

# Shining Light on Corporate Political Spending: Evidence from Shareholder Engagement

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## ABSTRACT

This paper studies corporate political transparency through the lens of shareholder engagements. We analyse factors explaining activist shareholders' target decisions and likelihood of successful engagements. Using hand-collected public announcements of engagement outcomes, we find that stock market reacts positively to successful engagements and negatively to a subset of unsuccessful engagements in politically active companies. Similar reactions are also found using institutional investors' holding data. Investors' aversion to hidden risk and disciplinary effect of increased transparency could potentially explain the market reactions. Collectively, the results suggest that stock market investors value political transparency, especially in politically active companies.

*JEL classification:* D82, G14, G34, P16.

*Keywords:* Corporate Political Transparency, Active Ownership, Market Reaction, Political Activism

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# I. Introduction

In 2016 election cycle, record-breaking \$6.8 billion were spent on presidential and congressional elections.<sup>1</sup> Although it is difficult to pin down the exact number, a large fraction of these election funding comes from U.S. public companies and their employees. For instance, the Political Action Committee (PAC) of Honeywell International spent \$9.2 million.<sup>2</sup> Should public companies give shareholders the right to know their political spending? Some argue that companies' political spending may not be in the best interest of shareholders and therefore should be disclosed to shareholders.<sup>3</sup> Others argue that disclosing political spending to shareholders would merely incur additional costs and would put the company at a disadvantage by revealing confidential corporate strategy.<sup>4</sup> Currently this is under heated debate as Securities and Exchange Commission (SEC) is considering the possibility to form regulations requiring public companies to disclose their political spending. However, until now, we still lack quantitative evidences in many aspects to understand corporate political transparency (CPT).

In this paper, we explore the drivers and implications of corporate political transparency (CPT) through the lens of shareholder engagements. The rise of shareholder engagements on corporate political transparency began in recent decade.<sup>5</sup> They usually file shareholder proposals with targeted companies in order to pursue changes.

We first document that there are substantial amount of successful shareholder engagements. Past research (e.g. [Bebchuk and Jackson Jr, 2012](#); [Cohn, Kelley, and Kess, 2016](#); [Copland and O'Keefe, 2016](#)) generally focuses on the low success rate of CPT-related shareholder proposals

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<sup>1</sup>See CBS news. <https://www.cbsnews.com/news/election-2016s-price-tag-6-8-billion>

<sup>2</sup>See Center for Responsive Politics Website. <https://www.opensecrets.org/pacs/lookup2.php?strID=C00096156&cycle=2016>

<sup>3</sup>Bebchuk and Jackson(2013) provides this kind of argument. Some other public figures expressed this kind of concern as well. For example, U.S. Senators Richard Blumenthal and Chris Murphy joined a letter, led by U.S. Senator Bob Menendez, to the new SEC Chair and reintroduced the Shareholder Protection Act—two actions aimed at requiring public companies to disclose political spending to their shareholders. They wrote "...it is imperative that the SEC move swiftly to provide investors and the public with transparency about corporate political spending. Without this disclosure, executives will remain free to spend corporate funds to influence election and policy outcomes without any accountability or oversight."

<sup>4</sup>For example, Warren Buffett's Berkshire Hathaway has been continuously objecting shareholders' effort in improving corporate political transparency. In the 2017 proxy statement, the board replied "...To the contrary, the Board of Directors believes the adoption of the reporting being proposed, in addition to creating unnecessary administrative costs, could expose Berkshire subsidiaries to competitive harm without commensurate benefit to our shareholders." Some other public figures, such as Tom Quaadman, executive vice president of U.S. Chamber Center for Capital Markets Competitiveness, also expressed similar views.

<sup>5</sup>This is also reported by mainstream media. Figure A2 in the appendix gives two examples of media coverage.

in shareholder meeting. They classify the sudden disclosure of political spending by companies as “voluntary”. We find that in those cases, shareholder proponents and company management reach agreement before the meeting, leading to withdrawal of shareholder proposals in exchange for improved corporate political transparency. This finding echoes the widespread behind-the-scenes intervention documented in the literature (e.g. [McCahery, Sautner, and Starks, 2016](#)). Our finding shows the importance of shareholder democracy in driving corporate political transparency.

We then analyse activist shareholders’ target decisions. We find that activist shareholders tend to target companies with PAC committee, suggesting that PAC activities influence shareholders’ perception of corporate political activism. Target companies have lower political transparency level than non-target companies in all dimensions. Consistent with literature on governance-related shareholder proposals ([Karpoff, Malatesta, and Walkling, 1996](#)), targeted companies have larger size and poorer long term performance in terms of book-to-market ratio and past stock returns. As external information producers and intermediaries, analyst coverage increases investors’ attention and therefore raises companies’ probability of being targeted by CPT activist investors. Not surprisingly, companies with higher percentage of politically connected directors are more likely to be targeted. Targets also exhibit relatively higher institutional ownership, which makes it easier for activist shareholders to acquire stakes and coordinate with other stakeholders ([Agarwal, 2007](#); [Brav, Dasgupta, and Mathews, 2016](#)).

Conditional on activist investors’ target decision, we find the likelihood of successful engagement depends on activist types. Consistent with institutional investors are superior in accumulating shares and coordinating with other investors, we find that institutional investors are more likely to succeed. We further document that, engagements by SRI funds, among different types of institutional investors, are most likely to be successful. This is consistent with SRI funds, due to their hedge fund nature, are in a better position to act as active investors and external monitors than other institutional investors ([Brav, Jiang, Partnoy, and Thomas, 2008](#)). In line with labor unions suffering conflict of interest with company management ([Agrawal, 2012](#)), we find that labor unions are less likely to achieve progress in their engagements than other institutional investors.

Turning to ex-post implications, we first provide evidences that successful shareholder engagements lead to bigger improvement in political transparency. We rely on CPA-Zicklin index to measure political transparency level, which significantly shrank the sample in this part of analysis

due to its limited coverage. We still find that successfully engaged companies experience a bigger improvement in political transparency at the event year than unsuccessfully engaged companies. This finding reassures that CPT-related shareholder engagements can indeed bring in changes to targeted companies.

We next examine the impact of political transparency based on short-term stock market reactions to shareholder engagement outcomes. Our approach has several advantages. First, the stock market is able to aggregate and process the information in a timely manner and impound the information in stock prices. Second, we use the public announcement date and therefore ensures that stock market participants are aware of the outcome. Third, the outcome of shareholder engagement is unlikely to be fully anticipated by the market participants before the announcement date. The biggest challenge in the analysis is lack of archival data on the public outcome announcement date. To solve this problem, we hand collect outcome announcement dates of both successful engagements and unsuccessful engagements from various sources. We find that stock market responds favorably to successful engagements in politically active companies. The cumulative abnormal return (CAAR) during the (-1,10) announcement window is 3.16%. Comparing successful engagements and unsuccessful engagements reveals that the market reaction to successful engagements is statistically more positive. However, the effect is not present in politically inactive companies.

We next investigate the channels through which political transparency affects firm value. Market reaction is more favourable to successful engagements in high political uncertainty environment. This finding suggests that corporate political transparency is more valuable when hidden political risk is higher. Consistent with the disciplinary effect of corporate political transparency, we also find that successful shareholder engagements result in slower growth of PAC expenditure in politically active companies.

Lastly, we examine the institutional investors' behavior in the medium to long-term. We find that successfully engaged companies, relative to unsuccessfully engaged companies, experience an increase in institutional ownership following the outcome announcement date. The effect persists more than one quarter after outcome announcement date. This finding supports institutional investors' preference for sustainability and corporate social responsibility ([Hartzmark and Sussman, 2018](#); [Gibson and Krueger, 2018](#)).

Overall, we find that shareholder engagements help shape corporate political transparency. Our market-based tests provide empirical support for corporate political transparency. The evidences lend support to the petition requesting that SEC develop rules on the transparency of corporate political spending (e.g. [Bebchuk and Jackson Jr, 2012](#)).

Our paper is closely related to growing literature on political uncertainty. Political uncertainty is shown to increase volatility, risk premia, and correlations among stocks ([Pastor and Veronesi, 2012](#); [Pástor and Veronesi, 2013](#); [Boutchkova, Doshi, Durnev, and Molchanov, 2011](#); [Brogaard and Detzel, 2015](#)). Political uncertainty also affects corporate real decisions, such as investment ([Durnev, 2010](#); [Julio and Yook, 2012](#); [Gulen and Ion, 2015](#); [Jens, 2017](#)). Overall, existing literature focuses exclusively on “external” political uncertainty from firms’ point of view. We contribute to the literature by examining the effect of “internal” political uncertainty from shareholders’ perspective.

Our paper is also closely related to the literature on corporate political connection. Prior literature has established the value implications of corporate political connection. [Faccio \(2006\)](#) finds that overlap between controlling shareholders or managers and politicians provides significant benefits to the firm although connected firms under-perform their peers on an ex-ante basis. [Faccio and Parsley \(2009\)](#) finds the negative market response around sudden death of connected politicians. [Cooper, Gulen, and Ovtchinnikov \(2010\)](#) documents that companies’ PAC contributions are positively related to their long term stock returns. Using different events and international data, other studies also find the value effect of political connection (e.g. [Borisov, Goldman, and Gupta, 2015](#); [Lee, Nguyen, and Do, 2013](#); [Acemoglu, Johnson, Kermani, Kwak, and Mitton, 2016](#); [Acemoglu, Hassan, and Tahoun, 2017](#); [Aggarwal, Meschke, and Wang, 2012](#); [Unsal, Hassan, and Zirek, 2016](#)). These findings provide the foundation for shareholders’ concern about corporate political transparency.

Another related area is the burgeoning literature on active ownership. Prior research has documented the active role of investors in firms’ decisions and management, such as capital structure, business strategy, merger and acquisition, and general corporate governance. ([Karpoff et al., 1996](#); [Smith, 1996](#); [Brav et al., 2008](#); [Klein and Zur, 2009](#); [Wahal, 1996](#); [Carleton, Nelson, and Weisbach, 1998](#); [Del Guercio and Hawkins, 1999](#); [Gillan and Starks, 2000](#); [Appel, Gormley, and Keim, 2016](#); [Dimson, Karakaş, and Li, 2015](#)). However, researches examining the impact of shareholder activism

on corporate political transparency are very limited.<sup>6</sup> This is surprising given the importance of corporate political connection for firm value and heavy media coverage on the issue. Our paper intends to bridge this gap.

Last but not the least, we contribute to the literature on information asymmetry between shareholders and management. Previous literature, especially theoretical literature, assumes that to some extent managers are able to take undesired action from shareholders' standpoint without notifying shareholders. Our paper adds to the literature by documenting that significant information asymmetry exists in corporate political engagement. Increasing corporate political transparency helps reduce information asymmetry and align both parties' interests.

The rest of paper proceeds as follows. Section 2 outlines institutional background. Section 3 develops research hypotheses. Section 4 describes data and provides summary statistics. Section 5 presents empirical findings. Section 6 concludes.

## II. Institutional Background

In this section, we explain corporate political transparency and show that it is historically low in U.S. public companies. According to the definition by *Center for Political Accountability*, corporate political transparency comprises of three components, namely disclosure, policy and oversight.

Lack of disclosure is reflected in two aspects. First, some corporate political spending has no public records. Companies can channel political spending through third parties that do not have the legal obligation to disclose their donors. Some non-profit organizations, primarily trade associations or business associations, often act as intermediaries through which corporations anonymously influence politics.<sup>7</sup> This type of corporate political spending started long time ago. Citizens United v.s. Federal Election Commission in 2010 makes this type of political spending even more convenient by permitting corporations, including some non-profit organizations, to spend unlimited amounts of money on advertisements and other political tools as long as they are not coordinated

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<sup>6</sup>Bebchuk and Jackson Jr (2012) provides only summary statistics on the CPT-related shareholder proposals. A contemporaneous working paper by Baloria, Klassen, and Wiedman (2017) uses shareholder engagements on company political activities but their main focus is on the determinants of shareholder activism, especially activist types. We focus exclusively on CPT-related shareholder proposals since we recognize that the effect of transparency and prohibition could be dramatically different. Most importantly, we place more emphasis on the ex-post implication of shareholder engagements which is crucial for policy makers.

<sup>7</sup>Those organizations are mainly formed under sections 501(c)(4) and 501(c)(6) of the tax code.

or prearranged with a candidate or a campaign. [Bebchuk and Jackson Jr \(2012\)](#) provides some statistics on the overall magnitude of this type of spending. Total political spending of eight active non-profit organizations, such as US Chamber of Commerce, Pharmaceutical Research and Manufacturers Association, American Petroleum Institute, America's Health Insurance Plans, Financial Services Roundtable and etc., reaches \$1,559.6 million between 2005 and 2010.<sup>8</sup> Further, companies' state lobbying expenses, i.e., expenses that are incurred to influence state legislators, are not disclosed on a mandatory basis in half of U.S. states. Meanwhile, companies also influence politics via indirect lobbying (sometimes called grassroots lobbying) where companies try to influence the legislators via general public. Investors can only speculate this type of corporate political spending at best. Second, even for those spending that does have public records, it is difficult and time-consuming for investors to assemble those information. According to existing election-law, companies may have to report some of their political spending, such as spending of political action committees, key executives, to federal election commission (FEC). But these information is generally distributed throughout separate filings in various formats. Assembling those information together is not straight-forward and would incur significant amount of costs. Some investors argue that companies should include these information on its website to reduce their costs.

Historically, most of public companies do not have and disclose internal policies governing the companies' political contributions and expenditures and the set of people who are accountable for the decisions. Lack of oversight is reflected by the fact that most of companies do not have supervisory board committee for corporate political spending in early 2000s.

Political opacity exposes investors to significant political risk. Not only could the revelation of hidden political engagement result in reputation damage and public mistrust, companies' political connection could expose themselves to unexpected regulatory change. In recent decade, a group of shareholder activists started filing shareholder proposals requesting corporate political transparency.

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<sup>8</sup>[Bebchuk and Jackson Jr \(2012\)](#) extracts those eight non-profit organizations' lobbying and political expenditures from their Internal Revenue Service (IRS) filings.

### III. Hypotheses Development

#### A. Development of Hypothesis 1

The first hypothesis concerns how activist shareholders select their target companies for improving corporate political transparency. Since the purpose of shareholders is to bring transparency to corporate political spending, it is reasonable to expect that they would target companies with higher political spending and lower past transparency level. Prior literature and media reports have repeatedly emphasized the importance of Political Action Committee (PAC) in influencing the perception of general public (e.g. [Sorauf, 1984](#); [Burris, 2010](#)). Taken together, we put forward the following hypothesis.

**H1:** *Shareholders target companies with Political Action Committee (PAC) and lower political transparency level.*

#### B. Development of Hypothesis 2

The second hypothesis concerns what affects the likelihood of shareholder engagements being successful. Institutional investors, due to their superior ability to accumulate shares and coordinate with other investors, are more likely to achieve their goals ([Barber and Odean, 2000](#); [Jones and Lipson, 1999](#); [Brav et al., 2016](#)). This is especially true for SRI fund. Due to their hedge fund nature, the fund managers are more incentivized and they could employ more aggressive strategies as they are less regulated ([Brav et al., 2008](#)). They also suffer less conflicts of interest ([Brav et al., 2008](#)). Putting together, we propose the following hypothesis.

**H2:** *Institutional activist investors, especially SRI fund, are more likely to succeed in their engagements.*

#### C. Development of Hypothesis 3

The third hypothesis is on how stock market reacts to the outcome of CPT-related shareholder engagements.

On one hand, investors might react more positively to successful shareholder engagement since information asymmetry and agency costs are reduced after successful shareholder intervention.



On the other hand, increasing political transparency would impose additional costs on companies. Explicit costs include compilation costs, publication costs, costs to set up special supervisory committees and costs to set up and implement related policies, etc. Implicit costs include potential loss of competitive advantage due to the revelation of political engagement strategy to competitors. Taken together, investors would evaluate the benefits and costs and react accordingly. Based on above arguments, we propose two competing hypotheses.

**H3<sub>n</sub>:** *Stock market reacts more positively to successful engagements than unsuccessful engagements.*

**H3<sub>a</sub>:** *Stock market reacts more negatively to successful engagements than unsuccessful engagements.*

## IV. Data and Summary Statistics

### A. Data

The main data we use is shareholder proposals on corporate political transparency. The shareholder proposal data is from Institutional Shareholder Services (ISS) database. ISS covers shareholder proposals for Russell 3000 companies from 2006. We first screen out shareholder proposals on corporate political transparency.<sup>9</sup> We supplemented the data by a few additional proposals which are obtained through internet searches and are not in the ISS database. The outcomes of shareholder proposals could be classified into successful shareholder engagement and unsuccessful shareholder engagement. Successful shareholder engagement includes proposals that passed in the shareholder meeting and proposals that are withdrawn after shareholders reached agreement with company management to increase political transparency. Unsuccessful shareholder engagement includes proposals that failed in the shareholder meeting and proposals omitted by the company management after approval from Securities and Exchange Commission (SEC).<sup>10</sup>

Since we want to examine the market reaction, outcome announcement dates are needed. We manually collect outcome announcement dates from several sources. For proposals that passed or

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<sup>9</sup>The proposals are labelled as “Political Contributions Disclosure” or “Political Lobbying Disclosure” in ISS shareholder proposal resolutions.

<sup>10</sup>Omission of shareholder proposals provides a way for company management to fight against shareholders. [Matsusaka, Ozbas, and Yi \(2018\)](#) provides some explanations and analysis of omitted shareholder proposals.

failed in the shareholder meeting, we collect announcement dates of shareholder meeting results in 8K filings from SEC Edgar database if possible.<sup>11</sup> If announcement dates are not available in 8K filings, especially before requirements on reporting enhancement in 2010, we use shareholder meeting dates as outcome announcement dates.<sup>12</sup> For proposals that are withdrawn after shareholder-management agreement, we collect announcement dates of agreement using extensive web searches, mostly from filing shareholders' press releases and centre for political accountability's joint press releases. Figure IA.2 presents a snapshot of announcement of the agreements. Not in all cases do shareholders publicly announce the agreement. Since testing market reaction requires the outcome to be public knowledge, we rely on withdrawn proposals for which public announcement dates of agreements can be identified for ex-post analyses. For omitted proposals, we obtain SEC approval dates as the outcome announcement dates from SEC Division of Corporation Finance website.

To remove confounding effects, in ex-post analysis we drop unsuccessful engagements if there are preceding successful engagements for the same company in the same election cycle.<sup>13</sup> The final sample contains 636 events from 2005 through 2016.

Consistent with the argument in [Bebchuk and Jackson Jr \(2012\)](#), we use sample companies' PAC expenditure to measure corporate political activism. There are two reasons we use this measure. First, PAC expenditure is most direct measure shareholders could observe. Media frequently cites a company's PAC expenditure to indicate its political activism. It proxies for the market's perception of corporate political activism. Second, PAC expenditure is correlated with companies' hidden political spending through intermediaries. [Bebchuk and Jackson Jr \(2012\)](#) collects some data on corporations' political spending through intermediaries after disclosure and provides some examples. We then cross check these example companies' political spending through intermediaries with their PAC expenditure. For example, in 2011 Prudential Financial spent \$570,000 through U.S. Chamber of Commerce while EMC corp. with similar size spent nothing. Correspondingly, Prudential Financial PAC spent \$911,371 in 2012 election cycle while EMC corp. PAC only spent \$87,642.

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<sup>11</sup>Company management are generally against CPT related shareholder proposals in proxy statement. The only exception is in Amgen Inc. 2006 shareholder meeting where company management voiced support for the shareholder proposal. In this case the final outcome is almost surely determined before shareholder meeting. Therefore we use the filing date of proxy statement as the outcome announcement date since it is the earliest date when management publicly announced support for the shareholder proposal.

<sup>12</sup>During this procedure, we corrected several mistaken dates and outcomes in ISS database.

<sup>13</sup>The election cycle is two year as the Senate and the House of Representatives both hold election every two years. This definition is consistent with politics literature and practice. The results are similar if we include those unsuccessful engagements.

The PAC expenditure data is obtained from Federal Election Commission (FEC).<sup>14</sup>

Index on corporate political transparency is also used in part of this study. The index is also called CPA-Zicklin index since it is produced by Center for Political Accountability (CPA) in conjunction with the Zicklin Center for Business Ethics Research at The Wharton School at the University of Pennsylvania. The index measures corporate political transparency from three dimensions (disclosure, policy and oversight) on an annual basis. Detailed description of the index components can be found in appendix A1. The index becomes available in 2011 and gradually increases its coverage.<sup>15</sup> Since its horizon and coverage are limited, our sample size reduces significantly when we analyse the change in political transparency around shareholder engagements. The data we use in this study is from 2011 to 2016.

Data on Russell 3000 index constituents is obtained from Blommberg. We use index constituents at the end of each year. Stock price and market capitalization is obtained from CRSP. Accounting data is from Compustat. Analyst coverage is extracted from I/B/E/S. We use BoardEx to get information on companies' board of directors. Institutional ownership is obtained from 13F data.

### *B. Summary Statistics*

Table 1 lists the top ten shareholder activists in terms of filing frequency in our sample. New York State Common Retirement Fund is the most active investor in this area. In Panel A of Figure 1, we provide statistics on activist types. Pubic pension fund, socially responsible investment (SRI) fund, labor union, religious group are the most common activist types. In Panel B of Figure 1, we find that financial and energy industry are most likely to be targeted by activists perhaps due to their close nature with politics.

**[Place Table 1 about here]**

**[Place Figure 1 about here]**

Figure 2 presents the distribution of sample events used in ex-post analysis. The sample starts from 2005 and ends in 2016. Note that number of events is small in 2005 relative to other years.

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<sup>14</sup>The PAC names in FEC data are matched with company names in our sample first through a computerized fuzzy matching algorithm based on probabilistic record linkage. Then we manually inspect the matches to ensure accuracy.

<sup>15</sup>Please refer to Figure IA.1 for index coverage.

This is due to the fact that ISS shareholder proposal data starts from 2006 and we supplement the data by a few additional proposals obtained through web searches which leads to a few cases in 2005. There is a general increasing trend in the incidences of CPT-related shareholder engagements.

Observe that there are non-negligible amount of successful shareholder engagements, mostly in the form of settlement agreements between activist shareholders and management. This contrasts the argument in previous studies (e.g. [Bebchuk and Jackson Jr, 2012](#); [Cohn et al., 2016](#); [Copland and O’Keefe, 2016](#)) that CPT-related shareholder proposals rarely succeed and the sudden disclosure of political spending by companies is on a “voluntary” basis. The reason is previous literature focuses exclusively on the proposals that went to the final stage of shareholder meeting. However, by further investigation we find that in those cases activists and company management reached agreement before the meeting and subsequently pull back their proposals in exchange for improved corporate political transparency. This is in line with [McCahery et al. \(2016\)](#) where they find that behind-the-door discussions between shareholder and management are prevalent and effective. Note that the percentage of successful shareholder proposal is on a decline in recent years. However, this is not necessarily an evidence of companies’ increasing objection to corporate political transparency since it is perhaps due to company management and shareholders already reaching agreement before shareholder proposals were filed.

**[Place Figure 2 about here]**

Russell 3000 sample from 2005 to 2015 is used in ex-ante analysis because from 2006 to 2016 we can collect complete shareholder proposal data in Russell 3000 universe from ISS. In ex-ante analysis we do not remove events without outcome announcement dates or events that could potentially result in confounding ex-post effects. The summary statistics of variables of Russell 3000 Sample is provided in Panel A of Table 2. In addition, summary statistics of variables of the sample used in ex-post analysis is provided in Panel B of Table 2.

**[Place Table 2 about here]**

## V. Empirical Findings

### A. Ex-ante Analysis

#### A.1. Target Selection

In this section we test which companies are more likely to be targeted by shareholder activists for improving corporate political transparency. Using Russell 3000 panel from 2005 to 2015, we run the following multivariate probit regression

$$\begin{aligned}
 \mathbf{P}(Target_{i,t}) = & \Phi(\beta_0 + \beta_1 PAC\ Existence_{i,t} + \beta_2 Transparency_{i,t-1} + \beta_3 Targeted\ in\ the\ past_{i,t} \\
 & + \beta_4 Size_{i,t-1} + \beta_5 BM_{i,t-1} + \beta_6 Ret12M_{i,t-1} + \beta_7 Analyst\ Coverage_{i,t-1} \\
 & + \beta_8 BoardSize_{i,t-1} + \beta_9 CEO-Chairman\ Duality_{i,t-1} + \beta_{10} \%Outside\_Directors_{i,t-1} \\
 & + \beta_{11} Director\_Tenure_{i,t-1} + \beta_{12} \%Connected\_Directors_{i,t-1} \\
 & + \beta_{13} Institutional\ Onwership_{i,t-1} + \epsilon_{i,t})
 \end{aligned} \tag{1}$$

where *Target* is a dummy variable that takes value one if shareholder activists file a proposal for the company in the subsequent year and zero otherwise.

We consider a large set of explanatory variables. *PAC Existence* is a dummy variable that equals one if the company has a Political Action Committee(PAC) and zero otherwise. *Transparency* corresponds to the company' pre-target political transparency level measured by CPA-Zicklin index. *Targeted in the past* is a dummy variable equal to one if the company was previously targted by shareholder activists and zero otherwise. *Size* is the natural logarithm of market capitalization of the company. *BM* is the book value of equity divided by market value of equity. *Ret12M* is the stock return in past 12 months. *Analyst Coverage* is the number of analysts that make annual earnings forecasts for the company in previous twelve months. *BoardSize* is the total number of directors on the board. *CEO-Chairman Duality* is a dummy variable that equals one if the CEO is also the chairman of the board, and zero otherwise. *%Outside\_Directors* is the percentage of outside (independent) directors on the board. *Director\_Tenure* is the average tenure of all directors sitting on the board. *%Connected\_Directors* is the percentage of government-connected directors on the board. *Institutional Onwership* is the percentage of outstanding shares held by institutional

investors.

Since *Transparency*, measured by CPA-Zicklin index, is only available for a small number of firms within a short period of time (2011 - 2016), including *Transparency* in the regression would significantly shrink sample size. Based on above considerations, we run both regressions, with and without adding *Transparency* as explanatory variables. Regression results and marginal effects at the mean are reported in Table 3.

Results are generally consistent in all regressions. Shareholders are significantly more likely to target companies with political action committee (PAC). This shows that PAC activities is important in influencing shareholders' perception of corporate political activism. Consistent with the purpose of shareholder engagements, activist investors are more likely to target companies with lower political transparency level.

We also find the evidence of repeated engagements. Being targeted in the past increases the target probability by about 1.1%. Consistent with companies that receive governance-related shareholder proposals have larger size and poorer long term performance (Karpoff et al., 1996), companies with larger size, lower stock return and higher book-to-market ratio are more likely to be targeted by shareholder activists. Analyst coverage, however, is unrelated to activists' target decision.

Coefficients on characteristics associated with board monitoring are generally insignificant. Consistent with board of directors' political connection and corporate political spending are two complementary ways of political investment<sup>16</sup>, companies with a larger fraction of politically connected directors are more likely to attract shareholder activists' attention. Lastly, targeted companies exhibit higher institutional ownership. This is consistent with institutional ownership is positively related to sophistication of shareholder base (Brav et al., 2008). Thus high institutional ownership makes it easier for activist shareholders to gain support and understanding from fellow shareholders.

Taken together, the set of explanatory variables are quite successful in explaining activists' target selection, yielding a Pseudo R<sup>2</sup> of 44.1%.

**[Place Table 3 about here]**

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<sup>16</sup>This is also confirmed using our sample as the correlation between percentage of connected directors and PAC expenditure is significantly positive.

## A.2. Likelihood of Successful Engagement

In this section we test which types of activist investors are more likely to succeed in their engagements. Using the sample of final events from 2005 to 2016, we run the following multivariate probit regression

$$\mathbf{P}(Success_{i,t}) = \Phi(\beta_0 + \beta_1 Sponsor\ Type_{i,t} + \gamma Controls + \epsilon_{i,t}) \quad (2)$$

where *Success* is a dummy variable that takes value one if the shareholder engagement is successful and zero otherwise.

*Sponsor Type* represents a set of dummy variables with respect to activist types. The first variable considered *Sponsor is an institutional investor* is a dummy variable equal to 1 if the sponsor of the proposal is an institutional investor (SRI fund/public pension/religious group/labor union). Then we further break down the variable into four dummy variables (*Sponsor is a SRI fund/public pension/religious group/labor union*) and include them in a horse race type regression. *Controls* represents a set of control variables, including PAC Existence, firm size, book-to-market ratio, past one-year return, analyst coverage, board characteristics, and institutional ownership. Regression results and marginal effects at the mean are reported in Table 4.

First we find that institutional investors are more likely to succeed in their engagements. The probability of successful engagement is about 11% higher for institutional activist investors than for other investors. This is consistent with institutional investors, due to expertise and scale advantage, possess superior ability to accumulate shares and coordinate with other investors (Agarwal, 2007; Brav et al., 2016). Next, we compare different types of investors within the institutional investor domain by running the horse race type regression with four sponsor type dummies. We find that SRI funds are most likely to achieve progress in their engagements. This finding supports the view that hedge funds are better positioned to act as active investors and external monitors since they have more incentivized managers, could employ more aggressive strategies as they are less regulated, and also suffer few conflicts of interest (Brav et al., 2008). Among institutional activist investors, labor unions are found to be less successful. This finding supports the view that labor unions suffer more conflict of interest with company management (Agrawal, 2012).

Most control variables, such as PAC existence, size, book-to-market ratio, past one-year return,

analyst coverage, and institutional ownership, do not show significant explanatory power over engagement outcomes. The only exception is that larger board size contributes positively to the likelihood of successful engagement.

[Place Table 4 about here]

## B. *Ex-post Analysis*

### B.1. Change in Corporate Political Transparency around Events

This section examines change in corporate political transparency around events. This also acts as a validation test so that we are sure successful shareholder engagements would result in better corporate political transparency.

All events with available outcome dates are merged with CPA-Zicklin index which is an annual measure of corporate political transparency. In order to compare changes, we require the final sample to have CPA-Zicklin index from one year prior to event year until one year after event year. As the coverage and length of CPA-Zicklin index is limited, we are able to obtain 10 successful engagements and 176 unsuccessful engagements with available CPA-Zicklin index. The sample size is consistent with the fact that CPA-Zicklin index starts coverage from 2011 and the percentage of successful shareholder engagements is on a decline since 2010.

In Figure 3, we plot the average CPA-Zicklin index from one year prior to event year ( $t - 1$ ) until one year after event year ( $t + 1$ ), both for successful shareholder engagements and unsuccessful shareholder engagements. All indices, including disclosure, policy, oversight, and grand total, feature a significant jump in year  $t$  for successful engagements relative to unsuccessful engagements. The trend becomes parallel in year  $t + 1$ .

[Place Figure 3 about here]

Table 5 provides some statistical tests. In most panels,  $t - 1$  to  $t$  political transparency change is statistically higher in successful engagements. Consistent with the parallel trend,  $t$  to  $t + 1$  political transparency change is statistically indifferent between successful engagements and unsuccessful engagements.



[Place Table 5 about here]

This finding shows that successful shareholder engagements would lead to concrete positive changes in corporate political transparency.

## B.2. Stock Market Reaction

In this section we examine short-term stock market reactions to different shareholder engagement outcomes. We use event study methodology to perform the analysis. A brief review of event study methodology is provided first and then results are reported.

**Event Study Methodology** Event study methodology is used to estimate abnormal return attributed to corporate event. The abnormal return is defined as the actual return of the stock over the event window minus the normal return of the stock over the same window. The normal return is defined as the expected return without the event taking place.

$$AR_{i,t} = R_{i,t} - E(R_{i,t}|I_t) \quad (3)$$

where  $AR_{i,t}$  represents the abnormal return,  $R_{i,t}$  is the actual return and  $I_t$  represents the conditioning information. Here we use Carhart four-factor model to compute the normal return.

$$R_{i,t} - R_{f,t} = \alpha_i + \beta_{i1}(R_{m,t} - R_{f,t}) + \beta_{i2}SMB_t + \beta_{i3}HML_t + \beta_{i4}MOM_t + \epsilon_{i,t} \quad (4)$$

where  $R_{i,t}$  is the return of stock  $i$  on day  $t$ ,  $R_{m,t}$  and  $R_{f,t}$  is the market return and risk-free rate on day  $t$  respectively,  $SMB_t$  is the size factor which is computed as the return difference between portfolios of small cap stocks and large cap stocks,  $HML_t$  is the value factor which is computed as the return difference between portfolios of high book-to-market stocks and low book-to-market stocks,  $MOM_t$  is the momentum factor which is computed as the return difference between portfolios of high performing stocks and low performing stocks.

To get the average effect of events, abnormal returns are aggregated over the specified event

window and then taken average over all events.

$$CAAR = \frac{1}{N} \sum_{i=1}^N \sum_{t=t_1}^{t_2} AR_{i,t} \quad (5)$$

where  $CAAR$  is cumulative abnormal return over event window  $[t_1, t_2]$ ,  $N$  is total number of events.

**Event Study Results** Based on reasoning provided before, shareholders could potentially react differently to engagement outcomes in companies with different level of political activism. Therefore we partition the sample into two groups based on PAC expenditure. A company is classified as being politically active if its PAC expenditure is higher than or equal to sample median PAC expenditure in the two-year election cycle of the event.<sup>17</sup> Further, we consider four event windows:  $[-1, 5]$ ,  $[-1, 10]$ ,  $[-1, 15]$ , and  $[-1, 20]$ . Unlike financial information (e.g. earnings announcement), shareholders may not immediately gather, process and interpret this type of non-financial information and thus we use relatively longer event windows.

Table 6 provides event study results. The results for politically active companies are displayed in Panel A. Successful engagements lead to positive abnormal returns in politically active companies. The cumulative abnormal return is 3.16% within 12 days. Unsuccessful engagements are decomposed into three categories: omission of shareholder proposal, fail in shareholder meeting but with high support (i.e. “For” votes  $\geq 30\%$ ), fail in shareholder meeting and with low support (i.e. “For” votes  $< 30\%$ ). Engagements that fail in shareholder meeting but with high support result in negative stock market reaction with a cumulative abnormal return of -1.14% from  $-1$  to 10. The stock market reaction to omission of shareholder proposal and engagements that fail in shareholder meeting and with low support is statistically indifferent from zero. Taken together, the results suggest that stock market investors value political transparency in politically active companies. In other words, the benefit of corporate political transparency to shareholders outweighs the cost borne by shareholders in politically active companies. Panel A of Figure 4 depicts the short-term abnormal return for politically active companies.

Panel B shows the results for politically inactive companies. Short-term stock market reactions are statistically indifferent from zero in all categories. This suggests that in politically inactive

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<sup>17</sup>Average PAC expenditure of politically active companies is about \$1.85 million. By contrast, average PAC expenditure of politically inactive companies is about \$0.24 million.

companies, the benefit of corporate political transparency to shareholders is mitigated by the cost borne by shareholders. Panel B of Figure 4 depicts the short-term abnormal return for politically inactive companies.

**[Place Table 6 about here]**

**[Place Figure 4 about here]**

In order to further remove noise and control for other explanatory variables, we compare market reactions to successful engagements with that to unsuccessful engagements in a multivariate regression framework. The comparison is important because if there is some unobservable common trend influencing all firms targeted by activists, then the effect of unobservable common trend can be mitigated by the comparison. The following regression is estimated for both politically active and inactive companies.

$$CAAR_{i,t} = \alpha + \gamma Success_{i,t} + \beta Controls + \epsilon_{i,t} \quad (6)$$

where  $CAAR$  is cumulative abnormal return in event window  $[-1, 10]$ .  $Success$  is a dummy variable that takes value one if shareholder engagement is successful and zero otherwise.  $Controls$  represents a set of control variables, including firm size, book-to-market ratio, past one-year return, analyst coverage, board size, CEO-chairman duality, percentage of independent directors, director tenure and institutional ownership.

Table 7 presents the estimation results. In politically active companies, the difference between market reactions to successful engagements and those to unsuccessful engagements is 3.48% as displayed in column one. The difference remains statistically significant and becomes stronger after controlling for other explanatory variables. In politically inactive companies, the difference is statistically insignificant.

**[Place Table 7 about here]**

### B.3. Political Uncertainty and Market Reaction

In the previous section we find that stock market reacts positively to successful engagements in politically active companies. The explanation could be that information asymmetry and hidden risk to shareholders are alleviated after successful intervention. To further test this explanation, we re-estimate regression 6 in two regimes separately: high political uncertainty regime and low political uncertainty regime. The intuition is that hidden risk associated with corporate political opacity is higher when political uncertainty is high. Using policy uncertainty index developed by [Baker, Bloom, and Davis \(2016\)](#), we partition the sample into two groups. An event is classified as in high policy uncertainty regime if the index is above sample median. We use both overall index and news-based index.

Table 8 displays the regression results. In politically active companies (Panel A), the difference between market reactions to successful engagement and those to unsuccessful engagement is more positive when policy uncertainty is high. By contrast, in politically inactive companies (Panel B), the coefficients on *Success* dummy are not much different between two regimes.

[Place Table 8 about here]

### B.4. Change in Political Spending

Increased transparency is associated with more effective monitoring and discipline ([Wang, 2010](#); [Downar, Ernstberger, and Link, 2017](#); [De Franco, Hope, and Larocque, 2013](#); [Berger and Hann, 2003](#)). This could offer another explanation for the stock market reactions to shareholder engagements. We use change in companies' PAC expenditure to test the disciplinary effect. The intuition is that if successful shareholder engagements result in better monitoring of company management, management would have less discretion over the political spending. Thus political spending of successfully engaged companies would increase less fast (or decrease) relative to that of unsuccessfully engaged companies.

We require the company to have PAC expenditure information from two election cycles before shareholder engagements to two election cycles after shareholder engagements. The events in or after 2013 are excluded since PAC expenditure information are not available up to two election

cycles after shareholder engagements. To remove confounding effects, we remove unsuccessful engagements that are subsequently targeted and end up being engaged successfully within the next two election cycles. Figure 5 depicts the PAC expenditure of both successfully engaged companies and unsuccessfully engaged companies. In politically active companies (Panel A), successful engagements indeed result in a smaller increase in PAC expenditure relative to unsuccessful engagements. We also plot the differences in PAC expenditure between successfully engaged companies and unsuccessfully engaged companies. The pattern shows that the difference becomes more negative after shareholder intervention, supporting the previous statement. In politically inactive companies (Panel B), successful engagements result in a larger increase in PAC expenditure relative to unsuccessful engagements. The difference plot also confirms this statement.

[Place Figure 5 about here]

To formally test the above discipline effect, we adopt the following difference-in-differences framework.

$$PAC\_EXP_{i,t} = \alpha Success_i + \beta \sum_{j=0}^2 Post_j + \gamma \sum_{j=0}^2 Success_i * Post_j + \theta Controls + \epsilon_{i,t} \quad (7)$$

where  $PAC\_EXP_{i,t}$  is the company's PAC expenditure.  $Success_i$  is a dummy variable that takes value one if shareholder intervention is successful and zero otherwise.  $Post_j$  is a dummy variable that takes value one if shareholder engagement takes place in election cycle  $t - j$  and zero otherwise.  $Controls$  represents a set of control variables. The regression is estimated both with and without industry fixed effects. Standard errors are clustered at firm level to account for within-firm correlation.

Regression Results are presented in column 1 and 2 of Table 9. Consistent with the graphical results, the interaction term is significantly negative at time 0. The interaction term at time 1 and 2 is also negative although statistical significance is dampened. The coefficient on  $Success * Post_0$  in column 2 means that change in PAC expenditure of successfully intervened companies is \$82,120 less than that of unsuccessfully intervened companies at time 0 (election cycle of shareholder engagement). Graphically, the effect is mainly from politically active companies. In order to test

it, we perform the following triple difference regression.

$$\begin{aligned}
 PAC\_EXP_{i,t} = & \alpha Success_i + \xi Active_i + \delta Success_i * Active_i + \beta \sum_{j=0}^2 Post_j + \gamma \sum_{j=0}^2 Success_i * Post_j \\
 & + \eta \sum_{j=0}^2 Active_i * Post_j + \nu \sum_{j=0}^2 Success_i * Active_i * Post_j + \theta Controls + \epsilon_{i,t} \quad (8)
 \end{aligned}$$

where  $Active_i$  is a dummy variable that equals one if the company is politically active and zero otherwise. Other variables are the same as in previous regression. The regression is estimated both with and without industry fixed effects. Standard errors are clustered at firm level to account for within-firm correlation.

Regression results are presented in column 3 and 4 of Table 9. Consistent with the discipline effect is more significant in politically active companies, the triple interaction term  $Success_i * Active_i * Post_j$  is negative at time 0, 1, 2 though insignificant. The magnitude of coefficients is economically significant.

[Place Table 9 about here]

Taken together, the results suggest that shareholder engagements have disciplinary effect on corporate political spending, mostly in politically active companies.

## B.5. Change in Institutional Ownership

In this section we investigate institutional investors' behavior in response to engagement outcomes. We use quarterly holdings of institutional investors to perform the analysis. Therefore we focus on institutional investors' behaviour in medium to long-term.

The engaged companies need to have information on institutional ownership from four quarters before shareholder engagements to four quarters after shareholder engagements. The events in 2016 are excluded since information on institutional ownership are not available up to four quarters after shareholder engagements. Figure 6 depicts the institutional ownership of both successfully engaged companies and unsuccessfully engaged companies. Successfully engaged companies experience an increase in institutional holdings. By contrast, unsuccessfully engaged companies experience a decrease in institutional holdings. The effect persists more than one quarter after shareholder

engagements. The difference between institutional ownership of successfully engaged companies and that of unsuccessfully engaged companies turns more positive after shareholder engagements, echoing the previous finding.

[Place Figure 6 about here]

To formally test the above effect, we estimate the following difference-in-differences regression.

$$IO_{i,t} = \alpha Success_i + \beta \sum_{j=0}^4 Post_j + \gamma \sum_{j=0}^4 Success_i * Post_j + \theta Controls + \epsilon_{i,t} \quad (9)$$

where  $IO_{i,t}$  is the company's institutional ownership. Other variables have the same definitions as in previous regressions. The regression is estimated both with and without industry fixed effects. Standard errors are clustered at firm level to account for within-firm correlation.

Table 10 provides the estimation results. The interaction term is significantly positive at time 0, 1. The coefficient on interaction term is 2% at time 0 and 5% at time 1, which is economically large. This means that institutional ownership of successfully engaged companies increased by 2%(5%) more than that of unsuccessfully engaged companies at time 0(1). This finding provides support for the view that institutional investors have a preference for corporate governance, including ESG issues (Appel et al., 2016; He, Huang, and Zhao, 2017; Dimson et al., 2015).

[Place Table 10 about here]

## VI. Concluding Remarks

With ever growing corporate political spending and recent regulatory changes on political spending, it is crucial to understand the drivers and implications of corporate political transparency. This paper seeks to provide some insights by studying corporate political transparency through the lens of shareholder engagements.

We begin by documenting that there are many more successful shareholder engagements than previous literature have recognized. They are mostly in the form of settlement agreements between activist shareholders and management. Therefore shareholder engagements help shape corporate political transparency.

We then examine factors that drives activist investors' target decision. Activist investors tend to target companies with political action committee and lower political transparency level. We also find evidence of repeated engagements. Next, we study which types of activist investors are more likely to succeed in their engagements. Consistent with institutional investors' superior ability to accumulate shares and coordinate with other investors, we find engagements launched by institutional investors are more likely to be successful. Among the domain of institutional activist investors, we find that SRI funds are best performers and labor unions are worst performers.

On the implication side, we find that successful shareholder engagements indeed lead to much bigger improvement in corporate political transparency, measured by CPA-Zicklin index, compared to unsuccessful engagements. We provide market-based tests on how market participants view corporate political transparency. Stock market responses are significantly positive to successful engagements and negative to a subset of unsuccessful engagements in politically active companies. We do not find such responses in politically inactive companies. This suggests that the benefit of corporate political transparency to shareholders outweighs the cost borne by shareholders in politically active companies.

We then analyse the channels through which political transparency affects firm value. Consistent with corporate political transparency lowering hidden risk to investors, the market reactions are stronger when political uncertainty is high. Consistent with the disciplinary effect of corporate political transparency, successful shareholder interventions result in a slower growth of PAC expenditure than unsuccessful interventions in politically active companies. Lastly, we also provide evidences that institutional investors have a preference for corporate political transparency. Institutional ownership of successfully engaged companies experience an increase whilst that of unsuccessfully engaged companies experience an decrease in medium to long-term.

Overall, our market-based tests provide support for corporate political transparency. It would be interesting to examine whether corporate political transparency would disadvantage companies by revealing their business-related information. We leave this question for future research.



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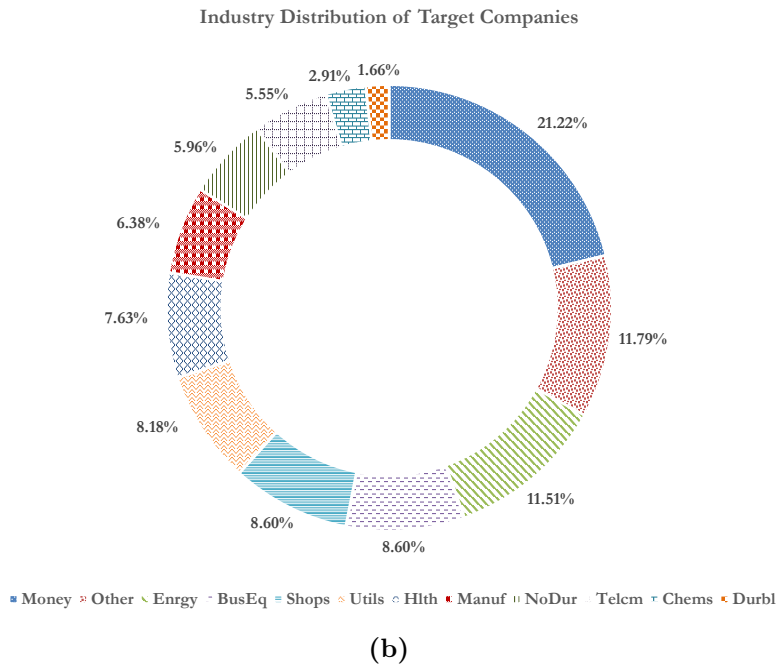
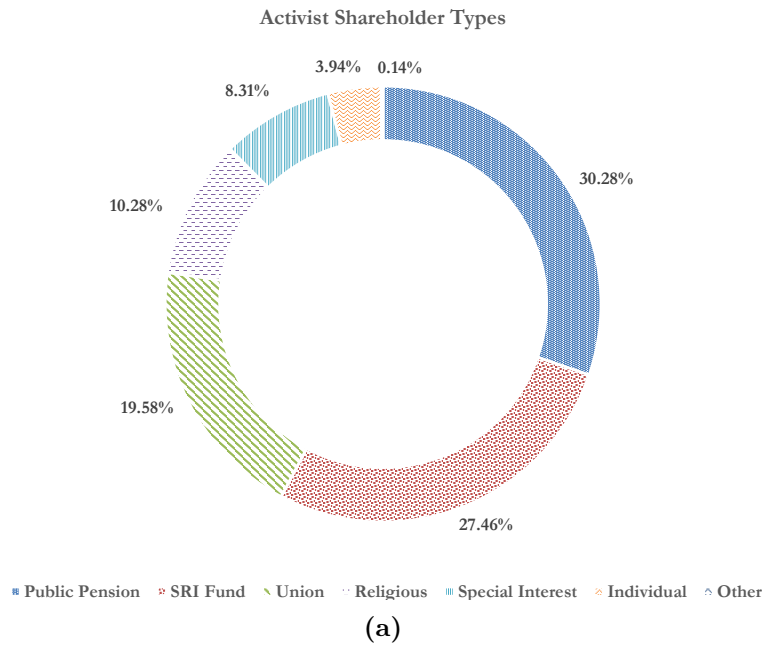
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## Appendix A. Figures

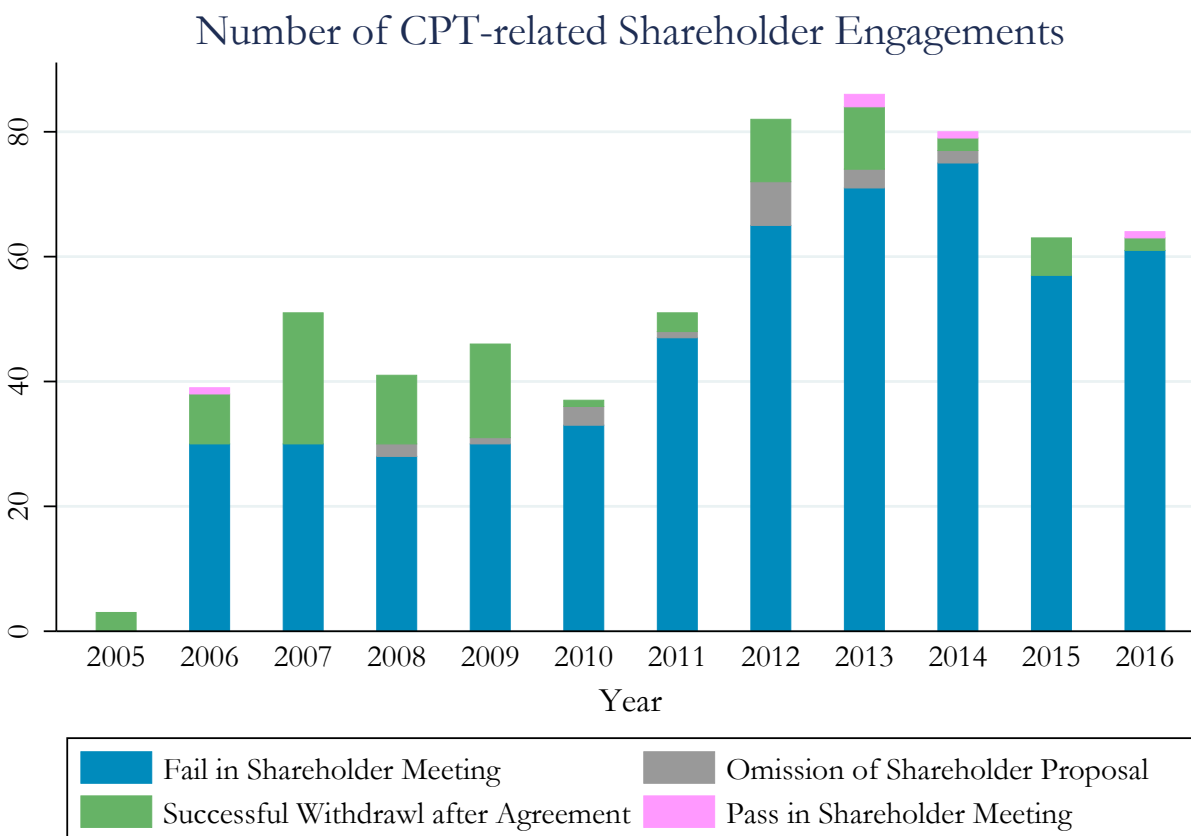
**Figure 1:** Activist Shareholder Type and Industry Distribution of Target Companies

This figure represents activist shareholder types (Panel (a)) and industry distribution of target companies (Panel (b)). We use collected shareholder engagements on corporate political transparency from 2005 to 2016.



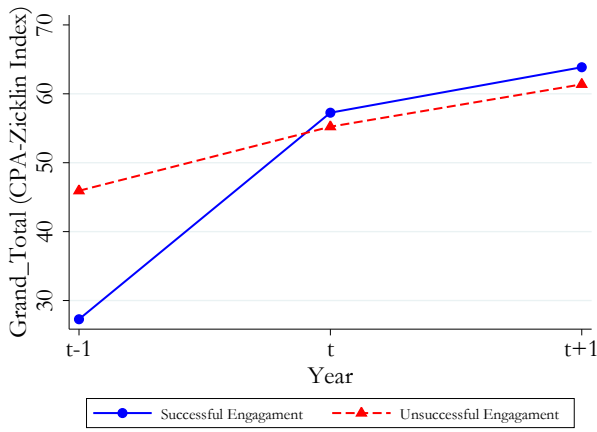
**Figure 2:** CPT-related Shareholder Engagements from 2005 to 2016

This figure plots the number of shareholder engagements from 2005 to 2016 that are used in ex-post analysis. Successful shareholder engagements include proposals that passed in the shareholder meeting and proposals that are withdrawn after shareholders reached agreement with company management to increase political transparency. Unsuccessful shareholder engagements include proposals that failed in the shareholder meeting and proposals omitted by the company management after approval from SEC.

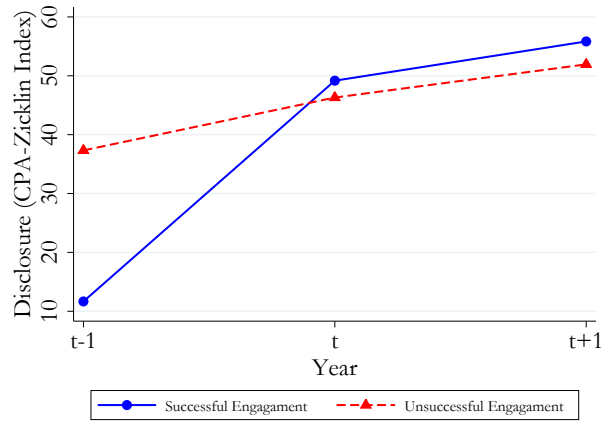


**Figure 3:** Change in Corporate Political Transparency around Events

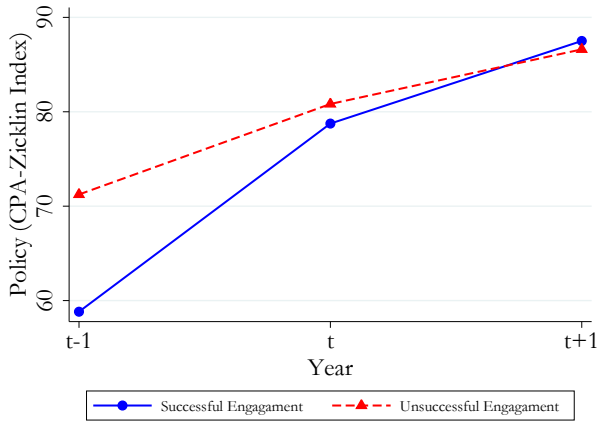
This figure represents the change in corporate political transparency measured by CPA-Zicklin index around shareholder engagements. All indices are in annual frequency. *Grand.Total* is the company's overall CPA-Zicklin index. *Disclosure*, *Policy*, *Oversight* are individual components of CPA-Zicklin index with detailed definitions in Table IA.1.  $t - 1$ ,  $t$ ,  $t + 1$  correspond to one year before outcome announcement, the year of outcome announcement, and one year after outcome announcement, respectively.



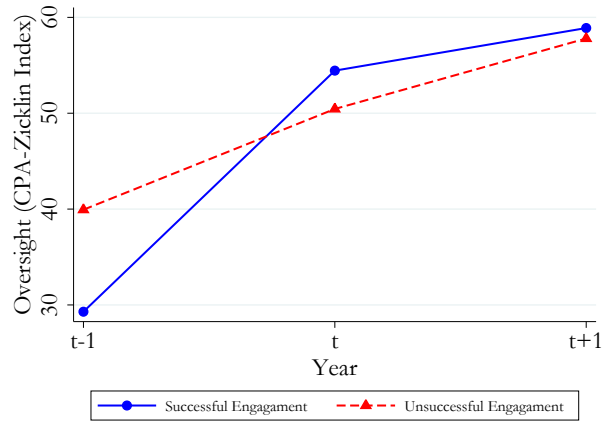
(a)



(b)



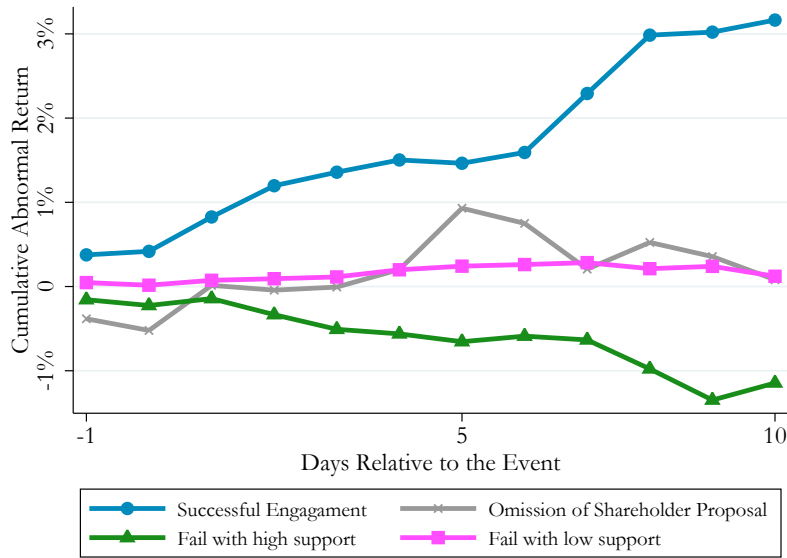
(c)



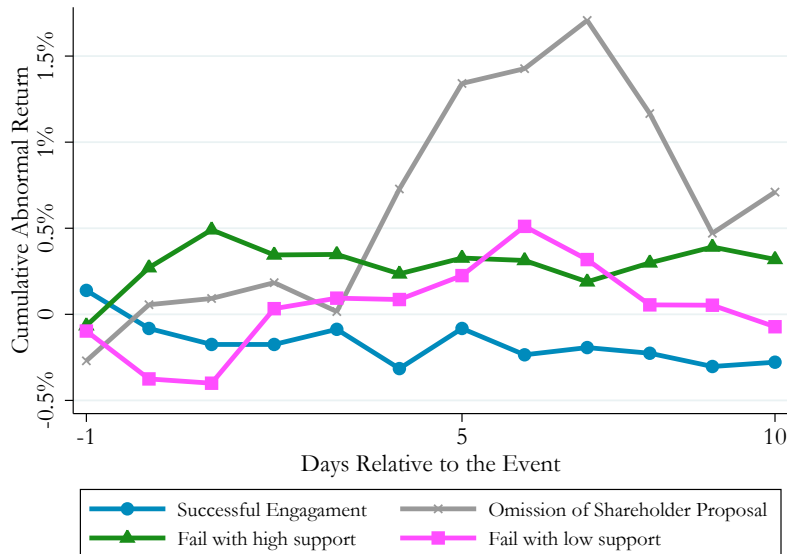
(d)

**Figure 4:** Stock Market Reactions to Engagement Outcomes

This figure represents stock market reactions to different shareholder engagement outcomes in politically active companies (Panel (a)) and politically inactive companies (Panel (b)). The engagement outcomes are classified into two categories: *Successful Engagement* and *Unsuccessful Engagement*. *Unsuccessful Engagement* is further decomposed into three sub-categories: *Omission of Shareholder Proposal*, *Fail in shareholder meeting with high support*, and *Fail in shareholder meeting with low support*. We consider a window from 1 days before to 10 days after the outcome announcement date (Day 0). Abnormal returns are calculated as the return in excess of expected return predicted by Carhart four-factor model.



(a) Politically Active Companies

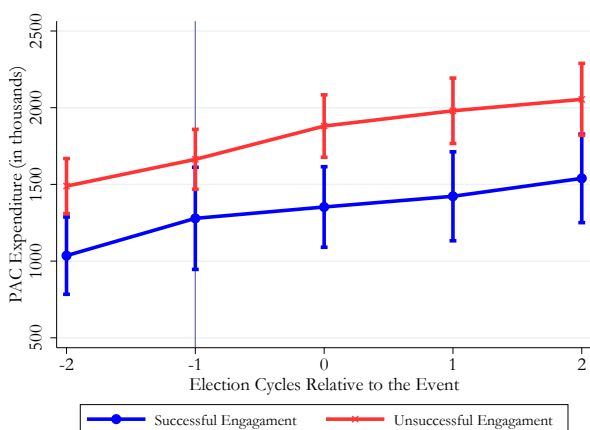


(b) Politically Inactive Companies

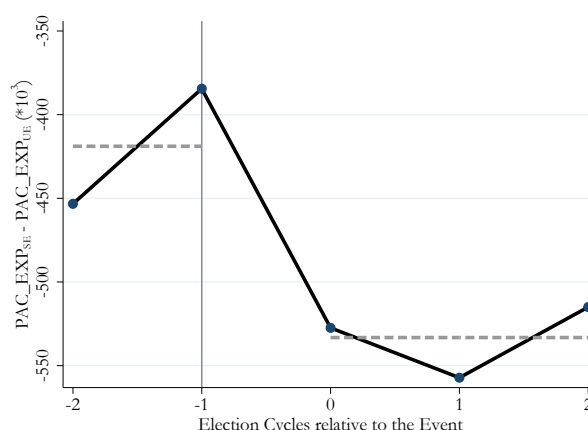


**Figure 5: Change in PAC expenditure**

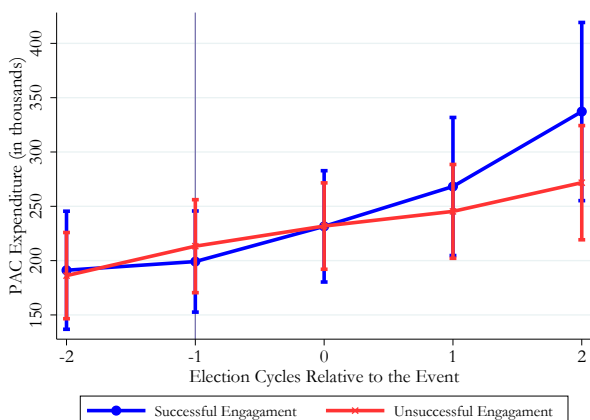
This figure represents changes in PAC expenditure around shareholder engagements. Top panels (Panel (a) and (b)) represent politically active companies. Bottom panels (Panel (c) and (d)) represent politically inactive companies. Figures on the left (Panel (a) and (c)) represent the average PAC expenditure and 95% confidence intervals. Figures on the right (Panel (b) and (d)) represent the difference in PAC expenditure between successfully engaged companies ( $PAC\_EXP_{SE}$ ) and unsuccessfully engaged companies ( $PAC\_EXP_{UE}$ ).



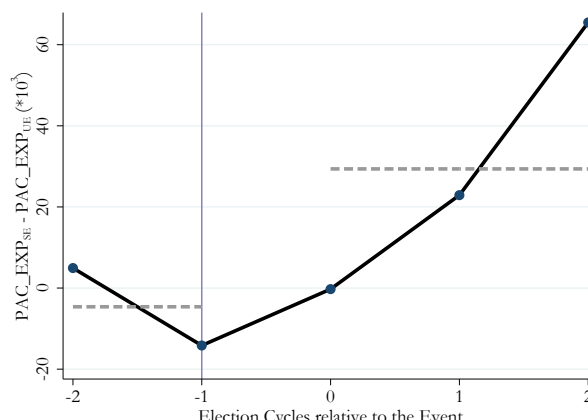
(a) Politically Active Companies



(b) Politically Active Companies



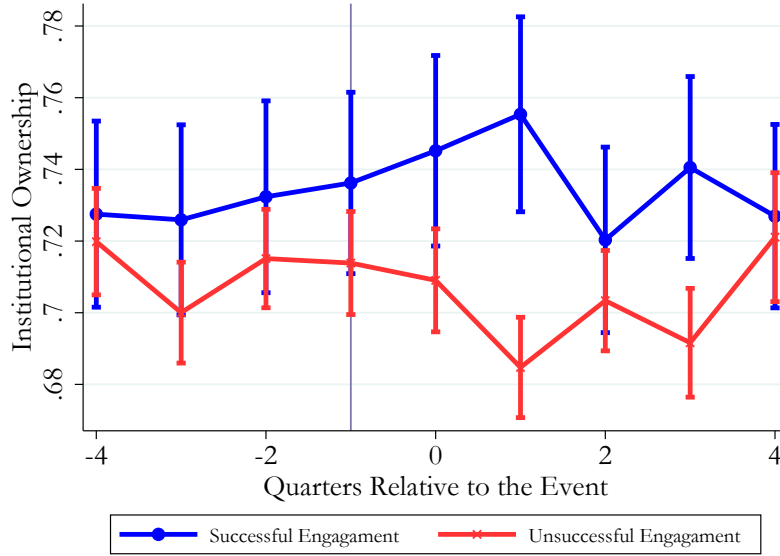
(c) Politically Inactive Companies



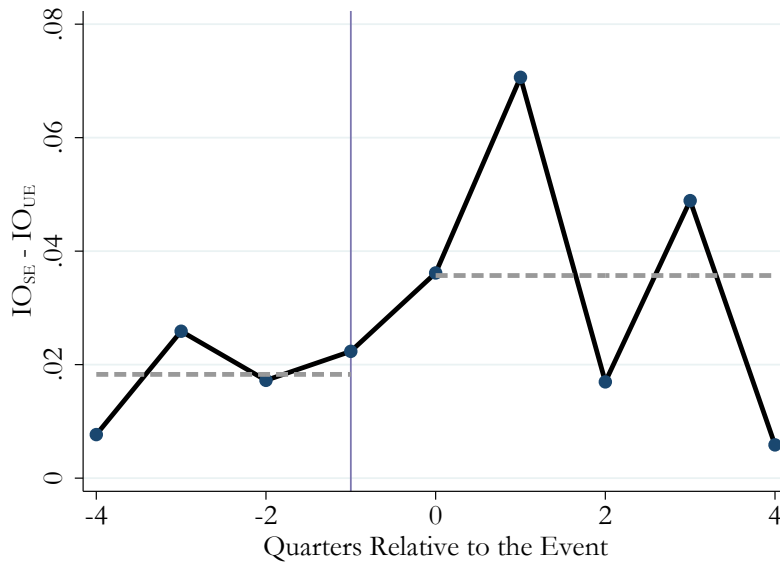
(d) Politically Inactive Companies

**Figure 6: Change in Institutional Ownership**

This figure represents changes in institutional ownership around shareholder engagements. Panel (a) represents the average institutional ownership and 95% confidence intervals. Panel (b) represents the difference in institutional ownership between successfully engaged companies ( $IO_{SE}$ ) and unsuccessfully engaged companies ( $IO_{UE}$ ).



(a)



(b)

## Appendix B. Tables

**Table I:** Most Frequent Shareholder Activists

This table shows the top ten shareholder activists that have filed corporate political transparency (CPT) related proposals in terms of frequency.

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Top Ten Shareholder Activists		
Rank	Sponsor Name	Frequency
1	New York State Common Retirement Fund	89
2	New York City Pension Funds	84
3	AFL-CIO	55
4	Trillium Asset Management	38
5	Walden Asset Management	36
6	Sisters of Mercy	25
7	Nathan Cummings Foundation	24
8	Domini Social Investments	24
9	Green Century Capital Management	23
10	International Brotherhood of Teamsters	21

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**Table II: Summary Statistics**

This table shows the summary statistics of each variable for Russell 3000 sample (Panel A) that is mainly used in ex-ante analysis and event study sample (Panel B) that is mainly used in ex-post analysis. *Size* is the natural logarithm of market capitalization of the company. *B/M* is the book value of equity divided by market value of equity. *Past 12M Return* is the past stock return for the previous twelve months. *Analyst Coverage* is the number of analysts that make annual earnings forecasts for the company in previous twelve months. *Board Size* is the total number of directors on the board. *CEO-Chairman Duality* is a dummy variable that equals one if the CEO is also the chairman of the board, and zero otherwise. *%Outside Directors* is the percentage of outside (independent) directors on the board. *Director Tenure* is the the average tenure of all directors sitting on the board. *PAC Expenditure* is expenditure of the company's political action committee (PAC) in a two-year election cycle. *Institutional Ownership* is the percentage of outstanding shares held by institutional investors.

Panel A: Summary Statistics of Russell 3000 Sample

	Obs	Mean	25%	50%	75%	Std.Dev
Size	32634	7.12	5.95	6.93	8.07	1.56
B/M	32353	0.5870	0.2821	0.5044	0.8114	2.1846
Past 12M Return	32021	0.1375	-0.1568	0.0773	0.3193	0.8400
Analyst Coverage	31162	11.6338	5.0000	9.0000	16.0000	8.9282
Board Size	31634	8.9143	7.0000	9.0000	10.0000	2.4495
CEO-Chairman Duality	31634	0.4601	0.0000	0.0000	1.0000	0.4984
%Outside Directors	31634	0.8083	0.7500	0.8333	0.8889	0.1039
Director Tenure	31634	7.8387	4.7571	7.4769	10.4000	4.3859
PAC Expenditure (in thousands)	32749	75.27	0.00	0.00	0.00	342.85
Institutional Ownership	32604	0.6939	0.5424	0.7485	0.8901	0.2472

Panel B: Summary Statistics of Event Study Sample

	Obs	Mean	25%	50%	75%	Std.Dev
Size	636	10.29	9.51	10.31	11.20	1.34
B/M	627	0.5988	0.2822	0.5034	0.8227	0.6654
Past 12M Return	636	0.1225	-0.0515	0.1174	0.2668	0.3551
Analyst Coverage	636	26.1824	20.0000	26.0000	32.0000	10.1074
Board Size	635	11.5969	10.0000	12.0000	13.0000	2.2616
CEO-Chairman Duality	635	0.6472	0.0000	1.0000	1.0000	0.4782
%Outside Directors	635	0.8789	0.8571	0.9000	0.9167	0.0645
Director Tenure	635	7.9899	6.1700	7.7500	9.2500	2.7461
PAC Expenditure (in thousands)	636	1059.12	210.93	634.51	1478.13	1246.44
Institutional Ownership	636	0.7273	0.6342	0.7271	0.8434	0.1861

**Table III:** Target Selection

This table examines the determinants of activists' target selection using Russell 3000 sample from 2005 to 2015. The dependent variable *Target* is a dummy variable that equals one if shareholder activists file a proposal for the company in the subsequent year and zero otherwise. *PAC Existence* is a dummy variable that equals one if the company has a Political Action Committee(PAC) and zero otherwise. *Grand\_Total* is the company's overall CPA-Zicklin index on corporate political transparency. *Disclosure*, *Policy*, *Oversight* are individual components of CPA-Zicklin index with detailed definitions in Table IA.1. *Targeted in the Past* is a dummy variable equal to one if the company was previously targeted by shareholder activists and zero otherwise. *Size* is the natural logarithm of market capitalization of the company. *B/M* is the book value of equity divided by market value of equity. *Ret12M* is the past stock return for the previous twelve months. *Coverage* is the number of analysts that make annual earnings forecasts for the company in previous twelve months. *BoardSize* is the total number of directors on the board. *Duality* is a dummy variable that equals one if the CEO is also the chairman of the board, and zero otherwise. *%Outside\_Directors* is the percentage of outside (independent) directors on the board. *Tenure* is the average tenure of all directors sitting on the board. *%Connected\_Directors* is the percentage of government-connected directors on the board. *IO* is the percentage of outstanding shares held by institutional investors. In each column, we report coefficient estimates, their heteroscedasticity-robust t-statistics and the corresponding marginal probability change induced by a one-unit change in the value of a specific covariate from its sample average. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Target	Mfx	Target	Mfx	Target	Mfx	Target	Mfx	Target	Mfx
PAC Existence	0.74782*** [12.50]	0.00881*** [6.81]	0.45629*** [3.06]	0.09689*** [3.45]	0.42002*** [2.82]	0.08977*** [3.14]	0.49940*** [3.48]	0.10960*** [3.99]	0.49432*** [3.39]	0.10680*** [3.87]
Grand_Total			-0.01686*** [-8.49]	-0.00396*** [-8.82]						
Disclosure					-0.01539*** [-8.84]	-0.00361*** [-9.11]				
Policy							-0.00956*** [-5.22]	-0.00233*** [-5.41]		
Oversight									-0.01206*** [-7.11]	-0.00290*** [-7.07]
Targeted in the Past	0.69492*** [11.17]	0.01074*** [3.95]	0.95671*** [6.72]	0.21200*** [7.14]	0.90160*** [6.57]	0.20010*** [6.91]	0.79612*** [5.76]	0.18506*** [6.15]	0.81681*** [6.22]	0.18673*** [6.48]
Size	0.33626*** [12.65]	0.00196*** [7.27]	0.32330*** [4.76]	0.07587*** [4.72]	0.30202*** [4.47]	0.07078*** [4.42]	0.25549*** [3.91]	0.06236*** [3.89]	0.29943*** [4.34]	0.07195*** [4.32]
B/M	0.12149*** [5.12]	0.00071*** [4.43]	0.24450*** [2.39]	0.05737*** [2.39]	0.23928*** [2.29]	0.05607*** [2.29]	0.24902*** [2.44]	0.06078*** [2.44]	0.25556*** [2.49]	0.06141*** [2.49]
Ret12M	-0.14669** [-2.36]	-0.00086** [-2.29]	-0.16043 [-0.85]	-0.03765 [-0.85]	-0.14609 [-0.77]	-0.03424 [-0.77]	-0.13604 [-0.75]	-0.03320 [-0.75]	-0.14271 [-0.75]	-0.03429 [-0.75]

Table III (Cont'd)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Target	Mfx	Target	Mfx	Target	Mfx	Target	Mfx	Target	Mfx
Coverage	0.00213 [0.77]	0.00001 [0.77]	0.00424 [0.81]	0.00099 [0.81]	0.00547 [1.05]	0.00128 [1.05]	0.00431 [0.84]	0.00105 [0.84]	0.00407 [0.78]	0.00098 [0.78]
BoardSize	-0.00295 [-0.27]	-0.00002 [-0.27]	-0.04936** [-2.07]	-0.01158** [-2.08]	-0.04627* [-1.94]	-0.01084* [-1.94]	-0.05283** [-2.26]	-0.01289** [-2.27]	-0.04532* [-1.94]	-0.01089* [-1.95]
Duality	0.04182 [0.87]	0.00025 [0.84]	0.18933* [1.96]	0.04394** [1.99]	0.20413** [2.09]	0.04727** [2.13]	0.11772 [1.25]	0.02854 [1.26]	0.12958 [1.36]	0.03091 [1.37]
%Outside_Directors	0.37567 [0.98]	0.00219 [1.01]	0.51649 [0.68]	0.12120 [0.69]	0.27090 [0.36]	0.06348 [0.36]	0.54960 [0.76]	0.13414 [0.76]	0.50965 [0.70]	0.12247 [0.70]
Tenure	0.00077 [0.13]	0.00000 [0.13]	-0.02500 [-1.37]	-0.00587 [-1.37]	-0.02223 [-1.22]	-0.00521 [-1.22]	-0.01985 [-1.12]	-0.00484 [-1.12]	-0.02252 [-1.24]	-0.00541 [-1.24]
%Connected_Directors	0.56169*** [3.97]	0.00328*** [3.53]	1.44287*** [4.63]	0.33859*** [4.68]	1.49948*** [4.75]	0.35138*** [4.80]	1.33946*** [4.51]	0.32692*** [4.56]	1.23925*** [4.11]	0.29780*** [4.11]
IO	0.28790** [2.25]	0.00168** [2.37]	0.32051 [1.03]	0.07521 [1.03]	0.33367 [1.06]	0.07819 [1.05]	0.24783 [0.84]	0.06049 [0.83]	0.28106 [0.93]	0.06754 [0.93]
Observations	29648	29648	1225	1225	1225	1225	1225	1225	1225	1225
Pseudo R <sup>2</sup>	0.441	0.441	0.214	0.214	0.223	0.223	0.176	0.176	0.194	0.194

**Table IV: Likelihood of Successful Engagement**

This table examines the determinants of activists' engagement outcomes using event study sample from 2005 to 2016. The dependent variable *Success* is a dummy variable that equals one if shareholder engagement is successful and zero otherwise. *Sponsor is a SRI fund/public pension/religious group/labor union* is a dummy variable equal to 1 if the sponsor of the proposal is a SRI fund/public pension/religious group/labor union. *Sponsor is an institutional investor* is a dummy variable equal to 1 if the sponsor of the proposal is an institutional investor (SRI fund/public pension/religious group/labor union). *PAC Existence* is a dummy variable that equals one if the company has a Political Action Committee(PAC) and zero otherwise. *Size* is the natural logarithm of market capitalization of the company. *B/M* is the book value of equity divided by market value of equity. *Ret12M* is the past stock return for the previous twelve months. *Coverage* is the number of analysts that make annual earnings forecasts for the company in previous twelve months. *BoardSize* is the total number of directors on the board. *Duality* is a dummy variable that equals one if the CEO is also the chairman of the board, and zero otherwise. *%Outside\_Directors* is the percentage of outside (independent) directors on the board. *Tenure* is the average tenure of all directors sitting on the board. *%Connected\_Directors* is the percentage of government-connected directors on the board. *IO* is the percentage of outstanding shares held by institutional investors. In each column, we report coefficient estimates, their heteroscedasticity-robust t-statistics and the corresponding marginal probability change induced by a one-unit change in the value of a specific covariate from its sample average. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	Success	Mfx	Success	Mfx
Sponsor is an institutional investor	0.66538*** [3.11]	0.11237*** [4.30]		
Sponsor is a SRI fund			1.12276*** [4.67]	0.30494*** [4.11]
Sponsor is a public pension			0.60641*** [2.58]	0.14401** [2.33]
Sponsor is a religious group			0.47758 [1.62]	0.12146 [1.38]
Sponsor is a labor union			0.20176 [0.73]	0.04505 [0.69]
PAC Existence	0.25197 [0.86]	0.04865 [0.99]	0.34802 [1.11]	0.06047 [1.37]
Size	-0.08440 [-1.32]	-0.01847 [-1.31]	-0.12219* [-1.79]	-0.02545* [-1.78]
B/M	-0.13419 [-1.16]	-0.02937 [-1.17]	-0.08069 [-0.81]	-0.01681 [-0.81]
Ret12M	-0.23862 [-0.83]	-0.05222 [-0.84]	-0.20644 [-0.71]	-0.04300 [-0.72]
Coverage	-0.00787 [-0.99]	-0.00172 [-1.00]	-0.01112 [-1.32]	-0.00232 [-1.32]
BoardSize	0.05168* [1.73]	0.01131* [1.72]	0.06380** [1.99]	0.01329** [1.99]
Duality	0.15525 [1.07]	0.03314 [1.11]	0.13549 [0.90]	0.02760 [0.93]
%Outside_Directors	0.35115 [0.31]	0.07684 [0.31]	0.00382 [0.00]	0.00080 [0.00]
Tenure	0.02712 [1.12]	0.00593 [1.13]	0.02037 [0.82]	0.00424 [0.83]
%Connected_Directors	-0.52469 [-1.40]	-0.11482 [-1.41]	-0.62679 [-1.63]	-0.13055* [-1.66]
IO	0.15161 [0.46]	0.03318 [0.46]	0.25799 [0.74]	0.05374 [0.74]
Observations	626	626	626	626
Pseudo R <sup>2</sup>	0.048	0.048	0.092	0.092

**Table V:** Change in Corporate Political Transparency around Events

This table shows the change in corporate political transparency measured by CPA-Zicklin index around shareholder engagements. All indices are in annual frequency. *Grand\_Total* is the company's overall CPA-Zicklin index. *Disclosure*, *Policy*, *Oversight* are individual components of CPA-Zicklin index with detailed definitions in Table IA.1.  $t - 1$ ,  $t$ ,  $t + 1$  correspond to one year before outcome announcement, the year of outcome announcement, and one year after outcome announcement, respectively. We also report  $t - 1$  to  $t$  changes,  $t$  to  $t + 1$  changes, and their associated t-statistics. Differences between *Successful Engagement* and *Unsuccessful Engagement* are computed in the last row. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Grand\_Total

	Obs	t-1	t	t+1	Change <sub>t-1→t</sub>	t-stat	Change <sub>t→t+1</sub>	t-stat
Successful Engagement	10	27.28	57.26	63.86	29.98**	2.64	6.6	0.51
Unsuccessful Engagement	176	45.93	55.22	61.37	9.30***	3.38	6.15**	2.36
Difference	186	-18.65	2.03	2.49	20.68***	3.75	0.45	0.11

Panel B: Disclosure

	Obs	t-1	t	t+1	Change <sub>t-1→t</sub>	t-stat	Change <sub>t→t+1</sub>	t-stat
Successful Engagement	10	11.67	49.17	55.83	37.50***	3.22	6.67	0.44
Unsuccessful Engagement	176	37.33	46.31	51.94	8.98***	2.78	5.63*	1.75
Difference	186	-25.66	2.86	3.89	28.52***	4.45	1.03	0.2

Panel C: Policy

	Obs	t-1	t	t+1	Change <sub>t-1→t</sub>	t-stat	Change <sub>t→t+1</sub>	t-stat
Successful Engagement	10	58.82	78.75	87.50	19.93	1.47	8.75	0.79
Unsuccessful Engagement	176	71.24	80.82	86.61	9.58***	3.57	5.79**	2.56
Difference	186	-12.42	-2.07	0.89	10.35	1.52	2.96	0.67

Panel D: Oversight

	Obs	t-1	t	t+1	Change <sub>t-1→t</sub>	t-stat	Change <sub>t→t+1</sub>	t-stat
Successful Engagement	10	29.29	54.44	58.89	25.15*	1.91	4.44	0.33
Unsuccessful Engagement	176	39.94	50.45	57.80	10.51***	3.46	7.35**	2.45
Difference	186	-10.64	4.00	1.09	14.64**	2.31	-2.91	-0.57



**Table VI:** Stock Market Reactions to Engagement Outcomes

This table shows stock market reactions to different shareholder engagement outcomes in politically active companies (Panel A) and politically inactive companies (Panel B). The engagement outcomes are classified into two categories: *Successful Engagement* and *Unsuccessful Engagement*. *Unsuccessful Engagement* is further decomposed into three sub-categories: *Omission of Shareholder Proposal*, *Fail in shareholder meeting with high support*, and *Fail in shareholder meeting with low support*. We consider four different windows surrounding the outcome announcement date (Day 0). Abnormal returns are calculated as the return in excess of expected return predicted by Carhart four-factor model. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

## Panel A: Politically Active Companies

	N	CAAR[-1,5]	CAAR[-1,10]	CAAR[-1,15]	CAAR[-1,20]
<i>Successful Engagement</i>	33	1.46%** [2.14]	3.16%** [2.57]	3.80%** [2.27]	3.88%* [1.77]
<i>Unsuccessful Engagement</i>					
Omission of Shareholder Proposal	12	0.93% [0.98]	0.08% [0.06]	1.71% [0.99]	0.97% [0.51]
Fail in shareholder meeting with high support	100	-0.66%** [-2.29]	-1.14%*** [-2.64]	-1.25%** [-2.43]	-1.20%** [-1.99]
Fail in shareholder meeting with low support	178	0.24% [1.22]	0.12% [0.45]	0.13% [0.39]	0.20% [0.49]

## Panel B: Politically Inactive Companies

	N	CAAR[-1,5]	CAAR[-1,10]	CAAR[-1,15]	CAAR[-1,20]
<i>Successful Engagement</i>	63	-0.08% [-0.16]	-0.28% [-0.47]	0.19% [0.24]	0.10% [0.11]
<i>Unsuccessful Engagement</i>					
Omission of Shareholder Proposal	7	1.34% [1.63]	0.71% [0.5]	0.38% [0.24]	-0.64% [-0.31]
Fail in shareholder meeting with high support	111	0.33% [0.80]	0.32% [0.54]	0.27% [0.42]	-0.08% [-0.12]
Fail in shareholder meeting with low support	132	0.23% [0.56]	-0.07% [-0.14]	-0.20% [-0.36]	0.39% [0.61]

**Table VII:** Regression on Short Term Abnormal Return

This table examines the difference in stock market responses between successful engagements and unsuccessful engagements in a regression framework. The dependent variable  $CAAR[-1,10]$  is the cumulative average abnormal return (CAAR) within window  $[-1,10]$ . *Success* is a dummy variable that equals one if shareholder engagement is successful and zero otherwise. *Size* is the natural logarithm of market capitalization of the company. *B/M* is the book value of equity divided by market value of equity. *Ret12M* is the past stock return for the previous twelve months. *Coverage* is the number of analysts that make annual earnings forecasts for the company in previous twelve months. *BoardSize* is the total number of directors on the board. *Duality* is a dummy variable that equals one if the CEO is also the chairman of the board, and zero otherwise. *%Outside\_Directors* is the percentage of outside (independent) directors on the board. *Tenure* is the average tenure of all directors sitting on the board. *IO* is the percentage of outstanding shares held by institutional investors. Column 1 and 2 reports the results for politically active companies. Column 3 and 4 reports the results for politically inactive companies. In each column, we report coefficient estimates and their heteroscedasticity-robust t-statistics. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	Politically Active Companies		Politically Inactive Companies	
	CAAR[-1,10]			
Success	0.0348*** [2.81]	0.0359*** [2.83]	-0.0040 [-0.57]	-0.0056 [-0.77]
Size		0.0029 [0.95]		0.0020 [0.52]
B/M		-0.0056 [-0.52]		0.0005 [0.08]
Ret12M		-0.0020 [-0.28]		-0.0090 [-0.76]
Coverage		-0.0000 [-0.07]		0.0003 [0.83]
BoardSize		-0.0024 [-1.57]		0.0005 [0.32]
Duality		0.0025 [0.45]		-0.0075 [-1.07]
%ODirectors		0.0736 [1.47]		0.0889 [1.51]
Tenure		0.0017 [1.51]		0.0022* [1.90]
IO		-0.0108 [-0.78]		-0.0135 [-0.64]
Observations	323	321	313	305
R <sup>2</sup>	0.056	0.089	0.001	0.038

**Table VIII: Political Uncertainty and Stock Market Reaction**

This table examines the effect of political uncertainty on stock market responses in both politically active companies (Panel A) and politically inactive companies (Panel B). Sample events are classified as in either high policy uncertainty environment or low policy uncertainty environment based on index developed by [Baker et al. \(2016\)](#). We use both overall index and news-based index. Dependent variable and independent variables are the same as in Table 7. In each column, we report coefficient estimates and their heteroscedasticity-robust t-statistics. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

## Panel A: Politically Active Companies

	(1)	(2)	(3)	(4)
	Overall Index		News-based Index	
	High Policy Uncertainty	Low Policy Uncertainty CAAR[-1,10]	High Policy Uncertainty	Low Policy Uncertainty
Success	0.0595** [2.55]	0.0188* [1.91]	0.0770*** [2.67]	0.0188* [1.95]
Size	-0.0034 [-0.85]	0.0080** [2.57]	-0.0017 [-0.42]	0.0078** [2.36]
B/M	-0.0170** [-2.16]	0.0107 [1.13]	-0.0168** [-2.12]	0.0086 [1.00]
Ret12M	-0.0108 [-1.28]	0.0134** [1.98]	-0.0101 [-1.19]	0.0152** [2.18]
Coverage	-0.0002 [-0.41]	-0.0001 [-0.24]	-0.0001 [-0.22]	-0.0002 [-0.42]
BoardSize	-0.0063*** [-2.81]	0.0006 [0.31]	-0.0055** [-2.57]	0.0014 [0.80]
Duality	-0.0018 [-0.23]	-0.0018 [-0.27]	-0.0029 [-0.37]	0.0015 [0.23]
%ODirectors	0.1168 [1.44]	-0.0016 [-0.03]	0.1119 [1.27]	0.0278 [0.49]
Tenure	-0.0003 [-0.20]	0.0020 [1.59]	-0.0003 [-0.19]	0.0026** [1.99]
IO	-0.0057 [-0.22]	-0.0124 [-0.92]	-0.0181 [-0.79]	0.0017 [0.12]
Observations	170	151	168	153
R <sup>2</sup>	0.247	0.135	0.250	0.117

Table VIII (Cont'd)

Panel B: Politically Inactive Companies

	(1)	(2)	(3)	(4)
	Overall Index		News-based Index	
	High Policy Uncertainty	Low Policy Uncertainty	High Policy Uncertainty	Low Policy Uncertainty
			CAAR[-1,10]	
Success	-0.0081 [-0.82]	-0.0051 [-0.48]	-0.0065 [-0.58]	-0.0108 [-1.11]
Size	-0.0044 [-1.01]	0.0091 [1.36]	0.0030 [0.57]	-0.0006 [-0.11]
B/M	-0.0029 [-0.48]	0.0013 [0.08]	-0.0014 [-0.24]	0.0161 [1.19]
Ret12M	0.0013 [0.08]	-0.0179 [-0.95]	-0.0165 [-0.95]	-0.0037 [-0.25]
Coverage	0.0010** [2.51]	-0.0008 [-1.56]	0.0008** [2.02]	-0.0005 [-1.01]
BoardSize	0.0013 [0.59]	-0.0007 [-0.29]	0.0012 [0.55]	0.0011 [0.46]
Duality	-0.0116 [-1.39]	-0.0100 [-0.76]	-0.0062 [-0.70]	-0.0071 [-0.64]
%ODirectors	0.0612 [0.70]	0.1215 [1.40]	-0.0353 [-0.41]	0.1996*** [2.67]
Tenure	0.0027* [1.85]	0.0010 [0.55]	0.0019 [1.36]	0.0018 [1.00]
IO	-0.0259 [-0.96]	0.0048 [0.15]	-0.0093 [-0.34]	-0.0213 [-0.70]
Observations	166	139	152	153
R <sup>2</sup>	0.077	0.054	0.096	0.077

**Table IX:** Change in PAC expenditure

This table examines changes in PAC expenditure around shareholder engagements. Column 1 and 2 estimate the following regression:

$$PAC\_EXP_{i,t} = \alpha Success_i + \beta \sum_{j=0}^2 Post_j + \gamma \sum_{j=0}^2 Success_i * Post_j + x'_{i,t} \theta + \epsilon_{i,t}$$

Column 3 and 4 estimate the following regression:

$$PAC\_EXP_{i,t} = \alpha Success_i + \xi Active_i + \delta Success_i * Active_i + \beta \sum_{j=0}^2 Post_j + \gamma \sum_{j=0}^2 Success_i * Post_j + \eta \sum_{j=0}^2 Active_i * Post_j + \nu \sum_{j=0}^2 Success_i * Active_i * Post_j + x'_{i,t} \theta + \epsilon_{i,t}$$

The dependent variable *PAC\_EXP* is the company's PAC expenditure in a two-year election cycle. *Success* is a dummy variable that equals one if shareholder engagement is successful and zero otherwise. *Post<sub>j</sub>* is a dummy variable that takes value one if shareholder engagement takes place in election cycle  $t - j$  and zero otherwise. *Active<sub>i</sub>* is a dummy variable that equals one if the company is politically active and zero otherwise. Other variables have same definitions as in Table 7. Industry fixed effects based on Fama-French 12 industry classification are included in columns 2 and 4. Standard errors are clustered at the firm level. In each column, we report coefficient estimates and their t-statistics. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	PAC_EXP			
Success	-362.76*** [-2.78]	-221.70* [-1.90]	-60.35 [-0.82]	-22.62 [-0.27]
Active			1182.91*** [7.74]	1089.99*** [7.44]
Success*Active			-292.48 [-1.54]	-201.38 [-1.15]
Post <sub>0</sub>	181.28*** [5.21]	181.28*** [5.19]	32.05** [2.40]	32.05** [2.39]
Success*Post <sub>0</sub>	-82.12* [-1.92]	-82.12* [-1.91]	4.35 [0.22]	4.35 [0.22]
Post <sub>0</sub> *Active			272.06*** [4.65]	272.06*** [4.63]
Success*Post <sub>0</sub> *Active			-112.90 [-1.35]	-112.90 [-1.35]
Post <sub>1</sub>	241.99*** [4.87]	241.99*** [4.85]	45.57** [2.17]	45.57** [2.16]
Success*Post <sub>1</sub>	-93.09 [-1.56]	-93.09 [-1.55]	27.52 [0.90]	27.52 [0.90]
Post <sub>1</sub> *Active			358.09*** [4.30]	358.09*** [4.28]
Success*Post <sub>1</sub> *Active			-165.86 [-1.41]	-165.86 [-1.40]

Table IX (Cont'd)

	(1)	(2)	(3)	(4)
			PAC_EXP	
Post <sub>2</sub>	294.78***	294.78***	72.00**	72.00**
	[4.47]	[4.45]	[2.43]	[2.42]
Success*Post <sub>2</sub>	-58.06	-58.06	70.10	70.10
	[-0.78]	[-0.78]	[1.55]	[1.54]
Post <sub>2</sub> *Active			406.14***	406.14***
			[3.63]	[3.61]
Success*Post <sub>2</sub> *Active			-166.21	-166.21
			[-1.18]	[-1.18]
Size	229.38***	328.47***	52.91	126.51**
	[3.23]	[4.82]	[0.90]	[2.33]
B/M	54.38	113.70*	-58.29	-6.26
	[0.73]	[1.66]	[-1.05]	[-0.14]
Ret12M	-46.60	-91.00	83.89	58.73
	[-0.30]	[-0.64]	[0.83]	[0.62]
Coverage	15.27	13.60	14.51*	11.05*
	[1.44]	[1.57]	[1.79]	[1.76]
BoardSize	66.36*	14.31	4.22	-11.52
	[1.77]	[0.44]	[0.16]	[-0.51]
Duality	182.48	169.87	92.28	73.46
	[1.17]	[1.30]	[0.71]	[0.69]
%Outside_Directors	-114.20	-501.59	31.43	-144.17
	[-0.14]	[-0.57]	[0.05]	[-0.23]
Tenure	-22.24	-35.68*	-15.91	-19.18
	[-0.98]	[-1.73]	[-0.87]	[-1.04]
IO	-221.27	-186.35	-429.87	-414.03
	[-0.31]	[-0.29]	[-0.80]	[-0.90]
Industry Fixed Effects	No	Yes	No	Yes
Observations	1540	1540	1540	1540
R <sup>2</sup>	0.258	0.405	0.513	0.600

**Table X:** Change in Institutional Ownership

This table examines changes in institutional ownership around shareholder engagements. The following regression is estimated:

$$IO_{i,t} = \alpha Success_i + \beta \sum_{j=0}^4 Post_j + \gamma \sum_{j=0}^4 Success_i * Post_j + x'_{i,t} \theta + \epsilon_{i,t}$$

The dependent variable  $IO$  is the percentage of outstanding shares held by institutional investors.  $Success$  is a dummy variable that equals one if shareholder engagement is successful and zero otherwise.  $Post_j$  is a dummy variable that takes value one if shareholder engagement takes place in quarter  $t - j$  and zero otherwise. Other variables have same definitions as in Table 7. Industry fixed effects based on Fama-French 12 industry classification are included in columns 2. Standard errors are clustered at the firm level. In each column, we report coefficient estimates and their t-statistics. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)
	IO	
Success	0.01 [0.47]	0.01 [0.92]
Post <sub>0</sub>	-0.00 [-1.01]	-0.00 [-1.01]
Success*Post <sub>0</sub>	0.02** [2.50]	0.02** [2.50]
Post <sub>1</sub>	-0.03*** [-6.58]	-0.03*** [-6.57]
Success*Post <sub>1</sub>	0.05*** [5.17]	0.05*** [5.17]
Post <sub>2</sub>	-0.01** [-2.31]	-0.01** [-2.30]
Success*Post <sub>2</sub>	-0.00 [-0.13]	-0.00 [-0.13]
Post <sub>3</sub>	-0.02*** [-4.68]	-0.02*** [-4.68]
Success*Post <sub>3</sub>	0.03*** [4.06]	0.03*** [4.06]
Post <sub>4</sub>	0.01 [1.05]	0.01 [1.05]
Success*Post <sub>4</sub>	-0.01 [-1.05]	-0.01 [-1.05]

**Table X (Cont'd)**

	(1)	(2)
		IO
Size	-0.04*** [-4.32]	-0.04*** [-3.89]
B/M	-0.05*** [-3.83]	-0.05*** [-4.02]
Ret12M	0.02 [1.60]	0.02* [1.65]
Coverage	0.00** [2.02]	0.00 [1.07]
BoardSize	-0.01 [-1.58]	-0.01 [-1.54]
Duality	0.00 [0.24]	0.00 [0.24]
%Outside_Directors	0.29** [2.00]	0.27** [2.08]
Tenure	0.00 [1.35]	0.00 [1.44]
Industry Fixed Effects	No	Yes
Observations	4977	4977
R <sup>2</sup>	0.184	0.249



## Internet Appendix to “Shining Light on Corporate Political Spending: Evidence from Shareholder Engagement”

### *A. Introduction*

The internet appendix contains 1) description of CPA-Zicklin index used in the paper, 2) examples of media report on corporate political transparency, 3) examples of public announcements of successful shareholder engagements, 4) placebo test for event study results, 5) tests of parallel trend assumption in difference-in-differences analysis.

### *B. Description of CPA-Zicklin Index*

CPA-Zicklin Index, which measures the level of corporate political transparency, is produced by Center for Political Accountability, a non-profit organisation, in conjunction with the Zicklin Center for Business Ethics Research at The Wharton School at the University of Pennsylvania. Data on corporate political transparency is collected from company websites twice a year. The compilation of CPA-Zicklin index starts from 2011 with only 99 of S&P 500 companies. The coverage has been gradually expanded to S&P 500 companies. Figure IA.1 displays the coverage of CPA-Zicklin Index from 2011 to 2016.

CPA-Zicklin index has three major components: disclosure, policy and oversight. The detailed breakdown of scoring criteria is presented in Table IA.1.<sup>18</sup>

### *C. Examples of Media Report on Corporate Political Transparency*

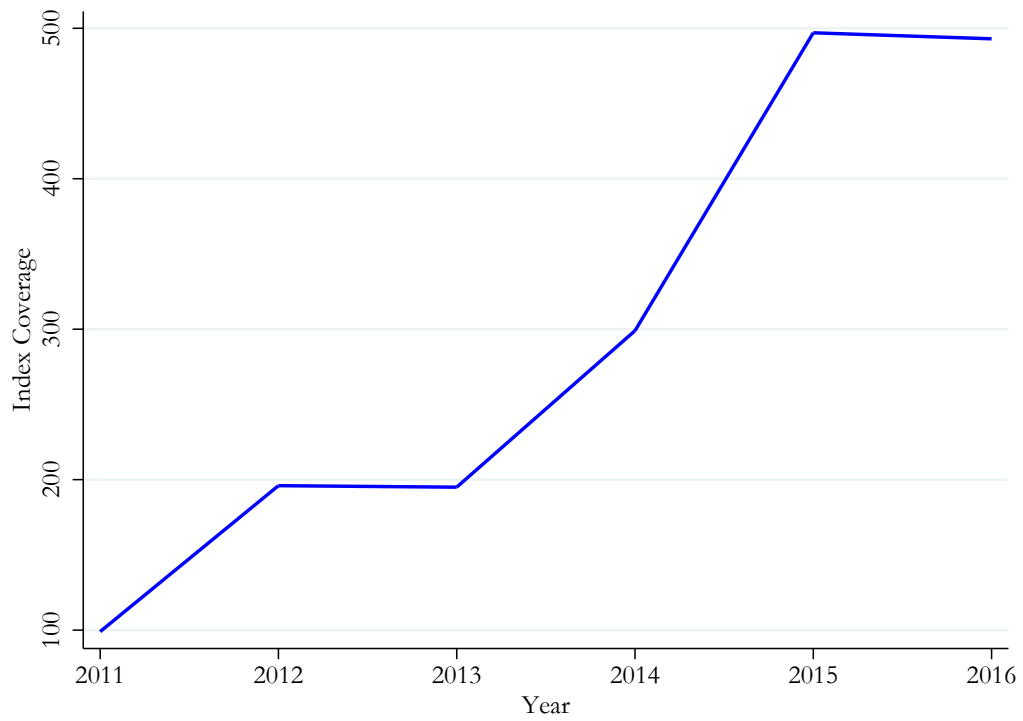
Corporate political transparency has been widely reported and discussed by media in recent decade. To show importance of the topic, we provide some snapshots of media coverage on this issue in Figure IA.2.

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<sup>18</sup>We use 2016 scoring criteria as an example since the criteria in other years are very similar.

**Figure IA.1:** Number of S&P 500 Companies Covered by CPA-Zicklin Index

This figure represents number of S&P 500 companies covered by CPA-Zicklin index from 2011 to 2016.



**Table IA.1: Scoring Criteria of CPA-Zicklin Index**

Category	#	Criteria	Max Score
Disclosure	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
	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?	Yes/No
Policy	12	Does the company have a publicly available policy stating that all of 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 of 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
	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	

**Figure IA.2:** Media Coverage on Corporate Political Transparency

This figure represents examples of media coverage on corporate political transparency.

## More shareholders call on companies to disclose their political spending



A national campaign has led a dozen companies to announce they will not renew their membership in the American Legislative Exchange Council (ALEC). Wal-Mart, the giant retailer under fire for allegedly bribing Mexican officials, encountered another wave of vitriol when it was reported that the company also was a member of ALEC. (Edgard Garrido/Reuters)

(a) Washington Post

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### Investors Push for Fuller Picture of Corporate Political Contributions

Donations to trade groups, candidates and political-action committees attract more scrutiny

ILLUSTRATION: ERIC PALMA

By [Mara Lemos Stein](#) and [Maxwell Murphy](#) 1 COMMENTS

April 4, 2016 9:38 p.m. ET

(b) Wall Street Journal

## D. *Examples of Public Announcements of Successful Shareholder Engagements*

In this section, we provide some snapshots of public announcements of successful shareholder engagements from which we collected announcement dates.

**Figure IA.3:** Public Announcements of Successful Shareholder Engagements



**NEWS**  
From the Office of the New York State Comptroller  
**Thomas P. DiNapoli**

March 23, 2015, Contact: Press Office (518) 474-4015

### U. S. Steel and DiNapoli Agree on Enhanced Disclosure of Corporate Political Contributions

New York State Comptroller Thomas P. DiNapoli today announced that United States Steel Corporation has agreed to the New York State Common Retirement Fund's request that it publicly report its corporate political spending. As a result of the agreement, the Fund withdrew a shareholder proposal it had filed for consideration at the Fortune 500 company's annual meeting. The Fund holds approximately 907,577 shares of U. S. Steel with an estimated value of \$20 million.

(a)



For Immediate Release  
December 14, 2009

Press Contacts:  
Bruce F. Freed, Center for Political Accountability, 301-233-3621  
Bruce Herbert or Larry Dohrs, Newground Social Investment, 206-522-1944

## **New companies bring political disclosure to nearly half of trend-setting S&P 100**

Washington DC - Four new companies have agreed to adopt disclosure and board oversight of political spending with corporate funds, the Center for Political Accountability (CPA) and Newground Social Investment announced today.

With these agreements, 48 public companies in the trend-setting S&P 100--an index of the largest and most influential members of the corporate community--have agreed to adopt the CPA's framework for political disclosure. Overall, 70 companies have embraced this corporate governance standard.

Three of the new companies adopting the framework belong to the S&P 100. They are Microsoft (NYSE: MFST), Time Warner (NYSE: TWX), and Campbell Soup (NYSE: CPB). The other company, Wisconsin Energy (NYSE: WEC), is in the S&P 500, a listing of the large cap companies actively traded in the United States. Newground Social Investment engaged Microsoft.

(b)

### E. Placebo Test for Event Study Results

In this section we conduct robustness check of event study results in the form of placebo tests. We examine the abnormal return when day 0 is two months before the actual outcome announcement date. Table IA.2 presents the results.

**Table IA.2:** Placebo Test for Event Study Results

This table computes the abnormal return using the same classification and methodology as Table 6 except that we assume day 0 is two months before the actual outcome announcement date. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Politically Active Companies			
	N	CAAR[-1,10]	CAAR[-1,20]
<i>Successful Engagement</i>	33	0.06% [-0.04]	-1.35% [-0.79]
<i>Unsuccessful Engagement</i>			
Omission of Shareholder Proposal	12	0.24% [0.22]	0.08% [-0.06]
Fail in shareholder meeting with high support	100	0.22% [0.43]	-0.41% [-0.63]
Fail in shareholder meeting with low support	178	0.21% [0.49]	0.10% [0.18]
Panel B: Politically Inactive Companies			
	N	CAAR[-1,10]	CAAR[-1,20]
<i>Successful Engagement</i>	63	-2.42%*** [-2.77]	-2.37%** [-2.01]
<i>Unsuccessful Engagement</i>			
Omission of Shareholder Proposal	7	-1.34% [-0.63]	-1.91% [-0.44]
Fail in shareholder meeting with high support	111	-0.55% [-0.94]	-0.06% [-0.08]
Fail in shareholder meeting with low support	132	0.57% [1.28]	-0.38% [-0.62]

Abnormal return is statistically indifferent from zero in politically active companies, including reactions to successful engagements and unsuccessful engagements that obtained relatively high support. Abnormal return is also statistically insignificant in politically inactive companies, except for successful engagements. Taken together, this evidence supports our event study methodology.

## F. Tests of Parallel Pre-treatment Trend in Difference-in-differences Analysis

In this section we test the parallel trend assumption for the variables of interest used in difference-in-differences analysis. We first review the methodology to test parallel pre-treatment trend and then present the results.

### A. Methodology

The commonly used method to test parallel pre-treatment trend is to add interaction terms with lag dummy variables. If the interaction terms with lag dummy variables are jointly insignificant, then we can conclude that parallel trend assumption holds. For the difference-in-differences analysis with companies' PAC expenditure, we adopt the following regression specification to test parallel trend assumption.

$$\begin{aligned}
 PAC\_EXP_{i,t} = & \alpha Success_i + \xi Pre_{-1} + \beta \sum_{j=0}^2 Post_j + \underbrace{\delta}_{\text{Pre-trend}} Success_i * Pre_{-1} \\
 & + \underbrace{\gamma}_{\text{Treatment Effect}} \sum_{j=0}^2 Success_i * Post_j + x'_{i,t} \theta + \epsilon_{i,t}
 \end{aligned} \tag{IA.1}$$

where  $Pre_{-1}$  is a dummy variable that takes value one if shareholder engagement takes place in election cycle  $t + 1$  and zero otherwise. Other variables are the same as in regression 7. The regression is estimated both with and without industry fixed effects. Standard errors are clustered at firm level to account for within-firm correlation.  $\delta$  measures the pre-treatment trend and thus insignificant  $\delta$  would indicate non-existence of pre-treatment trend. We only include one lag dummy variable since we have only two periods before the announcement.

For the difference-in-differences analysis with companies' institutional ownership, we adopt the following regression specification to test parallel trend assumption.

$$\begin{aligned}
IO_{i,t} = & \alpha Success_i + \xi \sum_{k=-2}^{-1} Pre_k + \beta \sum_{j=0}^4 Post_j + \underbrace{\delta}_{\text{Pre-trend}} \sum_{k=-2}^{-1} Success_i * Pre_k \\
& + \underbrace{\gamma}_{\text{Treatment Effect}} \sum_{j=0}^4 Success_i * Post_j + x'_{i,t} \theta + \epsilon_{i,t}
\end{aligned} \tag{IA.2}$$

where  $Pre_k$  is a dummy variable that takes value one if shareholder engagement takes place in election cycle  $t - k$  and zero otherwise. Other variables are the same as in regression 9. The regression is estimated both with and without industry fixed effects. Standard errors are clustered at firm level to account for within-firm correlation.  $\delta$  measures the pre-treatment trend and thus jointly insignificant  $\delta$  would indicate non-existence of pre-treatment trend.

## B. Results

Table IA.3 presents the estimation results. In both Panel A and B, the interaction terms associated with pre-treatment trend are insignificantly different from zero. F-test also indicates that the pre-trend interaction terms are jointly insignificant. Therefore the evidences suggest that parallel trend assumptions hold for the variables of interest in the period before announcement of engagement outcomes. The effects presented in the paper are likely to be causal assuming the trends would have remained parallel in the absence of shareholder engagement.



**Table IA.3:** Parallel Pre-treatment Trend Test for Difference-in-differences Analysis

This table shows the estimates of regression [IA.1](#) (Panel A) and [IA.2](#) (Panel B), respectively. Industry fixed effects based on Fama-French 12 industry classification are included in columns 2. Standard errors are clustered at the firm level. In each column, we report coefficient estimates and their t-statistics. We also report F-statistics and associated p-value for testing joint significance of pre-trend interaction terms. \*, \*\*, \*\*\* indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: PAC Expenditure		
	(1)	(2)
	PAC_EXP	
Success	-359.20*** [-2.94]	-218.14* [-1.94]
Pre <sub>-1</sub>	107.79*** [3.32]	107.79*** [3.30]
Success*Pre <sub>-1</sub>	-7.12 [-0.14]	-7.12 [-0.14]
F-stat for Pre-trend interaction terms	0.02	0.02
P-value for F-stat	0.89	0.89
Treatment Effect Terms	Yes	Yes
Control Variables	Yes	Yes
Industry Fixed Effects	No	Yes
Observations	1540	1540
R <sup>2</sup>	0.259	0.406

**Table IA.3 (Cont'd)**

Panel B: Institutional Ownership

	(1)	(2)
		IO
Success	0.00 [0.35]	0.01 [0.78]
Pre <sub>-2</sub>	0.01* [1.78]	0.01* [1.77]
Success*Pre <sub>-2</sub>	0.00 [0.06]	0.00 [0.06]
Pre <sub>-1</sub>	0.00 [1.27]	0.00 [1.27]
Success*Pre <sub>-1</sub>	0.01 [0.77]	0.01 [0.77]
F-stat for Pre-trend interaction terms	0.41	0.41
P-value for F-stat	0.66	0.66
Treatment Effect Terms	Yes	Yes
Control Variables	Yes	Yes
Industry Fixed Effects	No	Yes
Observations	4977	4977
R <sup>2</sup>	0.184	0.249