerging practices of responsible CPA. Furthermore, given PSD's riskiness and the risk aversion of longer-tenured directors, they may avoid PSD to eschew potential threats or public scrutiny. Formally:

H_2: Board tenure is negatively associated with PSD.

3.3.2.3 CEO duality

Powerful CEOs have significant firm-specific knowledge, act expeditiously in urgent situations, and develop a powerful leadership style (Wang & Hussainey, 2013). Relatedly, prior literature demonstrates that CEO duality is associated with higher intellectual capital disclosures (Hidalgo et al., 2011), CSR reporting (Jizi et al., 2014), and voluntary disclosure in general (Donnelly & Mulcahy, 2008).

On the other hand, the independence of the board can be impaired when the CEO chairs the board (Villiers et al., 2011). According to agency theory, the concentration of power in a CEO can

minimize the board of directors' monitoring function and enable the CEO to engage in opportunistic behavior or irresponsible corporate behavior, which can inhibit CPR (Jensen & Meckling, 1976). As CEO duality implies a concentration of power in management and a reduction in the control of shareholders exercised by the board of directors, corporate decisions are more likely to benefit the managers rather than shareholders who are demanding greater political transparency (Husted & Sousa-Filho, 2019). Thus, boards with CEO duality are expected to have weaker monitoring capabilities, which results in less transparent PSD and more agency problems in the form of increased information asymmetry. Relatedly, prior literature shows that CEO duality is associated with lower ESG reporting (Husted & Sousa-Filho, 2019), forward-looking financial disclosures (Wang & Hussainey, 2013), and earnings forecasts disclosure (Lakhal, 2005). Similarly, and given the inherently unfavorable implications of publicly disclosing corporate political spending and the possible opportunistic nature of powerful CEOs, I surmise that CEO duality will reduce PSD. Formally:

H_3: CEO duality is negatively associated with PSD.

3.3.2.4 Board busyness

Although additional directorships may lead to unfavorable consequences such as director overload (Sharma & Iselin, 2012), the RDT-based argument supports the favorable implications of additional directorships (Villiers et al., 2011): Directors accumulate precious insights from their external experiences. Consistent with reputation effect of busy directors, additional directorships foster directors' advising capabilities because directors can gain additional insights and experience from serving on other boards (Elnahass et al., 2019).

I argue that companies with busier directors have greater PSD, as busier directors have experienced CPR or other forms of responsible behaviors in their service on other boards (Beji et al., 2020; Rupley et al., 2012). Busy directors are likely to gain experience in political crises and in the effects of such crises on firm reputation, stakeholders, and financial performance. Drawing on RDT, I argue that the business connections of busy directors let them obtain valuable and multi-dimensional experience (including political advising and reporting experiences) from their additional directorships, which provides them with the skills and incentives to seek corporate legitimacy from society (Lawati et al., 2021). Furthermore, in light of the significant increase in the percentage of S&P 500 firms that exhibit PSD (Ali et al., 2022), busy directors would proactively promote corporate political transparency with an eye to public perception to access public resources and enhance firm reputation.[27] Therefore, busy directors will bring light and transparency to corporate dark money and be conversant with the competitive advantage corporations may obtain from CPR. Further, given busier directors' expanded networks, they may have more political interactions than their counterparts, which makes them resource-rich political capital who care about CPR. Busier directors' reputations and expanded networks may provide benefits such as positive stock market reactions (Elnahass et al., 2019), higher performance (Trinh et al., 2020), and higher social performance (Beji et al., 2020). Formally:

H_4: Board busyness is positively associated with PSD.

3.3.2.5 Audit committee size

According to agency theory, the increased monitoring of management associated with larger ACs fosters management's accountability to exhibit transparent disclosure policies that reduce

[27] According to the Center for Political Accountability, the percentage of S&P 500 companies that exhibit PSD increased from 5% in 2004 to over 60% in 2016 (Ali et al., 2021).

agency costs. Indeed, Bédard et al. (2004) argue that larger ACs are more likely to have credible monitoring to unveil possible issues in the financial and non-financial reporting. Larger ACs promote more effective oversight and monitoring over several reporting dimensions including CSR disclosures (Appuhami & Tashakor, 2017), intellectual capital disclosures (Li et al., 2012), and integrated reporting (Raimo et al., 2020a). Hence, larger ACs can increase the monitoring capabilities of AC directors over CPA through PSD, reducing agency costs.

RDT suggests that larger ACs accumulate various experiences and perspectives to prudently counsel the board and respond to the changing needs of the outside environment (Lawati et al., 2021). Since larger boards bring more experience, more knowledge, and superior advice, they tend to include experts on specific issues such as CPA or directors who have been exposed to CPR (Villiers et al., 2011). Further, the uncertainty of the opportunities (and threats) associated with CPA could prompt corporations to seek political expertise by appointing more directors on ACs. Given various stakeholders' significant need for information on PSD, larger ACs will satisfy stakeholders' needs regarding the firm's political spending. The more directors there are on the AC, the more diversity, expertise, and accumulated knowledge there is to promote ethical behavior regarding CPA and CPR and to ensure access to critical resources. Formally:

H_{5a}: AC size is positively associated with PSD.

3.3.2.6 Audit committee meeting frequency

Since AC meetings are the heart of AC work, AC members should allow sufficient time for these meetings as full discussions are needed (Li et al., 2012). Further, AC meeting frequency signals the AC's diligence and commitment to remaining vigilant and informed. Therefore, ACs

that meet more frequently have more time to execute their monitoring and advising functions over the corporate reporting (Karamanou & Vafeas, 2005).

Most empirical evidence on the frequency of AC meetings consistently shows that frequent meetings enhance firms' transparency and responsibility (Jizi et al., 2014; Karamanou & Vafeas, 2005; Li et al., 2012; Raimo et al., 2020a). According to agency theory, more frequent AC meetings imply high-level oversight of all corporate reporting issues, including PSD. In response to the inherently opportunistic and speculative nature of CPA, AC directors may devote a considerable portion of their monitoring to corporate political spending to address issues related to political transparency. Likewise, in their role within RDT, active ACs have greater awareness of changing business needs and the complexity of CPA, and they can leverage their diverse skills, knowledge, and experience to enhance CPR. Since PSD has drawn significant attention from various stakeholders, active ACs can advise firms on how to promote CPR through PSD. Formally:

H_{5b}: AC meeting frequency is positively associated with PSD.

3.3.2.7 Audit committee age

Directors' age is a critical CG factor, as younger directors tend to provide unconventional and inspiring proposals (Adegbite, 2015; Giannarakis et al., 2019). Psychologically (Vroom & Pahl, 1971), older individuals tend to have risk-averse attitudes. Similarly, Katmon et al. (2019) argue that while older directors can be relatively reluctant and cautious with regard to risky decisions, younger directors have a positive attitude toward risk-taking. Consistent with RDT, Vroom and Pahl (1971) argue that since younger board members received their education recently, they have advanced technical knowledge, are familiar with changing business needs, are considered a rich source of innovative ideas, and are more capable of performing their advising duties diligently.

Nevertheless, older directors have superior negotiation and communication skills, more extensive networks and greater experience, and a more mature understanding of organizational behavior, which allows them to play an important role in managing risk appetite (Sultana et al., 2019).

Regarding PSD, while PSD reduces information asymmetry, it also triggers reputational risk and scrutiny (Goh et al., 2020). I argue that older AC directors can be reluctant to increase PSD because of their conservatism, which hinders the dissemination of risky information such as PSD (Prabhat & Primo, 2019). According to RDT, younger AC directors—who offer fresh perspectives, have more positive attitudes toward risky proposals, and are more familiar with recent trends in CSR such as CPR—will be more likely to transparently communicate such risky political information. Formally:

H_{5c}: AC members' age is negatively associated with PSD.

3.3.2.8 Audit committee education

Chiang and He (2010) demonstrate that board education is the most critical element in fostering firm's transparency and argue that ACs with higher educational levels are more likely to ensure trustworthy information disclosure. Moreover, CG guidelines underscore AC members' need for continuing education to handle emerging problems and knowledge gaps and implement corporate best practices. Prior research provides evidence that directors' educational level is positively associated with transparent disclosure policies and public accountability (Beji et al., 2020; Elmagrhi et al., 2019; Post et al., 2011; Reeb & Zhao, 2013).

According to agency theory, more educated directors have superior monitoring capabilities, higher ethical standards, and more rigorous oversight behaviors that enable them to monitor managers effectively (Hillman & Dalziel, 2003). Hence, highly educated AC directors can serve

as a robust CG monitoring mechanism over CPA and can reduce agency costs by demanding greater PSD. Similarly, RDT argues that board education level is associated with innovative ideas, unique solutions to problems, and awareness of recent responsible practices (Beji et al., 2020; Elmagrhi et al., 2019). Educated directors are held to higher professional standards, have superior understanding of the legal environment, and are more likely to handle politically sensitive endeavors such as PSD. Their professional status enables them to relate to diverse social networks and to have intellectual zones where corporate political affairs are discussed, which makes them more cognizant of CPR as an emerging responsibility domain. Accordingly, AC directors' education can enhance their political awareness regarding the importance of CPR and motivate them to advise their firms to exhibit PSD to gain strategic political advantage and secure access to critical resources. Formally:

H_{5d}: AC members' educational level is positively associated with PSD.

3.4 Research Methodology

3.4.1 Data and Sample

The initial sample includes all publicly traded firms in the S&P 500 index with available corporate political accountability data in the CPA-Zicklin Center from 2011 to 2019. The sample starts from 2011 as this is the first year in which the PSD index was available.[28] It ends with 2019 with the most recent data at the time of analysis. Data regarding female monitoring and advisory directors, AC age, and education were collected from BoardEx. To the extent that biographical data were incomplete on BoardEx, I conducted an exhaustive internet search and used alternative sources including LexisNexis Academic, Complete Marquis Who's Who (R) Biographies,

[28] The CPA-Zicklin Index includes data for the top 100 companies in the S&P 500 index for 2011, the top 200 companies for 2012 and 2013, the top 300 companies for 2014, and the whole S&P 500 index for 2015 and afterwards.

MarketScreener, Bloomberg personal profiles, directors' LinkedIn, Business Wire, proxy statements, and Official Board Biographies. Finally, I merged these data with financial and governance data obtained from Bloomberg. After I exclude companies with missing data, companies not covered by the CPA-Zicklin database, and outlier observations identified by DFFITS test (Belsley et al., 1980), the final sample consists of 510 firms (2246 firm-year observations.). Table 15 exhibits the number of companies within industries.

Table 15. Summary of sample by industry

Industry	Number of Companies	Number of observations
Basic Materials	15	54
Consumer Goods	63	260
Consumer Services	71	310
Financials	96	450
Health Care	58	233
Industrials	85	404
Oil & Gas	34	149
Technology	56	224
Telecommunications	3	14
Utilities	29	148
Total	510	2246

Note: This table presents the number of firms and the number of observations in each industry according to ICB (Industry Classification Benchmark).

3.4.2 Measurement of Variables

3.4.2.1 Dependent variable: Political spending disclosure

Employing the CPA-Zicklin Index (Ali et al., 2022; Baloria et al., 2019; Cohen et al., 2019; Deboskey et al., 2018b; DeBoskey et al., 2020; Goh et al., 2020), which is a distinctive dataset supplied by a joint collaboration of the Carol and Lawrence Zicklin Center for Business Ethics Research of Wharton School of University of Pennsylvania and the Center for Political Accountability, I calculated the PSD index for each firm. The index is based on 24 items that are

grouped into 3 main dimensions: disclosure, policy, and oversight. The Disclosure sub-index includes firms' disclosure of political donations to government associations, tax-exempt organizations, trade associations, political parties, or any political entity. The Policy sub-index includes firms' disclosure of their policies regarding political spending and the types of recipients the firms deem acceptable. The Oversight sub-index includes the standards of the board committees that review and approve firms' political spending, the public production of the political spending report, and the adoption of internal measures to ensure compliance with policy. Panel B of Table 16 presents all of the PSD index components and score assignments. Correspondingly, I computed the PSD variable by summing up all points awarded in the three categories of disclosure, policy, and oversight. Following prior research (Ali et al., 2022; Goh et al., 2020), I focused on the aggregate CPA-Zicklin index because each dimension includes different forms of political transparency. For example, the disclosure dimension represents the disclosure of political spending itself. Similarly, the policy dimension captures the transparency of political spending policies. Likewise, the oversight dimension proxies the transparency of the oversight mechanisms that govern political spending. Therefore, the aggregate PSD index comprehensively represents the transparency of the overall information environment of political spending. Nevertheless, I re-perform my analysis using the three dimensions individually. The results for disclosure, policy, and oversight dimensions are in columns 5, 6, and 7, respectively, of Table 19. They are generally consistent with the overall PSD index.

Table 16. Definition of Variables

Panel A: Definition of variables.

Variables	Definition	Reference
Dependent Variable		

PSD	Political Spending Disclosure Index calculated as the total of the scores of all dimensions of the CPA-Zicklin PSD index. See Panel B of Table 16 for the details of each dimension.	(DeBoskey et al., 2020; Goh et al., 2020)
DISCLOSURE	The total summed raw score of items in the disclosure dimension of the PSD index in the CPA-Zicklin data	(Ali et al., 2022)
POLICY	The total summed raw score of items in the policy dimension of the PSD index in the CPA-Zicklin data	(Goh et al., 2020)
OVERSIGHT	The total summed raw score of items in the oversight dimension of the PSD index in the CPA-Zicklin data	(DeBoskey et al., 2020)
Main Independent Variables		
F_Monitoring	Ratio of female monitoring directors to total number of monitoring directors	(Zalata et al., 2019)
F_Advisory	Ratio of female advisory directors to total number of advisory directors	(Zalata et al., 2019)
Boardtenure	Average tenure of all current directors on the company board in years	(Katmon et al., 2019)
CEODuality	CEO duality, which is a dummy variable taking the value of 1 if the board chair and the CEO are the same person, 0 otherwise	(Wang and Hussainey, 2013)
Busyboard	Percentage of non-executive directors on the firm board sitting on at least three boards of other companies	(Fich & Shivdasani, 2006)
ACsize	Total number of directors on audit committee	(Li et al., 2012)
ACmeetings	Audit committee meetings held during the year	(Appuhami & Tashakor, 2017)
ACage	Audit committee members' average age	(Dao et al., 2013)
ACedu	Audit committee members' average educational level	(Elmagrhi et al., 2019; Reeb & Zhao, 2013)
Control Variables		
Boardsize	Total number of directors	(Katmon et al., 2019)
Boardattend	Board attendance percentage	(Katmon et al., 2019)
ROA	Return on assets	(Elmagrhi et al., 2019)
Debt	Total liabilities to total assets	(Deboskey et al., 2018)
Tobinq	The market value of equity plus the book value of total liabilities, preferred stocks and minority interest divided by the book value of total assets	(Deboskey et al., 2018)
Salesgrowth	Change in sales relative to the prior year	(Goh et al., 2020)
DPS	Dividend per share	(Wang and Hussainey, 2013)
MV	Firm size measured by its market value	(Zalata et al., 2019)

Panel B: PSD Categories

	Disclosure	Max Score
1	Does the company publicly disclose corporate contributions to political candidates, parties and committees, including recipient names and amounts given?	4
2	Does the company publicly disclose payments to 527 groups, such as governors' associations and super PACs, including recipient names and amounts given?	4
3	Does the company publicly disclose independent political expenditures made in direct support of or opposition to a campaign, including recipient names and amounts given?	4
4	Does the company publicly disclose payments to trade associations that the recipient organization may use for political purposes?	6
5	Does the company publicly disclose payments to other tax-exempt organizations, such as 501(c)(4)s, that the recipient may use for political purposes?	6
6	Does the company publicly disclose a list of the amounts and recipients of payments made by trade associations or other tax-exempt organizations of which the company is either a member or donor?	2
7	Does the company publicly disclose payments made to influence the outcome of ballot measures, including recipient names and amounts given?	4
8	Does the company publicly disclose the company's senior managers (by position/title of the individuals involved) who have final authority over the company's political spending decisions?	2
9	Does the company publicly disclose an archive of each political expenditure report, including all direct and indirect contributions, for each year since the company began disclosing the information (or at least for the past five years)?	4
	Policy	
10	Does the company disclose a detailed policy governing its political expenditures from corporate funds?	6
11	Does the company have a publicly available policy permitting political contributions only through voluntary employee-funded PAC contributions?	2
12	Does the company have a publicly available policy stating that all its contributions will promote the interests of the company and will be made without regard for the private political preferences of executives?	2
13	Does the company publicly describe the types of entities considered to be proper recipients of the company's political spending?	2
14	Does the company publicly describe its public policy positions that become the basis for its spending decisions with corporate funds?	2
15	Does the company have a public policy requiring senior managers to oversee and have final authority over all the company's political spending?	2
16	Does the company have a publicly available policy that the board of directors regularly oversees the company's corporate political activity?	2
	Oversight	
17	Does the company have a specified board committee that reviews the company's policy on political expenditures?	2
18	Does the company have a specified board committee that reviews the company's political expenditures made with corporate funds?	2
19	Does the company have a specified board committee that reviews the company's payments to trade associations and other tax-exempt organizations that may be used for political purposes?	2

20	Does the company have a specified board committee that approves political expenditures from corporate funds?	2
21	Does the company have a specified board committee, composed entirely of outside directors, that oversees its political activity?	2
22	Does the company post on its website a detailed report of its political spending with corporate funds semiannually?	4
23	Does the company make available a dedicated political disclosure web page found through search or accessible within three mouse-clicks from homepage?	2
24	Does the company disclose an internal process for or an affirmative statement on ensuring compliance with its political spending policy?	2

3.4.2.2 Independent variables

3.4.2.2.1 Monitoring and advisory female directors

Board committees can typically be classified into either monitoring committees (such as audit, nomination, compensation, and governance committees) or advisory committees (such as sustainability, risk, human resources, strategy, and public affairs committees). Since directors often sit on several board committees, I follow Zalata et al. (2019) and Faleye et al. (2011) in defining a monitoring director as a person sitting on at least two of the four major monitoring committees. As mentioned by Faleye et al. (2011, p.164), the majority of directors usually sit on a maximum of two committees; therefore directors sitting on two committees are unlikely to sit on other committees. Namely, a great proportion of their work is monitoring-related. Subsequently, I identify a female director as monitoring if she serves on two or more of the four monitoring committees. Consequently, I calculate (*F_Monitoring*) as the ratio of monitoring female directors to the aggregate number of monitoring directors.[29]

A director can be defined as an advisory director if he/she does not sit on any monitoring committee, especially the AC (Hsu & Hu, 2016). Specifically, I follow Zalata et al.'s (2019) and

[29] The aggregate number of monitoring directors represents the total number of male and female directors who are eligible to be included in this group according to the definition of monitoring directors. I used the same method for the aggregate number of advisory directors.

Faleye et al.'s (2011) holistic definition and classify a female director as advisory if she does not sit on any monitoring committee. Accordingly, I calculate (*F_Advisory*) as the ratio of female advisory directors to the aggregate number of advisory directors.

3.4.2.2.2 Tenure, CEO duality, and board busyness

Board tenure is identified as the length of time directors serve on board positions (Katmon et al., 2019). Accordingly, I define (*Boardtenure*) as the average tenure, in years, of all current directors on the board. I define (*CEODuality*) as a binary variable taking the value of 1 if a single person serves as the CEO and board chair simultaneously, 0 otherwise (Wang & Hussainey, 2013). Fich and Shivdasani (2006) define a director as busy if he/she sits on three or more boards. Accordingly, the study defines (*Busyboard*) as the percentage of non-executive directors who sit on at least three boards.

3.4.2.2.3 Audit committee variables

The study defines (*ACsize*) as the number of directors who serve on the AC (Li et al., 2012). The study defines (*ACmeetings*) as the number of meetings conducted by the AC during the fiscal year (Al-Shaer & Zaman, 2018). The study defines (*ACage*) as the average age of AC members (Dao et al., 2013). In defining AC educational level, I follow prior studies in constructing education scores (Elmagrhi et al., 2019; Pérez-Cornejo et al., 2019; Reeb & Zhao, 2013) of 0, 1, 2, and 3 if a director has no university education, an undergraduate degree, a master's degree, and a PhD degree, respectively. I also consider the director's attainment of professional qualifications such as CPA, CFA, or CMA by giving each qualification a value of 1. I then add these scores for each

director-level observation in each firm in each year. Finally, I define (*ACedu*) as the average education score of AC directors.[30]

3.4.3 Empirical Equation

The study uses the following ordinary least squares (OLS) multivariate regression with robust standard errors to consider possible heteroscedasticity and serial correlation:

$$PSD_t = \beta_0 + \beta_1 F_Monitoring_t + \beta_2 F_Advisory_t + \beta_3 Boardtenure_t + \beta_4 CEODuality_t + \beta_5 Busyboard_t + \beta_6 ACsize_t + \beta_7 ACmeetings_t + \beta_8 ACage_t + \beta_9 ACedu_t + Firm_Controls_t + Year_Indicators + Industry_Indicators + \varepsilon \quad (1)$$

Panel A of Table 16 elaborates definitions and measurements. I control for firm-level characteristics that may affect *PSD*, including board size (*Boardsize*), board attendance percentage (*Boardattend*), profitability (*ROA*), debt (*Debt*), growth opportunities (*Tobinq*), dividend per share (*DPS*), firm size (*MV*), and sales growth (Appuhami & Tashakor, 2017; Goh et al., 2020; Katmon et al., 2019; Wang & Hussainey, 2013). Finally, this study controls for year and industry effects. All continuous variables are winsorized at 1st and 99th percentiles.

3.5 Analysis

3.5.1 Descriptive Statistics

Table 17 shows that the *PSD* average is 31.15 and ranges between 0 and 70, indicating a considerably weak overall level of political spending transparency (approximately 44%), although there is considerable variation across companies. Of the three PSD Index dimensions, *POLICY* has the highest score, with an average of 63% (10.1 points out of 16). *DISCLOSURE* and *OVERSIGHT* are significantly lower in score, averaging 38.7% (13.94 points out of 36) and 39.4% (7.1 points

[30] I exclude firm-year observations with missing educational data for 2 or more directors.

out of 18), respectively. These statistics suggest that the disclosure of actual political donations and the oversight of the political spending process are substantially lower than the description of political spending policies. Such a high score in *POLICY* and such low scores in *DISCLOSURE* and *OVERSIGHT* could imply a symbolic application of transparent political spending policies.

F_Monitoring and *F_Advisory* have averages of 22% and 7% respectively, implying that female directors generally serve on more monitoring committees than advisory committees. These results are comparable to those of Zalata et al. (2019), who report means of 14% and 6% for *F_Monitoring* and *F_Advisory*, respectively. The average of *Boardtenure* is 8.75 years, which is comparable to the result of Cai et al. (2014), who report an average tenure of 9 years. About 8% of directors are classified as busy directors ranging from 0% to 33%. While SOX requires a minimum of 3 AC members, the *ACsize* mean is 4.43, indicating that AC size is considerably higher than the required minimum. *ACage* has a mean of 63 and ranges from 54.3 to 74.2. *ACedu* has an average of about 3 and ranges from 1.5 to 4.44, which suggests that most AC members have a graduate degree.[31]

Table 17. Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
PSD	2,246	31.15	23.16	0	70
DISCLOSURE	2,246	13.94	12.59	0	36
POLICY	2,246	10.10	5.74	0	16
OVERSIGHT	2,246	7.10	6.28	0	18
F_Monitoring	2,246	22.72	20.58	0	100
F_Advisory	2,246	7.33	19.59	0	100
Boardtenure	2,246	8.75	3.10	1.93	19.4
CEODuality	2,246	0.53	0.50	0	1
Busyboard	2,246	7.90	8.87	0	33.33
ACsize	2,246	4.43	1.09	3	8
ACmeetings	2,246	8.69	2.72	4	18

[31] This result is consistent with those of Elmagrhi et al. (2019), who report that the educational level of female directors in China is above the undergraduate level, and Reeb and Zhao (2013), who provide evidence that 61% of board members in the US have graduate degrees.

ACage	2,246	63.65	3.72	54.33	74.2
ACedu	2,246	2.92	0.62	1.5	4.44
Boardsize	2,246	11.11	1.90	7	17
Boardattend	2,246	81.04	9.63	74.77	100
ROA	2,246	6.49	6.29	-15.75	25.13
Debt	2,246	30.19	17.53	0	83.66
Tobinq	2,246	2.19	1.28	0.94	7.88
Salesgrowth	2,246	5.44	13.23	-36.34	63.67
DPS	2,246	1.54	1.38	0	7.72
MV	2,246	8.83	17.49	0.57	169.45

Note: This table presents the descriptive statistics for all variables. For variable definitions, see Table 16.

3.5.2 Correlation Matrix

According to Table 18, *PSD* scores are positively and significantly correlated with the following variables: *F_Monitoring*, *F_Advisory*, *CEODuality*, *Busyboard*, *ACsize*, *ACmeetings*, and *ACage*. In contrast, *PSD* is negatively and significantly associated with the following variables: *Boardtenure*, *CEODuality*, and *ACage*. Generally, there are low correlations among variables. I also computed variance inflation factors (VIFs) and found that the highest VIF is 1.92, suggesting no multicollinearity concern (Gujarati, 2003).

3.5.3 Results

Table 19 reports the results on the influence of CG variables on CPR as measured by overall PSD. Columns 1, 2, and 3 report the findings of each category of independent variables, and column 4 reports the findings of all independent variables in one model. Columns 5, 6, and 7 report the findings of each part of PSD including disclosure, policy, and oversight, respectively. The results remain generally consistent.

Table 18. Pearson Correlation Matrix

	PSD	F_Monitoring	F_Advisory	Boardtenure	CEODuality	Busyboard	ACsize	ACmeetings	ACage	ACedu	Boardsize	Boardattend	ROA	Debt	Tobinq	Salesgrowth	DPS	MV
PSD	1.00																	
F_Monitoring	0.06**	1.00																
F_Advisory	0.21***	-0.04	1.00															
Boardtenure	-0.32***	-0.13***	-0.05**	1.00														
CEODuality	0.26***	-0.00	0.10***	-0.01	1.00													
Busyboard	0.18***	0.03	-0.03	-0.16***	-0.03	1.00												
ACsize	0.19***	0.01	-0.02	-0.07***	0.13***	0.06**	1.00											
ACmeetings	0.20***	-0.02	0.09***	-0.07***	0.00	0.01	-0.05*	1.00										
ACage	-0.10***	-0.05*	-0.01	0.32***	0.01	-0.07**	0.01	-0.03	1.00									
ACedu	0.08***	-0.01	-0.00	-0.00	-0.05*	0.01	0.08***	0.03	0.07***	1.00								
Boardsize	0.36***	-0.02	0.16***	-0.14***	0.09***	0.06**	0.41***	0.20***	-0.05*	0.03	1.00							
Boardattend	0.12***	0.01	0.06**	0.01	0.09***	0.06**	0.10***	-0.06**	-0.02	0.02	0.09***	1.00						
ROA	-0.06**	0.02	-0.10***	0.14***	-0.06**	0.01	-0.05*	-0.12***	-0.08***	0.04	-0.16***	-0.04	1.00					
Debt	-0.03	0.07**	-0.03	-0.03	-0.02	0.03	0.00	-0.11***	0.01	0.02	-0.04	0.04*	-0.06**	1.00				
Tobinq	-0.09***	0.00	-0.14***	0.14***	-0.07***	0.02	-0.12***	-0.12***	-0.08***	-0.05*	-0.21***	-0.06**	0.67***	0.04	1.00			
Salesgrowth	-0.20***	-0.02	-0.02	0.05*	-0.07**	-0.02	-0.12***	0.01	0.01	-0.06**	-0.08***	-0.08***	0.14***	-0.09***	0.13***	1.00		
DPS	0.20***	-0.02	0.07***	-0.01	0.19***	0.04*	0.12***	-0.04	0.05*	0.05*	0.16***	0.15***	0.02	0.15***	-0.06**	-0.10***	1.00	
MV	0.37***	-0.03	0.15***	-0.11***	0.15***	0.07***	0.04	0.33***	0.03	-0.03	0.25***	0.05*	-0.12***	-0.10***	-0.12***	-0.01	0.10***	1.00

Note: This table presents the correlation matrix for all variables. For variable definitions, see Table 16. * p<0.1, ** p<0.05, *** p<0.01.

Table 19. Main Regression Results

	1	2	3	4	5	6	7
VARIABLES	PSD	PSD	PSD	PSD	DISC	POLICY	OVERSIGHT
F_Monitoring	0.089***			0.052***	0.031***	0.009**	0.012***
	(0.019)			(0.017)	(0.010)	(0.004)	(0.005)
F_Advisory	0.112***			0.102***	0.053***	0.017***	0.031***
	(0.020)			(0.018)	(0.011)	(0.004)	(0.005)
Boardtenure		-1.633***		-1.438***	-0.742***	-0.341***	-0.356***
		(0.116)		(0.124)	(0.069)	(0.035)	(0.034)
CEODuality		7.180***		6.966***	3.297***	1.851***	1.818***
		(0.798)		(0.790)	(0.444)	(0.207)	(0.221)
Board3pct		0.215***		0.225***	0.112***	0.051***	0.062***
		(0.044)		(0.044)	(0.025)	(0.011)	(0.012)
ACsize			1.372***	1.010***	0.562***	0.234**	0.214**
			(0.396)	(0.372)	(0.205)	(0.102)	(0.105)
ACmeetings			0.867***	0.856***	0.515***	0.234***	0.107**
			(0.164)	(0.153)	(0.086)	(0.042)	(0.042)
ACage			-0.665***	-0.199*	-0.069	-0.055*	-0.075**
			(0.098)	(0.103)	(0.055)	(0.029)	(0.030)
ACedu			3.216***	3.235***	1.863***	0.652***	0.721***
			(0.648)	(0.598)	(0.336)	(0.157)	(0.170)
Boardsize	2.868***	2.619***	2.350***	2.090***	0.923***	0.531***	0.636***
	(0.223)	(0.206)	(0.234)	(0.224)	(0.126)	(0.060)	(0.062)
Boardattendpct	0.095**	0.110***	0.103***	0.092**	0.039*	0.029***	0.024**
	(0.040)	(0.038)	(0.040)	(0.037)	(0.022)	(0.010)	(0.010)
ROA	0.094	0.163*	0.038	0.114	0.029	0.034	0.052**
	(0.087)	(0.086)	(0.087)	(0.085)	(0.048)	(0.022)	(0.023)
Debttoasset	-0.085***	-0.084***	-0.083***	-0.081***	-0.061***	-0.003	-0.016***
	(0.023)	(0.022)	(0.022)	(0.022)	(0.012)	(0.006)	(0.006)
Tobinq	0.159	0.195	0.216	0.691*	0.640***	-0.021	0.073
	(0.424)	(0.409)	(0.417)	(0.402)	(0.220)	(0.108)	(0.111)
Salesgrowth	-0.267***	-0.259***	-0.252***	-0.237***	-0.119***	-0.054***	-0.063***
	(0.027)	(0.027)	(0.027)	(0.027)	(0.015)	(0.008)	(0.007)
DPS	2.553***	2.097***	2.755***	2.150***	1.162***	0.419***	0.568***
	(0.286)	(0.273)	(0.293)	(0.271)	(0.157)	(0.070)	(0.076)
MV	0.440***	0.379***	0.431***	0.355***	0.200***	0.063***	0.092***
	(0.034)	(0.029)	(0.032)	(0.028)	(0.014)	(0.006)	(0.009)
Constant	-5.356	4.587	21.455**	0.400	-3.698	3.669*	0.428
	(4.511)	(4.306)	(8.377)	(8.175)	(4.536)	(2.184)	(2.315)
Observations	2,246	2,246	2,246	2,246	2,246	2,246	2,246
R-squared	0.367	0.426	0.382	0.451	0.401	0.398	0.428

Note: This table presents my main results on the influence of *CG* on *PSD*. For variable definitions, see Table 16. In columns 5, 6, and 7, the dependent variables are *DISCLOSURE*, *POLICY*, and *OVERSIGHT*. *** p<0.01, ** p<0.05, * p<0.1.

Column 1 of Table 19 shows that the coefficients of *F_Monitoring* and *F_Advisory* are positive and significant (p<0.01), supporting H_{1a}.and H_{1b}. Column 2 of Table 19 shows that *Boardtenure* is negatively associated with PSD (p<0.01), which supports H_2. The results in column 2 of Table 19 provide evidence that CEO duality enhances firms' PSD (p<0.01). These results are inconsistent with my prior expectations in H_3. The coefficient of *Busyboard* is statistically significant and positive (p<0.01), supporting H_4. Regarding AC variables, column 3 of Table 19 suggests that a firm's PSD is influenced significantly by *ACsize*, *ACmeetings*, *ACage*, and *ACedu*, all at the p<0.01 level, supporting H_{5a}, H_{5b}, H_{5c}, and H_{5d}. Overall, the results suggest that CG plays a significant role in shaping CPR.

3.6 Additional and Robustness Analysis

3.6.1 Different Proxies

I test the influence of the presence of female monitoring and advisory directors on PSD. Specifically, *F_Monitoring* will equal 1 if the company has at least 1 female monitoring director, 0 otherwise. Likewise, *F_Advisory* will equal 1 if the company has at least 1 female advisory director, 0 otherwise. The findings in column 1 of Table 20 are consistent with the main analysis.

Table 20. Additional Analysis - Different proxies for independent variables

VARIABLES	1	2	3	4
F_Monitoring	2.887***			
	(0.861)			
F_Advisory	5.547***			
	(1.133)			
Boardtenure		-1.173***	-1.641***	
		(0.195)	(0.120)	
CEODuality		7.329***	7.072***	
		(0.826)	(0.805)	
Board3pct		0.268***	1.236***	
		(0.045)	(0.416)	
ACsize				0.744*
				(0.419)
ACmeetings				0.895***
				(0.163)
ACage				-0.631***
				(0.099)
ACedu				2.612***
				(0.664)
Boardsize	2.815***	3.561***	2.627***	2.318***
	(0.226)	(0.235)	(0.209)	(0.232)
Boardattendpct	0.109***	0.082**	0.124***	0.113***
	(0.041)	(0.039)	(0.038)	(0.040)
ROA	0.082	0.155*	0.163*	0.044
	(0.088)	(0.088)	(0.087)	(0.087)
Debttoasset	-0.085***	-0.081***	-0.085***	-0.080***
	(0.023)	(0.022)	(0.022)	(0.022)
Tobinq	0.195	-0.088	0.249	0.150
	(0.428)	(0.423)	(0.414)	(0.418)
Salesgrowth	-0.272***	-0.263***	-0.267***	-0.250***
	(0.027)	(0.027)	(0.027)	(0.027)
DPS	2.590***	2.170***	2.250***	2.736***
	(0.289)	(0.286)	(0.274)	(0.291)
MV	0.433***	0.403***	0.382***	0.423***
	(0.034)	(0.030)	(0.029)	(0.031)
Num_THE				1.596***
				(0.371)
Constant	-6.447	-8.086*	0.758	20.913**
	(4.569)	(4.334)	(4.609)	(8.435)
Observations	2,246	2,246	2,213	2,246

R-squared	0.362	0.393	0.423	0.387

Note: This table presents the results of robustness tests using different proxies for the independent variables. For variable definitions, see Table 16. *** p<0.01, ** p<0.05, * p<0.1.

I set *Boardtenure* to equal the percentage of board members who have been serving for 5 years or more. I argue that the higher this percentage, the greater the board tenure and the less PSD. The results in column 2 of Table 20 confirm my main results: Long-tenured members are less politically transparent (Hidalgo et al., 2011).

Following Villiers et al. (2011), I measure *Busyboard* by using the average number of directorships (i.e., the mean of board seats held by board members). The results, presented in column 3 of Table 20, remain similar.

Social studies suggest that people who graduate from elite universities rise to higher levels of public hierarchies, indicating that board members with such educational backgrounds obtain direct and indirect connections with the elite class (Reeb & Zhao, 2013). Accordingly, AC directors who attended elite educational institutions have stronger ties with the upper level of social classes and thereby have significant influence on AC outcomes. Utilizing (www.timeshighereducation.com), I include the number of AC board members who graduated from the top 10 elite universities as an additional education variable (Num_THE). In column 4 of Table 20, I document a significant positive association, providing original evidence that an elite university education benefits society by enhancing firms' PSD. I argue that AC directors who graduate from elite institutions have greater monitoring capabilities and more political awareness and are more likely to respond to stakeholders' demand for greater political transparency. While prior literature provides evidence on the importance of board of directors educational level to promote better accountability and

responsibility practices (Beji et al., 2020; Chiang & He, 2010; Gadenne et al., 2009; Katmon et al., 2019; Post et al., 2011; Reeb & Zhao, 2013), I argue that education for elite universities can promote even more transparency and accountability practices.

Table 21. Additional Analysis - Significant Political Events

	1	2
VARIABLES	Election	Tax
F_Monitoring	0.052***	0.052***
	(0.017)	(0.017)
F_Advisory	0.102***	0.102***
	(0.018)	(0.018)
Boardtenure	-1.438***	-1.438***
	(0.124)	(0.124)
CEODuality	6.966***	6.966***
	(0.790)	(0.790)
Board3pct	0.225***	0.225***
	(0.044)	(0.044)
ACsize	1.010***	1.010***
	(0.372)	(0.372)
ACmeetings	0.856***	0.856***
	(0.153)	(0.153)
ACage	-0.199*	-0.199*
	(0.103)	(0.103)
ACedu	3.235***	3.235***
	(0.598)	(0.598)
Boardsize	2.090***	2.090***
	(0.224)	(0.224)
Boardattendpct	0.092**	0.092**
	(0.037)	(0.037)
ROA	0.114	0.114
	(0.085)	(0.085)
Debttoasset	-0.081***	-0.081***
	(0.022)	(0.022)
Tobinq	0.691*	0.691*
	(0.402)	(0.402)
Salesgrowth	-0.237***	-0.237***
	(0.027)	(0.027)
DPS	2.150***	2.150***

	(0.271)	(0.271)
MV	0.355***	0.355***
	(0.028)	(0.028)
election_year	-2.701*	
	(1.628)	
jobs_year		-2.165
		(1.641)
Constant	0.400	0.400
	(8.175)	(8.175)
Observations	2,246	2,246
R-squared	0.451	0.451

Note: This table presents the results of robustness tests that control for significant political events. For variable definitions, see Table 16. *** p<0.01, ** p<0.05, * p<0.1.

3.6.2 Significant Political Events

I argue that the level of firms' political transparency changes depending on significant political events. For example, some corporations may increase their PSD in an election year due to increased media attention. Therefore, I include the election year of 2016, which equals 1 if the year is 2016, 0 otherwise. Likewise, given the enactment of the Tax Cuts and Jobs Act in 2017, I include a binary variable, which equals 1 if the year is 2017, 0 otherwise. These findings are reported in columns 1 and 2 of Table 21, respectively. The results remain unchanged.

3.6.3 Corporate Political Activity

As the firm's political transparency can be affected by its political involvement, I include two measures of a firm's political participation. First, I include lobbying expenditures (*Lobby*), which I manually collected from the Center for Responsive Politics (OpenSecrets.org). Second, I include a firm's political connections (*PoliticalC*), which equals 1 if board members have political connections, 0 otherwise. Using BoardEx data, I recognize board members who have a past or current relationship with the Republican or Democratic party or who have been members of

Congress, the Senate, the White House staff, party-affiliated associations, or a campaign organization (Goh et al., 2020). The results, reported in column 1 of Table 22, are unchanged. Further, high-lobbying firms may exhibit higher PSD than low lobbying-firms. Given prior evidence that firms that lobby the most are the least transparent about their political spending (Schepers & Gardberg, 2011), I repeat the prior analysis by focusing only on high-lobbying firms, i.e., those whose lobbying expenditures are greater than the sample mean. The results, reported in column 2 of Table 22, are unchanged.[32]

Table 22. Additional Analysis - Corporate Political Activity

VARIABLES	1	2
F_Monitoring	0.050***	0.044**
	(0.017)	(0.020)
F_Advisory	0.103***	0.080***
	(0.018)	(0.023)
Boardtenure	-1.302***	-0.958***
	(0.122)	(0.135)
CEODuality	5.799***	4.211***
	(0.776)	(0.869)
Board3pct	0.184***	0.194***
	(0.043)	(0.051)
ACsize	0.818**	0.761*
	(0.363)	(0.440)
ACmeetings	0.842***	0.713***
	(0.151)	(0.167)
ACage	-0.245**	-0.194*
	(0.102)	(0.106)
ACedu	2.692***	1.946***

[32] As a robustness check, I included the ownership variables of the first empirical essay (institutional, insider, and governmental) as control variables in my second empirical essay. This action reduced the second empirical essay's sample size from 2246 observations to 1,304 observations. Then, I run the regression analysis. The results regarding my first and second empirically essays were mainly the same. The only exception is regarding the institutional ownership which in this case did not yield significant positive association with PSD. One possible explanation for that is the fact that institutional investors' demand for more PSD will be lower in superior governance structures. It seems that the existence of the superior governance structures identified in paper 2 (female monitoring and advisory directors, directors interlock, CEO duality, non-excessive board tenure, and finally audit committees) alleviates institutional investors' concerns for PSD. In other words, it seems that CG variables identified in the second empirical essay could substitute institutional investors as a governance mechanism.

	(0.590)	(0.677)
Boardsize	1.627***	1.329***
	(0.221)	(0.272)
Boardattendpct	0.070*	0.056
	(0.037)	(0.045)
ROA	0.083	0.068
	(0.083)	(0.096)
Debttoasset	-0.069***	-0.024
	(0.022)	(0.024)
Tobinq	1.009**	0.614
	(0.393)	(0.435)
Salesgrowth	-0.229***	-0.228***
	(0.027)	(0.030)
DPS	1.490***	1.451***
	(0.272)	(0.335)
MV	0.280***	0.812***
	(0.024)	(0.096)
Lobby	0.114***	0.707***
	(0.013)	(0.093)
PoliticalC	4.296***	1.768*
	(0.819)	(0.912)
Constant	7.098	7.273
	(8.060)	(9.040)
Observations	2,246	1,583
R-squared	0.478	0.430

Note: This table presents the results of robustness tests that control for corporate political activity. For variable definitions, see Table 16. *** p<0.01, ** p<0.05, * p<0.1.

Table 23. Additional Analysis - Endogeneity Tests using GMM and 2SLS

	1	2	3	4	5	6	7
VARIABLES							
laggedpsd	0.366***	0.339***	0.826***	0.374***			
	(0.0137)	(0.0478)	(0.0189)	(0.0237)			
F_Monitoring	0.0252**			0.0496**	0.113***		
	(0.0116)			(0.0201)	(0.028)		
F_Advisory	0.139***			0.161***	0.136*		
	(0.0185)			(0.0477)	(0.081)		
Boardtenure		-1.064***		-3.731***		-1.816***	
		(0.218)		(0.493)		(0.135)	

CEODuality		7.382**		12.22***			
		(3.248)		(2.709)			
Board3pct		0.469***		0.262***		0.250***	
		(0.158)		(0.0648)		(0.046)	
ACsize			0.383**	2.130***			0.989**
			(0.162)	(0.697)			(0.431)
ACmeetings			0.642***	1.165***			0.545***
			(0.159)	(0.308)			(0.168)
ACage			-0.505***	-0.911***			-0.614***
			(0.142)	(0.284)			(0.114)
ACedu			1.902***	3.491***			2.753***
			(0.494)	(0.847)			(0.684)
Boardsize	0.970***	1.989***	0.449***	0.479	2.970***	2.740***	2.646***
	(0.174)	(0.575)	(0.134)	(0.380)	(0.247)	(0.224)	(0.256)
Boardattendpct	0.660***	0.778***	-0.0207	0.0825	0.136***	0.157***	0.148***
	(0.0538)	(0.189)	(0.0422)	(0.0776)	(0.044)	(0.042)	(0.0441)
ROA	0.00866	0.109	0.0396	0.0912	0.053	0.128	0.00386
	(0.0371)	(0.0967)	(0.0282)	(0.0794)	(0.091)	(0.087)	(0.0911)
Debttoasset	-0.405***	-0.0298	-0.0112	-0.278***	-0.043*	-0.052**	-0.0312
	(0.0340)	(0.0500)	(0.0128)	(0.0672)	(0.025)	(0.024)	(0.0245)
Tobinq	0.518***	0.439	-0.343**	1.748***	0.698	0.608	0.600
	(0.179)	(0.545)	(0.143)	(0.425)	(0.464)	(0.431)	(0.450)
Salesgrowth	-0.149***	-0.111***	-0.0560***	-0.125***	-0.281***	-0.272***	-0.270***
	(0.00885)	(0.0342)	(0.00883)	(0.0211)	(0.032)	(0.031)	(0.0322)
DPS	0.0577	0.541	-0.278	1.843**	1.795***	1.883***	1.949***
	(0.284)	(1.065)	(0.175)	(0.787)	(0.319)	(0.303)	(0.316)
MV	0.429***	0.360***	0.0762***	0.464***	0.370***	0.351***	0.371***
	(0.0411)	(0.107)	(0.0248)	(0.124)	(0.027)	(0.024)	(0.0261)
Constant	-36.76***	-65.97***	28.90***	56.93***	-21.488***	-3.157	6.525
	(4.056)	(17.62)	(10.72)	(18.26)	(4.545)	(4.476)	(9.058)
AR(1) p value	0.000	0.000	0.000	0.000			
AR(2) p value	0.606	0.162	0.614	0.883			
Hansen p value	0.000	0.000	0.016	0.000			
Sargan p value	0.133	0.064	0.373	0.183	0.392	0.724	0.977
Basmann p value					0.393	0.724	0.977
Observations	1,938	1,938	1,938	1,938	2,236	2,246	2,246
R-squared					0.274	0.329	0.277

Note: This table presents the results of robustness tests for endogeneity. I use GMM in columns 1, 2, 3, and 4. I use 2SLS in columns 5, 6, and 7. For variable definitions, see Table 16. *** p<0.01, ** p<0.05, * p<0.1.

3.6.4 Endogeneity

The study follows Elamer et al. (2020) and employs a dynamic two-step generalized method of moments (GMM) estimator to control for unobserved heterogeneity, simultaneity, and potential endogeneity problems. The results, reported in columns 1 to 4 of Table 23, remain unchanged, suggesting that my results are robust to different endogeneity problems. All model specifications (AR1, AR2, and Hansen/Sargan tests) assert the model's validity, the absence of second-order serial-correlation, and the instruments' validity.

I also perform two-stage least squares regression (2SLS) to consider possible endogeneities (Nguyen & Soobaroyen, 2019). Regarding *F_Monitoring* and *F_Advisory*, I use three instrumental variables. First, I use the percentage of female directors on the board in each industry. Since the appointment of female directors can be significantly influenced by the nature of the industry (Zalata et al., 2019), I conjecture that the appointment of female directors to monitoring roles or advisory roles depends on the female cluster in each industry. Second, I use the percentage of male monitoring directors. I argue that the appointment of male directors to monitoring roles affects the probability that the firm will appoint female directors to monitoring and advisory roles. Third, I use female chairperson as a dummy variable that takes the value of 1 if the firm's chairman is female, 0 otherwise, based on the argument that if the firm's chairman is female, this may increase the likelihood that the firm will appoint female directors to the board. I use the lagged values of *Boardtenure* and *Busyboard* as instrumental variables. Their lagged values are expected to influence their current-year values and are not expected to be correlated with current-year PSD (Husted & Sousa-Filho, 2019). Similarly, I employ the lagged values of *ACsize*, *ACmeetings*, *ACage*, and *ACedu* as instruments. The results in columns 5, 6, and 7 of Table 23 support the main analysis. Sargan and Basmann statistics confirm the instruments' validity.

3.7 Discussion

Recent research highlights the importance of CPR in reducing agency problems and achieving strategic advantage (DeBoskey et al., 2020; Lyon et al., 2018). Given the unprecedented rise of corporate dark money, I investigate whether CG influences PSD. Agency theory suggests that the board performs its monitoring role by monitoring CPA through PSD. RDT suggests that the board performs its advisory role to secure access to critical resources by promoting PSD. This study extends agency theory–driven predictions that the monitoring role of the board emanates from female monitoring directors, non-excessive board tenure, larger AC size, more frequent AC meetings, and higher AC education, all of which enhance PSD. The study also extends RDT-driven predictions that the advisory role of the board emanates from female advisory directors, CEO duality, additional directorships, larger AC size, more frequent AC meetings, younger AC age, and higher AC education, all of which promote PSD.

First, female monitoring directors significantly enhance PSD. This finding is in line with prior studies showing that female directors enhance the board's monitoring capabilities and enhance CSR (Beji et al., 2020; Zalata et al., 2019). This result is also in line with agency theory, which asserts that gender-diversified boards improve board monitoring effectiveness and increase managers' accountability. I extend agency theory and provide evidence that the strict ethical standards of female monitoring directors reduce agency costs by enhancing CPR. Next, I provide evidence that female advisory directors significantly enhance PSD. According to RDT, female advisory directors show superior characteristics such as morality, diligence, and stakeholder-orientation, which makes them inherently more effective advisors to their businesses (Turrent, 2021). In this case, I argue that female advisory directors respond to societal needs by exhibiting better CPR. These results supplement prior studies' findings regarding female advisory directors'

positive impact on firms' operating effectiveness and earnings persistence (Hsu & Hu, 2016). Given the superiority of female directors in providing strategic counseling (Hillman et al., 2007), this study extends this insight to CPA and argues that appointing female directors to key advisory roles enhances the sustainability of CPA through more PSD.

Second, board tenure is negatively associated with PSD. This result is in line with the previously documented unfavorable implications of long board tenure (Huang & Hilary, 2018; Sharma & Iselin, 2012). This result is consistent with agency theory in that long-tenured directors are less effective in monitoring and controlling managers in new important strategic areas such as CPR. Further, long-tenured directors are more rigid and have more stringent commitment to established practices, which makes them reluctant to embrace risky new endeavors; therefore, they may not promote PSD. I extend agency theory and argue that the entrenchment effect of long-tenured directors makes them concerned about their careers and perhaps their pension benefits. Given the attendant unfavorable consequences of CPA in general and PSD in particular (Prabhat & Primo, 2019), long-tenured directors may prefer their current stability over corporate political transparency.

Third, CEO duality is positively associated with PSD. While this result is inconsistent with my expectation in H_3, it supports the findings of several studies documenting the positive association between CEO duality and corporate transparency (Donnelly & Mulcahy, 2008; Hidalgo et al., 2011; Jizi et al., 2014). For S&P 500 firms, it seems that when the same individual serves as both CEO and chairman, he/she favors ethical CPA through PSD. My result is consistent with prior studies showing that CEO duality fosters PAC contributions (Subrahmanyam et al., 2020) and CPA (Johnson, 2019). Using RDT, Pfeffer and Salancik (2003) argue that role duality fosters more flexible and dynamic leadership that facilitates organizational effectiveness and

awareness of outside environment needs. Also, the resource-provision function of the board (including the CEO who is also the chair) encompasses a variety of activities such as providing expertise, linking the firm to important stakeholders, providing legitimacy, and bolstering the firm's public image (Hillman & Dalziel, 2003). Considering the serious activism of shareholders demanding greater political transparency (Mithani, 2019), dominant CEOs, who are better able to advise their firms with strategic political advice because of their firm-specific political knowledge, are more likely to fulfill such demands through PSD, ensuring their continuous access to resources, legitimacy, and reputation. Overall, this study extends RDT arguments and claims that increased CEO power through CEO duality may provide CEOs with opportunities to better advise their companies to exhibit CPR.

Fourth, board busyness enhances PSD, lending empirical support to the reputation hypothesis of busy boards (Elnahass et al., 2019; Sharma et al., 2020; Trinh et al., 2020). The study argues that busy directors respond to stakeholders' increased interest in enhancing corporate political accountability by increasing PSD. My results complement those of prior studies (Beji et al., 2020; Villiers et al., 2011) demonstrating that busy directors enhance environmental responsibility, human performance, and business ethics. In this respect, I contend that busier directors show that they care about CPR by exhibiting PSD. Extending RDT, I argue that board interlock allows directors to accumulate various political experiences from other firms and experience new forms of corporate responsibility, which enables them to provide strategic advice to their firms on recent responsible behaviors including CPR. The richer experiences of busy directors and their diverse interactions with several socially responsible companies can promote CPR and inspire the board to seriously consider illuminating corporate dark money.

Fifth, I provide evidence on the positive influence of AC size on PSD. This finding is consistent with agency theory, which asserts that monitoring by larger ACs enhances the veracity of PSD and reduces information asymmetry. Theoretically, enhanced managerial monitoring associated with larger ACs has a positive effect on corporate disclosures and financial reporting quality and can reduce agency costs (Beasley et al., 2009; Jensen & Meckling, 1976; Li et al., 2012). I argue that companies with larger ACs are more effective in performing their supervision and monitoring responsibilities; hence, firms' political accountability and transparency improve. Likewise, RDT suggests that larger ACs imply greater diversity of directors, richness of knowledge and expertise, and openness to new responsible endeavors. Building on that, larger ACs are more capable of advising senior management on "new" responsible behaviors such as CPR. Thus, larger ACs can signal their responsiveness to stakeholders who demand increased PSD, which helps firms to obtain better access to politicians and financial resources; in this way, larger ACs help the board fulfill its resource-provision role (DeBoskey et al., 2020).

Sixth, AC meeting frequency is positively associated with PSD. This lends empirical support to prior studies showing that AC meeting frequency is associated with higher financial reporting quality and transparency (Jizi et al., 2014; Li et al., 2012; Raimo et al., 2020a). Consistent with agency theory, active ACs are more likely to hold managers accountable for corporate political spending and reduce political opportunism. Given the serious demands to shed some light on corporate dark money, active ACs may enhance the decency of CPA by increasing PSD. Through their enhanced monitoring function, active ACs can detect discrepancies, improve political monitoring, and ensure the objectivity of non-financial reporting through greater PSD. This result also supports RDT, which suggests that board members devote their time, expertise, and efforts to create opportunities for long-term sustainability by responding to changing stakeholder needs and

the external environment. Thus, active ACs will fulfill such needs by fostering CPR and political transparency. By providing expertise, advice, and vigilance, active ACs can act as crucial resources for achieving political advantage through PSD.

Next, AC age is negatively associated with PSD. This result is consistent with Post et al. (2011), who evidence that board age negatively affects CSR disclosures and contributes to the limited literature on AC age (Dao et al., 2013; Sultana et al., 2019). According to RDT, younger directors bring different outlooks and experiences that provide boards with new perspectives on competing in the fast-changing business environment; this makes younger directors judicious corporate advisors. I extend this argument by suggesting that the enthusiasm of younger AC directors enables them not only to foster CPA transparency but also to support corporate reforms aimed at enhancing CPR. Indeed, younger AC directors are more active, dynamic, and open in terms of making significant changes to their firms' business strategies if necessary, which makes them important resources for promoting new responsible business behaviors such as CPR. Advancing RDT, I claim that in addition to fulfilling their main duties of maintaining financial reporting quality, younger AC directors will be concerned with other important issues such as PSD in order to foster continuous relationships with the external environment. Also, since PSD can be classified as a risky type of information that brings higher public scrutiny and potential threats (Goh et al., 2020), younger AC directors' tendency to embrace risky and new proposals would enable them to enhance their firms' PSD.

Finally, AC educational level is positively associated with PSD. These results are consistent with prior studies showing that board education level enhances firms' disclosure quality (Elmagrhi et al., 2019; Reeb & Zhao, 2013) and with Pérez-Cornejo et al. (2019), who argue that AC education enhances firms' risk-management strategies and reputation. This finding contributes to

the literature in many ways. It contributes to CPA literature by outlining a mechanism through which regulators can enhance CPA transparency. It contributes to the very limited literature on AC members' education level, arguing that more educated AC members are more likely to meet and respond to stakeholders demands. Given the unprecedented demands for greater political transparency and monitoring, more educated AC members tend to respond to such demands by exhibiting greater political accountability, and thereby increase the firm's PSD. Consistent with agency theory, more educated AC members exhibit greater monitoring and oversight power over corporate political accountability, given the unprecedented demands for greater monitoring of CPA. Likewise, the study advances the RDT framework by arguing that more educated directors exploit opportunities, explore new trends, exhibit different decision-making processes, and are more sensitive to the ethical demands of stakeholders, which makes them influential advisors to their boards (Beji et al., 2020). Since CPA reporting is a new reporting trend that promotes potential corporate opportunities and relieves stakeholders' concerns about corporate dark money (Skaife & Werner, 2020), more educated AC directors are more likely to extend their CSR efforts for CPR as a new dimension of responsibility. In this case, more educated AC members can show their commitment to the external environment and access external resources by increasing PSD.

Table 24. Theories Employed

Variables	Effect on PSD	Theories employed in discussion
H_{1a}: Female monitoring directors	Positive	Agency theory
H_{1b}: Female advisory directors	Positive	RDT
H_2: Board tenure	Negative	Agency theory
H_3: CEO duality	Positive	RDT
H_4: Board busyness	Positive	RDT
H_{5a}: AC size	Positive	Agency theory and RDT
H_{5b}: AC meeting	Positive	Agency theory and RDT
H_{5c}: AC age	Negative	RDT
H_{5d}: AC education	Positive	Agency theory and RDT

3.8 Limitations, Implications, and Conclusion

My evidence has some limitations that suggest avenues for future scholarship. First, researchers can extend this work by investigating the optimal gender balance for board effectiveness. Second, researchers can extend this work by investigating how diversity of age, tenure, and education influence corporate political decision-making. Other CG factors could also be investigated, such as directors' renumeration and evaluation (Sobhan & Adegbite, 2021). Moreover, what these firms gain by becoming more politically transparent remains an open research question. Finally, future researchers can obtain interesting insights regarding CPR by conducting in-depth interviews with politicians, directors, and regulators.

The results highlight the need to amalgamate agency theory and RDT to better explain the dual role of the board of directors in relation to PSD. The decision to use the dual theoretical approach was inspired by the fact that the typical duties of board members require them to monitor the management and provide resources to assist the management in formulating its strategies. Utilizing agency theory, this study provides evidence on how the monitoring role of the board enhances PSD through female monitoring directors, non-excessive board tenure, larger AC size, more frequent AC meetings, and higher AC education level. Simultaneously, utilizing RDT, this study provides evidence on how the advisory role of the board fosters PSD through female advisory directors, CEO duality, additional directorships, larger AC size, more frequent AC meetings, younger AC age, and higher AC education level. Hence, unlike a single theory, my comprehensive approach recognizes the diverse and dual roles that board members play in promoting CPR. As CPA is inherently associated with agency problems, the monitoring function of the board can minimize agency costs by promoting PSD, and the advisory function of the board

can provide competitive advantage by promoting PSD. The dual roles of the board can thereby transform the firm's CPA vulnerability into sustainability through PSD.

This study has important implications for policy makers, business leaders, politicians, and investors. First, the results indicate the important role of female directors in enhancing ethical CPA. Second, my findings support the call for limits on excessive board tenure because of its unfavorable implications for PSD. Third, I show that board busyness offers economic benefits to societies by enhancing firms' political transparency, which contributes greatly to our understanding of the implications of director interlocks. Fourth, contrary to the prevalent argument that the AC's role is limited to financial reporting oversight, the paper's findings demonstrate that the AC's role extends to PSD. This finding is in line with prior studies that call for increasing ACs' responsibilities. Finally, the results suggest that firms should appoint AC members with certain characteristics to promote CPR. Current AC-related codes do not generally address the importance of AC age and education; rather, they generally focus on AC independence, composition, and financial expertise. The study suggests that governance regulators develop regulations regarding AC age and education to enhance CPR.

In conclusion, because of the rapidly growing attention to political issues, CPR has become an inescapable priority for businesses and societies. Moreover, the Supreme Court's decision in *Citizens United* to remove limits on corporate campaign donations has triggered heated debates over the governance challenges of enhancing PSD. Using the CPA-Zicklin index to create measures of corporate political transparency, the study provides several interesting findings. Both monitoring and advisory female directors have a positive effect on PSD. Additionally, the results suggest that PSD is higher in firms with busier boards and CEO duality, and lower in firms with longer-tenured boards. Further, the study provides evidence that larger AC size, more frequent AC

meetings, younger AC age, and higher AC educational level enhance PSD. Additional analysis suggests that the elite education of AC members is positively associated with PSD. The results illustrate the importance of combining agency theory and RDT in understanding how the dual board roles shape PSD and shed light on which governance attributes that can fulfill various stakeholders' significant demands for PSD, which discloses sensitive yet value-relevant information for society. Taken together, my research setting and the diversity of my governance proxies enable us to reflect on the contextual embeddedness of the scholarly intersections between businesses, governance/accountability, society, and politics.

4 Chapter 4

Essay 3

Politics of Corporate Political Responsibility: A Triangular Perspective

Abstract

Our understanding of factors shaping corporate political transparency is limited. Since politics inherently implies risk, strategy, and spending, I endeavor to investigate how political risks, political strategy, and institutional blockholders' political spending influence corporate political spending disclosure (PSD). Using a panel dataset from S&P 500 companies between 2011 and 2019, I show that firms with higher levels of political risks exhibit higher levels of PSD. I also show that the intensity of corporate political strategy and the utilization of revolving door lobbyists are positively associated with PSD. Additionally, I provide evidence that blockholders' political spending is negatively associated with PSD and such negative association is less pronounced in firms with robust governance structures. Finally, firms led by Republican institutional blockholders exhibit less transparent PSD. The key results are supported by a raft of robustness checks including different proxies, two-way clustered standard errors, different estimation models,

and different types of endogeneity problems. Overall, the study contributes to a better understanding of the complex effects of political metrics on political transparency and helps us to theorize the political drivers of corporate political responsibility. As such, this essay contributes to the rapidly expanding literature on CSR reporting by shedding light on one of the most heated, yet neglected, CSR metrics which is corporate political responsibility.

4.1 Introduction

Corporate social responsibility (CSR) is hardly a new concept, but corporate political responsibility (CPR) is still fledgling and growing. CPR can be defined as the extent to which corporations are transparent about their political spending activities (Lyon et al., 2018). Despite the fact that corporate political affairs have a severe impact on environmental quality and corporate reputation, they are mainly neglected in most sustainability metrics (Goh et al., 2020; Mithani, 2019).[33] Lyon et al. (2018) argue that it is time for these sustainability metrics to be developed to critically evaluate firms' sustainability through the lens of their political transparency. To enable such evaluation, firms must become as transparent about their CPR as their CSR. Shockingly, in their analysis of a sample of U.S. firms over 2006–2012, Michelon et al. (2020) provide evidence that transparent corporate political donations are the most frequent transparency requests, with 95 out of the 365 proposals presented in year 2012, suggesting that CSR reporting should respond to such heated requests and need CPR to achieve real sustainability.

There are many factors that can impact the supply and demand for corporate political spending disclosure (PSD). In fact, recent empirical literature provides evidence on factors that demand more PSD, and thereby push firms to supply PSD, such as corporate lobbying political connections

[33] Woefully, there is evidence that some firms utilize their sustainability metrics and initiatives as a disguise to cover their political activities (Whitehouse, 2016).

(Goh et al., 2020), ownership structure (Ali et al., 2022), shareholder activism (Baloria et al., 2019), corporate presence on social media (Lei et al., 2019), CEO political ideologies (Cohen et al., 2019), female gender diversity (Deboskey et al., 2018b), and specialized board committees (Deboskey et al., 2018a). Additionally, recent studies provide evidence that firms voluntarily supply of PSD is driven by their desire to achieve lower cost of debt and lower cost of equity (Adrian et al., 2022; Almaghrabi & Tsalavoutas, 2022; DeBoskey et al., 2020). Most importantly, it could be argued that the political climate the firm is operating in could influence the supply and demand of PSD. For example, it could be argued that firms operating in environments characterized by high political risks my exhibit more PSD to alleviate investors' concerns regarding those risks. Similarly, it could be argued that firms employing a lot of lobbyists and revolving door politicians maybe be under significant pressure to exhibit more ethical lobbying behaviour through transparent PSD. In a similar vein, given the recent evidence that CEO political ideology drives PSD (Cohen et al., 2019), it could be expected that institutional blockholders' political spending and ideology can drive their demands for more PSD. These arguments show the importance of investigating the potential influence of the political environments that firms are operating in on corporate PSD demand and supply decisions. However, despite the increasing demand for PSD over the past decade and the inevitable potential effect of the political climate the firm is operating in on PSD, to my knowledge, no archival evidence exists regarding the political factors affecting PSD decisions.

Indeed, corporations spend significant levels of shareholders' funds on political activities and lobbying. Specifically, according to the Center for Responsive Politics (CRP), corporate lobbying expenses increased from $1.5 billion in 1998 to over $3.5 billion in 2020, and this figure is expected to rise further in the coming years. The most important question now is: Are shareholders

informed about such spending? Unfortunately, the answer is no (Spelliscy, 2021). This is because public companies in the US are not required to disclose their political spending despite the significant pressure the SEC has been under to mandate the dissemination of corporate political spending (Ali et al., 2022; Beets & Beets, 2019), necessitating more research on the drivers of PSD. PSD has attracted significant and continuous attention from academics, campaign sponsors, policymakers, and regulators. In this study, I argue that the word "politics" involves many terminologies such as uncertainty, strategy, and spending. Starting from this perspective, the study endeavors to investigate how political uncertainty, political strategy, and blockholders' political spending shape corporate political transparency. The study measures firm-level political risk using political risk index developed by Hassan et al. (2019) through political-risk related statements in corporate quarterly earnings conference calls. Corporate political strategy is captured based on Hillman & Hitt's (1999) distinction between two approaches of Corporate Political Activity (CPA): relational (which is based on the employment of in-house lobbyists) and transactional (which is based on the employment of external professional lobbyists). In addition, blockholders' political spending is based on data collected from the Federal Election Commission (FEC). Using a novel dataset provided by CPA-Zicklin as my primary measure for PSD and a panel dataset from S&P 500 companies in the US between 2011 and 2019, I provide the following results. I demonstrate that firms with heightened political threats exhibit higher levels of PSD. Additionally, I show that the intensity of corporate political strategy and the utilization of revolving door lobbyists are positively associated with PSD. Next, I show that blockholders' political donations are negatively associated with corporate PSD and this negative association is less pronounced in firms with robust governance structures. Finally, firms led by Republican institutional blockholders exhibit lower levels of PSD. These results are important as shareholders continuously clamor for greater

corporate political transparency especially after the Supreme Court's decision in Citizens United which allowed corporations to make unlimited political expenditures with no strict disclosure requirements for the public.

The decision to focus on political transparency, political risk, political strategy, and blockholders' political spending is motivated by the following reasons. First, societies in general, regardless of political preferences, assent that giant corporations have a severe corrupting influence on the political system. According to a New York Times article, the public largely considers corporate political donations as a bribe undermining the credibility of corporations and politicians (Sorkin, 2021). This skepticism around the intersection of politics and corporations made various stakeholders and the society in general fundamentally inquisitive about corporate political spending and corporate dark money.[34] As such, my study of drivers of PSD is of interest to all corporate stakeholders.

Second, as political risks are major concerns for owners and managers of publicly traded US firms, firms usually devote significant portions of their quarterly earnings conference calls to converse about the political risks facing their companies (Hassan et al., 2019). In fact, political risks can result in fewer investment decisions (Gulen & Ion, 2016; Jens, 2017), less efficient mergers and acquisitions (Bonaime et al., 2018; Nguyen & Phan, 2017), higher cost of debt (Kaviani et al., 2020; Pástor & Veronesi, 2013), depressing initial public offerings (Çolak et al., 2017), and deteriorating external finance environment (Pan et al., 2019). To mitigate political risks, balance the attendant risks of political donations, and achieve political advantage, firms should actively make transparent PSD to transform the vulnerability of political activity into long-term

[34] Dark money, which is the political donations made without public disclosure (Chand, 2017; Mithani, 2019; Skaife & Werner, 2020), skyrocketed in recent years due to the rule of Citizens United (Massoglia, 2020). The term of dark money was mentioned by many US presidents (Mithani, 2019).

sustainability (Baloria et al., 2019; Lyon et al., 2018; Shi et al., 2021). As such, investigating how political risks are translated into PSD is pivotal policy question.[35] Nevertheless, prior research on political risk has concentrated mainly on events such as presidential elections and political stability at the country or aggregate level (Baker et al., 2016; Compton et al., 2017; Dai & Ngo, 2021; Ghoul et al., 2021; Nagar et al., 2019). Due to the availability of only country-level political uncertainty proxies and the lack of quantification of firm-level political uncertainty, existing research has utilized country-level proxies for political risks to investigate its influence on corporate behavior. However, ironically, Hassan et al. (2019) developed a unique and novel measure to assess political risks at firm level for the first time in the literature based on text analysis of the discussions in the conference calls between the attendees and corporate management that relate to uncertainties associated with political issues. Their measure made it possible for researchers to investigate the influence of firm-level political risk on corporate behaviors such as accounting quality (Ghoul et al., 2021), inventory management (Darby et al., 2020), and debt maturity (Pan et al., 2019). However, our knowledge of the effects of political risks on CPR is very limited.

Third, and interestingly, Rudy & Johnson (2019) argue that corporate political strategy is as important as its motivation for engaging in political activities. When firms engage in lobbying to attain access to policy makers, they use different forms of political strategies including relational and transactional strategies (Hillman & Hitt, 1999; Ozer & Alakent, 2012). However, whether such political strategies influence corporate PSD is still unclear. This is important as there are

[35] Indeed, given the increasing political risks which firms are usually facing, the SEC was under heated pressure to mandate firms to publicly disclose their PSD. More specifically, shareholder proposals on PSD are among the most sent proposals to SEC and are the most commented proposals in SEC's history, with 1.2 million comment letters (Baloria et al., 2019). Likewise, the political environment ranked second in a recent survey of board of directors on the most significant corporate strategic challenges and risks (Shi, Gao, et al., 2021).

several calls from the society for more ethical and responsible corporate lobbying (Barron & Skountridaki, 2020). In this case, corporate owners will be interested in understanding which type of corporate political strategy (relational and transactional) is associated with more ethical behavior in the form of transparent PSD. While prior studies focused on corporate political strategies' determinants (Ozer & Alakent, 2012; Rudy & Johnson, 2019), the implications of different corporate political strategies on corporate behavior in general and on corporate political transparency in particular is largely unexplored (Arifin et al., 2020). This is important as corporations have different corporate political tactics to attain access to politicians and policymakers. Regarding political connections, while prior research emphasized the role played by corporate political connections in shaping corporate financial reporting in general (Chaney et al., 2011; Hung et al., 2018; Preuss & Königsgruber, 2021) and political reporting in particular (Goh et al., 2020), the influence of different forms of corporate political connections on corporate political transparency has received very limited attention (Preuss & Königsgruber, 2021).[36] Relatedly, while Goh et al. (2020) provide evidence that corporate lobbying and political connections are positively associated with PSD, we still do not know how different political strategies behind corporate lobbying shape corporate political reporting. Indeed, Ridge et al. (2016) argue that focusing only on aggregate lobbying expenditures overlooks how these expenses are targeted and call for more research on investigating how in-house and outside lobbyists affect

[36] Observably, prior research relies on the binary variables of political connections at executive or director level (i.e., 1 if one of the directors is politically connected and 0 otherwise). However, such binary nature does not capture the intensity of corporate political connections nor reflect different forms that corporations can use to secure their political connections. As Qian & Chen (2021) note, it is not only the existence of political connections that matters, as the intensity and strategies of such political connections can also have a major impact. Relating to this, Preuss & Königsgruber (2021) call for more research investigating how different forms of corporate political strategies affect corporate reporting.

corporate behavior. Hence, I respond to Ridge et al.'s (2016) call and investigate how different political strategies (relational and transactional) shape corporate political transparency.

Fourth, the annual political spending of institutional investors averaged $40 million between 2012 and 2016, and such spending is expected to significantly increase in the future (Kim et al., 2020). Such political spending is expected to reflect institutional investors preferences on their investee-firms PSD. Indeed, Kim et al. (2020) provide evidence that Republican-oriented institutional shareholders are less likely to issue environmental disclosures. Given the prior evidence on the dark side of institutional blockholders' in limiting transparent disclosure practices (Ali et al., 2022; Ge et al., 2021), investigating whether institutional investors' political spending and political ideology can shape corporate PSD is critical from the regulatory and monitoring perspectives.

This study makes several contributions as follows. First, it contributes to the recent and emerging literature on corporate political responsibility. Despite receiving significant attention from many stakeholders, corporate political transparency has been largely unexplored in academic literature (Mithani, 2019). The reason for receiving limited scholarly interest is the difficulty of accurately measuring corporate political transparency. However, with the availability of CPA-Zicklin Index data, studies investigating this issue started to flourish (DeBoskey et al., 2020; Goh et al., 2020). While these studies investigated several drivers of corporate political transparency such as corporate lobbying political connections (Goh et al., 2020), ownership structure (Ali et al., 2022), shareholder activism (Baloria et al., 2019), and corporate presence on social media (Lei et al., 2019), I differ from these studies by investigating how political risk, intensity of political strategy, and blockholders' political spending influence corporate political reporting, contributing to a better understanding of the complex effects of political metrics on CPR.

Second, this study contributes to the literature that discusses the implications of political uncertainties. Political actions and risks have a major influence on corporate behaviors and are considered topics of controversial debate among many corporate stakeholders. Correspondingly, I attempt to address this void by empirically investigating the influence of political uncertainty on PSD. I evidence that political risks are positively associated with the level of PSD and argue that companies exhibit transparent political reporting to reduce information asymmetries and agency costs arising from their exposure to political risks.

Third, my study contributes to the literature on corporate political strategy and connections. I provide evidence that the intensity of relational and transactional approaches toward CPA is positively related with PSD, indicating that firms employing the relational and transactional CPAs could enhance their CPA legitimacy and reduce agency costs through exhibiting CPR. Additionally, I investigate whether revolving doors, lobbyists with previous official government experience are related to corporate political ethics. Surprisingly, more than 50% of lobbyists employed by corporations are revolving doors whose political relations, expertise, and insights are highly valued by their firms, colleagues, and policymakers in the lobbying industry. These unique attributes of revolving doors make it interesting to examine whether firms' appointment of revolving doors is translated in its PSD. Additionally, my analysis of the implications of the revolving doors phenomenon on corporate PSD is a direct response to McCrain (2018) who called for more investigation into how revolving door lobbyists affect corporate policies given their powerful nature. I provide evidence that the appointment of revolving doors in both in-house and outside lobbyists is positively associated with PSD, indicating the ethical implications of revolving doors on CPR.

Fourth, I contribute to studies on blockholders' dark side in shaping corporate behaviors (Heflin & Shaw, 2000; Jiang et al., 2020; Rubin, 2007; Shohfi & White, 2020; Smaili et al., 2021; Sun et al., 2015).[37] Specifically, this study relates to two strands of literature in financial economics and management research. The first strand investigates the impact of political spending and donations on corporate policies. Prior literature finds that corporate lobbying impacts several firms' outcomes (Unsal et al., 2016). Namely, while we know the implications of political donations and lobbying expenditures of firms themselves and CEOs on firms' behaviors, the effects of blockholders' political spending are under-investigated. I provide evidence that blockholders' political spending is negatively associated with their investee-firms' PSD and argue that blockholders who are politically connected through their political donations insist on limiting PSD to maintain their investee-firms' stability and survival and to facilitate their rent extraction (Sun et al., 2015). This negative association is less pronounced in firms with robust governance structures. The second strand investigates the role of political ideologies in shaping corporate strategies. Prior research suggests that CEO political ideology can shape corporate outcomes such as firm performance (Unsal et al., 2016) and political disclosure (Cohen et al., 2019). However, recently, a stream of research has investigated the influence of institutional investors' political ideologies on firm strategy. For example, Kim et al. (2020) provide evidence that corporations led by Republican-oriented institutional investors exhibit lower environmental disclosure. Likewise, Li et al. (2020) demonstrate that firms led by Republican-oriented institutional blockholders exhibit greater tax avoidance. Motivated by their results and the argument that Republicans tend to be more risk-averse (Hutton et al., 2014), I investigate the association between institutional

[37] Observably, the literature started to look at how specific dimensions of institutional investors such as institutional investors' stability (Ali et al., 2021) and blockholders political ideologies (Kim et al., 2020; Li et al., 2020) affect their investee-firms' reporting and transparency practices. Extending these unique streams of literature, I investigate the implications of institutional blockholders' political spending on CPR.

blockholders' political ideology and PSD. I provide evidence that firms led by Republican-oriented institutional blockholders are associated with lower political transparency, suggesting that institutional blockholders' political values and origins are important determinants of corporate political transparency.

Overall, I bring together many interesting streams of literature on political risk, strategy, and blockholders' political spending and test their influences on corporate political transparency. Also, this study responds to several calls in the literature regarding investigating the interactions between several political attributes and corporate political transparency (Barron & Skountridaki, 2020; Beets & Beets, 2019; Goh et al., 2020; Jia et al., 2021; Mithani, 2019; Ridge et al., 2016), contributing to a better understanding of CPR. **Fig. 1** theorizes on how the different political factors in this study shape PSD. The remainder of the paper proceeds as follows. In section 4.2, I present my theoretical framework. In section 4.3, I review prior research and develop the hypotheses. The data and methodology are presented in section 4.4. Empirical results are presented in sections 4.5, 4.6, and 4.7. Section 4.8 concludes.

4.2 Theoretical framework

Theoretical foundations on voluntary disclosure in general and PSD in particular originate from agency theory and legitimacy theory. Agency theory assumes the following (a) goal-conflict between principals and agents; (b) self-interest in each party; (c) the existence of information asymmetry; and (d) bounded rationality of decision makers (Eisenhardt, 1989). According to agency theory, agency problems and costs can be greater if the gap of information asymmetry is large between companies' managers and shareholders. (Fama & Jensen, 1983). Such agency costs are especially applicable in the case of political risks because of the following grounds. First, as political risks are major concerns for owners and managers of publicly traded US firms, firms

usually devote significant portions of their quarterly earnings conference calls to converse about the political risks facing their companies (Ghoul et al., 2021). Second, political risks are among the most dangerous risks that could destroy firm's legitimacy, trust, and image (Hassan et al., 2019).

Hence, it naturally follows that firms will utilize their PSD to reduce the agency costs and concerns regarding CPA which is inherently characterized by severe agency problems. Also, agency theory indicates that firms can utilize different sources of information to decrease information asymmetry. In this case, companies may decide to voluntary exhibit PSD to decrease the differences between shareholders expectations and company's performance and to convince external users that managers are acting according to shareholders' interests (Watson et al., 2002). Agency theory could also be relevant to corporate political strategy. If a firm utilized lobbyists, whether internal or external, to facilitate their influence on political decision-making, such firms will be naturally under severe public scrutiny. This is because corporate lobbying is typically associated with severe agency problems and may imply ethical concerns (Unsal et al., 2016). Indeed, Cao et al. (2018) provide evidence that corporate lobbying is negatively associated with corporate performance. Hence, agency costs may dominate the strategic benefits of lobbying activities. As a sequence, and to relieve investors' concerns regarding corporate dark money, firms could use PSD to convince the public that they are not conducting CPA opportunistically.

Additionally, agency theory emphasizes that different owners have divergent preferences regarding firms' policies (Oh et al., 2011). This is especially true for institutional blockholders whose significant ownership of corporate shares and access to private information could diverge their interest from other shareholders. Indeed, a growing stream of literature documents some dark sides of institutional blockholders (Ajinkya et al., 2005; Ali et al., 2022; Jiang et al., 2020; Ntim

et al., 2013; Raimo et al., 2020b; Shohfi & White, 2020; Smaili et al., 2021; Sun et al., 2015). In this paper, the study focuses on institutional blockholders political spending and provides evidence that institutional blockholders who are politically connected through their political spending worsens, advancing agency theory on the dark sides of institutional blockholders from the political reporting angel.

Legitimacy theory suggests corporations must provide CSR information as part of its dialogue with the society to show its social responsibility (Gray et al., 1995; Lanis & Richardson, 2013). Extending legitimacy theory, this paper advocates claim that to discharge its CPR, corporations must provide PSD information as part of its debate with communities. Even if a firm is compliant with social expectations, its legitimacy may be destroyed if it fails to provide disclosures that convincingly exhibit compliance. As such, and given the mix between politics and businesses and that fact that CPA became an inescapable priority for businesses and societies (Richter, 2014), firms need to exhibit more CPR to enhance their legitimacy and the legitimacy of their CPA in the same time.

The size of such effects of political uncertainties, and the question of which aspects of political decision-making might be most disruptive to business, are the subject of intense debates among economists, business leaders, and politicians (Darby et al., 2020). Hence, corporations may use the PSD as a legitimizing and certification strategy to maintain their prestige and to convince the public that they are effectively managing their political risks (Carlos & Lewis, 2017; McDonnell & King, 2018). Also, according to legitimacy theory, the legitimacy of corporate political strategy rests on at least some minimal level of trust between businesses and investors. Such legitimacy will likely be eroded if firms frequently are found to support public policies that contradict investors' expectations (Favotto & Kollman, 2021). Since individual lobbyists understand this and

appreciate the ethical dimensions of the lobbying industry (Barron & Skountridaki, 2020), they would want to enhance their legitimacy by insisting on the firms they are lobbying for to exhibit transparent PSD. Eventually, PSD would maintain the legitimacy of CPA and individual lobbyists.

4.3 Literature review and hypothesis development

4.3.1 Corporate Political Responsibility

Lately, CPR has attracted substantial attention. Public companies do spend vast sums of money on politics, enabling them to have a significant influence on the political process (Goh et al., 2020). In 2017, the aggregate profits of S&P 1500 companies (in the US) were $1.2 trillion (Cohen et al., 2019). Devoting a very tiny part of these profits to political activities can have a serious impact. For example, devoting only 0.1% of these profits can generate $1.2 billion of corporate political spending.

Arguably, corporations are not required to disclose such spending, making many stakeholders inherently interested in factors driving political transparency (Beets & Beets, 2019). Indeed, DeBoskey et al. (2020) argue that corporate lenders incorporate borrowers' PSD in their decisions and evidence that firms exhibiting greater PSD have lower cost of debt, showing that corporate political transparency is valued by many stakeholders. Given the red flags associated with lack of political transparency, the well known concept of CSR needs further CPR to be really sustainable (Lyon et al., 2018). Corporations are increasingly diversifying their non-financial reporting practices, including CSR reporting. However, CPR is one of the most under-researched topics in CSR literature. Lyon et al. (2018) argue that it is now the time of CSR reporting to include CPR reporting, suggesting that CPR will be one of the most significant contemporary topics in reporting literature. Given the direct influence of corporations on politics, the literature has emerged to cover corporate responsibility toward politics using the concept of CPR. Hence, corporate leaders can

do an extremely important job by exhibiting their intention to be transparent about their CPA and by responding to the new norms of responsibility. Arguably, failure to do so deprives corporate owners of their inherent rights to know how their funds are being politically invested and strips them from their democratic rights. Therefore, this paper argues that corporate political accountability and responsibility will become the most recent trends and most important elements in the accountability and responsibility literatures in the coming years. More specifically, if CSR refers to do something "good" to the society, CSR can be extended to include CPR by doing some "political ethics" to the society and exhibiting more corporate political accountability through transparent PSD.

Nevertheless, a firm's political disclosure can give their competitors an option to criticize the firm and generate potential negative media coverage (Prabhat & Primo, 2019). In fact, corporate disclosure of political spending can be an unsafe decision that risks corporate reputation and legitimacy (Minefee et al., 2021; Prabhat & Primo, 2019). Therefore, many firms prefer not to disclose their political spending despite the significant pressure on them to publicize it.

There are several ways in which firms can hide their CPA. Please refer to Jia et al. (2021) for possible strategies of CPA concealment. However, I argue that firms' continuous concealment of political spending can destroy their prominence and legitimacy because of the heated demands from the public and stakeholders who are inquisitive regarding PSD. Consequently, the percentage of S&P 500 companies that are disclosing their PSD increased over time (Ali et al., 2022). Indeed, exhibiting ethical behaviors toward CPA became an integral part of corporate CSR practices in general and CPR in particular.

Despite the prominence of PSD, there is an emerging, yet limited, body of literature investigating PSD's drivers including political connections, corporate lobbying (Goh et al., 2020),

ownership structure (Ali et al., 2022), gender diversity (Deboskey et al., 2018b), shareholder activism (Baloria et al., 2019), corporate presence on social media (Lei et al., 2019), specialized political committees (Deboskey et al., 2018a), and CEOs' political preference (Cohen et al., 2019). I contribute to prior studies by examining how political uncertainties, political strategies, and blockholders' political spending affect PSD.

4.3.2 Political risk

Since political uncertainty mitigates the predictability of future economic events, companies consider these risks in their decision-making process (Wellman, 2017). In fact, environments with severe political crisis or uncertainties can shape corporate strategic decision policies and firm performance (Mangena et al., 2012). From a business perspective, such predictability resulting from political uncertainties would raise significant concerns of making any business decision before that uncertainty is resolved (Bird et al., 2017). Recent research in economics literature demonstrated that political uncertainty has substantial effects on economic outputs (Baker et al., 2016).[38] On a firm-level scale, political uncertainty leads to fewer investment decisions (Gulen & Ion, 2016; Jens, 2017), less efficient mergers and acquisitions (Bonaime et al., 2018; Nguyen & Phan, 2017), higher cost of debt (Kaviani et al., 2020; Pástor & Veronesi, 2013), depressing initial public offerings (Çolak et al., 2017), and deteriorating external finance environment (Pan et al., 2019).

Despite these negative implications, political uncertainty can still motivate corporations to exhibit higher political transparency based on the following grounds. Recent research indicates that companies have motivations to ameliorate their information environment during periods of

[38] For a review of the literature regarding the influence of political uncertainty on the economy, please refer to Hassett & Sullivan (2015).

heightened uncertainty. Specifically, Nagar et al. (2019) demonstrate that episodes of economic and political uncertainty are associated with an increase in information asymmetry. Interestingly, they find that executives respond to this by enhancing corporate voluntary disclosures proxied by earnings guidance and 8-K filings in the following quarter. To be more specific, executives mitigate the negative influence of economic and political uncertainty on information asymmetry by voluntary disclosures which can aid investors to assess a firm's prospects. Similarly, I argue that firms associated with higher political uncertainty will exhibit greater PSD to alleviate investors' concerns of possible political instabilities. In a similar vein, such political transparency can enhance firms' legitimacy of their management of political risks. Despite the possibility that managers may exploit information asymmetry by extracting rents at the expense of better political transparency, evidence in Nagar et al. (2019) indicates that they respond by enhancing the information environment. Indeed, DeBoskey et al. (2020) provide evidence that managers increase PSD to reduce both information asymmetry and financing cost.

Analogously, political risk may motivate market participants and various stakeholders to evaluate a firm's disclosure policies more closely. Interestingly, Andrei et al. (2020) demonstrate that higher economic uncertainty induces investors to be more attentive to firm-specific information. In this case, my study extends Andrei et al.'s (2020) argument and claim that firms characterized by higher political risks will be severely scrutinized by their investors and stakeholders. In response, firms can exhibit greater PSD to enhance its legitimacy and escape activist crosshairs. Goh et al. (2020) argue that political disclosures are under heated pressure from investors and stakeholders. I argue that such demands will reach their climax in firms with political risks. Accordingly, managers will have no choice but to enhance PSD to relieve stakeholders' demands. Additionally, Ghoul et al. (2021) argue that an increase in political uncertainty calls for

greater prudence, and they provide evidence that managers improve accounting quality in periods with elevated political uncertainty to relieve investors' attention to firm-specific information. Additionally, Dai & Ngo (2021) evidence that firms engage in conservative accounting practices during periods of political uncertainty.

I also argue that firm's exposure to political uncertainties necessitates enhanced PSD to prove to stakeholders that the firm is managing its political risks properly.[39] Based on recent evidence that political uncertainty enhances corporate transparency (Asthana & Kalelkar, 2020; Bird et al., 2017; Boone et al., 2020), and based on the previous discussion, the study predicts positive association between political risk and PSD. Formally:

H_1: Political uncertainty is positively associated with PSD.

4.3.3 Political strategy

Existing research indicates that CPA does not necessarily translate into improved corporate transparency. For example, a stream of research has demonstrated that political connections can be negatively associated with financial reporting quality based on the argument that politically connected firms are less likely to be concerned about public attention and that they are politically protected from producing inferior-quality financial reporting (Chaney et al., 2011; Faccio, 2010; Hung et al., 2018). However, another stream of research argues that politically connected firms do not necessarily exhibit less information transparency. Specifically, CPA can foster corporate transparency based on the arguments that political connections' public visibility can be considered

[39] Some insights can be drawn from cyber security risk disclosure literature. Gao et al. (2020) argue that when overall cyber security risks increase, corporate cyber security risk disclosure increases.

as a disciplining mechanism pushing firms to enhance their information environment to avoid public scrutiny (Goh et al., 2020; Guedhami et al., 2014).

Despite significant efforts in this regard, prior literature focused on corporate political connections in the form of lobbying expenditures and board of directors' political connection while ignoring the economic implications of corporate political strategy, offering a fertile area for further research. Interestingly, while we know some drivers shape CPA such as ownership structure (Ozer & Alakent, 2012), and CEO characteristics (Rudy & Johnson, 2019), the literature is silent on the effect of different corporate political strategies on political transparency. As firms can participate in direct lobbying by utilizing in-house and professional lobbyists with the purpose of influencing legislation, this paper relies on Hillman & Hitt's (1999) distinction between two approaches of CPA: relational and transactional.

The relational approach represents corporate long-term commitment and continuous interactions, rather than on an issue-by-issue basis, with legislators so that corporations can utilize them whenever the need arises. This approach is associated with a firm's employment of lobbyists housed inside the firm's government affairs office which is typically in Washington, D.C. (Rudy & Johnson, 2019). As such, this approach tends to be costly and more proactive. The transactional form represents companies' engagement in politics only when they need to address specific issues that matter to them (Hillman & Hitt, 1999). Companies utilizing the transactional form hire external professional lobbying entities to engage with politicians on their behalf. Firms use external lobbying hands because they are more capable of leveraging their personal knowledge and influence when interacting with policymakers. Firms usually utilize the transactional approach when they have only intermittent dealings with the policymakers. It would therefore be senseless

to appoint a full-time government affairs office in Washington, D.C. So, the transactional approach is less expensive, more reactive, and thereby can reflect a late answer to political contingencies.

My main proposition is that a firm's political transparency is influenced by the intensity of its CPA. More specifically, I claim that the intensity of both CPA approaches can shape PSD. This proposition is based on the following grounds. First, the study argues that lobbyists may not accept lobbying for their clients unless corporate political spending is transparent. It can be a win-win situation for the company and the lobbyist to exhibit greater transparency to signal their ethical lobbying for the public. There are many significant calls from the public for more ethical, transparent, and responsible corporate lobbying. Indeed, Barron & Skountridaki (2020) demonstrate how individual lobbyists understand the ethical aspects of their work including professionalism, transparency, and honesty when representing their clients against policymakers. Correspondingly, the more lobbyists the company will use, whether internal or external, the more pressure the firm will face to exhibit ethical lobbying behavior through PSD. From firm's perspective, transparent PSD can help them to reduce agency costs of lobbyist's involvement and can help them to gain more legitimacy of corporate lobbying. Similarly, from lobbyist's perspective, transparent PSD in the firms that lobbyists are lobbying for can enhance the legitimacy of lobbyists and can prove that lobbyists exhibit more ethical and responsible lobbying. Second, I argue that both in-house (Relational approach) and external (Transactional approach) lobbyists care about CPR more than ever before. Transparent PSD can help avoid ethical transgressions that the public may suspect. In this case, firms may encourage ethical lobbying by enhancing PSD reporting and reward lobbyists accordingly (Barron & Stacey, 2021). Furthermore, as both in-house and external lobbyists can grant corporations access to politicians and policymakers, corporations with intense relational and transactional CPAs can signal their management of

political risks and show to investors that executives are not utilizing their political connections through PSD. Recently, Goh et al. (2020) demonstrated that politically connected firms exhibit higher PSD to signal to shareholders that they refrain from abusing such connections for private benefits and to allow shareholders to assess their political spending. Extending their argument, I contend that firms employing more in-house and external lobbyists exhibit their CPR to the public, politicians, and lobbyists themselves through PSD. Transparent PSD can also motivate current lobbyists to continue lobbying for their clients in subsequent years. Based on the previous discussion, the study predicts a positive association between both relational and transactional CPAs and PSD. Formally:

H_2: Relational CPA is positively associated with PSD.

H_3: Transactional CPA is positively associated with PSD.

4.3.4 Institutional blockholders political spending

Institutional investors significantly influence several decisions in their investee-firms including executive compensation (Hartzell & Starks, 2003), level of accountability (Uche et al., 2016), mergers and acquisitions (Chen et al., 2007), research and development (Bushee, 1998), and firm value (Gompers & Metrick, 2001). In fact, several studies highlight institutional investors' monitoring and governance roles in enhancing innovation (Helling et al., 2020), achieving higher firm value premiums (Ferreira & Matos, 2008), and enhancing public disclosures (Bird & Karolyi, 2016).

As institutional investors differ in their interests and objectives, certain categories of institutional investors may behave opportunistically to serve their own interests. Interestingly, Rubin (2007) and Ajinkya et al. (2005) provide evidence on the two-sided institutional ownership

and demonstrate that while overall institutional ownership enhances corporate liquidity and disclosure quality, concentrated institutional investors reduces them. Consistent with institutional blockholders' negative implications, recent literature finds that firms with more blockholders tend to exhibit lower financial reporting quality (Jiang et al., 2020). Surprisingly, Smaili et al. (2021) who studied 12 Canadian financial statement fraud cases released by the Ontario Securities Commission between 1997 and 2020 found blockholder control in six cases and demonstrated that lack of disclosure is the most common fraud mechanism used by blockholders. Of greater relevance to my research are studies outlining institutional blockholders' negative implications on corporate transparency. Specifically, given blockholders' access to private and sensitive information, their need for public disclosure is reduced, resulting in lower risk disclosures (Ntim et al., 2013), lower integrated reporting quality (Raimo et al., 2020b), lower management earning forecast (Ajinkya et al., 2005) and, more importantly, lower PSD (Ali et al., 2022).

Still, prior research on institutional ownership and blockholder ownership in particular does not involve in-depth explorations of the direct effects of blockholders' political spending on their investee-firms' political strategy. Closest to my research is the work of Kim et al. (2020) and Li et al. (2020) who demonstrate that institutional investors' political preference influences both environmental disclosure and tax avoidance respectively in US firms.

I argue that blockholders' political spending is associated with less PSD in their investee-firms based on the following reasons. Given prior evidence that firms with more political spending tend to be less transparent regarding their political spending to avoid media attention (Schepers & Gardberg, 2011), such culture can compromise blockholders' monitoring capabilities to monitor PSD of investee-firms, leading to less PSD. Similarly, Sun et al. (2015) argue that board political capital (i.e., board members with political connections) can facilitate blockholders' rent extraction

and opportunism. Extending their argument, I claim that blockholders with more political connections through their political spending can facilitate their rent extraction from their investee-firms at the expense of minority shareholders. To achieve this objective, they would insist on less PSD. More relatedly, Ali et al. (2022) demonstrate that institutional blockholders' ownership is negatively associated with PSD in their investee-firms and argue that blockholders' access to investee-firms' private information can reduce their need for political monitoring through PSD. In this case, they would reduce the PSD of their investee-firms. Also, given blockholders' significant stakes in their investee-firms, and given the severe unfavorable implications of PSD on firm's reputation and stock price (Prabhat & Primo, 2019; Skaife & Werner, 2020; Werner, 2017), I argue that blockholders with political capital (through their political spending) would favor their investee-firms' stability over political transparency. Moreover, blockholders with access to politicians through their political spending may minimize their need for public disclosure of their investee-firms' PSD (Sun et al., 2015). Overall, I predict that blockholders' political capital implied by their political spending can exacerbate agency problems by encouraging more appropriation of firm wealth through less PSD. Accordingly, the study predicts negative association between institutional blockholders' political spending and PSD. Formally:

H_4: Institutional blockholders' political spending is negatively associated with PSD.

Overall, the study hypothesizes that political factors (i.e., political risk, intensity of political strategies, and blockholders' political spending) surrounding corporations can significantly influence corporate PSD given their mutual political nature and map my theorization of the hypotheses in **Fig. 1**. The figure also includes some additional variables used in the additional analysis in section 6.

4.4 Research design

4.4.1 Data and sample

Datasets were compiled from several sources. The initial sample consists of all S&P 500 companies with available political transparency data from the CPA-Zicklin Center database from 2011 to 2019.[40] Corporate political risk data was obtained from Hassan et al.'s (2019) database.[41] Data on corporate political strategy was manually collected from CRP (Opensecrets.com). Data on blockholders' political donations was manually collected from FEC Database. Political connections data was collected from BoardEx and lobbying expenditures manually were collected from CRP. Finally, all remaining governance and control variables were collected from Bloomberg. Then, I dropped observations with missing information for dependent, independent, and control variables. Finally, after excluding outlier observations identified by DFFITS test (Belsley et al., 1980), the final sample consists of 2,218 firm-year observations (486 unique firms).

4.4.2 Measurements

4.4.2.1 Political spending disclosure

I rely on the CPA-Zicklin Index (Ali et al., 2022; Baloria et al., 2019; Cohen et al., 2019; DeBoskey et al., 2020; Goh et al., 2020), which is a unique dataset offered by a joint collaboration of the Carol and Lawrence Zicklin Center for Business Ethics Research of Wharton School of University of Pennsylvania and the Center for Political Accountability to calculate PSD index for each company based on a total of 24 items classified into three main dimensions: disclosure, policy, and oversight. The disclosure dimension includes firms' disclosure of political contributions to government associations, tax-exempt organizations, trade associations, political

[40] The sample begins in 2011 because this was the first year in which political transparency data was available in the CPA-Zicklin Center database. The sample ends in 2019 with the most updated data at the time of analysis.

[41] https://www.policyuncertainty.com/

parties, or any political organization. The policy dimension includes firms' disclosure of their policies and procedures about their political spending and recipients' features. The oversight dimension measures the quality of internal oversight including firms' standards of board committees that review and approve political spending, public production of the political spending report, and adoption of internal measures to ensure compliance with policy. Panel B of Table 25 provides the full PSD index components and score assignments. Following extant research (Ali et al., 2022; Goh et al., 2020), I use the overall PSD index in the main analysis. In the robustness testing, the three dimensions of PSD were used separately and the results remained unchanged.

4.4.2.2 Political risk

The study uses the quarterly political risk index developed by Hassan et al. (2019) to assess firm-specific political risk. For each year, corporate political risk index was calculated to the annual level by averaging political risk indexes across the four quarters (Shi et al., 2021). I then get the natural logarithm of political risk. This index is based on the transcripts of quarterly earnings conference calls which are forums through which stakeholders can ask corporate management about its financial performance, possible threats, and opportunities (Darby et al., 2020). Using computational linguistics' sequence-based pattern classification methods, Hassan et al. (2019) evaluated the extent to which each quarterly earnings call represents political risk. The authors used a training library of political texts such as political science textbooks and politicians' speech transcripts to distinguish bigrams or two-word combinations that are political in nature or indicative of a political topic so that they can evaluate the share of conversation related to political risk. Then the authors calculated the number of instances in which such political bigrams were used in conjunction with or in proximity to (within ten words) synonyms for "risk" or

"uncertainty". Finally, corporate political risk was created by weighting this count by its term frequency and dividing it by the quarterly conference calls' length.[42]

Table 25: Variables Definitions

Panel A: Variables Definitions

Variable	Definition and measurement	Source
Dependent variable		
PSD	Political Spending Disclosure Index, measured by total summed raw score of the CPA-Zicklin Index (CPA–Zicklin data items 1–24)	CPA-Zicklin Index of Corporate Political Accountability
Independent variables		
PRisk	Political risk which is the natural logarithm of the share of the quarterly earnings conference calls of individual companies devoted to political risks	(Hassan et al., 2019)
Relational	Percentage of in-house lobbyists to total number of lobbyists.	CRP
Transactional	Percentage of external lobbyists to total number of lobbyists.	CRP
Blk_Spending	Total institutional blockholders' political donations divided by 1000000	FEC
Control variables		
Assets	Firm's size measured as total assets in the year	Bloomberg
ROA	Return on Asset, which is measured by net income divided by average total assets	Bloomberg
Debttoasset	Total liabilities divided by total assets	Bloomberg
Salesgrowth	Change in sales relative to the previous year	Bloomberg
OCF	Cash flows from operations divided by 1000	Bloomberg
DPS	Dividends per share	Bloomberg
Boardsize	Board size, measured as the total number of directors.	Bloomberg
Boardindp	Board independence, measured as number of independent directors to the total number of directors	Bloomberg
Boardfemale	Board diversity, measured as percentage of female directors to total directors	Bloomberg
CSRcommittee	An indicator variable that equals one if the firm has a CSR committee, zero otherwise	Bloomberg
Boardtenure	Board tenure, measured as average tenure of all directors on the company board in years	Bloomberg
Lobby	Corporate lobbying expenditures in each year divided by 1000000	CRP
PoliticalC	An indicator variable that equals one if the firm has a one politically connected directors based on Goh et al.'s (2020) definition, zero otherwise	BoardEx
Variables used in robustness and additional analyses		
PSD_Disclosure	The total summed raw score of items in the disclosure dimension of PSD index in CPA-Zicklin data	CPA-Zicklin Index of Corporate Political Accountability

[42] Interestingly, Hassan et al. (2019) performed several robustness checks to validate this measure. Please refer to Hassan et al. (2019) for more details.

PSD_Policy	The total summed raw score of items in the policy dimension of PSD index in CPA-Zicklin data	CPA-Zicklin Index of Corporate Political Accountability
PSD_Oversight	The total summed raw score of items in the oversight dimension of PSD index in CPA-Zicklin data	CPA-Zicklin Index of Corporate Political Accountability
Political_Intensity	Corporate political intensity, measured as the arithmetic mean of *Relational* and *Transactional* variables	CRP
Blk_Main_Spending	Total institutional blockholders' political spending devoted to both Republicans and Democrats	FEC
Relational_High	Binary variable equals 1 if firm's *Relational* is higher than sample mean, and 0 otherwise	Calculated
Transactional_High	Binary variable equals 1 if firm's *Transactional* is higher than sample mean, and 0 otherwise	Calculated
PRiskT_economic	Share of the transcript of the conference call that concentrates on political risk related to economy	(Hassan et al., 2019)
PRiskT_environment	Share of the transcript of the conference call that concentrates on political risk related to environment	(Hassan et al., 2019)
PRiskT_trade	Share of the transcript of the conference call that concentrates on political risk related to trade	(Hassan et al., 2019)
PRiskT_institutions	Share of the transcript of the conference call that concentrates on political risk related to institutions	(Hassan et al., 2019)
PRiskT_health	Share of the transcript of the conference call that concentrates on political risk related to health	(Hassan et al., 2019)
PRiskT_security	Share of the transcript of the conference call that concentrates on political risk related to security	(Hassan et al., 2019)
PRiskT_tax	Share of the transcript of the conference call that concentrates on political risk related to tax	(Hassan et al., 2019)
PRiskT_technology	Share of the transcript of the conference call that concentrates on political risk related to technology	(Hassan et al., 2019)
Blk_Ideology	Difference between political spending to the Republican party and democratic party divided by total political spending, which is bounded by -1 (extreme Democratic) and +1 (extreme Republican)	FEC
RepBlock_Dummy_90	Indicator variable taking value of 1 if the firm is owned by an institutional blockholder whose 90% or more of its political spending is devoted to Republican parties and zero otherwise	FEC
RepBlock_Dummy_75	Indicator variable taking value of 1 if the firm is owned by an institutional blockholder whose 75% or more of its political spending is devoted to Republican parties and zero otherwise	FEC
Relational_Revolving	percentage of in-house revolving door lobbyists	CRP
Transactional_Revolving	percentage of external revolving door lobbyists	CRP
Political_Donations	Total amount of political donations for each firm in each year	FEC
Inst_Block	Percentage of shares owned by institutional blockholders	Thomson Reuters
Largest_Five	percentage of shares owned by largest five institutional blockholders	Thomson Reuters
ESG_Score	Governance Quality, which is a proprietary Bloomberg score depending on firm's governance disclosure of environmental, social, and governance (ESG) data.	Bloomberg

Panel B: PSD Categories

	Disclosure	Max Score
1	Does the company publicly disclose corporate contributions to political candidates, parties and committees, including recipient names and amounts given?	4

2	Does the company publicly disclose payments to 527 groups, such as governors' associations and super PACs, including recipient names and amounts given?	4
3	Does the company publicly disclose independent political expenditures made in direct support of or opposition to a campaign, including recipient names and amounts given?	4
4	Does the company publicly disclose payments to trade associations that the recipient organization may use for political purposes?	6
5	Does the company publicly disclose payments to other tax-exempt organizations, such as 501(c)(4)s, that the recipient may use for political purposes?	6
6	Does the company publicly disclose a list of the amounts and recipients of payments made by trade associations or other tax-exempt organizations of which the company is either a member or donor?	2
7	Does the company publicly disclose payments made to influence the outcome of ballot measures, including recipient names and amounts given?	4
8	Does the company publicly disclose the company's senior managers (by position/title of the individuals involved) who have final authority over the company's political spending decisions?	2
9	Does the company publicly disclose an archive of each political expenditure report, including all direct and indirect contributions, for each year since the company began disclosing the information (or at least for the past five years)?	4
	Policy	
10	Does the company disclose a detailed policy governing its political expenditures from corporate funds?	6
11	Does the company have a publicly available policy permitting political contributions only through voluntary employee-funded PAC contributions?	2
12	Does the company have a publicly available policy stating that all its contributions will promote the interests of the company and will be made without regard for the private political preferences of executives?	2
13	Does the company publicly describe the types of entities considered to be proper recipients of the company's political spending?	2
14	Does the company publicly describe its public policy positions that become the basis for its spending decisions with corporate funds?	2
15	Does the company have a public policy requiring senior managers to oversee and have final authority over all the company's political spending?	2
16	Does the company have a publicly available policy that the board of directors regularly oversees the company's corporate political activity?	2
	Oversight	
17	Does the company have a specified board committee that reviews the company's policy on political expenditures?	2
18	Does the company have a specified board committee that reviews the company's political expenditures made with corporate funds?	2
19	Does the company have a specified board committee that reviews the company's payments to trade associations and other tax-exempt organizations that may be used for political purposes?	2
20	Does the company have a specified board committee that approves political expenditures from corporate funds?	2
21	Does the company have a specified board committee, composed entirely of outside directors, that oversees its political activity?	2
22	Does the company post on its website a detailed report of its political spending with corporate funds semiannually?	4
23	Does the company make available a dedicated political disclosure web page found through search or accessible within three mouse-clicks from homepage?	2
24	Does the company disclose an internal process for or an affirmative statement on ensuring compliance with its political spending policy?	2

4.4.2.3 Political strategy

Prior literature distinguishes between relational and transactional forms of CPA based on the nature of the hired lobbyist (Hillman & Hitt, 1999; Ozer & Alakent, 2012). For example, Rudy & Johnson (2019) and Hadani (2007) characterize a firm's political strategy as relational if the firm employed a government affairs employee in their Washington, D.C. office. In other words, they would define relational CPA as a binary variable taking 1 if a firm hired an in-house lobbyist and 0 otherwise. However, as such a measurement is binary in nature, it does not consider the intensity of relational CPA approach (Qian & Chen, 2021). I, however, investigate the intensity of a firm's relational CPA approach measured by percentage of in-house lobbyists to total number of lobbyists. Similarly, Rudy & Johnson (2019) and Hadani (2007) define a firm's political strategy as transactional if the firm employed an external lobbying firm. Namely, they would define transactional CPA as a binary variable taking 1 if a firm used external hired lobbyists and 0 otherwise. I, however, examine the intensity of a firm's transactional CPA approach measured by the percentage of external lobbyists to the total number of lobbyists.[43]

4.4.2.4 Blockholders' political donations

First, I draw information on institutional investors from Thomson Reuters 13F. To investigate the influence of institutional owners who are more likely to effect PSD, I investigate institutional investors who hold 3% or more of investee-firms (i.e., blockholders).[44] Then, I manually collect

[43] Observably, the means of *Relational* and *Transactional* do not add to 1. Similarly, the correlation between *Relational* and *Transactional* does not equal to 1. This is because of the situations in which firms do not employ any in-house lobbyist nor external lobbyist.

[44] While prior literature identifies blockholders as investors who own 5% of firms' stock or more (Mangena et al., 2020), in this paper, I shift my blockholders' threshold to 3% based on the following reasons. First, my sample is from S&P 500 firms, which are the largest 500 U.S. publicly traded companies. If an institutional owner has 3% or more in such giant corporations this indicates that they indeed have a significant ownership level, enabling them to actively influence disclosure policies in investee-firms. Second, limiting my identification to a 5% threshold results in a relatively small number of blockholders. Specifically, the number of blockholders in my sample who own 5% or more is 73 while the number of blockholders who own 3% or more is 281. In order for us to comprehensively capture the influence of blockholders' political spending, this study adopts the 3% threshold which represents a far greater

each institutional blockholder's political donation information from FEC for each year. Institutional blockholders with missing data in the FEC are deemed to have made zero political donations. Then for each company in each year, I aggregated its blockholders' political donations to obtain total blockholders' political donations.

4.4.3 Empirical model

The study estimates the following OLS regression model to investigate the relation between the several political variables (political risk, political strategy, and blockholders' political spending) and corporate political transparency:

$$PSD = \alpha_0 + \alpha_1 PRisk + \alpha_2 Relational + \alpha_3 Transactional + \alpha_4 Blk_{Spending} + Firm_{Controls} + Year_{Indicators} + Industry_{Indicators} + \varepsilon \quad (1)$$

Where *PSD* is my dependent variable of interest as proxy for corporate political transparency. My independent variables of interest that form **Fig. 1** are *PRisk*, *Relational*, *Transactional*, and *Blk_Spending*.[45] All variables are defined in Panel B of Table 25. Consistent with prior literature (Ali et al., 2022; Baloria et al., 2019; DeBoskey et al., 2020; Goh et al., 2020), I control for firm size (*Assets*), profitability, (*ROA*), leverage (*Debttoasset*), growth opportunities (*Salesgrowth*), operating cash flows (*OCF*), and dividends per share (*DPS*). Additionally, since prior literature demonstrates that corporate governance enhances corporate information transparency (Ajinkya et al., 2005; Anderson et al., 2004; Goh et al., 2020), I control for several corporate governance variables that are expected to influence PSD including board size (*Boardsize*), board independence

number of blockholders of S&P 500 firms. My threshold of 3% is also consistent with prior research (Chithambo et al., 2020; Li et al., 2012).

[45] I was not able to control for blockholder ownership in the main analysis as this will significantly reduce my sample. Nevertheless, I controlled for it in section 6.5.

(*Boardindp*), board diversity (*Boardfemale*), CSR committee (*CSRcommittee*), and board tenure (*Boardtenure*).

Arguably, how transparent the company is about political spending is conditional on the actual political spending or its political connections (Goh et al., 2020). However, it can be difficult to disentangle voluntary disclosure about political spending from the act of political spending. To mitigate these concerns, I control for corporate political participation. Specifically, I control for both corporate lobbying (*Lobby*) and political connections (*PoliticalC*) as the prior literature provides evidence that both variables can shape corporate PSD (Ali et al., 2022; Goh et al., 2020). Finally, the study controls for industry and year fixed effects. Industry indicators are based on SIC one-digit industry membership. All continuous variables are winsorized at the 1st and 99th percentile. I cluster standard errors by firm-level to consider within-firm autocorrelations.[46]

4.5 Empirical results

4.5.1 Descriptive statistics

Table 26 reports descriptive statistics for all variables. The mean of *PSD* is 31.9 with a maximum of 69 and minimum of 0, indicating substantial variance of political transparency across firms. *PRisk's* mean is 4.4 with a maximum of 6.4 and a minimum of 1.4, suggesting that the majority of S&P 500 firms are susceptible to political risks which could be because of their media visibility. The summary statistics on *PSD* and *PRisk* are consistent with prior studies (Darby et al., 2020; Goh et al., 2020). The means of *Relational* and *Transactional* are 18% and 59% respectively, indicating that firms significantly vary in their reliance on in-house and outside lobbyists in their

[46] While this study uses OLS with robust standard errors clustered by firm, it is acknowledged that panel data estimations can be used to handle panel data problems. However, Petersen (2009), who examined different estimations to address panel data (such as fixed effects, and generalized least-squares of random effects) demonstrated that out of the most common approaches, only clustered standard errors are unbiased.

lobbying practices. This also indicates that firms rely on external lobbyists more than they rely on in-house lobbyists. This is probably because of the superior knowledge, expertise, connections, and influence of external lobbyists. Interestingly, the mean of *Blk_Spending* is $1.5 million with a minimum of $0.7 million and maximum of $5.6 million, suggesting that institutional blockholders indeed make substantial political spending, which may indirectly shape their investee-firms' PSD.

Table 26: Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
PSD	2,218	31.960	23.960	0	69
PRisk	2,218	4.444	0.970	1.486	6.457
Relational	2,218	0.190	0.250	0	1
Transactional	2,218	0.596	0.387	0	1
Blk_Spending	2,218	1.502	0.756	0.704	5.603
Assets	2,218	0.741	2.200	0.011	26.225
ROA	2,218	6.569	6.502	-14.658	26.277
Debttoasset	2,218	29.685	17.210	0	80.266
Salesgrowth	2,218	5.158	12.561	-36.266	52.657
OCF	2,218	3.927	6.127	-0.681	39.52
DPS	2,218	1.633	2.735	0	70
Boardsize	2,218	11.119	1.987	7	18
Boardindp	2,218	88.027	5.525	66.667	94.118
Boardfemale	2,218	22.770	8.471	4.167	46.667
CSRcommittee	2,218	0.397	0.489	0	1
Boardtenure	2,218	8.877	3.073	0.08	23.14
Lobby	2,218	1.945	2.980	0	15.347
PoliticalC	2,218	0.576	0.494	0	1

Table 27: Correlation matrix

	PSD	Prisk	Relational	Transactional	Blk_Spending	Assets	ROA	Debttoasset	Salesgrowth	OCF	DPS	Boardsize	Boardindp	Boardfemale	CSRcommittee	Boardtenure	Lobby	PoliticalC
PSD	1																	
PRisk	0.19***	1																
Relational	0.23***	0.08***	1															
Transactional	0.30***	0.09***	-0.22***	1														
Blk_Spending	-0.16***	-0.01	-0.07***	-0.05**	1													
Assets	0.28***	0.19***	0.10***	0.09***	-0.06***	1												
ROA	-0.05**	-0.17***	-0.13***	-0.07***	-0.09***	-0.18***	1											
Debttoasset	-0.06***	-0.14***	-0.04*	0.01	0.03	-0.10***	-0.07***	1										
Salesgrowth	-0.13***	-0.05**	-0.09***	-0.04*	-0.02	-0.03*	0.20***	-0.10***	1									
OCF	0.39***	0.08***	0.10***	0.18***	-0.17***	0.51***	0.03	-0.05**	-0.01	1								
DPS	0.06***	0.02	0.03	-0.01	-0.03	0.02	-0.02	0.10***	-0.02	0.07***	1							
Boardsize	0.32***	0.12***	0.17***	0.17***	-0.08***	0.26***	-0.15***	-0.03	-0.10***	0.19***	0.07***	1						
Boardindp	0.27***	0.12***	0.21***	0.05**	0	0.12***	-0.14***	0.09***	-0.04**	0.10***	0.05**	0.23***	1					
Boardfemale	0.26***	0	0.11***	0.04*	-0.06***	0.11***	0.05**	-0.01	0	0.14***	-0.03	0.05***	0.14***	1				
CSRcommittee	0.35***	0.09***	0.09***	0.17***	-0.06***	0.22***	-0.13***	0.03	-0.11***	0.25***	0.01	0.23***	0.19***	0.17***	1			
Boardtenure	-0.30***	-0.04*	-0.14***	-0.10***	0.01	-0.12***	0.13***	-0.02	0.07***	-0.14***	-0.06***	-0.11***	-0.40***	-0.16***	-0.20***	1		
Lobby	0.45***	0.19***	0.14***	0.27***	-0.17***	0.24***	-0.03	-0.05**	-0.06***	0.60***	0.11***	0.28***	0.18***	0.13***	0.24***	-0.19***	1	
PoliticalC	0.35***	0.13***	0.14***	0.23***	-0.10***	0.15***	-0.06***	0.03	-0.07***	0.25***	0.08***	0.27***	0.10***	0.09***	0.21***	-0.11***	0.33***	1

*** p<0.01, ** p<0.05, * p<0.1

4.5.2 Correlation matrix

Table 27 presents Pearson pairwise correlations across variables. I find that PSD is positively correlated ($p<0.01$) to *PRisk*, *Relational*, and *Transactional*, indicating that firms with high PSD have higher political risk, in-house lobbyists, and outside lobbyists. *PSD* is negatively correlated with *Blk_Spending*, suggesting that investee-firms exhibit lower political transparency when led by politically connected institutional blockholders. Additionally, the highest variance inflation factor (VIF) is 2, which is below the recommended cutoff value of 10, thus multicollinearity is not a concern.

4.5.3 Univariate analysis

Table 28 presents the results of my model that estimate the drivers of PSD. I find significant positive association between *PRisk* and *PSD*, indicating that firms facing heightened political uncertainties exhibit greater PSD. The result supports H_1. This finding complements Ghoul et al.'s (2021) findings of positive association between economic policy uncertainty and firm's accounting quality. It seems that firms respond to the heightened information asymmetry resulting from political risks by increasing PSD to reduce investors' concerns about corporate political threats. This evidence is also consistent with corporate behaviors during the recent events in the Capitol riots of 2021 (Ali et al., 2022; Goodwin, 2021). Interestingly, as this incident implies significant political risks, many firms such as Facebook, Bank of America, Google, American Express, and Disney exhibited greater political transparency to show investors that these firms suspended their political donations to Republican Congress members who refused the Electoral College's votes. It is becoming clear now that corporations will need to exhibit more CPR, compared with traditional

old-fashioned CSR, during times of political uncertainties to satisfy the public and their stakeholders.

Table 28: Baseline regression results

VARIABLES	1	2	3	4
PRisk	2.159***			1.963***
	(0.634)			(0.610)
Relational		14.853***		14.461***
		(2.891)		(2.803)
Transactional		12.065***		11.859***
		(1.948)		(1.915)
Blk_Spending			-2.099***	-2.088***
			(0.791)	(0.766)
Assets	0.646**	0.644**	0.738**	0.566*
	(0.318)	(0.298)	(0.327)	(0.289)
ROA	0.165	0.250**	0.140	0.253**
	(0.121)	(0.114)	(0.119)	(0.114)
Debttoasset	-0.071*	-0.070*	-0.085**	-0.057
	(0.043)	(0.041)	(0.043)	(0.040)
Salesgrowth	-0.133***	-0.131***	-0.141***	-0.129***
	(0.038)	(0.037)	(0.037)	(0.037)
OCF	0.439***	0.386***	0.375**	0.405***
	(0.163)	(0.149)	(0.164)	(0.146)
DPS	0.049	0.075	0.040	0.087
	(0.141)	(0.165)	(0.147)	(0.159)
Boardsize	1.214***	0.883**	1.178***	0.877**
	(0.379)	(0.374)	(0.376)	(0.372)
Boardindp	0.351***	0.327***	0.388***	0.308**
	(0.122)	(0.125)	(0.122)	(0.122)
Boardfemale	0.373***	0.326***	0.360***	0.325***
	(0.088)	(0.085)	(0.088)	(0.084)
CSRcommittee	6.178***	5.721***	6.257***	5.591***
	(1.641)	(1.606)	(1.645)	(1.598)
Boardtenure	-1.039***	-0.943***	-1.029***	-0.974***
	(0.252)	(0.247)	(0.254)	(0.242)
Lobby	1.310***	1.201***	1.433***	1.041***
	(0.266)	(0.250)	(0.264)	(0.247)
PoliticalC	7.460***	5.964***	7.487***	5.723***
	(1.728)	(1.684)	(1.744)	(1.665)
Constant	-28.259**	-21.830*	-18.311	-26.481**
	(11.812)	(11.950)	(12.016)	(11.849)

Observations	2,218	2,218	2,218	2,218
Year-effects	Yes	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes	Yes
R-squared	0.405	0.435	0.402	0.443

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

I find a positive relationship between *Relational* and *PSD*, supporting H_2. This result indicates that firms' political disclosure incorporates demands from lobbyists for ethical and responsible lobbying. This finding is consistent with Barron & Skountridaki's (2020) argument that individual lobbyists care about professionalism of their lobbying by enhancing transparency when lobbying for their clients. Worrying about external stakeholders' concerns regarding executives' political opportunism when utilizing in-house lobbyists in Washington, D.C. office, corporations would signal their CPR through PSD. Indeed, I argue that the more lobbyists employed by the corporations, the better CPR displayed by the corporations, which aims to prove the ethical dimensions of CPA. Similarly, *Transactional* has a positive relationship with PSD, supporting H_3. This finding complements those of Arifin et al. (2020) who evidence that firms following the transactional political approach enjoy lower cost of debt. Indeed, DeBoskey et al. (2020) provide evidence that firms with greater PSD enjoy lower cost of debt. In this case, I argue that professional external lobbyists, who are better navigators through policymakers and influencers, can put firms under significant pressure to enhance their ethical CPA through PSD which in turn reduces information asymmetry and financing costs. Surprisingly, firms seek external professional lobbyists as a mechanism of obtaining external certification and credibility when lobbying which can grant them legitimacy and acceptance from the public (Kim, 2019). In this case, firms, as much as external lobbyists themselves, may want to exhibit such external certification to their stakeholders through PSD. Specifically, through transparent PSD, it can be a win-win solution for

firms to show their CPR and to prove that they are not extracting rents through their utilization of external lobbyists and for external lobbyists themselves to prove that they are not extracting rents and to maintain their external certification status. This finding complements those of Kim (2019) that external lobbyists help achieve better nonmarket outcomes.

I report negative association between *Blk_Spending* and *PSD*, supporting H_4. My finding demonstrates a dark side of blockholders' political connectedness from the angle of PSD, providing empirical evidence to prior literature on the possible dark sides of blockholders (Jiang et al., 2020; Shohfi & White, 2020; Smaili et al., 2021; Sun et al., 2015). It also lends support to prior studies evidencing the negative association between blockholders and corporate transparency (Ajinkya et al., 2005; Ali et al., 2022; Ntim et al., 2013; Raimo et al., 2020b). Given recent evidence of negative investors' response to PSD (Beets & Beets, 2019; Minefee et al., 2021; Prabhat & Primo, 2019) and given blockholders' opposition to PSD (Ali et al., 2022), blockholders who are politically connected through their political spending will still insist on limiting PSD to maintain their investee-firms' stability and survival. My results complement those of Sun et al. (2015) who argue that board political capital can exacerbate agency costs by allowing blockholders to extract rents. In this case, I claim that blockholders with political capital through their political spending can exacerbate agency costs by lowering their investee-firms' PSD. It seems that blockholders' political philanthropy signals an increased preference for wealth maximization and can be indicative of blockholders' political opportunism resulting from lowering their investee-firms' PSD. Overall, this result suggests that blockholders' political donations have negative implications for firm's stakeholders (Shohfi & White, 2020).

Overall, I claim that political risks, political strategies, and blockholders' political spending are major determinants of corporate political transparency as presented in **Fig. 1**.

4.6 Robustness testing

4.6.1 Alternative proxies

Until now, my analyses have concentrated on full PSD index as supplied by CPA-Zicklin. As noted above, the CPA-Zicklin Index score of PSD is calculated based on three main dimensions: disclosure, policy, and oversight. Following prior literature (Ali et al., 2022; Goh et al., 2020), I re-estimate the main analysis using the three aspects individually. Specifically, I modify my baseline model by replacing the dependent variable (*PSD)* with *PSD_Disclosure*, *PSD_Policy*, and *PSD_Oversight* and present the findings in Table 29. The results are quantitively similar, indicating that political risks, political strategy, and blockholders' political spending play an important role in shaping corporate political disclosure policies.

In the main analysis, I used two variables capturing the intensity of two political strategies which are *Relational* and *Transactional*. Now, I create a binary variable (*Relational_High*) which equal to 1 if firm's *Relational* is higher than sample mean, and 0 otherwise. Similarly, I create a binary variable (*Transactional_High*) which equals 1 if firm's *Transactional* is higher than sample mean, and 0 otherwise.[47] These two variables reflect the nature of corporate political strategy and whether firms relied on in-house vs external lobbyists in their political strategies. The results in panel A of Table 30 are still consistent with the main analysis, suggesting that the intensity of relational and transactional CPA translates into increased PSD.[48]

[47] The reason to create these two binary variables is that if a firm employs one in-house lobbyist and zero external lobbyist would be the same as a firm that employs 50 in-house lobbyist and no external lobbyist. In this situation, it is clear that both firms have significantly different levels of political strategy. As such, my binary variables (*Relational_High* and *Transactional_High*) can consider such situations.

[48] I further check the robustness of my analysis by creating two binary variables: 1) *Relational_Intense* which equals 1 if *Relational* is in the highest 75 percentile, 0 otherwise; and 2) *Transactional_Intense* which equals 1 if *Transactional* is in the highest 75 percentile, 0 otherwise. The results are still consistent.

In the main analysis, I measured blockholders' political spending (*Blk_Spending*) using total institutional blockholders' political donations. However, as Democrats and Republicans are the most dominant political parties in the US, it can be argued that these two parties' spending can have the most influential effect. Therefore, I reperform the analysis using (*Blk_Main_Spending*) which is the total institutional blockholders' political spending devoted to both Republicans and Democrats and report the results in panel B of Table 30. The results still hold.

Table 29: Alternative PSD proxies

	1	2	3
VARIABLES	DISC	POLICY	OVERSIGHT
PRisk	1.000***	0.490***	0.475***
	(0.342)	(0.156)	(0.175)
Relational	8.448***	3.354***	2.657***
	(1.562)	(0.736)	(0.772)
Transactional	5.880***	3.044***	2.944***
	(1.012)	(0.551)	(0.522)
Blk_Spending	-1.158***	-0.500**	-0.428**
	(0.423)	(0.208)	(0.199)
Assets	0.504***	0.005	0.058
	(0.162)	(0.061)	(0.088)
ROA	0.130**	0.041	0.084***
	(0.061)	(0.028)	(0.031)
Debttoasset	-0.048**	-0.001	-0.008
	(0.022)	(0.010)	(0.012)
Salesgrowth	-0.073***	-0.023**	-0.033***
	(0.020)	(0.010)	(0.010)
OCF	0.187**	0.098***	0.119***
	(0.089)	(0.029)	(0.041)
DPS	-0.014	0.029	0.074**
	(0.112)	(0.032)	(0.037)
Boardsize	0.403**	0.229**	0.249**
	(0.204)	(0.094)	(0.101)
Boardindp	0.139**	0.093***	0.076**
	(0.064)	(0.034)	(0.033)
Boardfemale	0.161***	0.074***	0.090***

	(0.046)	(0.022)	(0.022)
CSRcommittee	2.498***	1.306***	1.776***
	(0.931)	(0.354)	(0.466)
Boardtenure	-0.468***	-0.235***	-0.274***
	(0.132)	(0.065)	(0.063)
Lobby	0.539***	0.221***	0.281***
	(0.158)	(0.048)	(0.096)
PoliticalC	2.983***	1.121***	1.604***
	(0.911)	(0.415)	(0.465)
Constant	-12.747**	-5.507*	-8.258**
	(6.236)	(3.311)	(3.338)
Observations	2,218	2,218	2,218
Year-effects	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes
R-squared	0.390	0.417	0.427

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 30: Alternative proxies for political strategy and institutional blockholders' political spending

Panel A		Panel B	
	1		2
VARIABLES	PSD	VARIABLES	PSD
PRisk	1.970***	PRisk	1.942***
	(0.611)		(0.610)
High_Relational	5.290***	Relational	14.546***
	(1.523)		(2.815)
High_Transactional	7.850***	Transactional	11.892***
	(1.553)		(1.919)
Blk_Spending	-2.096***	Blk_Spending	-4.990**
	(0.779)		(2.133)
Assets	0.504*	Assets	0.574**
	(0.300)		(0.288)
ROA	0.221*	ROA	0.256**
	(0.115)		(0.114)
Debttoasset	-0.062	Debttoasset	-0.055
	(0.041)		(0.041)
Salesgrowth	-0.133***	Salesgrowth	-0.128***
	(0.037)		(0.037)

OCF	0.409***	OCF	0.408***
	(0.148)		(0.147)
DPS	0.090	DPS	0.089
	(0.153)		(0.161)
Boardsize	1.011***	Boardsize	0.873**
	(0.380)		(0.373)
Boardindp	0.312***	Boardindp	0.304**
	(0.120)		(0.122)
Boardfemale	0.331***	Boardfemale	0.327***
	(0.084)		(0.084)
CSRcommittee	5.631***	CSRcommittee	5.624***
	(1.604)		(1.600)
Boardtenure	-0.998***	Boardtenure	-0.968***
	(0.241)		(0.242)
Lobby	0.949***	Lobby	1.054***
	(0.248)		(0.247)
PoliticalC	5.990***	PoliticalC	5.719***
	(1.670)		(1.669)
Constant	-25.378**	Constant	-27.129**
	(11.675)		(11.808)
Observations	2,218	Observations	2,218
Year-effects	Yes	Year-effects	Yes
Industry-effects	Yes	Industry-effects	Yes
R-squared	0.434	R-squared	0.442

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.6.2 Different estimation methods

I use double clustering by year and firm to control for cross-sectional and time-series in the correlation. The two-way clustering pooled regression model controls for any measurement error or misspecification that may inherently induce spurious group-level shocks and correlation in errors (Petersen, 2009). The results in column 1 of Table 31 are consistent with the main results.

Furthermore, I reperform the analysis using a Tobit regression model to check my finding against any possible biases or inconsistencies in the OLS estimator and to account for its censored nature. The results in column 2 of Table 31 are still consistent.

To ascertain whether the results hold over time, I perform yearly regressions in addition to the pooled OLS regression. However, as PSD is not available for all S&P 500 firms before 2015, I estimate the yearly regressions from 2015 onwards in Table 31. Although there are minor changes in the statistical significance, the coefficients of the yearly regressions are generally consistent with those in the main analysis.

4.6.3 Excluding financial and utility companies

Following DeBoskey et al. (2020), I reperform the baseline regression after excluding financial and utilities firms because of their unique financial nature. The results reported in column 1 of Table 32 are still consistent with the main analysis. Therefore, all the hypotheses are supported when the financial and utility firms are omitted.

4.6.4 Average Regression structure

It can be argued that a firm's PSD could be considerably sticky over time because of the absence of substantial events that may change the firm's political disclosure policies. Specifically, PSD index can be highly correlated over years. To consider possible problems caused by serial correlation, I conduct an average regression structure in which I obtained the averaged value for each variable for each firm and report the results in column 2 of Table 32. These results are still consistent with the main analysis.

4.6.5 Focusing on firms with political connections

Chaney et al. (2011) demonstrate that behaviors of politically connected firms tend to be opaque and blurred because of the protection of their political connections. Similarly, Sun et al. (2015) argue that politically connected firms can facilitate blockholders' rent extraction and their opportunism. So, the associations between variables of interest in this study and *PSD* may differ

in politically connected firms. Therefore, I reperform the main analysis by concentrating only on politically connected firms and report the results in column 3 of Table 32. Interestingly, the results are still consistent with the main analysis, implying that my results are robust to the concentration on politically connected firms.

4.6.6 Endogeneity

I conduct several tests to address endogeneity issues. First, I use Heckman's (1979) model to address potential endogeneity because of self-selection bias. Specifically, I first perform Probit regression model in which the dependent variable is a binary variable for companies with PSD higher than the sample's average to estimate the likelihood that the firm makes high *PSD* (including year and industry dummies). I then calculate the inverse mills ratio (*IMR*) from the previous Probit regression and perform the main regression model by inserting *IMR* as an additional explanatory variable. The results reported in column 1 of Table 33 are still consistent with the main analysis, suggesting that my inferences remain the same when I control for the self-selection problem.

Second, I follow Larcker and Rusticus (2010) and perform lagged regression structure to address possible endogeneity concerns. Specifically, I use one-year lagged values of independent and control variables as the current year PSD may depend on the previous year's variables, and report the results in column 2 of Table 33. Observably, the results are still consistent with the main results, suggesting that my evidence is robust to estimating one-year lagged regression structure.

Third, I use the two-step system generalized method of moments (GMM) model as a final check against endogeneity issues. The GMM model controls for several endogeneity issues that may arise from random shocks affecting the variables in this study and their determinants simultaneously. As demonstrated by Arellano & Bover (1995) and by Blundell & Bond (1998),

system-GMM method can produce more reliable results compared with pooled OLS, fixed effects, instrumental variables, and even traditional difference GMM models. By adding the lagged *PSD* into the estimation, the GMM model can control for unobserved heterogeneity between PSD and the explanatory variables. I report the results in column 3 of Table 33 and they are still consistent with the main results, suggesting that my results are robust to several endogeneities.[49]

Table 31: Alternative regression structures 1

	1	2	3	4	5	6	7
VARIABLES	Double_cluster	Tobit	2015	2016	2017	2018	2019
PRisk	1.987**	2.361***	0.029	1.348	3.721***	3.439***	2.552**
	(0.768)	(0.476)	(1.199)	(1.021)	(1.153)	(0.918)	(1.006)
Relational	14.460***	16.409***	11.522***	12.321***	13.262***	15.839***	18.342***
	(2.680)	(1.896)	(4.185)	(4.464)	(4.135)	(3.887)	(3.867)
Transactional	11.763***	13.968***	13.464***	8.881***	9.678***	13.581***	12.308***
	(1.893)	(1.262)	(2.782)	(2.772)	(2.789)	(2.594)	(2.667)
Blk_Spending	-1.691**	-2.791***	-0.505	-2.566**	-6.134***	-2.475**	-1.238
	(0.615)	(0.659)	(1.094)	(1.153)	(1.824)	(1.097)	(1.369)
Assets	0.575*	0.581**	0.845	1.003***	0.758*	0.307	0.321
	(0.291)	(0.247)	(0.642)	(0.323)	(0.419)	(0.407)	(0.379)
ROA	0.254*	0.270***	0.409**	0.266	0.245	0.000	0.059
	(0.128)	(0.077)	(0.193)	(0.198)	(0.178)	(0.173)	(0.152)
Debttoasset	-0.057	-0.062**	-0.050	-0.074	-0.047	-0.076	-0.075
	(0.036)	(0.026)	(0.064)	(0.058)	(0.060)	(0.057)	(0.054)
Salesgrowth	-0.126***	-0.134***	-0.215***	-0.104	-0.125*	-0.172*	-0.186**
	(0.030)	(0.036)	(0.082)	(0.081)	(0.073)	(0.092)	(0.085)
OCF	0.405**	0.429***	0.504*	0.415*	0.669***	0.517***	0.520***
	(0.154)	(0.099)	(0.260)	(0.232)	(0.245)	(0.182)	(0.156)
DPS	0.087	0.022	0.042	0.632	0.150	0.590	0.190
	(0.160)	(0.161)	(0.501)	(0.603)	(0.189)	(0.579)	(0.606)
Boardsize	0.884*	1.050***	0.550	0.414	1.305**	0.502	0.665
	(0.364)	(0.244)	(0.599)	(0.590)	(0.608)	(0.533)	(0.526)
Boardindp	0.308**	0.375***	0.232	0.173	0.211	0.427**	0.478**
	(0.117)	(0.088)	(0.189)	(0.201)	(0.189)	(0.188)	(0.195)
Boardfemale	0.327***	0.355***	0.309**	0.237*	0.218*	0.313**	0.473***

[49] Due to the largely time-invariant nature of the independent and dependent variables, I was unable to execute traditional fixed-effect model as it depends on within-firm variations. As discussed by Kim & Zhang (2016), variables of political nature are generally time-invariant, rendering firm fixed-effects model unsuitable for my analysis. This was supported by the fact that the between-group variance in my variables are significantly higher than the within-group variance.

	(0.076)	(0.056)	(0.132)	(0.133)	(0.127)	(0.121)	(0.120)
CSRcommittee	5.587***	5.963***	2.528	6.034***	5.399**	7.342***	4.943**
	(1.468)	(0.970)	(2.382)	(2.319)	(2.395)	(2.149)	(2.237)
Boardtenure	-0.968***	-1.114***	-0.692*	-1.405***	-1.367***	-0.680**	-0.601*
	(0.261)	(0.157)	(0.359)	(0.373)	(0.400)	(0.314)	(0.315)
Lobby	1.044***	0.976***	1.304***	1.071***	0.991***	1.014***	1.101***
	(0.228)	(0.196)	(0.397)	(0.362)	(0.350)	(0.328)	(0.339)
PoliticalC	5.758**	6.112***	7.376***	7.542***	4.900**	5.211**	6.446***
	(1.598)	(0.950)	(2.376)	(2.405)	(2.365)	(2.145)	(1.975)
Constant	-26.061*	-36.415***	-15.148	4.511	-14.408	-34.189*	-51.515***
	(12.615)	(8.696)	(17.350)	(19.071)	(18.694)	(18.799)	(18.160)
Observations	2,218	2,218	332	347	361	426	415
Year-effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.441	0.0683	0.437	0.465	0.470	0.470	0.495

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 32: Alternative regression structures 2

	1	2	3
VARIABLES	Exclude Financial	Average	Political_C
PRisk	1.513**	2.985***	2.054**
	(0.667)	(1.121)	(0.832)
Relational	13.168***	10.026***	16.824***
	(3.337)	(3.246)	(4.039)
Transactional	11.994***	7.388***	16.469***
	(2.246)	(2.231)	(2.806)
Blk_Spending	-1.742*	-3.416***	-2.966**
	(0.913)	(1.124)	(1.305)
Assets	-5.898***	0.547*	0.256
	(1.966)	(0.323)	(0.292)
ROA	0.240*	0.007	0.341***
	(0.122)	(0.168)	(0.129)
Debttoasset	-0.042	-0.027	-0.077
	(0.048)	(0.046)	(0.053)
Salesgrowth	-0.167***	-0.202**	-0.115**
	(0.041)	(0.085)	(0.045)
OCF	0.913***	0.379**	0.300**
	(0.186)	(0.178)	(0.145)
DPS	0.079	-0.054	0.064
	(0.152)	(0.253)	(0.178)

Boardsize	1.340***	0.127	1.189**
	(0.443)	(0.464)	(0.467)
Boardindp	0.348**	0.206	0.210
	(0.136)	(0.171)	(0.169)
Boardfemale	0.270***	0.342***	0.421***
	(0.095)	(0.104)	(0.104)
CSRcommittee	3.880**	5.828***	7.068***
	(1.842)	(2.007)	(1.944)
Boardtenure	-0.672**	-1.026***	-1.162***
	(0.282)	(0.281)	(0.341)
Lobby	1.179***	0.582*	0.877***
	(0.295)	(0.313)	(0.265)
PoliticalC	5.913***	4.063**	
	(1.967)	(1.793)	
Constant	-33.050**	-0.406	-17.219
	(13.031)	(17.059)	(16.730)
Observations	1,603	486	1,278
Year-effects	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes
R-squared	0.420	0.543	0.409

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 33: Endogeneity tests

	1	2	3
VARIABLES	Heckman	Lagged	GMM
Lagged_PSD			0.494***
			(0.040)
PRisk	1.707***	2.038***	1.925**
	(0.594)	(0.685)	(0.820)
Relational	8.900***	14.911***	16.306***
	(2.880)	(3.263)	(3.324)
Transactional	8.379***	12.682***	15.607***
	(1.891)	(2.185)	(3.032)
Blk_Spending	-1.579**	-2.184**	-0.780*
	(0.753)	(0.859)	(0.463)
Assets	0.232	0.412	-0.040
	(0.192)	(0.350)	(0.168)
ROA	-0.021	0.274**	0.019
	(0.118)	(0.121)	(0.068)
Debttoasset	0.062	-0.090*	-0.039*

	(0.043)	(0.046)	(0.024)
Salesgrowth	0.065	-0.097**	-0.040
	(0.044)	(0.039)	(0.026)
OCF	0.025	0.394**	0.248***
	(0.116)	(0.158)	(0.079)
DPS	0.248	-0.032	-0.076
	(0.177)	(0.146)	(0.098)
Boardsize	-0.349	1.023**	0.650**
	(0.377)	(0.415)	(0.256)
Boardindp	-0.037	0.337**	0.159
	(0.130)	(0.135)	(0.099)
Boardfemale	-0.104	0.276***	0.118
	(0.093)	(0.094)	(0.096)
CSRcommittee	0.848	5.462***	2.235
	(1.629)	(1.763)	(1.983)
Boardtenure	0.338	-1.231***	-0.904***
	(0.283)	(0.271)	(0.343)
Lobby	0.181	0.838***	0.044
	(0.266)	(0.261)	(0.161)
PoliticalC	-2.552	6.667***	2.008*
	(1.802)	(1.835)	(1.083)
imr	-25.429***		
	(3.009)		
Constant	45.353***	-24.552*	-19.547*
	(14.890)	(13.212)	(10.595)
AR(1) p value			0.000
AR(2) p value			0.693
Hansen p value			0.000
Sargan p value			0.131
Year-effects	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes
Observations	2,204	1,703	1,703
R-squared	0.482	0.463	

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.7 Additional analysis

4.7.1 Components of political risk

This subsection focuses on which types of political certainty are associated with PSD. It can be argued that stakeholders and companies may have more concerns about specific political risks. For instance, Hassan et al. (2019) demonstrate that companies are more active in managing healthcare-related political uncertainties. Similarly, I argue that stakeholders may have significant concerns about specific types of political risks and such concerns can be translated into enhanced PSD. For example, some stakeholders may be interested in technological-related political uncertainties because of the severe reliance on digital infrastructures post-Covid 19. In this case, firms with more technological political uncertainties may exhibit greater PSD to alleviate investors' concerns. Therefore, I follow prior studies (Ng et al., 2020) and use the eight topic-based political uncertainty measures of Hassan et al. (2019) which are economic, environment, trade, institutions, health, security, tax, and technology. Specifically, I re-estimate the baseline equation using each topic-based political uncertainty measure separately to avoid possible collinearity problems. The results of Table 34 show that all political uncertainties indices are positively associated with PSD, which is consistent with my baseline case. This provides interesting evidence that stakeholders are concerned about all political risk topics and encourage firms to exhibit greater PSD. It becomes clear that firms indeed need to incorporate CPR as much as they incorporate CSR.

4.7.2 Political ideology of institutional blockholders

Unsal et al. (2016) argue that corporate political orientations can influence corporate behaviors. Similarly, Döring et al. (2020) provide evidence that institutional investors' legal origins can shape corporate environmental transparency. Of a greater relevance to my research,

Kim et al. (2020) demonstrate that companies led by Republican-oriented institutional investors are less likely to exhibit environmental disclosures. In extending Kim et al.'s (2020) argument, I argue that the Republican-oriented institutional blockholders are negatively associated with investee-firms' political transparency. I also based this prediction on Hutton et al.'s (2014) evidence that Republican managers are less likely to make risky corporate decisions and more likely to make safer investments. Given the severe unfavorable implications of PSD and the fact that some consumers may even boycott some companies based on their political donations (Minefee et al., 2021), the conservative nature of Republican institutional blockholders may motivate them to avoid such negative consequences by limiting PSD. To test this prediction, I construct institutional blockholders' political ideology variable (*Blk_Ideology*) measured as the difference between political spending to the Republican party and Democratic party divided by total political spending, which is bounded by -1 (extreme Democratic) and +1 (extreme Republican) (Kim et al., 2020).[50] The results of column 1 of Table 35 show that firms held by Republican-oriented institutional blockholders are less likely to exhibit PSD, indicating that political values at blockholder level play an important role in political reporting decisions. This finding is consistent with Cohen et al. (2019), who provide evidence that firms led by Republican CEOs exhibit less PSD, and with prior studies documenting less transparency for Republican institutional investors (Kim et al., 2020; Li et al., 2020). I also construct $\underline{\text{RepBlock}^{DUM}}$ which is an indicator variable taking the value of 1 if the firm is owned by an institutional blockholder with 90% or more of its political spending devoted to Republican parties, and zero otherwise. The

[50] Data on political orientation (i.e., Republican vs Democratic) of institutional blockholders' political spending was collected for each institutional blockholder from FEC Database. More specifically, I matched the political orientation of each political spending with its political orientation using committee ID.

results in column 2 of Table 35 are still consistent. Additionally, I changed this percentage to 75% and the results in column 3 of Table 35 do not change.

4.7.3 Revolving door

In this section, I focus on whether internal lobbyists or external lobbyists are revolving door. Revolver door refers to a lobbyist who was a government regulator, Congressional staff, or members of the Congress. Namely, these ex-government officials will be lobbying for firms that they used to previously oversee. Formally, revolver door lobbyists are lobbyists with previous federal government experience. Using their political connections, knowledge, and expertise, revolving door lobbyists may extract monetary rents, have divergence of interests with their clients, and may behave opportunistically because of their ex-political ties (Vidal et al., 2012). In this case, their behavior toward PSD may differ compared with non-revolving doors. This study argues that since these lobbyists worked in the government in the past and used to oversee corporate lobbyists, they will be more likely to care about their responsibility of exhibiting greater transparency to the public. Their previous supervisory capacity over lobbyists may be translated into greater transparency and ethical lobbying. Hence, they may insist on transparent PSD in the firms they are lobbying for. To test this proposition, I added two new variables which are percentage of in-house revolving door lobbyists (*Relational_Revolving*), and percentage of external revolving door lobbyists (*Transactional_Revolving*) whose data was manually collected from CRP (Kim, 2019). My results in Table 36 evidence that level of revolving door lobbyists (whether in-house or external) has a positive relationship with PSD, suggesting that the appointment of revolving door lobbyists in a corporate lobbying team is associated with CPR in the form of PSD. Given their previous reputation as government officials, revolving door lobbyists will be under pressure to exhibit their ethical behavior toward CPA through PSD.

Table 34: The effect of topic-based political risks of Hassan et al. (2019)

	1	2	3	4	5	6	7	8
VARIABLES	PSD	PSD	PSD	PSD	PSD	PSD	PSD	PSD
PRiskT_economic	2.140***							
	(0.650)							
PRiskT_environment		1.806***						
		(0.599)						
PRiskT_trade			1.533***					
			(0.481)					
PRiskT_institutions				2.070***				
				(0.609)				
PRiskT_health					2.450***			
					(0.627)			
PRiskT_security						2.015***		
						(0.638)		
PRiskT_tax							2.115***	
							(0.595)	
PRiskT_technology								1.737***
								(0.588)
Assets	0.642**	0.664**	0.683**	0.658**	0.660**	0.652**	0.643**	0.669**
	(0.319)	(0.320)	(0.320)	(0.319)	(0.319)	(0.320)	(0.320)	(0.320)
ROA	0.157	0.164	0.150	0.162	0.166	0.159	0.157	0.158
	(0.121)	(0.121)	(0.120)	(0.120)	(0.121)	(0.120)	(0.121)	(0.121)
Debttoasset	-0.075*	-0.074*	-0.077*	-0.076*	-0.066	-0.076*	-0.074*	-0.075*
	(0.042)	(0.043)	(0.043)	(0.042)	(0.042)	(0.042)	(0.042)	(0.043)
Salesgrowth	-0.132***	-0.130***	-0.131***	-0.133***	-0.135***	-0.132***	-0.128***	-0.134***
	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)
OCF	0.446***	0.440***	0.422**	0.442***	0.459***	0.451***	0.444***	0.433***
	(0.164)	(0.164)	(0.163)	(0.163)	(0.162)	(0.164)	(0.163)	(0.165)
DPS	0.045	0.053	0.052	0.037	0.056	0.042	0.041	0.050
	(0.138)	(0.139)	(0.140)	(0.137)	(0.140)	(0.137)	(0.138)	(0.140)
Boardsize	1.201***	1.209***	1.177***	1.232***	1.260***	1.220***	1.196***	1.212***
	(0.378)	(0.378)	(0.378)	(0.377)	(0.375)	(0.377)	(0.379)	(0.376)
Boardindp	0.356***	0.360***	0.360***	0.354***	0.344***	0.358***	0.360***	0.366***
	(0.122)	(0.122)	(0.122)	(0.123)	(0.123)	(0.122)	(0.122)	(0.122)
Boardfemale	0.369***	0.371***	0.368***	0.367***	0.376***	0.371***	0.367***	0.368***
	(0.088)	(0.088)	(0.088)	(0.088)	(0.088)	(0.088)	(0.088)	(0.088)
CSRcommittee	6.033***	5.980***	6.035***	6.054***	5.957***	5.967***	6.046***	6.069***
	(1.646)	(1.646)	(1.646)	(1.645)	(1.640)	(1.650)	(1.642)	(1.647)
Boardtenure	-1.036***	-1.022***	-1.025***	-1.046***	-1.041***	-1.027***	-1.045***	-1.017***
	(0.253)	(0.253)	(0.252)	(0.253)	(0.253)	(0.253)	(0.253)	(0.252)

Lobby	1.317***	1.330***	1.378***	1.316***	1.240***	1.299***	1.304***	1.338***
	(0.268)	(0.267)	(0.263)	(0.266)	(0.267)	(0.268)	(0.269)	(0.266)
PoliticalC	7.466***	7.441***	7.331***	7.385***	7.459***	7.444***	7.562***	7.571***
	(1.728)	(1.731)	(1.739)	(1.737)	(1.725)	(1.730)	(1.726)	(1.737)
Constant	-35.344***	-33.722***	-29.760**	-33.721***	-36.992***	-34.636***	-34.974***	-32.531***
	(12.231)	(12.161)	(11.801)	(12.161)	(12.163)	(12.159)	(12.146)	(12.214)
Observations	2,218	2,218	2,218	2,218	2,218	2,218	2,218	2,218
Year-effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.405	0.404	0.404	0.405	0.408	0.404	0.405	0.403

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 35: The effect of political ideology of institutional blockholders

	1	2	3
VARIABLES	PSD	PSD	PSD
Blk_Ideology	-4.815**		
	(2.378)		
RepBlock_Dummy_90		-3.051**	
		(1.367)	
RepBlock_Dummy_75			-2.832**
			(1.301)
Assets	0.743***	0.740**	0.753**
	(0.177)	(0.323)	(0.326)
ROA	0.150**	0.142	0.140
	(0.074)	(0.122)	(0.121)
Debttoasset	-0.086***	-0.088**	-0.087**
	(0.024)	(0.043)	(0.043)
Salesgrowth	-0.143***	-0.144***	-0.143***
	(0.032)	(0.037)	(0.037)
OCF	0.393***	0.378**	0.375**
	(0.085)	(0.165)	(0.165)
DPS	0.032	0.027	0.024
	(0.080)	(0.141)	(0.142)
Boardsize	1.193***	1.170***	1.182***
	(0.227)	(0.378)	(0.378)
Boardindp	0.382***	0.376***	0.382***
	(0.075)	(0.124)	(0.123)
Boardfemale	0.367***	0.366***	0.364***
	(0.053)	(0.089)	(0.089)
CSRcommittee	6.316***	6.303***	6.347***

	(0.942)	(1.634)	(1.635)
Boardtenure	-1.028***	-1.030***	-1.029***
	(0.145)	(0.255)	(0.255)
Lobby	1.448***	1.441***	1.431***
	(0.142)	(0.260)	(0.260)
PoliticalC	7.672***	7.676***	7.679***
	(0.937)	(1.749)	(1.749)
Constant	-21.613***	-18.511	-18.959
	(7.382)	(12.008)	(12.006)
Observations	2,218	2,218	2,218
Year-effects	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes
R-squared	0.400	0.401	0.401

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 36: The effect of revolving door lobbyist

	1	2
VARIABLES	PSD	PSD
Relational_Revolving	9.866***	
	(2.327)	
Transactional_Revolving		10.277***
		(1.903)
Assets	0.660**	0.663**
	(0.314)	(0.314)
ROA	0.123	0.206*
	(0.115)	(0.114)
Debttoasset	-0.071*	-0.070*
	(0.043)	(0.042)
Salesgrowth	-0.123***	-0.142***
	(0.039)	(0.037)
OCF	0.385**	0.383**
	(0.155)	(0.153)
DPS	0.076	0.082
	(0.149)	(0.163)
Boardsize	1.088***	1.032***
	(0.372)	(0.382)
Boardindp	0.314**	0.390***
	(0.124)	(0.123)
Boardfemale	0.331***	0.356***
	(0.087)	(0.086)

CSRcommittee	5.751***	5.702***
	(1.642)	(1.627)
Boardtenure	-0.925***	-0.919***
	(0.254)	(0.243)
Lobby	1.252***	1.151***
	(0.255)	(0.255)
PoliticalC	6.691***	6.194***
	(1.732)	(1.710)
Constant	-14.568	-26.338**
	(11.865)	(11.878)
Observations	2,218	2,218
Year-effects	Yes	Yes
Industry-effects	Yes	Yes
R-squared	0.415	0.423

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

4.7.4 Corporate Political Donations

Recent research suggests that the propensity of corporations to exhibit PSD could be contingent upon corporate political participation (Goh et al., 2020). Also, it can be argued that the negative association between *Blk_Spending* and *PSD* could be mechanical due to the effect of corporate political spending. To control for this, I manually collected corporate political donations data from the FEC (Kim et al., 2020; Shi et al., 2021). I then included a new control variable *Political_Donations* which is the total amount of political donations for each firm in each year. My results in column 1 of Table 37 are still consistent with the main results. Predictably, the coefficient of *Political_Donations* is significant and positive, suggesting that corporations with high political donations are more likely to exhibit greater PSD. It seems that the culture of political participation can be reflected in corporate reporting outcomes in the form of PSD. As such, one would argue that intensity of corporate political donations may subsume the influence of *PRisk, Relational, Transactional, and Blk_Spending* on *PSD*. Namely, the influence of my independent

variables on *PSD* may change depending on whether the sample is high vs low politically participant per their political donations. As such, I divided my sample into high and low (using sample mean) based on corporate political donations and then estimate my baseline regression individually for each sample. My results in columns 1 and 2 in Table 37 are still generally consistent with the main analysis.

4.7.5 The dark side of institutional blockholders

In the main analysis, I provide evidence on the dark side of blockholders' political spending from the angle of PSD. Here, I check whether my conclusion will hold after including additional controls for blockholder ownership which are percentage of shares owned by institutional blockholders (*Inst_Block*) and percentage of shares owned by largest five institutional blockholders (*Largest_Five*). If blockholders political spending is negatively associated with PSD, it would be expected that blockholders would insist on lowering corporate PSD to maintain their insider information and to facilitate blockholders opportunism. Consistent with my proposition, the coefficient of both *Inst_Block* and *Largest_Five* are significant and negative in columns 1 and 2 respectively of Table 38, confirming my arguments of the dark side of institutional blockholders through their political connectedness and their ownership from PSD angle (Jiang et al., 2020; Shohfi & White, 2020).

Finally, I examine whether blockholder opportunism is alleviated by the presence of robust governance. Recent research provides evidence that strong governance mechanisms are able to mitigate blockholders opportunism (Jiang et al., 2020). If this is the case, I argue that rigorous governance structures may reduce the negative association between *Blk_Spending* and *PSD*. To test this proposition, I investigate the moderating role of corporate governance quality on *Blk_Spending-PSD* nexus. First, I begin by collecting Bloomberg ESG governance scores

(*ESG_Score*) from Bloomberg database. I then introduce a multiplication variable (*Blk_Spending*ESG_Score*) in my regression model to examine how robust governance structures curtail the negative implication of *Blk_Spending* on *PSD*. Observably, the coefficient of *Blk_Spending*ESG_Score* in column 3 of Table 38 is significant and positive, implying that the dark side of institutional blockholders political spending on PSD could be lessen with stronger corporate governance structures. To further provide more support to this finding, I follow Jiang et al. (2020) and use board independence as proxy for robust internal governance and introduce a multiplication term (*Blk_Spending* Boardindp*) in my regression model. Indeed, the coefficient of *Blk_Spending*Boardindp* in column 4 of Table 38 is significant and positive, suggesting that the negative effect of blockholders political spending on corporate political transparency is less pronounced in firms with robust governance and more effective external monitoring.

Table 37: The influence of corporate political donations

	1	2	3
VARIABLES	Political_Donations	Political_Donations_High	Political_Donations_Low
PRisk	1.810***	1.710**	1.963**
	(0.601)	(0.832)	(0.759)
Relational	12.462***	16.353***	9.165**
	(2.862)	(4.253)	(3.792)
Transactional	9.509***	16.721***	5.963***
	(1.921)	(3.513)	(2.090)
Blk_Spending	-2.112***	-3.012**	-0.951
	(0.748)	(1.300)	(0.893)
Assets	0.538*	0.345	4.753***
	(0.279)	(0.294)	(1.717)
ROA	0.249**	0.459***	-0.042
	(0.111)	(0.128)	(0.147)
Debttoasset	-0.062	-0.086	0.022
	(0.040)	(0.054)	(0.051)
Salesgrowth	-0.135***	-0.191***	-0.087*
	(0.037)	(0.051)	(0.049)
OCF	0.330**	0.270*	1.730**
	(0.137)	(0.139)	(0.728)

DPS	0.018	0.045	0.039
	(0.147)	(0.203)	(0.182)
Boardsize	0.708*	0.871*	0.452
	(0.373)	(0.474)	(0.498)
Boardindp	0.340***	0.402**	0.222
	(0.121)	(0.177)	(0.138)
Boardfemale	0.320***	0.399***	0.225**
	(0.083)	(0.118)	(0.106)
CSRcommittee	5.120***	6.060***	2.828
	(1.589)	(1.969)	(2.190)
Boardtenure	-0.962***	-1.278***	-0.582**
	(0.242)	(0.324)	(0.295)
Lobby	0.552**	0.718***	2.248*
	(0.258)	(0.245)	(1.150)
PoliticalC	4.896***	3.465	5.059**
	(1.659)	(2.357)	(2.073)
Political_Donations	2.319***		
	(0.593)		
Constant	-48.133***	-33.219*	-16.644
	(12.849)	(17.496)	(13.092)
Observations	2,217	1,181	1,037
Year-effects	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes
R-squared	0.455	0.384	0.324

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 38: The dark side of institutional blockholders

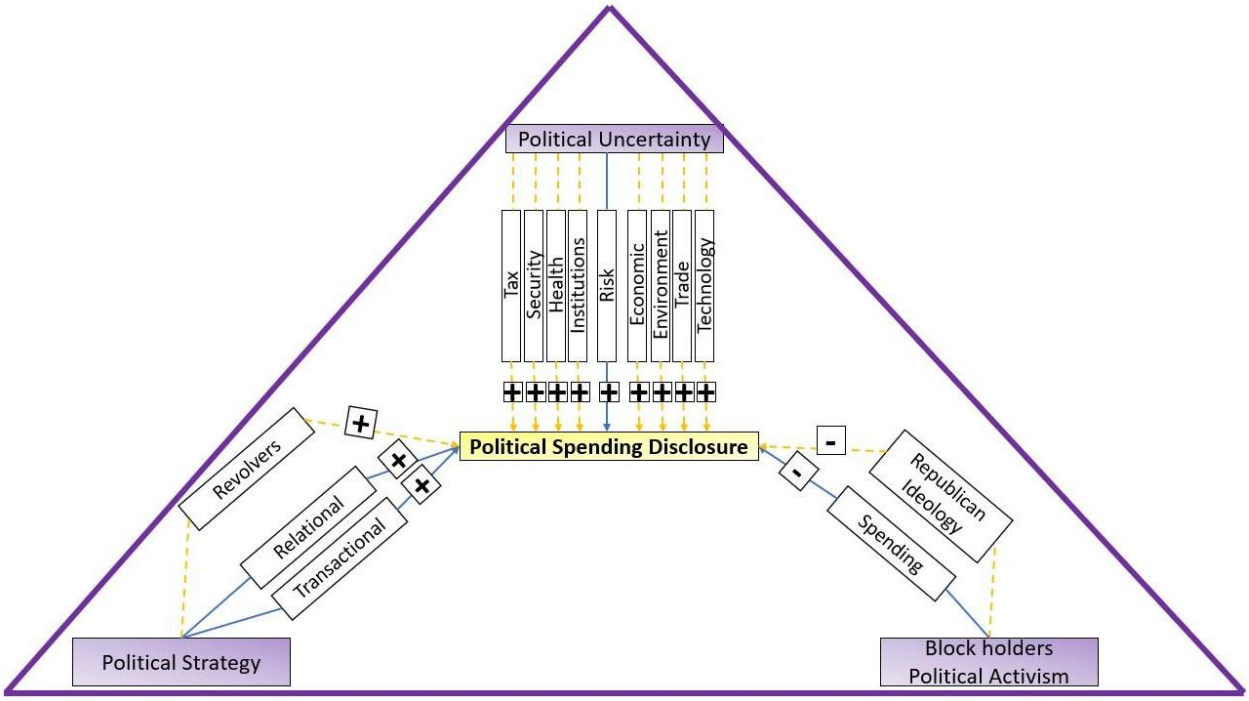
	1	2	3	4
VARIABLES	PSD	PSD	PSD	PSD
PRisk	2.004***	2.019***		
	(0.659)	(0.658)		
Relational	12.278***	12.095***		
	(3.368)	(3.371)		
Transactional	11.325***	11.263***		
	(2.243)	(2.246)		
Blk_Spending	-1.557*	-1.528*	-28.392***	-22.597***
	(0.838)	(0.841)	(4.203)	(8.261)
Inst_Block	-18.228**			
	(9.144)			
Largest_Five		-29.000**		

		(13.540)		
ESG_Score			-0.418***	
			(0.069)	
Blk_Spending*ESG_Score			0.451***	
			(0.073)	
Boardindp				0.053
				(0.198)
Blk_Spending*Boardindp				0.232**
				(0.095)
Assets	-5.913**	-6.004**	0.682**	0.745**
	(2.892)	(2.880)	(0.329)	(0.327)
ROA	0.169	0.169	0.170	0.140
	(0.127)	(0.126)	(0.116)	(0.119)
Debttoasset	-0.032	-0.029	-0.080*	-0.081*
	(0.048)	(0.048)	(0.042)	(0.043)
Salesgrowth	-0.156***	-0.156***	-0.123***	-0.141***
	(0.039)	(0.039)	(0.038)	(0.037)
OCF	0.811***	0.790***	0.352**	0.373**
	(0.233)	(0.233)	(0.167)	(0.163)
DPS	0.510	0.474	0.025	0.038
	(0.376)	(0.369)	(0.138)	(0.145)
Boardsize	1.163***	1.126***	1.125***	1.158***
	(0.430)	(0.431)	(0.380)	(0.374)
Boardindp	0.350**	0.353**	0.295**	
	(0.136)	(0.137)	(0.123)	
Boardfemale	0.245***	0.245***	0.336***	0.358***
	(0.093)	(0.093)	(0.090)	(0.088)
CSRcommittee	4.688***	4.709***	5.526***	6.267***
	(1.729)	(1.723)	(1.683)	(1.646)
Boardtenure	-0.742***	-0.756***	-1.012***	-1.020***
	(0.281)	(0.281)	(0.255)	(0.254)
Lobby	1.046***	1.056***	1.485***	1.453***
	(0.278)	(0.280)	(0.275)	(0.263)
PoliticalC	6.622***	6.641***	6.909***	7.363***
	(1.909)	(1.907)	(1.789)	(1.743)
Constant	-30.120**	-24.937*	15.765	11.214
	(13.446)	(13.994)	(13.073)	(18.049)
Observations	1,707	1,707	2,006	2,218
Year-effects	Yes	Yes	Yes	Yes
Industry-effects	Yes	Yes	Yes	Yes
R-squared	0.425	0.425	0.420	0.403

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Fig. 1 Political drivers of PSD



4.8 Conclusion

This study investigates how political drivers (i.e., political risk, political strategy, and blockholders' political spending) affect firms' PSD. My results are as follows. First, I find that corporate political reporting increases with firm-level political uncertainties. Second, I find a positive association between the intensity of corporate political strategy and PSD. Specifically, firms with more in-house and outside lobbyists are associated with greater PSD. Additionally, I provide evidence that firms with more revolving door lobbyists are associated with better political transparency, shedding some light on the economic implications of revolving door lobbyists on CPR. Third, institutional blockholders' political spending is negatively associated with PSD, suggesting a dark side of blockholders' political donations from a political reporting angle. This negative association is less pronounced in firms with strong governance structures. Lastly, firms led by Republican-oriented institutional blockholders are less likely to issue PSD. Overall, I

provide evidence of the political drivers of corporate political reporting and argue that a firm's political climate plays an important role in shaping CPR.

This study contributes to the literature in several ways. First, it contributes to CPA literature. My study indicates that political aspects including political risks, political strategy, and blockholders' political spending also play an important role in shaping corporate political disclosures policies. Second, this study adds to the literature on the economic implications of political risks. Most prior studies in this space were conducted at country-level. Differing from prior literature, I investigate how firm-level political risks influence PSD and report that corporations respond to increased information asymmetry of political risks by increasing their PSD. Third, this study is the first to investigate the economic implications of the intensity of corporate political strategy over its political transparency. Specifically, I provide evidence that the intensity of both relational and transactional approaches to CPA and the employment of revolving door lobbyists are associated with greater PSD. Fourth, this study is also the first to draw a connection between institutional blockholders' political spending and ideology on the level of PSD and evidences that institutional blockholders' political spending and Republican institutional blockholders are negatively associated with PSD. Further, rigorous corporate governance weakens the negative association between blockholders political spending and PSD. Overall, this essay argues that the political climate in which the firms are operating influences their political responsibility.

Finally, the study has practical implications for investors, managers, politicians, campaign sponsors, and policymakers. First, corporate stakeholders can perceive a firm's political risks positively as firms exhibit greater PSD during political risks. Second, corporate stakeholders can consider the intensity of corporate political strategy using in-house, external, and revolver door

lobbyists as mechanisms fostering corporate PSD. Third, corporate investors should be wary of corporate blockholders' political spending and firms led by institutional Republican blockholders because of their negative association with PSD. Fourth, this study sheds light on CPR as one of the most important sustainability metrics that should be incorporated in traditional CSR metrics in the future.

5 Chapter 5

Findings, Contributions, Implications and Recommendations, Limitations and Suggestions for Future Research

5.1 Summary of findings

This thesis consists of three main essays with the ultimate purpose of conducting an investigation into what drives CPR proxied by PSD. Because of the rapidly growing awareness of corporate political affairs, CPR has become an inescapable priority for businesses, societies, and communities (Lyon et al., 2018; Mithani, 2019). Moreover, the Supreme Court's decision in Citizens United to remove limits on corporate campaign donations has triggered heated debates over the governance challenges of enhancing PSD (Dahan et al., 2013; Scherer et al., 2012). Since the Supreme Court's decision in Citizens United, corporate dark money exceeded $2 billion, raising inevitable investors' and stakeholders' concerns about CPA (Adrian et al., 2022). Without transparent PSD, corporate owners are left in the dark regarding how corporate funds are being injected into the political system (Beets & Beets, 2019; Jia et al., 2021; Skaife & Werner, 2020). Motivated by this, the study investigates what drives CPR measured by PSD. This thesis investigated the influence of ownership structure, CG, political risks, intensity of corporate political strategy, institutional blockholders' political spending and ideology on PSD.

The first essay investigates the relationship between a firm's ownership structure and PSD using a panel dataset from S&P 500 firms from 2015 to 2018. The study breaks down ownership into four different categories of owners including institutional, insiders, governmental, and foreign owners. I provide evidence that corporate ownership structure is an important determinant of corporate PSD and that several channels can operationalize ownership structure-PSD nexus.

Specifically, while institutional ownership has a positive relationship with PSD, institutional investors demand more PSD in firm's characterized by higher competition. Also, the study provides evidence that insider ownership is negatively associated with PSD and that insider owners issue more PSD in the case of pursuing tax-related lobbying expenses and tax avoidance. Furthermore, while governmental ownership is positively associated with PSD, this positive association is less pronounced in firms with higher nonfinancial and financial reporting quality. Hence, these findings suggest that the effect of ownership structure on PSD is contingent upon channels that moderate ownership structure-PSD nexus. Advancing agency theory, this essay provides evidence that different owners have divergent effects on PSD and provides evidence that shareholders' behaviors toward PSD are dependent upon certain contingencies or conditions that corporations face. The results are robust to some econometric models that consider various types of endogeneity problems, as well as alternative PSD proxy.

The second essay investigates the association between CG and PSD using a sample of S&P 500 firms from 2011 to 2019 and provides the following results. First, extending agency theory-driven expectations, this essay provides evidence of the monitoring role of the board emanating from female monitoring directors, non-excessive board tenure, AC size, AC meetings, and AC education in enhancing PSD. Second, extending RDT, this essay provides evidence on the advisory role of the board emanating from female advisory directors, CEO duality, additional directorships, AC size, AC meetings, AC age, and AC education in promoting PSD. Additional analyses suggest that firms with more monitoring and advising capabilities from females on ACs and AC members graduating from elite universities exhibit higher PSD. As such, this dual theoretical approach comprehensively recognizes the dual roles that board members play in promoting corporate political responsibility through their monitoring function (agency theory) and advisory function

(RDT). This essay answers the calls for more transparent political reporting and offers insights into regulators and policy makers into configuring CG for more political accountability. As such, corporate boards may be able to transform the vulnerability of CPA to political sustainability through PSD. The results are robust across different econometric models, measurements, and endogeneities.

The third essay investigates whether the political climate the firm is operating in influences its PSD. More specifically, it investigates the influence of corporate political risks, the intensity of political strategy, and the institutional blockholders' political spending on PSD. Using a panel dataset from S&P 500 companies in the US between 2011 and 2019, I provide the following important results. I demonstrate that firms with heightened political threats exhibit higher levels of PSD. More specifically, all types of political risk indices are positively associated with PSD, implying that stakeholders are concerned about all political risk topics and encourage firms to exhibit greater PSD during political instabilities. This result is consistent with agency theory that firms would enhance PSD to reduce investors' concerns and agency costs about CPA and political risks. It also supports the legitimacy theory that firms with heightened political threats can legitimize such risks by exhibiting greater PSD to convince the public that these firms are managing their political risks in a legitimate manner.

In addition, I provide evidence that the intensity of corporate political strategy and the utilization of revolving door lobbyists are positively associated with PSD, implying the ethical implications of in-house lobbyists, external lobbyists, and revolving door lobbyists (Barron & Skountridaki, 2020). These results can also imply that corporations can reduce stakeholders' concerns about corporate lobbying and reduce agency costs associated with CPA through PSD.

Similarly, this result suggests that both firms and lobbyists can legitimize corporate reliance on lobbyists by exhibiting greater PSD.

Further, I show that blockholders' political donations are negatively associated with corporate PSD, supporting prior literature on the possible dark sides of institutional blockholders (Ajinkya et al., 2005; H. Ali et al., 2022; Jiang et al., 2020; Ntim et al., 2013; Raimo et al., 2020b; Shohfi & White, 2020; Smaili et al., 2021; Sun et al., 2015). The negative association between institutional blockholders' political spending and PSD is weaker in firms with superior governance structures. This result supports the findings of Jiang et al. (2020) who found that superior CG can negatively moderate the positive association between blockholders' ownership and earnings management. It also supports agency theory about the principal-principal agency conflicts by showing that the political connections of institutional blockholders through their political spending may heighten blockholder opportunism and enable more rent appropriation through curtailing PSD (Sun et al., 2015). Lastly, firms led by Republican institutional blockholders exhibit lower levels of PSD. These results advance agency and legitimacy theories on how the political climate the firm is operating in can shape corporate political transparency. These results are important as shareholders continuously clamor for greater corporate political transparency, especially after the Supreme Court's decision in Citizens United, which allowed corporations to make unlimited political expenditures with no strict disclosure requirements for the public (Goh et al., 2020; Prabhat & Primo, 2019). The key results are supported by a series of robustness checks including different proxies, two-way clustered standard errors, different estimation models, and different types of endogeneity problems. Overall, this essay contributes to a better understanding of the complex effects of political metrics on political transparency and helps us to theorize the political drivers of corporate political responsibility.

In summary, this thesis explored the drivers of corporate political accountability of US S&P 500 firms from different perspectives including ownership structure, corporate governance, and the political climate the firms are operating in. As a consequence, a number of new determinants of PSD have been revealed. Specifically, institutional ownership, governmental ownership, insider ownership, gender diversity, board tenure, board busyness, CEO duality, AC, political risks, intensity of corporate political strategies, and institutional blockholders' political spending and ideology influence the level of PSD. As such, this thesis sheds light on the ownership, governance, and political drivers of PSD and deepens our understanding of CPR.

5.2 Contributions

This thesis extends and makes several new and important contributions to the extant research.

5.2.1 Contributions to literature/knowledge

First, the thesis adds to the debate on PSD, which is an emerging and pivotal disclosure practice, yet relatively unexplored (Ali et al., 2022; Andrew & Baker, 2020; Goh et al., 2020). Indeed, it can be argued that PSD can be the missing gap to achieve real CSR (Lyon et al., 2018). As such, this study offers several important contributions to corporate responsibility literatures. While prior literature mainly focused on CSR in general (Cabeza-García et al., 2018; Chantziaras et al., 2020; Rao & Tilt, 2016), and corporate environmental responsibility (Cho et al., 2018; Post et al., 2011; Tingbani et al., 2020), CPR literature is yet to be established (Lyon et al., 2018; Mithani, 2019). Second, since there are many calls in the literature that demand more investigation of PSD drivers, this thesis is a direct response to all of these calls (Ali et al., 2022; Beets & Beets, 2019; DeBoskey et al., 2020; Deboskey & Luo, 2018; Goh et al., 2020).

Third, this thesis extends the drivers of PSD, beyond those already identified in the literature such as political connections, political donations and institutional investors (Goh et al., 2020), gender diversity (Deboskey et al., 2018b), shareholder activism (Adegbite et al., 2012; Baloria et al., 2019), CEO political preference (Cohen et al., 2019), and corporate presence on social media platforms (Lei et al., 2019). Fourth, while prior literature examined the effect of ownership structure on corporate disclosure policy, evidence on the analysis of mechanisms that influence the ownership structure-PSD association is rare. Relatedly, Ozer and Alakent (2012) demand more research on exploring the factors that moderate the relationship between ownership structure and corporate political strategies. Hence, this thesis advances the literature by analyzing the mechanisms through which ownership structure affects PSD by exploring the influence of issue-specific lobbying expenditures, tax avoidance, nonfinancial and financial reporting quality and industry concentration.

Fifth, prior literature on CPA mainly investigated CPA in the forms of political expenditure, corporate lobbying (Hadani, 2012; Hadani et al., 2016; Hadani & Coombes, 2012; Shi et al., 2021), and political strategies (Hadani et al., 2019; Ozer & Alakent, 2012; Rudy & Johnson, 2019). Differing from prior literature, this thesis contributes to the CPA literature by investigating how CG shapes corporate political decision-making with an emphasis on corporate political transparency (Hillman et al., 2004; Lawton et al., 2013; Mithani, 2019; Schuler et al., 2019). Sixth, this thesis contributes to the CG literature in many ways. Specifically, it shows new CG drivers of PSD such as female monitoring and advisory directors, board tenure, CEO duality, and board busyness. Additionally, this thesis opens up interesting research prospects on the role of ACs in shaping CPA and provides evidence that AC size, meeting frequency, age, education, gender diversity, and elite education can influence the level of PSD. As such, this thesis sheds some light

on several CG mechanisms that can enhance CPR, contributing to recent studies that identify several board characteristics that can enhance business ethics (Al-Bassam et al., 2018; Beji et al., 2020; Li et al., 2012; Mahadeo et al., 2012; Ntim & Soobaroyen, 2013a, 2013b; Soobaroyen & Mahadeo, 2012).

Seventh, this thesis contributes to the literature that discusses the implications of political risks. Observably, prior research on political uncertainties concentrated mainly on events such as presidential elections and political stability at the country or aggregate level (Baker et al., 2016; Compton et al., 2017; Dai & Ngo, 2021; Ghoul et al., 2021; Nagar et al., 2019). Correspondingly, this thesis addresses this void by investigating the effect of firm-level political uncertainty on PSD. To the best of my knowledge, this study is the first to examine the direct relationship between firm-level political risks and corporate political transparency.

Eighth, this thesis contributes to the literature on corporate political strategy and connections. While prior literature focused on corporate political strategies' determinants (Ozer & Alakent, 2012; Rudy & Johnson, 2019), the implications of different corporate political strategies on corporate behavior in general and on corporate political transparency in particular is largely unexplored (Arifin et al., 2020). As such, this thesis provides first-time evidence that the intensity of relational and transactional CPA influences PSD. In a similar vein, this thesis contributes to the literature by investigating the implications of the appointment of revolving doors by providing evidence that the appointment of revolving doors can enhance CPR. My analysis for the implications of revolving doors on CPR is a direct response to McCrain (2018) who call for more examination on how revolving door lobbyists can shape corporate strategies. To the best of my knowledge, this study is the first to examine the direct influence of relational CPA, transactional

CPA, and revolving doors on CPR. Hence, this study offers novel evidence of the influence of different political strategies on CPR.

Ninth, this thesis contributes to literature on blockholders' dark side in shaping corporate behaviors (Heflin & Shaw, 2000; Jiang et al., 2020; Rubin, 2007; Shohfi & White, 2020; Smaili et al., 2021; Sun et al., 2015). Specifically, it provides first-time evidence that institutional blockholders' political spending is negatively associated with PSD and that this negative association is less pronounced in firms with better governance structures. This not only contributes to the literature on institutional ownership (Bird & Karolyi, 2016; Bushee, 1998; Chen et al., 2007; Hartzell & Starks, 2003; Helling et al., 2020) but also documents another important dimension of institutional investors which is their political spending.

5.2.2 Contributions to theory

First, this thesis extends our understanding of the role of agency theory. Specifically, this thesis extends agency theory by providing evidence of the divergence of owners' preferences towards PSD and by providing evidence that different contexts can operationalize the ownership structure-PSD nexus (Ali et al., 2022). This thesis shows how critical it is to consider the channels or mechanisms that operationalize the interactions between different owners and PSD such as issue-specific lobbying expenditures, the degree of tax avoidance, nonfinancial and financial reporting quality, and industry concentration as these mechanisms uniquely configure the ownership-structure-PSD nexus. Hence, the thesis extends our understanding of what factors can functionalize how different owners demand PSD. For example, based on agency theory driven arguments, while we know that institutional investors demand more PSD to reduce agency costs, my findings extend this understanding by providing evidence that institutional investors demand more PSD in the case of lower industry concentration. In other words, the existence of high

industry competition, which pushes firms to enhance their PSD to reduce their cost of debt, could reduce institutional investors' agency costs associated with PSD. Similarly, based on agency theory driven arguments, while we know that governmental ownership can increase PSD to reduce agency costs (Al-Bassam et al., 2018; Ghazali, 2007; Ntim et al., 2013), my findings extend this understanding by providing evidence that governmental investors demand lower PSD in the case of higher nonfinancial and financial reporting quality. Namely, the existence of higher nonfinancial and financial reporting quality may reduce governmental owners' agency concerns about PSD. Overall, the results extend the assumptions of agency theory about ownership structure-PSD nexus.

Second, this thesis advances our understanding of the CG–PSD nexus and shows the importance of combining agency theory and RDT when investigating how corporate boards influence corporate political transparency through their monitoring and advisory functions. Extending agency theory, the results in the second essay provide evidence of the monitoring role of the board emanating from female monitoring directors, non-excessive board tenure, AC size, AC meetings, and AC education level in enhancing PSD. At the same time, extending RDT, the results in the second essay provide evidence of the advisory role of the board emanating from female advisory directors, CEO duality, additional directorships, AC size, AC meetings, AC age, and AC education level in fostering PSD. As such, my comprehensive dual theoretical approach recognizes the diverse and dual roles that board members play in promoting CPR. As CPA is inherently associated with agency problems, the monitoring function of the board can minimize agency costs by exhibiting PSD, and the advisory function of the board can provide competitive advantage by promoting PSD. My integration or combination of agency and RDT in the second

essay is also consistent with the previous literature that supports this integration (Beji et al., 2020; Hillman & Dalziel, 2003; Pugliese et al., 2014; Zona et al., 2015).

Third, this work shows the importance of combining agency and legitimacy theories when investigating how the political climate the firm is operating in shapes its CPR practices. Specifically, I argue that firms may legitimize their political risks and their utilization of relational CPA, transactional CPA, and revolving doors through greater PSD. Exhibiting greater PSD would help those firms to reduce agency costs arising from information asymmetries of political risks, relational CPA, transactional CPA, and revolving doors and to increase the social acceptance of CPA. By doing so, firms can increase their political legitimacy and reduce their political agency problems. Additionally, my results support principal-principal agency conflicts about how the political capital of institutional blockholders (through their political spending) may enable their political opportunism in their investee firms through limiting PSD (Sun et al., 2015). My integration or combination of agency and legitimacy theories in the third essay is also consistent with the previous literature that supports this integration (Garanina & Aray, 2021; Mio et al., 2020; Oliveira et al., 2011; Reverte, 2009).

5.3 Implications and recommendations

Given the importance of PSD to many stakeholders across countries (Cohen et al., 2019), this thesis offers several important implications that are of interest to several stakeholders including regulators, policymakers, shareholders, academics, business leaders, and politicians. Such implications can provide useful recommendations and policy changes to enhance corporate political accountability and responsibility.

First, policymakers should prevent corporate insiders from holding significant proportions of shares because large ownership reduces PSD. While insider ownership can align managers'

interests with those of shareholders (Jensen & Meckling, 1976; Johnson & Greening, 1999), the results of the first essay indicates that higher insider ownership is negatively associated with PSD. Therefore, potential investors interested in greater corporate political transparency should be cautious of significant insider ownership. Second, since my results show that different owners have divergent or competing preferences regarding PSD, firms should develop more superior intervention mechanisms such as specialized political committees, which is still uncommon practice, or develop PSD-focused divisions to manage such divergent views. As principal-principal agency conflicts exist in many places around the world (Hill & Jones, 1992; Velte, 2022), policymakers and regulators should work on converging such conflicts, especially when these conflicts are related to CPA, to manage owners' divergent political preferences. Third, it is critical to consider various contingencies when studying ownership structure-PSD nexus such as issue-specific lobbying expenditures, tax avoidance, nonfinancial and financial reporting quality, and industry concentration because such factors can operationalize the relationship between ownership structure and PSD.

Fourth, the results suggest the importance of female directors holding monitoring and advisory positions for more ethical CPA. This implication supports several suggestions and recommendations made by various scholars to promote more gender diversity on corporate boards (Cook & Glass, 2017; Galbreath, 2018; Glass & Cook, 2018; Hoobler et al., 2016; Mahadeo et al., 2012; Post & Byron, 2015; Zalata et al., 2019). More specifically, these results support the arguments of prior studies that it is not just about the participation of female directors on corporate boards, it is about appointing female directors in certain positions and with certain characteristics to enable female directors to add value (Gull et al., 2018; Zalata et al., 2019).

Fifth, my results support the call for limits on excessive board tenure because of its unfavorable implications on PSD. While board tenure can bring a wide range of benefits such as experience and accumulated firm-specific knowledge (Katmon et al., 2019), it increases the cost of debt (Anderson et al., 2004), augments the likelihood of financial misstatements (Sharma & Iselin, 2012), reduces firm performance (Huang & Hilary, 2018), and finally curtails PSD.

Sixth, I provide evidence that board busyness offers economic benefits to societies by enhancing firms' political transparency, suggesting that director interlock can add value to stakeholders. Additionally, I provide evidence that increased CEO power through CEO duality motivates CEOs to incorporate changing business needs including greater corporate political transparency. Hence, potential investors who are interested in more transparent political reporting can consider CEO duality positively.

Seventh, contrary to the widespread notion that the AC's role is limited to financial reporting oversight, the thesis's findings suggest that the AC's role extends to PSD, supporting prior studies that call for increasing responsibilities of ACs (Beasley et al., 2009; Sharma & Iselin, 2012; Sultana et al., 2015). Eighth, the results have direct implications regarding the appointment of AC members with certain characteristics to promote CPR as the disclosure of such information reduces investors' concerns over dark money. Since current AC-related codes do not generally address the importance of AC age and education, rather fundamentally focusing on AC independence, composition, and financial expertise, I suggest that governance regulators may develop regulations in these areas to enhance CPR. Based on my results, I recommend the appointment of at least one AC director with an educational background from elite universities to promote PSD and CPR. Ninth, my results highlight the need for combining both agency theory and RDT to better explain the dual roles (monitoring and advisory) of the board of directors in relation to PSD.

Tenth, corporate stakeholders can consider a firm's political uncertainties positively as firms show greater PSD during heightened political threats. While political risks may lead to fewer investment decisions (Gulen & Ion, 2016; Jens, 2017; Julio & Yook, 2012), less efficient mergers and acquisitions (Bonaime et al., 2018; Chen et al., 2018; Nguyen & Phan, 2017), higher cost of debt (Kaviani et al., 2020; Pástor & Veronesi, 2013), retaining of slack resources (Lee et al., 2019), depressing initial public offerings (Çolak et al., 2017), and deteriorating external finance environment (Pan et al., 2019), political uncertainty can still motivate corporations to exhibit higher political transparency.[51] Specifically, managers may want to exhibit greater PSD to alleviate investors' concerns about corporate dark money and agency costs arising from information asymmetries of political risks.

Eleventh, stakeholders can consider the intensity of relational CPA, transactional CPA, and revolving door lobbyists as tools fostering corporate CPR. While it can be argued that CPA in general is associated with inevitable and inherent agency problems, it seems that specific forms of CPA, including relational approach, transactional approach, and revolving doors, can at least promote CPR. My results support the arguments of Barron & Skountridaki (2020), who assert that lobbyists incorporate the ethical dimensions of their lobbying profession when representing their clients against politicians.

Twelfth, corporate shareholders, especially minority shareholders, should be wary of corporate blockholders' political spending and firms led by institutional Republican blockholders because of their unfavorable implications on PSD. Hence, potential investors should understand that institutional shareholders' political spending and internal political polarization can

[51] In response to these negative effects, economic actors execute more cautious decisions during periods of political uncertainty such as hiring reduction (Ilut & Schneider, 2014), and increase cash holding (Duong et al., 2020; Julio & Yook, 2012).

significantly shape their investee-firms corporate political policies (Kim et al., 2020; Li et al., 2020).

Thirteenth, since PSD is still voluntary in nature, I recommend directing more attention to the quality of PSD. Specifically, policymakers can strengthen political reporting by directing executives to make "forward-looking" and "quantitative oriented" political disclosures. I also suggest developing a disclosure framework that maintains the minimum level of reliability and relevance. For instance, adopting a PSD framework that is consistent with GRI can provide firms with guidelines and rules regarding PSD to enhance its comparability, understandability, and consistency. Fourteenth, since PSD information is dispersed in many places because of separate filings requirements with different organizations, I suggest the unification of the political reporting process into a single "political performance report". Fifteenth, this thesis sheds light on CPR as one of the most important sustainability metrics that should be "injected" in the traditional CSR metrics in the future. Hopefully, these results can help regulators and policymakers to make ameliorations in CG to promote CPR and PSD.

5.4 Limitations and suggestions for future research

The thesis has some limitations that could be considered opportunities for future research. First, the disclosure and governance proxies may not fully represent actual managerial practice. Therefore, future research may use qualitative approaches such as case studies, interviews, and observations to gain deeper and richer insights on PSD and mechanisms that govern corporate dark money. Specifically, future researchers can obtain an in-depth understanding of corporate political transparency by interviewing politicians, lobbyists, directors, and business leaders whose stronger ties with the upper level of social classes may bring rich discussion on corporate political affairs. Second, given the rapidly growing attention on corporate political affairs, especially after the

Supreme Court's decision in Citizens United, this thesis calls for more research that examines other unrevealed drivers of corporate political spending transparency which will be of interest to many stakeholders around the world. Third, while this thesis provides evidence on the role of female monitoring and advisory directors in enhancing PSD, researchers can extend this line of research by investigating the optimal gender balance that leads to more CPR and exploring other specific attributes of female directors that can promote PSD (Gull et al., 2018; Nekhili et al., 2022; Usman et al., 2022).

Fourth, while I provided evidence that directors' age, tenure, education, and elite education are important in enhancing corporate political ethics, researchers can extend this literature by examining how age, tenure, and education diversity influence corporate political decision-making (Katmon et al., 2019). Fifth, other CG mechanisms could be explored, such as directors' compensation structures and performance evaluations (Musteen et al., 2009; Sobhan & Adegbite, 2021). Similarly, while the second essay focused on overall board busyness, future research can investigate how AC busyness can influence PSD (Ghafran et al., 2022; Hussin et al., 2021; Lawati et al., 2021). Additionally, while the third essay provides evidence that institutional blockholders' political spending drives PSD, future studies can investigate the influence of other attributes of institutional investors such as institutional investors' distraction (Garel et al., 2021; Liu et al., 2020; Ni et al., 2020; Schmidt, 2019). In a similar vein, while I document that Republican-led institutional investors can reduce PSD, other internal and external parties may influence institutional blockholders' ability to influence PSD. For instance, the political views of the corporate board of directors may operationalize either firm management or institutional blockholders, which may in turn affect PSD (Shi et al., 2021).

Sixth, how these companies gain from becoming more politically responsible remains an open research question. Specifically, future scholars can examine which issue-specific lobbying expenditures are associated with PSD (Brown et al., 2014). Seventh, since PSD is considered a risky kind of disclosure practice, future researchers can examine the role of risk committees and its characteristics in shaping corporate PSD (Al-Hadi et al., 2016). Eight, since this thesis used only S&P 500 firms, future studies could use bigger sample sizes or samples from different countries to increase the generalizability of the results. Ninth, due to the limitation of using CPA-Zicklin PSD as a proxy for political transparency, further studies could develop measures in relation to the quality of corporate political transparency.

Tenth, while this thesis relied on classical agency theory, other extensions to agency theory could have been applied such as social agency theory (Nguyen & Soobaroyen, 2022) or stakeholder agency theory (Hill & Jones, 1992; Velte, 2022). Eleventh, other important factors could have been considered in this study such as cost structure. Recent research has provided evidence that corporate cost behavior can predict firms' socially responsible practices. In extending this stream of research, future scholars could examine the association between a firm's cost behavior and CPR (Habib & Hasan, 2019; Ibrahim et al., 2022). Similarly, whether CEO empire-building motivation can promote CPR can be an interesting research question. Relatedly, future studies may also investigate how CEO characteristics shape PSD. Indeed, relying on upper echelons theory, Rudy & Johnson (2019) provide evidence that a CEO's age, tenure, functional, and educational background have a significant effect on whether and how corporations invest in political activities. In extending this line of enquiry, future researchers can investigate how such CEO characteristics and CEO compensation can influence PSD.

Twelfth, recent research provides evidence that firms with disclosure committees are more likely to exhibit more informative, timely, and high-quality disclosure practices, indicating that disclosure committees are not merely 'window dressing' (Bailey et al., 2022). Future researchers can examine the direct influence of such disclosure committees on PSD. Thirteenth, recent research provides evidence that corporate citizenship may motivate firms to engage in more socially responsible behaviors (Azizan & Shailer, 2021). Hence, future studies can examine whether this argument naturally extends to CPR activities. Interestingly, future scholars can also examine whether politically responsible firms are really ethical by simply examining the association between PSD and the level of earnings management (Kim et al., 2012; Prior et al., 2008). Similarly, future researchers could examine whether politically responsible firms are indeed environmentally responsible. Fourteenth, future research could examine the consequences of making PSD. Specifically, future scholars can examine the influence of PSD on stock price returns, corporate reputation, audit fees, and credit ratings. Fifteenth, future research could investigate the extent to which PSD substitutes or complements other kinds of discretionary disclosures such as environmental reporting in alleviating owners' anxieties about corporate dark money. Finally, future research could examine whether a corporate presence on various social media platforms such as Facebook and LinkedIn motivates corporations to exhibit PSD.

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