Do shareholder views affect corporate political activities?

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ABSTRACT

In this paper, we study shareholder views on corporate political contributions. We find that, with shareholders' explicit approval, firms are more likely to have higher corporate political contribution, measured by the amount of donations to the US political parties in the next election cycle. Firm's political contributions also have a positive long-run impact on firm valuations. When analysing firm's political ideology, we find weak evidence that Democratic party may benefit more from this shareholder's support than Republican party, particularly in case of firms which have recently switched their political ideology to Democratic party. Our results show that shareholders' explicit approval has an impact on firm's engagement of political activities and imply that if the shareholders stand at the same side of the firms, firms engage more in politically-related corporate activities. Our key results are supported in a regression discontinuity design and are robust to two-way clustered standard errors.

1. Introduction

There are tremendous interests in corporate political activities since an important US court decision on Citizens United vs. FEC argument.[1] Before this landmark decision, corporate political donation was rather limited because corporate donation could be only made via firm's FEC-registered corporate political committees. However, the court ruling has relaxed the limitation and firms can now spend on political activities, e. g., donation and lobbying directly. Meanwhile, parties are taking full advantage, tripling their corporate fundraising per election cycle, taking in $385.5 million for the 2018 election cycle, up from less than $122 million in the 2008 election cycle, according to the report from Center for Political Accountability.[2] However, corporate political activities have also recently raised concerns about undue corporate influence on controversial issues. For instance, Channel 4 news reported how the US energy industry lobbied a member of Congress against legislative action on climate change.[3]

Interestingly, despite the increased corporate political activities observed in recent years, academic researchers are debating the benefits, as many studies do not find evidential operational performance benefits of firms actively engaged in corporate political activities. For example, Cooper, Gulen and Ovtchinnikov (2010) find positive relationship between corporate political expense and its future stock return, but Hadani and Schuler (2013) do not find a consistent relationship of

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[1] Here we briefly explain this ruling. The FEC (Federal Election Commission) is a US independent regulatory agency to administrate and enforce the political finance law; one of their missions is to monitor how the political figures / parties are financed by political donations. Under the Federal Campaign Act, corporates and labour unions are prohibited from using their direct money to make electioneering communications or for a speech that advocates / defeats expressly for an election or a candidate. In January 2008, Citizens United, a non-profit corporation, planned to release a film about the then-Senator Hillary Clinton, who was a candidate in the Democratic party's primary elections at that time. Since the timing of releasing the film would violate the act's ban on corporate-funded electioneering communication, Citizens United challenged the constitutionality of the ban (i.e., against the rights of freedom of speech). At the end, the Supreme Court stood in flavour of Citizens United. The ruling also overruled earlier decision on ban on political expenditures by corporations and ban on making electioneering communication. The ruling effectively frees corporations and labour unions to spend their money on corporate political activities and therefore encourages their political engagements. More timelines and explanations for the ruling can be found in FEC (https://www.fec.gov/legal-resources/court-cases/citizens-united-v-fec/).

[2] See report, "Conflicted Consequences", URL: https://politicalaccountability.net/hifi/files/Conflicted-Consequences.pdf.

[3] See report, "Revealed: ExxonMobil's lobbying war on climate change legislation", URL: https://www.channel4.com/news/revealed-exxonmobils-lobbying-war-on-climate-change-legislation.

corporate political spending leading to better corporate performance. Nevertheless, there are growing academic interests in corporate political activity, recently in particular regarding stakeholder influences on corporate political preferences. For example, Greiner and Lee (2020) and Babenko, Fedaseyeu and Zhang (2020) find that CEO's political preference also affects the level of corporate political activity.

In this paper, we study the determinants of corporate political activities from other stakeholders. Particularly, we focus on the influence from the shareholders. There is structural change in shareholder constituents. Fifty years ago, almost 80% of US corporate equity were directly owned by households, but now the direct ownership has declined dramatically over the years. Nowadays only 38.3% of US corporate equity is directly owned by households, with the remainder indirectly held by different asset managers, also known as institutional investors, of which mutual funds are the largest group (Dasgupta, Fos and Sautner, 2020). Since the institutional investors hold most of the US equity, their views on corporate political activities are important. However, this is not yet investigated. Hence, our paper contributes to the literature by filling this gap.

We analyse shareholders' voting in firms' annual shareholder meetings and how the voting outcome affects corporate donations to US political parties over the sample period of 2009—2018. We focus on the donations to the two main political parties—Republican and Democratic parties. We find that firms with shareholders' explicit support for engaging in political activities are likely to increase their amount of political donation in the next election cycle. It indicates that shareholders' views are also an important determinant of the corporate political activities. It also means that with shareholders' supports, firms are more likely to have higher corporate political contribution. The impact of shareholders' views on corporate donation is also confirmed by the "regression discontinuity design" (RDD). The RDD methodology is often used to test causal inference since it approximates very closely the ideal setting of randomised control experiments (Lee & Lemieux, 2010).

We also investigate if there is difference in shareholders' views for firms with different political preference. Early studies find that firms' political preference are influential (Babenko et al., 2020; Bhandari & Golden, 2021; Bhandari, Golden and Thevenot, 2020). Their findings imply that stakeholders may react differently towards to firms' political preferences. Motivated by their findings, we conduct two investigations to analyse firm's political difference. First, we investigate whether shareholders have different voting behaviours when firms are pro-Democratic party or pro-Republican. Second, we test if shareholders have different tendencies to pass a proposal related to corporate political contributions given the political preference.

Indeed, we find shareholders' support varies for firms with different political preference. We find that shareholders are more likely to support firm's political activity for firms in favour of Democratic party, as we document that the shareholders have higher chance of agreeing proposals on corporate political activities for firms in favour of Democratic party than Republican party. However, such difference in voting behaviour does not seem to have a strong impact on the amount of firm's political donation. With regard to political preferences, we only find weak evidence that Democratic party may benefit more from this shareholder's support than Republican party, particularly in case of firms which have recently switched their political ideology to Democratic party.

Last but not least, we test if firm's political contribution is related to firm's performance, and we document that the increase in political donation improves firm's long-run Perter and Taylor's Total *q* (an improved version of Tobin's *q*). The results support the resource dependence theory, the theory explaining that firms can have stronger resource base by increased corporate political activities (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978).

Our paper joins a rapidly growing literature that examines corporate political activities and ideology (Feldman, Kang, Li and Saxena, 2021; Gupta, Briscoe and Hambrick, 2017; Gupta, Fung and Murphy, 2021;

Halford & Li, 2019; Hutton, Danling and Kumar, 2015; Kim, Ryou and Yang, 2020; Park, Boeker and Gomulya, 2020; Wong & Hooy, 2018). Prior studies have examined political ideology of firms (Gupta et al., 2017; Hutton et al., 2015), boards (Goldman, Rocholl and So, 2013; Park et al., 2020; Sun, Hu and Hillman, 2016), and CEOs (Hadani & Schuler, 2013; Han, 2019; Babenko et al., 2020; Gupta et al., 2021), as well as the impacts of political connections and activities on firm performance. We provide insights on the attribution to firm's political activities; in particular, we show that shareholders' views are also an important factor for firm's engagement of political activities. Our findings imply that if the shareholders stand on the side of the firms, firms are more likely to engage in politically related corporate actions.

The rest of the paper is structured as follows: Section 2 provides relevant literature and formulates the hypotheses; Section 3 describes the data; Section 4 presents the empirical results; and Section 5 concludes.

2. Literature review

Our study is linked to several strands of literature on corporate political activities and on institutional proxy voter.

There is growing interest in literature on corporate political activities. In particular, since the ease of corporate political activities in 2010, the US corporations' discourse and transparency on their political activities, particularly, become rather concerning.[4] Douglas Beets and Beets (2019) find that, since the lack of transparency and disclosure in terms of corporate donation directly from the companies instead of through the corporate foundations to support political activities, it encourages the US corporations to potentially circumvent the donation to be monitored if the payment could be considered inappropriate by other stakeholders. Therefore, corporations may use such ethically questionable strategy to benefit for their own. Similarly, Mithani (2019) supports the idea of the urgent demand of the corporate donation transparency; furthermore, he suggests a mandatory disclosure of the corporate political donation instead of an encouragement of disclosure, as there is a lacking of motivation due to the absence of economic benefit for firms to disclose their political expenditure.

Apart from the legislative concern over corporate donation transparency and disclosure, many researchers are interested to discover how corporate political activity influences the political and governmental policy making procedure and vice versa. Many studies have investigated whether corporate political activity (CPA), defined as the corporate attempts to shape government policy (Hillman, Keim and Schuler, 2004), is really important to business. Since today nearly every aspect of the business is regulated, the cost of business compliance, as a result, may be significant. Hence, for corporations, there is obvious motivation to avoid or at least reduce the incurred cost or risk from the complex regulatory obedience (Mitchell & Joseph, 2010). Therefore, many corporations may view the cost of corporate political activity as an investment in business fluency. Researchers also rely on Resource Dependence theory to explain the purpose of CPA. Resource Dependent theorists argue that by establishing a politically connected firms are able to reduce external environmental uncertainty (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978); also, the political connection provides firms with richer political capital (Mitchell & Joseph, 2010). However, the empirical results for corporate political activity leading to better financial performance are mixed. Several studies (e.g., Cooper et al., 2010; Goldman et al., 2009; Hadani & Schuler, 2013; Wong & Hooy, 2018) find positive relationship between corporate political expense and its future stock return, suggesting a reward from the expense of the corporate political investment. In another related study by Goldman et al. (2013), US firms with politically connected board of directors can get more allocation of

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[4] See the account by Hindery (2013): https://www.huffpost.com/entry/further-unmasking-corpora_b_4386215.

government procurement contracts, highlighting one of the avenues through which corporate political connections add value to US firms. Wong and Hooy (2018) study how firm's types of political connections affect firm's performance. They focus on Malaysian firms as there were regulation changes and historically some firms were formerly state-owned. The authors group the firms into four types of political connections – government-linked companies, board of directors, businessman, and family members – and find that only government-linked companies and board of directors can positively affect firm's performance. It indicates that the effect of political connection is important only in a stable connection. In a relevant strand, Feldman et al. (2021) document a reversed effect of politician's campaign on firm's investment decision-making. The authors introduce political tournament "participation/inclusion" games among competitors for political promotion in China's Congress elections. They document tournament-synchronised corporate decision-making cyclicality, indicating the corporate investment's sensitivity to political election.

On the other hand, Hadani and Schuler (2013) do not find consistent relationship of corporate political spending leading to better corporate performance, except that the sector of the corporations is highly regulated. Ansolabehere, De Figueiredo and Snyder (2003) find that the return of corporate political activities does not appear unless the efforts are successful. Chen, Li, Luo and Zhang (2017) and Sun et al. (2016) argue that CPA has a double-edged effect: while political firm's political connection can bring some benefits to firm's performance, the connected politicians tend to engage in rent-seeking behaviours, i.e., politicians seek to gain added wealth without any reciprocal contribution of productivity. Overall, the findings on corporate political activity in relation to firm performance importance is vague. In addition to CPA's effect on firm's performance, research also finds CPA's effects on different aspects e.g., firm's innovation (Han, 2019) and corporate social responsibility performance (Gupta et al., 2017; Gupta et al., 2021).

Given the mixed evidence of the CPA benefit on corporate performance, researchers are interested in the reason of conducting CPA beyond financial performance. Greiner and Lee (2020) find that the level of CPA is linked to CEO's political preference. They find positive association between CEO's compensation and ideological CPA, measured by three political science models such as Keith Poole's NOMIATE model. The purpose is to test whether Congress's voting behaviours are affected by firms. Their findings support the idea that the reason behind CPA is related to managerial discretion. Similarly, Babenko et al. (2020) document the relationship between CEO and employee campaign contribution because they find that CEO-supported party candidates received three times more corporate donation from employees than those who are not supported by the CEO. Interestingly, since there is a link between CEO and the level of CPA, Rudy and Johnson (2019) further find that CEO's age, tenure, and the functional and educational background are the portrait of the CEOs that influence if a firm engages in political activities. Han (2019) document that CEO's political ideology affects firm's innovation. In addition to CEO's political preference, the political connection of board of directors is also investigated. Studies find that board of director's political capital affects firm's performance (see, e.g., Hadani & Schuler, 2013; Wong & Hooy, 2018; Goldman et al., 2009; Sun et al., 2016) and the choice of organization restructure (Halford & Li, 2019).

There are other studies on the attributes to CPA. Liedong (2020) find that ethicality of CPA is determined in weak institutional environment. McMenamin (2020) explores whether firm have partisan preference in CPA in the UK and find that political donations shift both to left and right spectrum of political stance; as a result, central-right parties cannot rely on their party identification to attract business donations. Kim, Kim, Pantzalis and Park (2019) find that the benefit of CPA is related to firm risk, not performance, as corporations can hedge their systematic (beta) risk by undertaking various political strategies such as contributions to political campaigns and corporate lobbying activities.

Interestingly, the current literature on the attributions to CPA mainly focuses on the CEO's or board of director's influence. Other aspects of the corporate stakeholders are much less discussed. Particularly, the importance of shareholders is sometimes overlooked in literature in the past, and not until recent academic studies do they find to be important in corporate governance and decisions. Flammer and Bansal (2017) find that shareholders' opinions on execution compensation can explain the future corporate profit and operational performance, indicating that shareholders' long-term orientations on executives are also important on firms' value creation. He, Kahraman and Lowry (2020) find that failed environmental and social proposals with higher shareholders' supports significantly predict future firm risk. The study on shareholder's view is growing, albert few. Recently, academic researchers start to investigate the ideological preference of the shareholders. Bolton, Li, Ravina and Rosenthal (2020) use the W-NOMINATE method to map institutional investor's ideology and find that public pension funds are more left-wing supporter, whereas more social and environmental oriented, and money-conscious investors such as mutual funds are more of a right-wing supporter in terms of more supportive on executive compensations proposals. Similar findings on conflict of interest among shareholders are documented in Duan, Jiao and Tam (2020), where the authors find that public pension funds (or mutual funds) are considerably more supportive of activist shareholders (or management team) in voting.

Notwithstanding, there is little literature on shareholders' views on corporate political activity. At the time of writing, we only find Goh, Liu and Tsang (2020) study on this aspect. They document that the voluntary disclosure of corporate political spending is positively related to the number of institutional investors, in addition to other firm characteristics such as better corporate social responsibility performance and corporate governance. Their findings shed light on us to further investigate whether shareholder's view can influence the corporate political activities.

Finally, our study is also related to the strand of literature on the determinants of firm's political ideology. In the political science literature, personal preference on policy issues is related to political party's preference (Abramowitz & Saunders, 2006); in finance, some studies also show that CEO's political preference can influence firm's political ideology (Babenko et al., 2020). Moreover, several studies have identified that firm's political ideology affects corporate conducts and its ethical values differently, depending on the political party that the firm supports. Hutton et al. (2015) measure firm's political culture by the corporation-related political contributions and find that firms with a Republican-oriented culture are more likely to have business misconducts relating to civil rights, labour, and environmental issues, while firms with Democratic-oriented culture are more likely to have business misconducts relating to security fraud and intellectual property violations. Han (2019) finds that a firm with Republican-oriented CEO has a negative impact on employee's innovation incentives, as such firm has lower level of corporate innovation and more flexible employment policy. While most studies on the determinants of firm's political ideology mostly concentrate on the importance of their CEO (see, e.g., Babenko et al., 2020; Han, 2019; Park et al., 2020), Kim et al. (2020) investigate institutional investor's political preference and document that their preferences also have an impact on firm's corporate environmental disclosure; they find that firms having Republican-oriented institutional investors are less likely to issue environmental reports. Inspired by these studies on corporate political preference, we also look at how shareholder's view form corporate political ideology.

2.1. Main hypotheses

Next, we develop our hypothesis testing regarding shareholders' views on corporate political activities. Interestingly, as discussed in literature review section, the link between shareholders' views and corporate political activities is not yet explored; nevertheless, our conjecture is based on two connections of rationales in corporate

political activities.

The first rationale is related to how the political preference of firm's top managers affects corporate political activities. As said, Rudy and Johnson (2019) find that CEO's age, tenure, and functional and educational backgrounds affect whether and how the firms invest in political activities; their results support the upper echelons theory in which top managers handle corporate situations through their own highly personalised views (Hambrick, 2007; Hambrick & Mason, 1984). Recently, Babenko et al. (2020) find CEOs' political preferences to be also influential on their employees' political choices, as CEO-supported political candidate receive 3 times more money from their employees than the candidate not supported by the CEO.

The second rationale is to relate shareholders' votes to the reaction of board directors. There are some debates on the effectiveness of the shareholder votes. For example, Bhagat and Brickley (1984) find that the influence of shareholders' votes are severely weakened when firms eliminate cumulative voting; in addition, if the voting is strongly controlled by managers, there is negative reaction from shareholders (Gompers, Ishii and Metrick, 2010; Morck, Shleifer and Vishny, 1988). On the other hand, managers who are faced by frequent shareholder votes might eventually cater to blocs of voters and compromise the firms' long-term interests (Aghion & Tirole, 2016; Burkart, Gromb, & Panunzi, 1997; Karpoff & Rice, 1989).

Combining the two rationales, we form our first hypothesis:

H1. *: Shareholder views have an impact on corporate political donations.*

We then further test if the impact of shareholders' views is different if firms have different political preference. Prior studies find that firm's political ideology affects firm's conducts (Han, 2019; Hutton et al., 2015; Kim et al., 2020) and firm's stakeholders react differently towards to firm's political preference. Babenko et al. (2020) find that CEOs' political preference can affect their employees' political choice. Bhandari and Golden (2021) further find that CEOs' political ideology, measured by their political contributions, affects firms' risk appetites. The authors document that a Republican-supporting (Democratic-supporting) CEO is associated with higher (lower) credit rating of firm and lower (higher) audit fees. The empirical findings suggest that organisational political ideology also forms an ideological leaning regarding firm's practices and policies, i.e., firm's business practices and policies resemble or have similar spirits of the political party's stance that the firm supports. Prior studies focus mostly on top management team such as CEO. Here, we investigate another important stakeholder of the firm, i.e., shareholder, and study if shareholder's view is related firm's political ideology.

In general, the commonly recognised political stance of the Democratic party is to promote social justice, labour union, and equal rights in stakeholders; on the contrary, the political stance of the Republican party is to support free capital movement, deregulation of corporations, and restriction of labour union. Although the two parties have many facets in their political stance and sometimes they cannot be compared directly, Democratic party seems to be more supportive to stakeholders, given their party culture. In the contexts of corporate governance, a firm with Democratic-party-oriented is more likely to reduce the principal (manager)-agency (shareholder) conflicts, hence shareholders are more likely to show their supports in the proposals.

Motivated by the prior discussion, our second hypothesis is formulated as follows:

H2. *: Shareholder views are different if firms have different political preference; specifically, shareholders are more (less) supportive to Democratic (Republican)-oriented firms.*

Our final hypothesis is related to the impact of corporate political contribution on firm's performance. Following Resource Dependence theory, a more politically-connected firm is more likely to have stronger resource base, thereby improving their performance. Moreover, we reckon the effect of political connection is prone to long-run effect, as

political benefits usually take time. Therefore, our final hypothesis is formulated as follows:

H3. *: Corporate political contribution can have positive and long-run effect on firm's performance.*

3. Data

Data are collected from multiple sources. Firm-level political contribution data are collected from the Center for Political Accountability (CPA).[5] CPA screens through US firm's political donations to the

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[5] Center for Political Accountability: https://politicalaccountability.net/.

Table 1

Descriptive statistics.

Panel A: All Variables				
	Mean	STD	99-percentile	1-percentile
Donation Growth	0.09	1.18	2.68	−5.14
Pass	0.44	0.50	1.00	0.00
#Vote	562.20	495.56	1843.60	1.00
Board Size	11.54	1.80	15.61	7.58
Board Male Ratio	0.80	0.07	0.95	0.64
ROA	0.12	0.08	0.28	−0.02
Leverage	0.48	0.29	1.59	0.01
B/M Ratio	4.56	10.49	55.52	0.41
Total Asset ($bn)	0.26	0.56	23.41	0.02
Inst Hlds	0.65	0.25	0.96	0.00
ISS	0.52	0.50	1.00	0.00
GL	0.35	0.48	1.00	0.00
Total q	0.68	5.00	5.93	−0.29
Stock Return	0.15	0.17	0.64	−0.21

Panel B: *Pass* Variable by Year			
	Mean	STD	N (%)
2009	0.87	0.34	5%
2010	0.83	0.38	6%
2011	0.77	0.43	9%
2012	0.26	0.44	12%
2013	0.27	0.45	10%
2014	0.38	0.49	14%
2015	0.39	0.49	11%
2016	0.38	0.49	13%
2017	0.57	0.50	11%
2018	0.71	0.46	10%

Panel C: Firm's Sector Distribution	
Sector	#Firm
Basic Materials	3
Communication Services	4
Consumer Cyclical	13
Consumer Defensive	10
Energy	9
Financial Services	13
Healthcare	19
Industrials	20
Real Estate	2
Technology	7
Utilities	11
Total	111

This table reports the summary statistics over the sample period of 2009—2018. The number of observations is 372.

six political committees[6] that are related to the two main US political parties—Democratic and Republican Parties, as they are the top political spenders and the leading roles in reshaping the state and national politics and policies.

Corporate shareholder voting data are obtained from Proxy Insight. From Proxy Insight, we are able to understand how each institutional proxy voters vote (i.e., 'for', 'against', or 'abstain') in each shareholder proposals of the corporate annual meeting. In addition, Proxy Insight also provides some brief proposal information, e.g., resolution category, rationale, and other information, etc. For each proposal, Proxy Insight provides two sets of information. The first one is the outcome of the proposal together with the brief proposal description, which also includes proposal category. We use this information to filter the proposal. In this paper, we select only proposals under Political Activity, as these proposals are directly related to the corporate political contribution. Under the Political Activity category, shareholder resolutions are proposed relating to agreement to political donation, lobbying agenda, etc. In addition, the proposal is passed if the number of "for" is larger than the number of "against". The second set of information is how individual voters' vote. Proxy Insight provides voter's vote record.

We use both proposal-level and voter-level information sets in this paper. The proposal level information allows us to analyse the impact of shareholder's view on firm's decision making, while voter-level information allows us to understand their voting strategy. Since these proxy voters hold various equity shares in their investment pool, we are able to test if their voting behaviour differ when firms have different political ideology. The proposals for political activity are comparatively a small category, compared with other categories such as corporate social responsibility category. On few occasions, when multiple proposals for political activity in the same annual meeting appear, we then follow Cuñat, Gine and Guadalupe (2012) and Flammer (2015) procedure to aggregate the proposals; therefore, we have firm-year observations. In addition, Proxy Insight also includes recommendations from relevant shareholder service companies.

Firm and its board characteristics are obtained from COMPUSTAT and BoardEx. We use firm's equity ticker to merge all the datasets and the sample period is from 2009 to 2018. Table 1 reports the summary statistics of the variables.

The main sample average for *Pass* is 0.44, indicating 44% of the proposal for corporate political contributions were passed in the corporate annual meetings. Panel B reports the statistics of *Pass* by years. We find that the numbers of observations (in proportion to overall sample size) in each year are rather similar (cf. last column). The percentage is around 10%, although we observe the numbers of observations are lower in the early sample years. We also spot the rate to pass a proposal increases over the sample period from 2012 (26% of pass rate) to 2018 (71% of pass rate). The pass rate was also high in early years, but these might the results of a relatively low sample size.

Panel C reports firm's sector distribution. We include more than 100 firms in our sample and the sample has a good coverage of sectors. While Real Estate, Basic Material, and Communication Services are the smallest sectors in our sample, Healthcare and Industrials are the largest sectors.

4. Results

4.1. Shareholder's view and CPA

To our *H1* hypothesis, we test whether shareholders' views, proxied

by the voting results, affect corporate political activities by:

$$Don_{it+1} = \alpha + \beta P_{it} + \gamma \, Controls_{it} + \varepsilon_{it+1} \tag{1}$$

where *Don* is the growth rate of the corporate donation; *P* is a dummy variable, taking 1 if the shareholders pass a proposal on the corporate political activity in election cycle *t* and 0 otherwise; *Controls* is a vector of control variables. Note that we do not conjecture the sign of the impact because the sign may be related to shareholders' political preference. If the shareholders' political preference is in line with corporate political preference, then positive impact is expected, and vice versa (Babenko et al., 2020). Also, the percentage change (i.e., growth rate) is used because corporate political donation is increasing over time, so we avoid spurious error. Another benefit of using change in donation is that we want to highlight the impact on corporate political donation in terms of shareholder's voting.

In addition to the main regression, we also conduct Regression Discontinuity Design (RDD) as robustness check for the results. The RDD methodology is often used to test causal inference since it approximates very closely the ideal setting of randomised control experiments; under the RDD assumption the voting outcome is as good as random around the majority threshold. In addition, RDD is popularly used to understand the impact of shareholder's voting in this strand of literature because of the characteristics of voting (Flammer & Bansal, 2017; Malenko & Shen, 2016; just to name a few). Following the spirit of the design, we repeat the regression but restrict the samples to close-call votes. We choose four levels of close-call votes, i.e., the differences between the *"for"* and *"against"* voters are ±5% , ± 10% , ± 15% , and ±20%, respectively.

We include several types of control variables.

Voting characteristics: We include the number of votes in the corporate annual meeting as well as the shareholder service recommendation. For the number of votes, we follow Cuñat et al. (2012), Flammer (2015), and Flammer and Bansal (2017) to use the polynomials of the votes. Here we choose first two polynomials to capture the meeting size.

In addition, shareholder service recommendation may also influence the decision of the shareholders. Cai, Garner and Walkling (2009) document that shareholders' votes on director's elections are influenced by the shareholder service's recommendations. The authors find that when ISS (Institutional Shareholder Services) recommends against an individual director, his/her vote is expected to drop by an average of 8%. Other studies have also documented the influence of the shareholder service recommendations on shareholder's voting behaviour (Alexander, Chen, Seppi and Spatt, 2009; Bethel & Gillan, 2002; Choi, Fisch and Kahan, 2008; Daines, Gow and Larcker, 2010). Here we include two shareholder services' recommendations—ISS and Glass Lewis. We simply use dummy variables to represent their recommendation for shareholders with 1 to indicate recommend "*for*" and 0 to indicate "*against*" the proposal.

Firm characteristics: The second set of control variables are firm characteristics. We include (i) Return on Asset (ROA), defined as EBITDA divided by total asset; (ii) firm leverage, defined as the value of debt divided by total asset; (iii) book-to-market ratio, calculated by the firm's book value divided by market value of the equity; (iv) accounting total asset (in billion dollars). We also include two variables related to firm's boardroom, i.e., (v) number of board directors and (vi) board gender ratio, defined as the proportion of male board directors sitting in the board; and finally (vii) institutional holdings in proportion to the total holdings. The inclusion of the firm characteristics is based on several studies on corporate finance, e.g., Bolton et al. (2020). Bolton et al. (2020) study the shareholder's ideology and find that shareholders' voting behaviour is related to the firm characteristics, e.g., size, market capitalization, book-to-market ratio, leverage, return on assets, as well as director characteristics.

The Regression Discontinuity Design (RDD) assumes that, around the majority threshold, the voting outcome is as good as random. Here we

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[6] The six political committees are the Democratic Governors Association (DGA), the Republican Governors Association (RGA), the Democratic Legislative Campaign Committee (DLCC), the Republican State Leadership Committee (RSLC), the Democratic Attorneys General Association (DAGA), and the Republican Attorneys General Association (RAGA).

Table 2
Randomisation test for firm characteristics.

	y = Pass				
	All Votes	Close-call Votes			
		[−5%, 5%]	[−10%, 10%]	[−15%, 15%]	[−20%, 20%]
Firm Characteristics					
Board Size	0.012	0.059	0.013	0.022	−0.000
	[0.46]	[0.35]	[0.27]	[0.49]	[−0.00]
Board Male Ratio	0.328	−0.858	−0.354	0.058	0.685
	[0.75]	[−0.12]	[−0.16]	[0.04]	[0.67]
ROA	−0.359	−0.031	−0.412	−0.269	−0.437
	[−1.18]	[−0.03]	[−0.93]	[−0.73]	[−1.45]
Leverage	0.114	1.729	0.522	0.588	0.393
	[0.37]	[0.80]	[1.13]	[1.56]	[1.17]
B/M Ratio	0.001	−0.197	0.003	0.008	0.003
	[0.25]	[−1.37]	[0.66]	[1.35]	[0.96]
Total Asset	0.033	8.306	1.382	2.300**	1.714*
	[0.07]	[0.73]	[1.10]	[2.09]	[1.72]
Inst Hlds	0.051	−0.751***	−0.328	0.127	0.065
	[0.22]	[−3.07]	[−0.84]	[0.33]	[0.17]
Vote Characteristics					
#Vote	−0.001***	−0.000	−0.001	−0.001	−0.000
	[−6.78]	[−0.08]	[−0.99]	[−1.33]	[−0.89]
#Vote^2	0.000***	−0.000	−0.000	0.000	−0.000
	[5.08]	[−0.10]	[−0.08]	[0.12]	[−0.25]
ISS	−0.081	−0.286	−0.214*	−0.138	−0.247**
	[−1.14]	[−0.89]	[−1.74]	[−1.27]	[−2.09]
GL	0.395***	0.052	0.394***	0.415***	0.383***
	[4.76]	[0.24]	[2.74]	[3.61]	[3.60]
R^2	0.35	0.29	0.40	0.35	0.32
N	372	79	142	175	197

This table tests the Pass dummy variable in relation to other firm-specific characteristics. The first column reports the regression results for the complete sample. The rest of the columns report the regression results for close-call votes. Firm fixed effects are controlled in the regression. Heteroscedasticity-robust firm-clustered standard errors are used to test for coefficient significance. ***, **, and * stand for 1%, 5%, and 10% levels.

present the randomisation test results. In a similar spirit of Flammer (2015) and Flammer and Bansal (2017), we test if the voting outcome is related to some pre-existing difference between companies. In our randomisation test, we simply regress the voting outcome on the firm-specific variables that we use in the main regression analyses. The regression results for the randomisation for firm characteristics are reported in Table 2.

The first column includes all the observations and test whether the
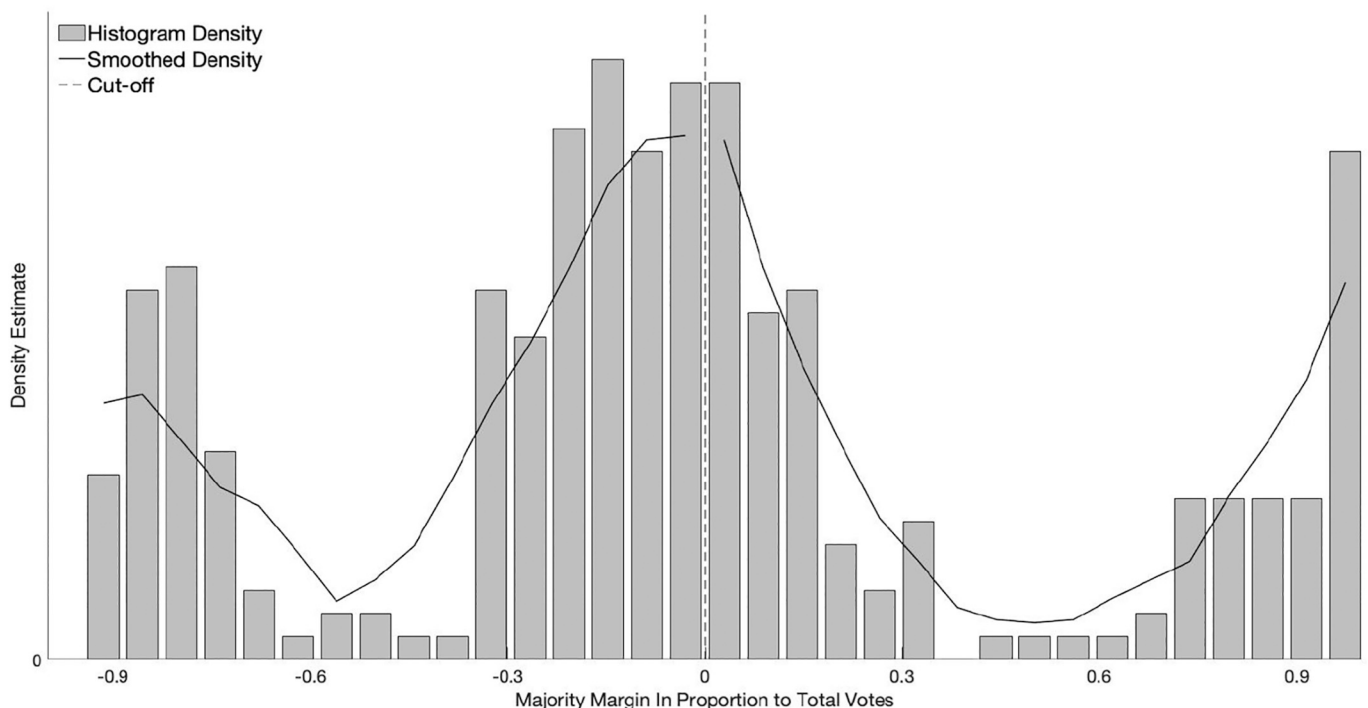
Fig. 1. McCrary (2008) Test for Discontinuity at Cut-off. The *p*-value for the null hypothesis that there is discontinuity at the cut-off is 0.866.

Table 3
Shareholder view on corporate political activity.

	y = Donation Growth				
	Model 1	Model 2	Model 3	Model 4	Model 5
Pass	0.183***	0.244**	0.164***	0.227**	0.282**
	[7.31]	[1.97]	[4.00]	[2.11]	[2.14]
Vote Characteristics					
#Vote		0.000		0.000	0.001
		[0.37]		[0.42]	[1.41]
#Vote^2		−0.000		0.000	−0.000
		[−0.17]		[0.20]	[−0.89]
ISS					−0.206**
					[−2.25]
GL					−0.058
					[−0.37]
Firm Characteristics					
Board Size			0.060	0.058	0.057
			[0.82]	[0.86]	[0.84]
Board Male					
Ratio			1.497	1.793	1.756*
			[1.38]	[1.64]	[1.82]
ROA			−5.111***	−5.048***	−5.101***
			[−4.10]	[−4.22]	[−4.78]
Leverage			−0.438	−0.580	−0.724
			[−0.34]	[−0.42]	[−0.51]
B/M Ratio			0.028**	0.026***	0.025***
			[2.49]	[2.75]	[2.60]
Total Asset			−0.101	−0.511	−0.589
			[−0.18]	[−0.79]	[−0.92]
Inst Hlds			−0.457	−0.589	−0.548
			[−0.97]	[−1.18]	[−1.16]
R^2	0.01	0.01	0.08	0.09	0.10
N	372	372	372	372	372

This table reports the regression results for the impact of shareholder view on firm's political activity. The dependent variable is firm's donation growth in the next election cycle. The independent variables include the annual voting results (i.e., a dummy variable, *Pass*, to indicate if shareholders approve proposals on firms' political activity), firm characteristics and voting characteristics. All independent variables are lagged by one election cycle. Heteroscedasticity-robust with two-way clustered (firm and time) standard errors are used to test for coefficient significance. ***, **, and * stand for 1%, 5%, and 10% levels.

voting outcome is related to firm characteristics. In general, we find no evidence of relationship between voting outcome and firm characteristics. When we move on to the samples of different levels of close-call votes. Similar to the full sample results, the voting outcome is not related to firm characteristics either, although we find that the firm size is marginally positively related to the outcome for some votes which have larger majority. In light of the randomisation test results, the voting outcome is largely in line with RDD assumption, but we still control for firm characteristics when we investigate the impacts of the shareholder views in the close-call votes.

In addition, since RDD requires continuity in distribution around the cut-off point, i.e., in our case, the threshold to pass a proposal. Therefore, we perform a McCrary (2008) test on the difference between the "for" and "against" voters in proportion to the total voters and test if there exists discontinuity at the cut-off point. The null hypothesis of the test is that there is a discontinuity around the cut-off point, and we find that the null hypothesis is rejected at 1% level (with *p*-value being 0.866). A visualised McCrary test is provided in Fig. 1. The results for the randomised test and McCrary test indicate that RDD is suitable for our case.

Table 3 reports the main results for shareholder views on corporate political contributions. Model 1 reports the univariate regression results for the *Pass* variable. We find a positive impact of shareholder proposal on corporate political contributions at 1% level. It shows that firms on average have 18% more in terms of donation growth with their

Table 4
Regression discontinuity design results.

	y = Donation Growth			
	[−5%, 5%]	[−10%, 10%]	[−15%, 15%]	[−20%, 20%]
Panel A: Univariate Regression				
Pass	0.438**	0.448***	0.387***	0.348***
	[2.00]	[3.05]	[3.30]	[3.10]
R^2	0.09	0.05	0.03	0.02
N	79	142	175	197
Panel B: Multivariate Regression				
Pass	0.304***	0.229*	0.354***	0.383***
	[3.89]	[1.95]	[3.01]	[2.84]
Firm Characteristics				
Board Size	−0.322	0.092	0.245	0.091
	[−1.57]	[0.70]	[1.57]	[0.78]
Board Male				
Ratio	−3.307	−0.293	0.902	0.361
	[−1.30]	[−0.09]	[0.32]	[0.15]
ROA	−6.867***	−3.058***	−3.309***	−3.848***
	[−18.96]	[−4.18]	[−7.98]	[−7.07]
Leverage	−4.185***	1.033	1.351	0.121
	[−4.31]	[0.62]	[1.04]	[0.09]
B/M Ratio	0.297*	0.020	0.049*	0.028*
	[1.79]	[0.87]	[1.89]	[1.66]
Total Asset	21.183***	0.896	1.367	2.085
	[8.94]	[0.47]	[0.75]	[0.99]
Inst Hlds	1.062***	−0.038	0.317***	0.180
	[2.85]	[−0.08]	[2.65]	[0.73]
ISS	−0.198	−0.500**	−0.281	−0.020
	[−1.02]	[−2.53]	[−1.45]	[−0.10]
GL	0.012	0.161	−0.161	−0.256
	[0.06]	[0.57]	[−0.64]	[−1.01]
R^2	0.72	0.17	0.20	0.11
N	79	142	175	197

This table reports the regression results for the impact of shareholder views on firm's political activity for close-call votes. The dependent variable is firm's donation growth in the next election cycle. Panel A reports the results only when *Pass* variable is included; Panel B reports results controlling for other firm and voting characteristics. All independent variables are lagged by one election cycle. Heteroscedasticity-robust two-way clustered (firm and time) standard errors are used to test for coefficient significance. ***, **, and * stand for 1%, 5%, and 10% levels.

shareholders' supports for political activity than the firm without their shareholders' supports. Evidently, it shows the influence of shareholders' views on corporate political activities. Models 2—4 report the regression results when different sets of control variables are included, and Model 5 is the complete model. It shows that, with shareholders' supports, firms are more motivated to engage in political activities such as lobbying and donation.

Next, we turn to the results under RDD, reported in Table 4. We find that in different close-call votes, the results are consistent with the main results.

4.2. Shareholder and firm's political preference

We conduct two investigations to analyse firm's political difference. First, we investigate if shareholders have different voting behaviours for firms with different political preference. Again, we use firm's political donation as a measure for firm's political preference. If a firm donates more to Republican (Democratic) party, then we view this firm as a Pro-REP (Pro-DEM) firm. Then we test if shareholders have different tendency to pass a proposal related to corporate political contributions given the political preference.

The second investigation is to see if firm's donation growth is different in political preference. We expand Eq. (1) but replace the dependent variable by *DonDiff*, which is the donation growth difference

Table 5
Voting behaviour.

	(1)	(2)	(3)	(4)	(1)—(4)	
	Only DEM	Pro DEM	Pro REP	Only REP	Diff	*t*-stat
Panel A: All Period						
%VoteFor	51.60%	39.36%	42.39%	44.82%	6.78%***	[3.48]
Panel B: 2011—12						
%VoteFor	69.12%	31.00%	51.86%	46.32%	22.80%***	[3.85]
Panel C: 2013—14						
%VoteFor	45.20%	30.18%	39.20%	49.58%	−4.38%*	[−1.72]
Panel D: 2015—16						
%VoteFor	56.08%	36.30%	41.31%	40.63%	15.45%***	[6.81]
Panel E: 2017—18						
%VoteFor	71.98%	50.42%	48.22%	58.00%	13.99%***	[4.67]

This table reports for shareholders voting behaviour in relation to firm's political preference. We group firms into four categories—Only-DEM, Pro-DEM, Pro-REP, and Only-REP—based on the records of firms' donation to the two political parties (Democratic or/and Republican parties) over the investigation periods. Then we observe the shareholders' propensity of approving firm's political activity proposal (i.e., %VoteFor). Column (1) to (4) reports the averaged %VoteFor across firm types, while the last column reports the difference of the propensity between Only-DEM and Only-REP firms.

Table 6
Voting behaviour (overlapped voters).

	(1)	(2)		(1)—(2)	
	Only DEM	Only REP	#Shareholder	Diff	t-stat
All Period					
%VoteFor	52.87%	48.44%	735	4.42%**	[2.09]
Period: 2011–12					
%VoteFor	68.66%	52.82%	67	15.84%**	[2.20]
Period: 2013–14					
%VoteFor	45.47%	53.27%	481	−7.80%***	[−2.80]
Period: 2015–16					
%VoteFor	58.97%	43.64%	516	15.33%***	[6.04]
Period: 2017–18					
%VoteFor	73.09%	68.68%	306	4.41%	[1.33]

This table reports for shareholders' voting behaviour in relation to firm's political preference. We study Only-DEM and Only-REP firms. We count each shareholder's propensity of approving firm's political activity only for shareholders who are both Only-DEM and Only-REP shareholders. Column (1) to (2) reports the averaged %VoteFor across the shareholders, while the last column reports the difference of the propensity.

Table 7
Shareholder views on party difference.

	y = Donation Growth Difference (REP - DEM)	
	Model 1	Model 2
Pass	−0.193*	−0.104
	[−1.93]	[−0.84]
Voting Characteristics		
#Vote		0.000*
		[1.86]
#Vote^2		−0.000**
		[−2.14]
ISS		0.191
		[1.63]
GL		−0.179
		[−1.31]
Firm Characteristics		
Board Size	−0.041	−0.044
	[−0.53]	[−0.72]
Board Male Ratio	3.272***	2.818***
	[3.88]	[3.26]
ROA	−5.082***	−5.299***
	[−2.66]	[−3.05]
Leverage	−0.258	0.187
	[−0.45]	[0.25]
B/M Ratio	−0.016*	−0.006
	[−1.91]	[−0.47]
Total Asset	−0.767	−0.419
	[−1.59]	[−1.12]
Inst Hlds	0.376	0.499
	[1.19]	[1.49]
R^2	0.11	0.14
N	281	281

This table reports the regression results of the impact of shareholder views on firm's political preference. The dependent variable is firm's donation growth difference between Republican and Democratic parties in the next election cycle. The independent variables include the annual voting results (i.e., a dummy variable, *Pass*, to indicate if shareholders approve proposals on firm's political activity), firm characteristics and voting characteristics. All independent variables are lagged by one election cycle. Heteroscedasticity-robust two-way clustered (firm and time) standard errors are used to test for coefficient significance. ***, **, and * stand for 1%, 5%, and 10% levels.

between the Pro-REP and Pro-DEM firms. Although prior literature in this strand suggests Pro-REP firms are more conservative, we do not conjecture the shareholder's view on firm's political preference.

In the following, we report the results relating to firm's political preference. We first report the shareholders' voting behaviours. Previously, the analysis was conducted on firm level data. Here, when we study the voting behaviour, we focus on shareholder-level data. Technically, we collect voting record for a shareholder over a specific period and calculate the percentage of the votes if that shareholder cast a *for*. We use firm's political donation to capture firm's political preference, and further group firms into four categories depending on how firms make donations to the two main political parties in the US. There are four types of firms—Only-DEM, Pro-DEM, Pro-REP, and Only-REP. It reflects the firm's political spectrum: Only-DEM (Only-REP) means firms only make political contribution to Democratic (Republican) party, while Pro-DEM (Pro-REP) means firms make more political contribution

Table 8

Shareholder support impact under governmental administration and political preference.

	y = Donation Growth Difference				
	Column (1)	Column (2)	Column (3)	Column (4)	Column (5)
Panel A: Single Dummy Variable					
Dummy					
Name	DEM	REP	CHG	DEM2REP	REP2DEM
Coeff.	−0.186	−0.013	0.075	1.069***	−0.748***
	[−0.69]	[−0.09]	[0.54]	[6.06]	[−3.48]
Controls	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y
Firm Cluster					
S.E.	Y	Y	Y	Y	Y
Time Cluster					
S.E.	Y	Y	Y	Y	Y
R^2	0.13	0.12	0.13	0.38	0.29
N	281	281	281	281	281
Panel B: Interactive Dummy Variable					
Dummy 1					
Name	Pass	Pass	Pass	Pass	Pass
Coef.	−0.119	−0.241	0.055	−0.078	0.008
	[−1.20]	[−1.28]	[0.31]	[−0.64]	[0.08]
Dummy 2					
Name	DEM	REP	CHG	DEM2REP	REP2DEM
Coef.	−0.398	−0.148	0.265***	1.039***	−0.550***
	[−1.43]	[−1.31]	[3.51]	[5.55]	[−2.87]
Dummy 1 × Dummy 2	0.482	0.246	−0.398	0.057	−0.347*
	[1.00]	[0.93]	[−1.57]	[0.18]	[−1.65]
Controls	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y
Firm Cluster					
S.E.	Y	Y	Y	Y	Y
Time Cluster					
S.E.	Y	Y	Y	Y	Y
R^2	0.14	0.13	0.15	0.38	0.30
N	281	281	281	281	281

This table reports corporate donation growth difference under governmental administration and firm's original political preference. The dependent variable is firm's donation growth difference between Republican and Democratic parties in the next election cycle. *Pass* is a dummy variable to indicate shareholder's support on corporate political activity. *DEM*, *REP*, *CHG*, *DEM2REP*, and *REP2DEM* are dummies to identify governmental administration and firm's political preference. *DEM* (*REP*) takes a value of 1 if a firm donates more to Democratic (Republican) party at times $t + 1$ and t; 0 otherwise. *DEM2REP* (*REP2DEM*) takes a value of 1 if a firm donates more to Democratic (Republican) party at time t but donate more to Republican (Democratic) party at time $t + 1$. *CHG*, a dummy variable, includes both *DEM2REP* and *REP2DEM*, indicating firm's changes in its donation. Controls, i.e., firm characteristics and voting characteristics, are used in the regressions. All independent variables are lagged by one election cycle. Panel A shows models with a single dummy, while Panel B displays models where 'Pass' is interacted with the respective dummy. Heteroscedasticity-robust two-way clustered (firm and time) standard errors are used to test for coefficient significance. ***, **, and * stand for 1%, 5%, and 10% levels.

to Democratic (Republican) party.

The voting behaviour by firms' political preference is reported in Table 5. Panel A reports the shareholders' propensities to vote *for* over the whole sample period. We find shareholders participating in corporate proposals in Only-DEM firms have, on average, 51.6% of chance that the Only-DEM shareholders agree the proposals relating to firm's political donations. On the other hand, shareholders participating in corporate proposals in Only-REP firms have, on average, 44.82% of chance that the Only-REP shareholders agree the proposals relating to firm's political donations. We document a statistical significance in propensity of agreeing the proposal: Only-DEM shareholders are 6.78% higher to agree the proposal than only-REP shareholders. It suggests that shareholders are more supportive to firms in favour of Democratic party,

because of higher propensity of passing the proposal. However, we do not find a large difference in voting behaviour between Pro-DEM and Pro-REP firms.

We further break down the voting records by different election cycles. Our sample period covers four election cycles (i.e., every two calendar years are one election cycle). Again, we observe that Only-DEM shareholders indeed have higher propensity of agreeing proposals on firm's political donation than only-REP shareholders for all the election cycles except for the 2013—14 election cycle. It implies that the pattern of voting behaviour does not shift in election cycles.

Note that a shareholder can hold various equity stocks and we do not restrict the shareholder constituents for firms in different political preference. To further investigate if the same shareholder behaves differently in different political preference, we further restrict shareholders who hold both shares of the Only-DEM and Only-REP firms as a robustness check. Reported in Table 6, we include only shareholders in both Only-DEM and Only-REP firms. We find that on average there are 52.87% of chance for shareholders to agree the proposals on political donations in Only-DEM, while 48.44% of chance to agree the proposals on political donations in Only-REP. Consistent with the previous results, we document a statistical significance in propensity of agreeing the proposal in Only-DEM firms by 4.42%. Again, when we break down the comparison by election cycles, it is qualitatively the same. Since this analysis compares for the same shareholders who both own Only-DEM and Only-REP firms, it indeed shows that shareholders have different voting behaviours for firms with different political preference.

Finally, we study if the voting behaviour affects the amount of the corporate political contribution for firms with different political preference. Reported in Table 7, we repeat the analyses in Table 3 but replace the dependent variable by the corporate donation growth difference between Republican and Democratic parties. We find some evidence that firm's donation to Republican party has relatively decreased with shareholders' supports, suggesting a negative impact from their shareholders' views, after we control for firm's characteristics. However, when we control for the number of the votes, we do not find the impact, it implies that the heterogeneity of shareholder's impact disappears in the case of larger number of votes.

To further explore how firm's donations to both parties are affected, we study in different scenarios. Specifically, we investigate four cases—Pro-DEM (i.e., a firm has higher corporate donation to Democratic party than that to Republican party), Pro-REP (i.e., a firm has higher corporate donation to Republican party than that to Democratic party), and CHG (i.e., a firm previously has higher corporate donation to one party but then has higher donation to the other party in the next election cycle). We further split CHG into DEM2REP (i.e., a firm previously has higher corporate donation to Democratic party but then has higher donation to Republican party in the next election cycle) and REP2DEM, which is the opposite scenario to DEM2REP. We use dummy variables to identify these scenarios. We first test the dummy variables alone and see how these events affect firm's corporate donation; then we interact these dummy variables with our main variable of interest, *Pass*.

The results are reported in Table 8. Panel A reports the results for single dummies. In general, we do not find evidence on the impact on firm's donation due to the existing firm's political preference. On other hand, we find the change in firm's political preference has an impact on the amount of corporate donation difference. We document that if a firm changes their political preference, the corporate donation growth difference changes accordingly to their preferred political parties (see Columns (4) and (5), Panel A).

We then test if the impact on donation difference is related to shareholders' views. Reported in Panel B, we find, marginally statistically, a negative coefficient on the interactive dummies of *Pass* × *REP2DEM*. It indicates that firms are likely to donate more to Democratic parties with shareholders supports when they switch their positive preference.

Table 9

Corporate political contribution and firm's performance.

	Total q			Stock Return		
	$t+2$	$t+1$	t	$t+2$	$t+1$	t
Donation Growth	0.058***	0.077**	0.051*	0.020	0.030	−0.032
	[3.45]	[2.24]	[1.77]	[1.03]	[1.06]	[−1.13]
Board Size	−0.046	0.034	0.040	−0.034	0.008	0.021
	[−1.15]	[1.29]	[1.62]	[−1.04]	[0.50]	[1.16]
Board Male Ratio	0.886***	−0.474	−0.833	0.691	0.125	0.654*
	[3.55]	[−0.82]	[−1.21]	[1.55]	[0.46]	[1.83]
ROA	1.478	0.858	0.977	1.084	−0.476	1.059***
	[1.55]	[1.21]	[1.54]	[0.74]	[−1.34]	[2.79]
Leverage	−1.241***	−0.037	0.090	0.095	0.044	−0.340*
	[−3.12]	[−0.09]	[0.30]	[0.20]	[0.16]	[−1.69]
B/M Ratio	0.006	−0.004	0.004	−0.034***	−0.003	0.000
	[0.36]	[−0.48]	[0.44]	[−2.97]	[−0.49]	[0.13]
Total Asset	6.651*	−1.073	−0.158	−0.822	−0.278	−0.401*
	[1.87]	[−0.61]	[−1.40]	[−1.43]	[−1.15]	[−1.70]
Inst Hlds	0.050	0.297	0.152	0.178	−0.036	−0.587***
	[0.34]	[1.50]	[1.25]	[0.89]	[−0.46]	[−2.93]
Firm FE	Y	Y	Y	Y	Y	Y
Firm Cluster S.E.	Y	Y	Y	Y	Y	Y
Time Cluster S.E.	Y	Y	Y	Y	Y	Y
R^2	0.30	0.05	0.05	0.15	0.04	0.24
N	204	300	372	229	332	372

This table reports the impact of corporate political contributions to firm's performance. The dependent variables are Peter and Taylor's Total q and stock return. The dependent variables are in year $t+2$, $t+1$, and t, respectively, while independent variables are in year t. Heteroscedasticity-robust two-way clustered (firm and time) standard errors are used to test for coefficient significance. ***, **, and * stand for 1%, 5%, and 10% levels.

4.2.1. Discussion

In this sub-section, we have conducted a series of test on the relation between shareholders and firm's political ideology. To summarise, we find that shareholders seem to be more supportive to firms with Democratic party orientation. The finding implies that shareholders indeed have their own preference on firm's political preference and have an impact on corporate political contribution. As discussed, prior studies have shown that organisational political ideology has form an ideological leaning regarding firm's practices and policies (Bhandari et al., 2020; Bhandari & Golden, 2021). We further show that shareholders also react to firm's political ideology. In particular, if firm's political ideology is closer to Democratic party, shareholders tend to believe that firm is more in line with shareholder's view, since the party's culture is more related to reduce principal-agent conflict. At the same time, shareholders are also more willing for firms to engage in CPA.

4.3. CPA and firm performance

To test our final hypothesis whether firm's political contribution can improve their performance, we regress our main variable *Don* on firm's performance measures. In addition, our hypothesis H3 also investigates the timing of the effect; hence in our regression specification, we consider firm's performance at different points of time. The testable regression is formulated as follows:

$$Perf_{it} \text{ OR } Perf_{it+1} \text{ OR } Perf_{it+2} = \alpha + \beta \, Don_{it} + \gamma \, \textbf{Controls}_{it} + \varepsilon_{it+1} \qquad (2)$$

where *Perf* is firm's performance measure, *Don* is firm's donation growth, and *Controls* is a vector of firm characteristics as well as firm fixed effect. Here we consider two performance measures. The first one is Peters and Taylor (2017) Total q. The measure captures firm's investment opportunity. The other is annual stock return. The stock return is used to understand if stock market reacts firm's political contribution. In addition, the impact on the firm performance is tested for three calendar years, i.e., $Perf_t$ is used to test the contemporaneous effect of the corporate political contribution, whereas $Perf_{t+2}$ is used to test long-run effect, i.e., the effect after two years in our case.

The results are reported in Table 9. We find evidence that corporate political donation can improve firm's performance, as the coefficient for *Don* is positive at 10% level for most cases. The positive impact of

corporate political contribution on firm's performance supports the Resource Dependence theory, suggesting that firms are able to improve their performance with the stronger political capital, proxied by their donation. Interestingly, when we investigate the effects on firm performance in different points of time, we find that the impact takes time to be effective, while the contemporaneous effect mostly is marginal or insignificant. It indicates that the effect of political capital is long run, supporting our hypothesis. On the other hand, we do not find significance for stock return, indicating that stock market does not react to firm's political capital. Relevant studies (e.g., Wong & Hooy, 2018) mostly investigate contemporaneous effect while we provide new insights on how firm's performance is affected by firm's CPA; particularly on the long-run effect of the CPA.

5. Concluding remarks

In this paper, we study the shareholder views on corporate political contributions. Using the corporate dataset over the sample period from 2009 to 2018, we find that, with shareholders' supports, firms are more likely to have higher corporate political contribution, measured by the amount of donations to the US political parties, in the next election cycle.

In addition, we also find shareholders' supports vary for firms with different political preference. We find that shareholders are more likely to support firm's political activity for firms in favour of Democratic party, as we document that the shareholders have higher chance of agreeing proposals on corporate political activities for Only-DEM firms than Only-REP firms. However, such difference in voting behaviour does not seem to have a strong impact on the amount of firm's political donation. With regard to political preferences, we only find weak evidence that Democrats appear to benefit from this shareholder approval effect more than Republicans, particularly in case of firms which have recently switched their political donation preferences to Democrats. Finally, we find evidence that firm's political contribution can have a positive and long-run effect on their performance.

Our study provides insights on the attribution to firm's political activities. After since US high court ruling on Citizens United vs. FEC, firms are allowed to directly make expense on political activities. We find that shareholders' views are also an important factor for firms' engagement

of political activities. Our findings imply that if the shareholders stand at the same side of the firms, firms are more likely to engage in politically related corporate actions.

Authorship statement

All persons who meet authorship criteria are listed as authors, and all authors certify that they have participated sufficiently in the work to take public responsibility for the content, including participation in the concept, design, analysis, writing, or revision of the manuscript.

Authorship contributions

All the works are equally split between authors.

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