October 13, 2011

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, Northeast
Washington, D.C. 20549

Re: COMMITTEE ON DISCLOSURE OF CORPORATE POLITICAL SPENDING PETITION FOR RULEMAKING (August 3, 2011), File No. 4-637

## Executive Summary

Should firms be required to provide more transparency in their reports of their spending on political strategies? The purpose of this brief report is to answer this question. This report integrates three research approaches – the first is based on large scale review of studies, book chapters, and works in progress across different scientific disciplines (management, economics, political science) published in the last 32 years. The second is based on a statistical analysis of firms' recent spending on donations to policy makers' election and reelection campaigns and spending on lobbyists with the purpose of either impacting policy making and positively impacting firms' performance. The third is literature review of new and emerging research explicitly exploring the risks associated with firms being politically active.

## 1. Research Review Findings on the Consequences of Corporate Political Spending

To begin, I explore existing research published in the last 32 years on the possible outcomes associated with firms' political spending. I look at the impact of firms' political action committee donations to politicians, their lobbying expenditures (to different lobbying firms) and their contacts with policy makers in regulatory agencies such as those in charge of regulating utility firms. I then examine the research findings across the different articles and published data to see if these political strategies impact the passage of laws benefiting firms, impact the election or reelection of legislators and impact firms' performance. The results of this research review indicate the following common themes or trends across different published work: 1) Firms' PAC contributions (donations to politicians) seem only to weakly effect congressional voting or election outcomes. The same weak relationship applies to the impact of lobbying on congressional voting. 2) Firms' lobbying of and contacts with regulatory agencies seems to somewhat positively impact regulatory decisions to benefit firm objectives (such as reducing oversight, increasing pricing). 3) Firms' PAC and lobbying expenditures have a weak or very weak effect on firm level outcomes, on average. With regard to this finding most recently published work (which is in fact the bulk of work) on the relationship between firms' political spending and firm performance actually reports a negative relationship between the two- firms which spend more on politics actually experience reduced performance. Furthermore the fact that firms that interact with regulatory agencies are able to advance their objectives – such as increasing electric rates for consumers, or extending existing drug patents, for example - may not be beneficial for the long term success of the organization. For example a firm may be allowed to charge more for its services without improving its operational efficiency or without further investment in research and development; the short term success may lead to long term complacency. In summary the results of the literature review reveal a highly mixed picture on the ability of firms to impact policy making in their favor and to benefit their bottom line by engaging in political spending.

**2. Analysis Examining the Impact of Publicly Traded Firms' Corporate Political Spending**

This analysis looked at the direct effect of firms' spending money on PAC donations as well as lobbying on their bottom line in terms of their market value- or worth to investors – and their ability to maximize profits from their sales, also called return on sales. The data includes approximately 1110 small-, mid- and large cap S&P firms, both politically and non politically active, with data covering 1997 to 2008. The analyses compared firms' PAC contributions, among other forms of political expenditures (such as lobbying or having politically tied board directors) to those who did not have them and examined the impact of such contributions on firms' annual market value and firms' return on sales. The data included year to year political spending and cumulative, across years spending. The results indicate that both firms' year to year political spending and across year speeding had a negative effect on firms' market value; firms spending more on donations to politicians had a lower market worth. Further, firms spending more on donations to politicians had no effect on their return on sales. Taken together, the large scale analysis results indicate that firms' donations to politicians are not effective in promoting firms outcomes and indeed may harm them. Lastly, I add a brief review of new and emerging research indicating that politcally active firms choose to engage in this activity as a way to ensure private gains and reduced transparency

**3. Review Examining Emerging Research on Politically Active Firms**

First, two recent research projects raise the possibility that firms wish to reduce shareholders' ability to see how much they spend and how they spend on their political activities. The recent work done by Professors Donald H. Schepers and Naomi A. Gardberg at Baruch at the City University of New York, who recently released a corporate political disclosure index, is indicative of this dynamic. This index shows that on average companies that spend the most on political activities are in reality the ones disclosing the least information about their political activity to outsiders, such as shareholders. (see http://www.baruch.cuny.edu/baruchindex/BIResults.pdf). Similarly recent research conducted by Professors Paul Chaney and David Parsley at Vanderbilt University together with Professor Mara Faccio at Purdue University indicates that the quality of accounting information – the ability to understand the financial situation of the firm - is poorer for firms that are politcally active compared to those that are not. These authors argue that this raises the strong possibility that politically active firms try to hide their true financial performance since they have bought a form of 'protection' from policy makers and thus can benefit from having private knowledge about the firm which is not available to outsiders. In other words, managerial misconduct is more likely to occur behind closed doors, away from market (investor) scrutiny.

The idea that investors may be penalized by firms' political activity has received more support – a recently published study by professor Michael Hadani at Long Island University and a working paper by professor John Coates at the Harvard Law School both indicate that shareholders are not in favor of firms' corporate political activity. These studies show that firms that reduce shareholder power are more politcally active and that shareholder equity ownership is lower for politically active firms in comparison to that of non politically active firms. Other research supports the notion that firms' political activity hurts shareholders since it hurts firms' performance, echoing the above findings of the large scale analysis. Specifically the work of professors Rajesh Aggarwal, Felix Meschke, and Tracy Wang at the Carlson School of Management shows that donating money to politicians reduces firm value. Again, shareholders may be hurt by firms' political spending.

To summarize, this report described the finding of a large scale literature meta-analysis, a large scale empirical analysis and supplemental findings. All of which strongly indicate that firms' political spending, in particular contributions to policy makers, at best has an insubstantial impact on their bottom line and more often results in a negative effect of firm financial performance. Shareholders, as noted above, are already concerned with the opaque nature of firms' political spending, and with good reason. The results of my empirical analysis alongside the analysis of others provide solid evidence as to the strong possibility that firms' political spending may harm their bottom line over time. Such an eventuality warrants action from the SEC to require increased transparency, oversight and shareholder say over firms' political expenditures.

The full report is below.

**An Economic Analysis of Corporate Political Activity**

I, Michael Hadani (Assistant Professor of Management, Long Island University, CW Post; PhD, Syracuse University), respectfully submit this comment on the aforementioned petition for rulemaking under Section 14 of the Securities Exchange Act of 1934. I ask that the Commission develop rules to require public companies to disclose to shareholders the use of corporate resources for political activities. Requesting firms to provide transparent reporting of corporate political spending should not only improve shareholders' ability to assess the efficacy and materiality of firms' political spending but will also reduce conflicts of interest between personal agendas of managers and those of their shareholders. Managerial misconduct is more likely to occur behind closed doors, away from market scrutiny. Indeed, the number of shareholder resolutions requiring political expenditure disclosure has increased in recent years. Thus, higher transparency regarding such corporate conduct is not just in line with the ability of shareholders to monitor their investments more effectively, but will also serve as a deterrent for misuse and misallocation of corporate funds for political ends. As such, improved disclosure will benefit not only shareholders, but firms as well.

I base my recommendation on a broad based literature review of existing and emerging scholarship and on a broad based empirical analysis, which explores both the materiality of firms' political expenditures and its impact of firm level financial outcomes, described below.

**The Materiality of Corporate Political Spending for Investors**

In *Citizens United v. Federal Election Commission*, the Supreme Court held that corporate funding of independent political broadcasts in candidate elections cannot be limited—because of their First Amendment rights. However, Justice Stevens noted in his dissenting opinion that:

> ...at bottom, the Court's opinion is thus a rejection of the common sense of the American people, who have recognized a need to prevent corporations from undermining self government since the founding, and who have fought against the distinctive corrupting potential of corporate electioneering since the days of Theodore Roosevelt. It is a strange time to repudiate that common sense. While American democracy is imperfect, few outside the majority of this Court would have thought its flaws included a dearth of corporate money in politics.

This view has also been echoed by President Obama who called the Supreme Court's decision: "a major victory for big oil, Wall Street banks, health insurance companies and the other powerful interests that marshal their power every day in Washington to drown out the voices of everyday Americans" (New York Times, April, 21, 2010). The President's and Justice Stevens' views reflect a common perception of firms effectively buying political influence in Washington D.C. to benefit themselves. Yet few have systematically empirically addressed the question whether firms are indeed effective at using their political expenditures to benefit their bottom lines. If political spending is good for the firm, then such activity is beneficial to shareholders. But if this assumption is incorrect, and political spending harms firms, then shareholders should be concerned about the ability of firms to spend more money in politics, without proper transparency. This question of whether political activity is good or bad for firms is even more critical given the possible role firm-government interactions may have played in it in relaxing regulatory oversight, hastening the financial crisis of 2008 and diminishing significant shareholder value both in the U.S. and consequently abroad.

The purpose of this report is to provide an empirical answer to the following question: Are firms truly able to improve their financial bottom line by engaging in corporate political activity? This report addresses the question by integrating three research avenues. First, it provides a statistical summary (a 'meta-analysis') of decades of research in management, economics and political science on the indirect and direct impact of corporate political spending, and its affect on policy outcomes and firms' bottom line. Second, it reports the results of a large scale empirical analysis of the relationship between corporate political expenditures and financial outcomes for small, mid and large market value firms in the U.S. over 11 years of recent data. Third, it reports a brief summary of emerging research on the direct shareholder related outcomes of firms' political expenditures. In brief, the research review and the empirical analyses reveal that firms' political investments are often not associated with increased market value or other measures of performance, but rather may erase market value by increasing firms' reliance on government support, by neutralizing regulation, and by increasing managerial risk taking that ultimately harms firm shareholders' interests.

## I. Meta-analysis of Corporate Political Activity Over 32 Years

There is a common narrative that permeates the press which echoes Justice Stevens' *Citizens United* dissent that corporations have the power to direct political outcomes through spending money in the political marketplace. Scholarship exploring this topic published over the past three decades shows that this simple story is not universally true, especially from the firm level perspective, where corporate political activity either does not move policy or can have negative effects for individual firms. The first purpose of this report is to summarize the results of a literature review that explores the relationship between corporate political activity (CPA) and firm outcomes. For purposes of this report, I define corporate political activity as primarily involving political action committee (PAC) contributions and secondarily firm expenditures on lobbying, as well as direct firm contacts with policy makers, which in scholarship reflect a relatively smaller aspect of firms' political strategies. The analysis reported strictly followed the analytical procedures set by scholars on meta-analysis (Cohen, 1988; Hunter & Schmidt, 2004; Peterson & Brown, 2005)[1]. Namely, a meta-analysis involves reviewing all pertinent scholarship on a specific topic and extracting a common indicator of the strength of association between the focal variable (in this case corporate political expenditures) and an outcome variable (legislative voting outcomes, election outcomes, and firm financial outcomes). This common indicator varies in strength from weak, to medium to a strong effect, indicating the nature of the relationship between the variables at stake. The rationale behind the meta-analysis is the idea that while a single or few studies may or may not find that a variable impacts an outcome, a holistic examination of all possible studies on a topic will more likely reveal the true relationship that exists in the population under study. In this context, I explore two types of outcomes that may be associated with firms' political expenditures – indirect and direct outcomes. I define **indirect** outcomes as the ability of firms to impact legislative votes or election outcomes at the congressional level, and **direct** outcomes as the ability to impact firms' financial

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[1] Cohen, J. 1988. Statistical power for the behavioral sciences (2nd ed.). Hillsdale, NJ: Erlbaum.
Hunter, J. E., & Schmidt, F. L. 2004. Methods of meta-analysis: correcting error and bias in research findings (2nd ed.). Beverly Hills: Sage.
Peterson, R. A., & Brown, S. P. 2005. On the use of beta coefficients in meta-analysis. Journal of Applied Psychology, 90: 175–181.

outcomes. The analysis includes a review of 71 articles, book chapters, dissertations, working papers and published and unpublished work covering approximately 180,000 observations, published in the last 32 years, solely focusing on exploring the direct and indirect effects of corporate political expenditures on outcomes.

In particular the analysis reported focused on the following relationships – the impact of PAC (political action committee) contributions on legislative voting and election outcomes, the impact of lobbying expenditures on legislative voting outcomes, the impact of PAC, lobbying or contacts on regulatory outcomes and the impact of PAC and lobbying on firm level financial outcomes. It is important to note that Federal corporate PACs, which are also known as separate segregated funds (SSFs), are highly regulated and transparent entities, which gather voluntary contributions of $5,000 or less from managers, employees and shareholders and their families. With regard to the impact of PAC contributions on either voting or election outcomes the analysis finds a weak effect. Firms' PAC contributions seem only to weakly effect congressional voting or election outcomes. The same weak relationship applies to the impact of lobbying on congressional voting. With regard to the impact of firms' political activity and expenditures on regulatory outcomes, the analysis finds that firms petitioning or contacting regulatory agencies tend to significantly reduce regulatory action and thus benefit their bottom line; the effect strength here was of medium proportion. Lastly, when exploring the relationship between firms' PAC and lobbying expenditures and firm level outcomes the analysis indicates the effect is weak at best.

However, some critical caveats are noteworthy in the report of this meta-analysis. First, significant variance exists in the reported associations – in particular when analyzing the association between firm political expenditures and firm level outcomes. Specifically, recent studies capturing a larger sample (90,823 observations) across industries and issues reveal a weak but negative relationship between firm political expenditures and firm outcomes compared to other studies (53,842 observations), which find a weak and positive effect between the two (see appendix A for respective list of studies). It is also worth noting that many of the studies reporting a positive effect of firm political activity on financial outcomes tend to focus on unique industrial contexts (airlines, electric utility, manufacturing), but less so on a systematic cross industrial analysis. Second, lobbying tends to be more effective in the context of interacting with regulatory agencies than for other forms of political activity. Further, it is worth noting that even though regulatory changes are the most successful outcomes from CPA, these regulatory impacts may not be in the long term interests of shareholders. For example, if the regulatory impacts allow managerial freedom of action without oversight, they may encourage moral hazard; they may appear to be short term victories, but in truth they are accompanied by much more devastating long-term systemic risks as firms may behave in ways that do not enhance consumers' or shareholder interests. For example a firm may be allowed to charge more for its services without improving its operational efficiency or without further investment in research and development; the short term success may lead to long term complacency. For example, as implied by a report on drug companies' lobbying by the non profit Public Citizen (see report at http:// www.citizen.org/documents/ACFDC.PDF and summary report at http://www.citizen.org/publications/publicationredirect.cfm?ID=7065) the success of drug companies in their interaction with policy makers and regulatory bodies provides an incentive not to invest in new and innovative drugs but rather to invest in the development of "me too" drugs or investing in making small chemical changes to existing drugs as to extend their patent life. Such incremental changes reduce the development of new drugs which are needed in the future when older drugs loss their patents.

Overall then the results of the meta-analysis reveal a mixed picture, which calls into question the standard narrative that political spending is an unmitigated good for firms. However, an important caveat revolves around the source of money used for firms' political activities. *Citizens United* allows corporate treasury money to be used on corporate political expenditures in future federal and state elections. Yet, the money in a corporate PAC, the traditional mode of corporate political spending, is not from the corporation's treasury. By contrast, money spent on lobbying is directly from the corporate treasury. The meta-analysis found that PAC spending, lobbying and contacts with regulatory agencies were all highly correlated. Thus PAC activity may be a bellwether for how corporations will likely use their treasury funds to purchase political ads pursuant to *Citizens United* in the future. One thing thwarting a full assessment of future corporate treasury spending is the lack of transparency currently imposed on publicly traded companies, which constrains researchers and investors from fully assessing the scope and impact of post-*Citizens United* CPA. Given that firms are only required to report PAC and outside lobbying expenditures, meanwhile other forms of political activity like donations to politically active nonprofits are not easily assessed. This lack of transparency has been noted by Professors Donald H. Schepers and Naomi A. Gardberg at Baruch at the City University of New York, who recently released a corporate political disclosure index. This index shows that on average companies that spend the most on political activities are in reality the ones disclosing the least information about their political activity to outsiders, such as shareholders. (see http://www.baruch.cuny.edu/baruchindex/BIResults.pdf). Taken together the meta-analysis and the work of professors Schepers and Gardberg raises the possibility that firms may not only allocate funds to their political activity without a clear return on investment, but given the lack of transparency, they may try to hide (purposefully or not) such a discrepancy from outsiders.

However a meta-analysis has some drawbacks. First, it is an historic analysis providing an average trend across decades of data and across a variety of legislative issues. Second, it is sensitive to sample size – larger studies dominate over smaller ones. Even though the reported effects are weighted by sample size, the overall association reported may be biased. In order to augment and complement the above research review, this report will also provide a large scale empirical analysis of the impact of firm level corporate political expeditors on two firm level performance measures with recent data focusing on publicly traded U.S. firms.

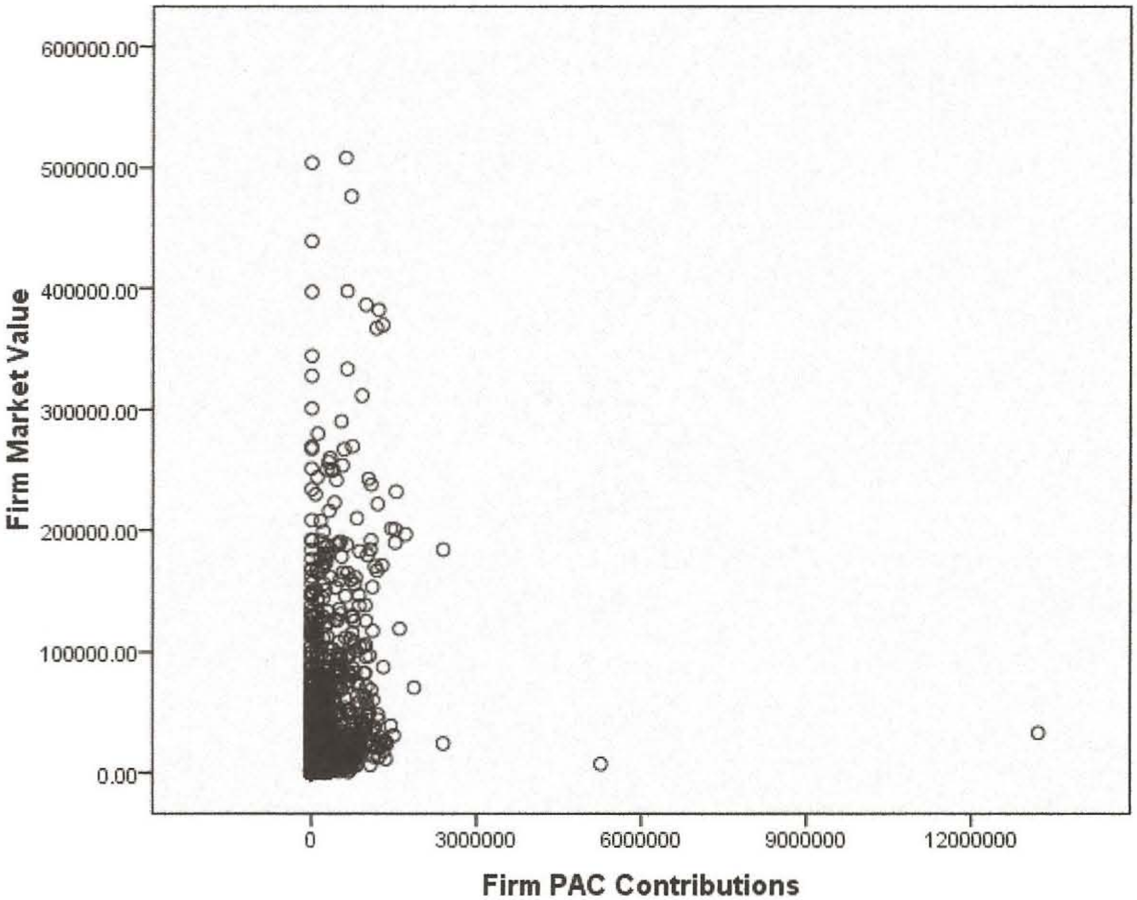
## II. Empirical Analysis Results for the Largest Publicly Traded Firms in the U.S.

Second, in order to address the question of whether firms are able to improve their financial bottom line by engaging in corporate political activity, I conducted an empirical economic analysis of a large data sample over 11 years. Specifically, in the analysis I made sure to include both politically and non politically active firms and also made sure to correct for possible reverse causality issues- that is the possibility that firms' prior performance and other firm characteristics explain corporate political expenditures.

The data includes approximately 1110 small-, mid- and large cap S&P firms, both politically and non politically active, with data covering 1997 to 2008, comparing firms' PAC contributions, among other forms of political expenditures (such as lobbying or having politically tied board directors) to those who did not have them and the impact of such contributions on firms' financial outcomes, which include firms' annual market value and firms' return on sales. This analysis has the advantage of reviewing a larger sample than other recent studies which focused on either the S&P 100 or the S&P 500. As such this analysis captures the largest publicly traded firms in the U.S. The analysis also compares firms' annual spending on political activities to their cumulative (or repeated) political spending over the 11 years of data and the impact these two patterns of spending have on firms' financial outcomes. For example, AT&T Inc. spent $3,108,200 on PAC contributions and $15,076,675 on lobbying expenditures in the election cycle that ended in 2008 but it spent $14,416,982 in cumulative PAC expenditures between 1998 and 2008 and $204,968,999 on lobbying between 1998 and 2008 - overall then between 1998 and 2008 it officially spent $219,385,981 on achieving political access. This analysis is very sensitive to controlling for other factors that may impact firm performance, which include previous performance, firm size, firm regulation, firm diversification, board size and board monitoring. It also used alternative measures of firm PAC contributions, ones adjusted for previous performance and other firm characteristics and industry adjusted performance measures.

After controlling for these factors, the regression analysis reveals that PAC expenditures and cumulative PAC expenditures have a statistically significant negative affect on firms' market value, both when examining their year to year PAC expenditures and also when examining their cumulative, 11 years, PAC expenditures. At the same time, PAC and cumulative PAC expenditures have no statistically significant affect on firms' return on sales. Taken together, the large scale analysis results indicate that firms' donations to politicians are not effective in promoting firms outcomes and indeed may harm them.

Please see below a graphical representation of the association between PAC contributions and firms' market value.




### III. Recent Studies on the Negative Consequences of Corporate Political Activities

Third, I examined the emerging trends in the most recent economic analysis available about corporate political activity. These studies strongly indicate that my empirical analysis results are not unique or spurious. Several working papers published in recent years attest to very similar findings. The work of Rajesh Aggarwal, Felix Meschke, and Tracy Wang at the Carlson School of Management[2], University of Minnesota, the work of John Coates at the Harvard Law School[3], and the work of Deniz Igan, Prachi Mishra and Thierry Tressel at the International Monetary Fund (IMF)[4], among others all indicate statistically significant negative outcomes associated with

[2] See www2.owen.vanderbilt.edu/.../corporate-political-contributions.pdf
[3] See www.law.harvard.edu/programs/olin_center/papers/pdf/Coates_684.pdf
[4] See www.imf.org/external/pubs/ft/wp/2009/wp09287.pdf

firms' corporate political activities, in particular donations to policy makers' PACs. This work and its implications for shareholders are discussed next.

In particular, the analyses reported here and in other papers mentioned above indicate that firms' corporate political activities may reflect two underlying related dynamics that are of material concern shareholders - an agency concern dealing with the opaque nature of firms' corporate political activities (CPA) - and an excessive risk concern. First, in 2006 a Mason-Dixon poll of corporate shareholders in U.S. (reported in October, 2006 at the Wall Street Journal) found that 85% of respondents indicated that the lack of corporate political activity oversight had promoted management behavior in conflict with the preferences of shareholders, and 87% of respondents suggested they would prefer to invest in firms that had adopted reforms to increase CPA transparency. Similarly, as noted by the Financial Times (April 1, 2007): "investors argue that public disclosure and board oversight is essential to ensure that executives do not use corporate money to help political allies or channel funds to politicians whose agendas contravene company policies." Indeed, the findings of Professors Schepers and Gardberg raise a similar notion given lack of transparency of political spending.

Lack of transparency increases managers' ability to engage in non-value-maximizing behavior and indicates an increase in agency costs. Indeed, two recent papers, one in press at the Journal of Business Research (by Michael Hadani at Long Island University) and another a working paper (by John Coates at Harvard Law School) indicate that firms' CPA is negatively associated with the quality of firm governance. My work (at the Journal of Business Research) finds that equity holdings by institutional shareholders and the largest shareholder, in particular, are negatively associated with firms' political activity for the S&P 500 firms across 6 years of data. Professor John Coates' work indicates that the quality of firms' governance climate (reflecting shareholder rights) is negatively associated with firms' political spending across a similar sample of firms. The governance climate measure (known as the G index) used by Professor Coates was developed by Paul Gompers and Joy Ishii at Harvard University together with Andrew Metrick at The Wharton School at the University of Pennsylvania[5]. Similarly recent research conducted by Professors Paul Chaney and David Parsley at Vanderbilt University together with Professor Mara Faccio[6] at Purdue University indicates that the quality of accounting information garnered from firms' SEC reports by politically connected firms is significantly poorer than that of similar non-connected companies. The authors report that: (1) Their analysis statistically rules out that firms with poor accruals quality (poor financial reporting quality) end up establishing political connections. (2) Tentatively, politically tied firms may wish to intentionally mislead investors as to their real financial situation and to benefit privately at the expense of shareholders. (3) Tentatively, politically tied firms may feel that their connections provide them with a form of protection from oversight that would allow them to reduce their financial transparency to shareholders. Such eventualities, while tentative, indicate a serious agency cost for shareholders or a possibility of such a cost, at least for some politically active firms.

Secondly, similar research indicates that firms' political spending reflect a moral hazard issue involving higher risk taking at the expense of shareholders. Specifically the work of Deniz Igan, Prachi Mishra and Thiery Treseel at the IMF explores the relationship between financial institutions' lobbying and their mortgage lending activities in the U.S. Covering a sample of 9,000 firms during the period 2000 to 2007 the authors find that ex-ante lenders lobbying more intensively (1) originate mortgages with higher loan-to-income ratios, (2) securitize a faster growing proportion of their loans, and (3) have faster growing loan portfolios. Ex-post, delinquency rates are higher in areas where lobbying lenders' mortgage lending grows faster. These lenders also experienced negative abnormal stock returns during key events of the financial crisis. The authors argue that politically active lenders engaged in riskier lending behavior because they expected preferential treatment that would deflect market pressures and realties; in essence being politically active buffers the firm from market audit. Similar arguments

[5] The G index combines 24 provisions into the Governance Index, also known as G, GIM Index, G-Index, or index of antitakeover provisions. High G-Index value represents weak shareholder (or strong managerial) power.

[6] See papers.ssrn.com/sol3/papers.cfm?abstract_id=966379.

were noted by professors Rajesh Aggarwal, Felix Meschke, and Tracy Wang who examine corporate contributions to political candidates for federal offices in the United States from 1991 to 2004. These authors find that firms that make donations engage in more acquisitions and donating firms' acquisitions have significantly lower cumulative abnormal market announcement. These authors argue that firm contributions reflects an agency problem associated with managerial risk taking as managers engage in non value maximizing strategies.

Taken together the empirical evidence indicates that firms allocate funds to corporate political activities ineffectively and the moral hazards associated with such an activity should raise the possibility that firms may ignore the opportunity costs associated with political spending. Given the negative association found between firms' political speeding and their market value and given the higher risk taking of some politically active firms, political activity may reflect an overt reliance on seeking external support rather than on developing new technologies or investing in other market based strategies. Even though this is a more tentative dynamic it is nonetheless probable given the above finding; an overt emphasis on seeking political influence may come at a price which would explain the negative effect firm political spending has on market value. Given these findings, I conclude that corporate political spending disclosure is material information for the investing public. At the very least, increased transparency about corporate political activity is essential for market discipline.

**Conclusions**

To summarize, this report described the finding of a large scale literature meta-analysis, a large scale empirical analysis and supplemental findings. All of which strongly indicate that firms' political spending, in particular contributions to policy makers, at best has an insubstantial impact on their bottom line and more often results in a negative effect of firm financial performance, as well as an increase in firm risk taking which will also erode future earnings. Shareholders, as noted above, are already concerned with the opaque nature of firms' political spending, and with good reason. The results of my empirical analysis alongside the analysis of others provide solid evidence as to the strong possibility that firms' political spending may harm their bottom line over time. Such an eventuality warrants action from the SEC to require increased transparency, oversight and shareholder voice over firms' political expenditures. The ability to review and audit this activity is a necessary first step in ensuring firms' political expenditures maximize shareholder value rather than hurt it.

Michael Hadani, PhD

Michael Hadani has a PhD in Strategy and Human Resources form the Martin J. Whitman School of Management at Syracuse University. He currently teaches and conducts research at Long Island University, CW Post, in Brookville, NY.

His primary research focuses on the role governance mechanisms play in determining managerial behavior in the context of firms' corporate political strategies, and on the impact such strategies have on firm financial outcomes. His research has been published in the Journal of Business Research and in Business & Society.

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**Appendix A:**

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