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Political polarization and corporate political advocacy

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ABSTRACT

This paper examines the motivations and financial consequences of corporate political advocacy by examining the pause and subsequent resumption of corporate political donations following the US Capitol riots. Firms operating in a politically polarized environment were more likely to make these announcements, regardless of firm-level political risks. The announcement returns are negative (positive) for firms exposed to high polarization and political risks (high polarization and low political risks). Store footfalls, sales, gross margins, and profitability increase for both these groups. However, firms facing high polarization and political risks are more likely to resume PAC donations within a year of the Capitol riots.

"Words alone are not enough. We are committed to action."

Dow Inc. on halting political giving to any Republicans following the Capitol riots

Large American firms have recently commented on controversial political issues, notably Georgia's voting legislation and the ratification of the 2020 US presidential election results. A key feature of these comments is that these issues do not directly affect these firms' commercial interests. (Chatterji and Toffel, 2019; Larcker et al., 2018). Big businesses have traditionally lobbied discreetly for political favours while publicly maintaining silence on contentious political issues (Hersch, 2022).[1] However, in recent times, stakeholder support for corporate political advocacy has increased. Several surveys report that most Americans favour corporations taking a political stance (Larcker et al., 2018; Weber Shandwick, 2018; Hersh, 2022). Against the backdrop of increasingly polarized political opinions in the US and growing support for corporate political advocacy, new questions arise about corporate political engagements (Draca & Schwarz, 2021). When are firms more likely to engage in political advocacy? Does corporate political advocacy affect shareholders' wealth? To what extent is corporate political advocacy symbolic?

In this paper, we address these questions through the lens of the unexpected mob attack on the US Capitol on 6th January 2021. The attack was linked to a faction within the Republican Party that refused to accept the results of the 2020 presidential election. In the days following the attack, many US companies announced they would pause contributions to House and Senate lawmakers' Political Action Committees (PAC). Some companies announced pausing PAC donations completely, while others announced pausing donations to (Republican) lawmakers who refused to ratify the 2020 Presidential election results. Most of these statements were made between Friday, 8th of January, and Tuesday, 13th of January.

Focusing on political advocacy following the Capitol riots gives us three clear advantages. First, the Capitol riot was a highly visible

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[1] Please see Glazer and Cutter, 2021) for a discussion on the evolving political engagements of US firms.

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and unique event in modern US political history. Making a political statement following that event is an important decision due to its visibility to a large fraction of the firm's stakeholders. Most announcements to pause PAC donations were made within 2 days of the riots. Therefore, it is likely that these announcements are a reaction to the riots rather than to any unobserved confounding factors. Second, the pause in corporate PAC donations immediately after a Presidential election will likely have a negligible effect on politicians, as funding activity is typically lower in the first quarter following a presidential election (Cohen et al., 2019). Therefore, these announcements are unlikely to be driven only by signalling motives. Nevertheless, given the high political polarization in the US and following a closely contested presidential election, such a stance is risky for companies. Even if symbolic, these announcements could antagonize a subset of customers who do not share the companies' worldview on the Capitol riots (or oppose it) and stop buying from them (Chatterji & Toffel, 2019; Painter, 2021).[2] Third, some firms quietly resumed PAC donations shortly after announcing the pause (Day, 2021). Focusing on pausing and resumption decisions allows us to provide unique insights into the strategic motives of corporate political advocacy.

We start by showing what determines a firm's likelihood of announcing a pause in PAC donations following the Capitol attack.[3] US firms are legally mandated to disclose a pause in PAC donations. Therefore, we are interested in examining their choice to select into these disclosures. Specifically, we focus on two dimensions predicting the likelihood of companies making a direct political statement: the potential financial returns from such actions and the firm's political risks. First, we hypothesize that, given the growing stakeholder support for corporate political advocacy, the potential return from symbolic political statements is driven by the political views of its stakeholders. A firm's decision to engage in a direct political statement is likely influenced by the extreme (rather than centrist) partisan preference among customers. (Giannetti and Wang, 2021). Therefore, firms operating in more politically polarized environments have more to gain from political advocacy. In polarized markets, customers have strong socio-political preferences, and the potential benefit of social signals is likely higher than in markets where customers have similar views. When a firm operates in such polarized markets, the effectiveness of the mass-market advertising strategies decreases (Melloni et al., 2023; Gangopadhyay & Homroy, 2021). In such scenarios, firms can benefit from market segmentation by "virtue-signalling" to one side of the partisan divide (Besley & Ghatak, 2008).[4] Pausing political donations that align with the views of some customers (in this case, Democrats) can segment the market into two groups: customers who agree with the statement and buy only from the announcing firms and those who buy only from firms that have not signaled their stance. The value of such signalling is more vivid on socially divisive issues, like political issues in the US, than on issues with a broader consensus, and when stakeholders perceive such signals as credible (Hambrick and Wowak, 2021). In a polarized market, the opportunity of cost of lost-sales to Republican-leaning customers makes the PAC pause announcements a credible signal to Democrat-leaning customers.

Second, we argue that firms with higher political risks emanating from their reliance on government contracts, dependence on export subsidies, and industry regulations are less likely to pause PAC donations. These risks can have real economic effects on the firm, including lower investment and slower employment growth (Bloom, Bond, and Van Reenen, 2007; Pindyck, 1991). Therefore, companies attempt to manage political risk by donating to political campaigns or lobbying politicians. (Gad et al., 2023; Hassan et al., 2019; Peltzman, 1976). Making a direct political statement following the storming of the Capitol by a politically charged mob can exacerbate such risks. Therefore, firms exposed to high political risks will be less likely to have paused political donations after the Capitol riots.

We find that firms operating in more politically polarized environments are more likely to announce a pause in PAC donations following the Capitol riots. However, firm-level political risk has no statistically significant effect on the likelihood. These associations are similar for firms that announce a pause in all PAC donations and for firms that specifically announce a pause to the Republican Party. Firms with Democratic-leaning employees were also more likely to announce a pause in PAC donations, but CEOs' political leanings were not statistically associated with the likelihood of such an announcement. We measure firms' economically meaningful exposure to political polarization (*EwPE)* using information on their operations across US states by parsing geographic information from their 10-K filings, the predicted economic growth rate of the states, and the *within-state* political polarization using the metric developed by Kaplan, Spenkuch, and Sullivan (2019).[5] We measure political risk using a computational linguistic method developed by Hassan et al. (2019) that uses transcripts of CEOs' quarterly earnings calls with equity analysts. It is a forward-looking measure of how a company's management perceives the political risk of affecting its operations. To identify the partisan views of the firm's CEO and the employees, we use political donations data from OpenSecrets. Using this information, we classify 48% of employees and 19% of CEOs as Democrat donors.

Furthermore, we examine the combined effect of polarization exposure and political risk. We map the 118 companies that announced a pause in PAC donations between 8th January 2021 and 12th January 2021 across the four quadrants defined by (high and low) polarized environment and (high and low) political risk indicators – *HPHR, HPLR, LPHR,* and *LPLR*. Based on the sample

[2] Some companies announced pausing PAC donations completely, while others announced pausing donations to (Republican) lawmakers who refused to ratify the 2020 Presidential election results. We discuss this variation later in the paper.

[3] For a discussion on the reconciliation of direct political statements with other related constructs such as lobbying, and donations, please see Hambrick & Wowak, 2021.

[4] Consider a case of company operating only in Republican-majority states. For these companies, making political statements favouring Republicans is unlikely to add new information to the market. On the other hand, making Democrat statements is likely to have negative repercussions among all customers in these states. Therefore, this company has little strategic gain from making a political statement.

[5] Even though many of the S&P 500 firms have a global reach, the decisions related to political activities of these firms are likely to be affected by domestic institutional factors.

distributions of EwPE and Political Risk, we classify companies into the highest (lowest) quartiles: HP (LP) and HR *(LR)*. We find that 64 percent of the firms that announced PAC donation pause are in the *HPLR* quadrant. Firms in this quadrant are exposed to high political polarization coupled with low political risk. Another 24 percent of announcing firms are in the *HPHR* quadrant, where firms are simultaneously exposed to high polarization and political risk. On the other hand, no announcing firms are in the *LPHR* and *LPLR* quadrants. These results suggest that high political polarization in the operating environment triggers firms to engage in political advocacy. Where the trigger is absent, i.e., in the *LPHR* and *LPLR* quadrants, we find no announcing firms. Estimates from linear probability models corroborate this descriptive evidence. Our results suggest a politically polarized environment can trigger corporate political advocacy, irrespective of firms' political risk exposure.

We then attempt to estimate how stakeholders respond to firms' direct political statements. There is increasing evidence that stakeholder management benefits the firm, particularly with respect to socio-political issues (Hersh, 2022; Albuquerque et al., 2019; Larcker et al., 2018). As far as customers gravitate towards political advocacy of firms, it improves profitability (Besley & Ghatak, 2008). Investors prefer higher returns to lower ones; hence, if political advocacy positively increases returns on investment, investors should favour it too. However, with politically polarizing announcements (such as the pausing of PAC donations), there could be customers who support the issue and those who oppose it. Therefore, the market returns to PAC donations pause announcements remain an empirical question.

We calculate the cumulative average abnormal returns for announcing firms in the 3-day and 7-day windows around the announcement date, accounting for the partially overlapping event windows and the cross-correlation in security returns (Kolari & Pynnönen, 2010; Kolari, Pape, and Pynnönen, 2018).[6] On average, investors react negatively to these announcements: cumulative average abnormal returns are −0.15% and statistically significant in a 3-day event window. The price effects are qualitatively similar for firms that announce a PAC pause to all parties and for those that announce a pause only to the Republican Party. Further, we estimate cross-sectional regressions to assess the announcement effects for firms in the four quadrants defined by polarized environment and political risk, compared to the baseline of firms with moderate political polarization exposure and political risk. The strong negative announcement returns for firms in the *HPHR* quadrant drive the average value effect. In contrast, the announcement is moderately positive for companies in the HPLR quadrant. The negative announcement returns for *HPHR* companies likely reflect investors' perception that high political risk will negatively affect the future cash flows of announcing firms.[7] Additionally, employees' and CEOs' political leanings do not affect the announcement returns. Investors' reaction is likely driven by concerns regarding the potential adverse effect of political advocacy on the product market.

Finally, we examine whether firms' market segmentation motives in *HP* conditions lead to higher stakeholder engagement with the firm following the announcements. Any strategic advantage of direct political statements when customers are polarized should reflect in higher revenues and gross margins for announcing firms if customers are willing to pay a premium (Besley & Ghatak, 2008). We focus on the gain in quarterly sales revenues following the PAC-pause announcements. Using firm-fixed effects regressions, we show that the average sales revenues of announcing firms increase by 2.6% in the three quarters following PAC pause announcements compared to the three quarters before. Complementing the longitudinal results, we show a cross-sectional increase in quarterly sales revenues for firms in both *HPLR* and *HPHR* quadrants, relative to similar firms that are not exposed to high political polarization and political risk. These results are qualitatively similar for firms that announce PAC pause announcements to all parties and those that announce pausing to the Republican party only. We also find a positive effect of PAC pause announcements on firms' gross margins and profitability, particularly those with high exposure to political polarization. These results indicate that political advocacy can result in financial benefits for the firm, presumably through gains in the product market.

The apparent conundrum is the difference in short-term (announcement returns) and long-term economic effects (profitability) for the *HPHR* firms. A plausible explanation of our results is the asymmetrical information between managers and shareholders about customer preferences. Political risks to a firm are known to the market participants as the CEOs discuss these issues in conference calls with equity analysts. However, managers are more likely to have granular and updated store-level customer intelligence information about their firms than investors with diversified portfolios. Investors can, therefore, overweigh the political risks when reacting to the political statements of *HR* firms.[8]

A direct empirical test of this conjecture is difficult from observational data, which can't precisely capture managerial information set. We examine if the political advocacy indeed shows up in store-level customer footfall. Since managers are more likely to have such detailed information about their customers, this provides indirect evidence towards our conjecture. We use point-of-sale microdata from SafeGraph Inc. and compare changes in weekly customer visits to stores following PAC pause announcements. However, state-

[6] One concern is that the abnormal returns can reflect the effect of Capitol riots rather than the subsequent announcement. We argue that in that case, we should see an effect of the market returns rather than differential effects for the announcing companies. In fact, anecdotal evidence suggests that S&P 500 and NASDAQ hit record highs in the days following the attack (Hansen, 2021).

[7] Donations to a political party mitigate the risks that party leaders will undertake policy decisions that adversely affect the company. In principle, therefore, investors would like firms to avoid announcing their intention to stop PAC donations as it adds future political risks. Even for firms with ex-ante low political risk, such risks can increase ex-post such announcements. Unless the direct gains from such an announcement outweigh the losses from subsequent increases in political risk, firms are unlikely to make them. It explains why polarization-exposure has to be high enough for firms to engage in political advocacy.

[8] Indeed, if investors believed, and rewarded, firms making an announcement of suspending PAC donations even when political risks were high, it would encourage even those with low polarization and high political risk to announce such suspensions, generating a moral hazard behaviour among these firms.

wise variations in pandemic-related mobility controls in January 2021 will likely confound such analyses. Therefore, we use an industry-county-month-year fixed effect that controls for macroeconomic, local county-level variations, and industry-specific confounders. We find that store footfalls increased by approximately 2% in the weeks following the PAC pause announcement. The increase in customer visits is similar for both *HPHR* and *HPLR* firms. These results provide supporting evidence that information asymmetry on customer engagement can explain the difference between short-term and long-term economic returns to political advocacy for firms facing high political risks.

Finally, we examine whether this form of corporate political advocacy is symbolic or substantive (Burbano, 2021). Drawing inferences from observational data on corporate political statements is empirically challenging. However, our setting allows us to examine not only the pausing of PAC donations but also their resumption. If political advocacy reflects a firm's political convictions, we should see few firms resume donations shortly after pausing and no clear pattern in which firms resume. A significant fraction – 81 of the 118 announcing firms – resumed PAC donations within twelve months of the pause announcement. Since these resumptions were not publicly announced, it is not possible to estimate the investors' reactions. Therefore, we estimate the likelihood of resuming PAC donations, conditional on exposure to polarization and political risk. We show that *HPHR* firms are more likely to resume PAC donations, whilst *HPLR* firms are less likely. While these firms announce a pause in PAC donations to capitalize on stakeholder pressure to adopt a political stance, the high political risks make them more likely to resume their donations. These results indicate that firms opportunistically engage in political advocacy to accommodate stakeholder preferences but are likely to deviate from their stated positions when political risks are high.

Our paper makes several contributions to the literature. First, we highlight political advocacy as a distinct form of corporate political engagement that differs from CEO activism, CSR initiatives, and traditional corporate political activities in several critical dimensions. Unlike CEO activism, which involves personalized advocacy by corporate leaders on social issues, PAC pauses are institutional-level decisions that temporarily withdraw from established political engagement rather than affirmatively advancing new positions (Mkrtchyan et al., 2023; Hambrick & Wowak, 2021). Moreover, studies on CEO activism exclude direct political statements from the definition (Homroy & Gangopadhyay, 2023). Similarly, while CSR initiatives typically involve proactive, long-term commitments to social or environmental causes with measurable outcomes, PAC pauses are reactive, time-bounded responses to an event that prioritize political views. Unlike traditional corporate political activities such as lobbying or ongoing PAC contributions that seek direct policy influence through established channels, this activity differs in its deliberately conspicuous nature. While corporations don't routinely make public disclosures about their political donations and lobbying activities, PAC donation pauses were publicly announced following a major political event. This makes it a unique combination of voice and exit strategies: the visibility of exit renders a political voice. This positioning allows firms to signal political values to stakeholders while maintaining flexibility to resume donations when political risks subside. Thus, PAC pauses constitute what we term "tactical political signaling"—a reversible, institutional-level response to political events that prioritize stakeholder alignment over sustained policy advocacy or social impact.

Our results indicate that corporate political strategies are associated with exposure to politically polarized stakeholders, beyond the level of political risk. This contributes to a growing body of literature on different forms of corporate political engagement. For example, Akey (2015) examines the overlap between corporate political contributions and the engagement of professional lobbyists, while Green and Homroy (2022) show that corporations combine different channels of political influence, such as political appointment on boards and political donations. We extend this literature by showing that the rise in political polarization among US customers and employees' political preferences can explain the rise in a new form of corporate political engagement. Symbolism increasingly plays a prominent role as customer purchasing (and job-search) decisions become expressions of identity. (Aaker, 1997; Burbano, 2021). Recently, stakeholders of US companies have become increasingly polarized along partisan lines and have shifted away from centrist ideologies. (Draca and Schwarz, 2021). Customers and employees gravitate toward brands that align with their socio-political values, and firms seek to align with these values (Hambrick & Wowak, 2021).

Second, we contribute to the literature on the determinants of corporate socio-political statements. We provide an important characterization by showing that the financial impact of corporate political advocacy is jointly determined by the polarized operating environment and the firms' exposure to political risks. In recent papers, Mkrtchyan, Sandvik, and Zhu (2023), Gangopadhyay and Homroy (2023), and Melloni et al. (2023) show that stakeholders' political preferences can motivate corporate socio-political voice, but these papers do not account for heterogeneity in firm-level political risks. Indeed, how firm-level political risks shape corporate political activities is underrepresented in the literature. Traditionally, country-level political risk has been studied as a determinant of multinational firms' strategic choices (King, Loncan, and Khan, 2021; Bekaert, Harvey, Lundblad, and Siegel, 2016). The focus on cross-sectional variation of political risk across firms is recent (Hassan et al., 2019). Given the increasing political polarization in the United States, some firms face heightened political risks (Mellahi et al., 2016). Political risk exposure can have real economic effects. For example, Painter (2021) shows that when Walmart stopped carrying guns and ammunition, customers in Republican districts visited Walmart stores less. Our results extend the literature by showing that cross-sectional variation in political risk can explain corporate political strategies and the associated economic effects.

Finally, we contribute to stakeholder theory and the burgeoning literature on the "socio-political" purpose of the corporation (Homroy & Gangopadhyay, 2025; Mkrtchyan, Sandvik, and Zhu, 2023; Painter, 2021). Stylized results from this literature suggest that firms engage in social debates to cater to their customers' preferences or because their employees demand it, even when such actions are not immediately rewarded by the financial markets (Bebchuk & Tallarita, 2020; Karpoff, 2021; Donaldson & Preston, 1995). Such intangible, stakeholder-driven value may materialize with a delay, whereas capital markets respond quickly to salient risks (Edmans, 2021). We show that when its customer base is highly polarized, firms can simultaneously create value for shareholders and stakeholders, even if these interests are temporally misaligned due to information frictions or differing priors regarding customer backlash and regulatory retaliation. Companies engaged in political advocacy following the Capitol riots made this a strategic choice to serve

multiple stakeholders (Tantalo & Priem, 2016). Customer visits to stores increase sufficiently following political advocacy to motivate even firms with high political risk to engage in such advocacy. However, our results also highlight that firms engage in political advocacy opportunistically and change their stance when political risks are high. These results raise questions about the salience of corporate purpose independent of strategic choice.

We discuss the data in Section 1, the methodology and results in Section 2, and conclude in Section 3.

1. Data

1.1. Sample selection

We begin by collecting all announcements by S&P 500 firms that they are pausing PAC donations in the aftermath of the attack on the US Capitol on 6th January 2021, from LexisNexis, Factiva, and other publicly available sources such as the Wall Street Journal and the Washington Post. In addition, we obtained data on state-level political polarization from Kaplan, Spenkuch, and Sullivan (2019) and firm-level political risk from Hassan et al. (2019). Finally, we obtain companies' location and financial data from COMPUSTAT and share price data from Thomson Reuters Eikon. The final sample includes 505 firms with complete financial information.

Our main dependent variable is a binary variable that equals 1 if a firm declares pausing PAC donations (*PAC Pause)* between January 8th and 11th, 2021, and 0 otherwise. 118 firms announced pausing PAC donations.[9] We also construct a binary variable, Resumed, that equals 1 if an announcing firm resumes PAC donations within the next 12 months. 118 announcing firms, 81 resumed PAC donations by January 2022. The descriptive statistics are presented in Table 1, and an overview of variable descriptions is provided in Appendix 1.

Table 2 provides a selection of PAC pause announcements by firms and dates of subsequent resumption of donations.

1.2. Polarization measure

The first main independent variable is the political polarization in the operating environment of firms. We begin by identifying the states of operations of US firms from their 10-K filings. This approach to extracting details of corporate operations has been widely used by literature (Bernile, Kumar and Sulaeman, 2015; Smajlbegovic, 2019). In these filings, companies provide details about their operations, such as the location of factories, warehouses, and sales and branch offices. This information is usually found within the descriptions of segment-wise financial reports and in discussions on supply chain networks and legal conditions. For example, Cisco announced pausing PAC donations on the 11th of January 2021 to Republicans. An excerpt from the 2019 10-K filing of Occidental Petroleum, which announced pausing PAC donations on the 8th of January 2021, provides details on the geographic spread of their operations:

> "Occidental's principal businesses consist of three segments. The oil and gas segment explores for, develops and produces oil and condensate, natural gas liquids (NGL) and natural gas. The chemical segment (OxyChem) mainly manufactures and markets basic chemicals and vinyls. The midstream and marketing segment purchases, markets, gathers, processes, transports and stores oil, condensate, NGL, natural gas, carbon dioxide (CO2) and power. It also trades around its assets, including transportation and storage capacity…Occidental's domestic upstream oil and gas operations are located in **Texas** and **New Mexico**. International operations are located in Colombia, Oman, the United Arab Emirates (UAE) and Qatar… OxyChem owns and operates manufacturing plants at **22 domestic sites** in **Alabama, Georgia, Illinois, Kansas, Louisiana, Michigan, New Jersey, New York, Ohio, Tennessee,** and **Texas,** and at two international sites in Canada and Chile … Midstream Operations (tabulated) Gas Plants in **Texas, New Mexico** and **Colorado**; Power Generation in **Texas** and **Louisiana**."

We parse data on the number of times a state is mentioned in companies' 2019 annual reports to determine the geographic spread of their operations. We exclude citations relating to production facilities and only retain citations related to the demand for a firm's goods and services.[10] On average, firms in our sample operate in 13 states, and only 1 percent operate across all states.[11] Using this information, we calculate the citation share of each state in a firm's annual report (*CS*), which is the ratio of the number of times a state has been cited in the company's 2020 annual report and the total number of state citations in the annual report. Therefore, $CS \in [0, 1]$. [12]

Further, we map the polarization in the states a firm operates in using the *KSS* −index, which measures the degree of sorting within states and across counties in Presidential elections and elections for the House of Representatives (Kaplan et al., 2022). We use this measure of political polarization within the state for three reasons. First, the partisan sorting of voters within a state allows companies to create local monopolies and earn higher profits. Second, the average polarization across the states of firms' operations gives us a

[9] 30 of these announcing firms paused PAC donations to the lawmakers who objected to ratifying the election results. The rest 72 firms announced PAC donations to all federal and congressional candidates. In the appendix, we show that our results are similar for these two groups of firms.

[10] We omit citations related to the following keywords: plant(s), factory(ies), wage(s), production(s), construction(s), manufacture(−ing), produce (−ing), construct(−ing). We include citations related to keywords like sale(s), shop(s), retail, wholesale, customer(s), demand, etc.

[11] This is consistent with the geographic dispersion of US firms reported by García and Norli (2012).

[12] We omit firms that do not cite any states in their 10-K filings but include firms that cite all US states.

Table 1
Summary statistics. This table presents summary statistics for the S&P 500 sample as of January 2021. We present the means, medians, and standard deviations of the key variables.

	N	Mean	Median	SD
PAC Pause	505	0.300	0.000	–
EwPE	505	0.113	0.139	0.139
Political Risk Exposure	505	220.20	177.14	338.67
Ln (Store Visits)	9,165,312	6.843	4.912	1.924
ROA	505	0.109	0.094	0.073
Size	505	10.095	4.689	1.677
Leverage	505	0.399	0.173	0.194
High Competition	505	0.250	0.000	–
Customer Facing	505	0.526	0.510	0.263
Board Size	505	10.47	11.00	2.390
Board Independence	505	0.548	0.515	0.113
Institutional Ownership	505	0.095	0.108	0.036
Fraction Domestic Sales	505	0.408	0.356	0.344
Red State	505	0.348	0.000	–
Democrat-Republican Gap	505	0.091	0.052	0.108
Democrat-Leaning Employees	505	0.479	0.000	–
Democrat-Leaning CEO	505	0.193	0.000	–

Table 2
Prominent examples of political advocacy following capitol riots.

Company	Announcement Date	Announcement	Resumption
JP Morgan Chase	11th January 2021	"This was a unique and historic moment when we believe the country needed our elected officials to put aside strongly held differences and demonstrate unity."	June 2021
General Motors	11th January 2021	The bank is "taking a pause, a little bit of a deep breath, figuring out what we should change and how we should change it," Dimon, JPMorgan's chief executive officer, said at a conference Wednesday. "We saw something terrible in D.C., which was mobs violently attacking the Capitol —- that's not justifiable on any basis."	May 2021
Microsoft	8th January 2021	"until after it assesses the implications of last week's events." A Microsoft spokesperson continued, "The PAC regularly pauses its donations in the first quarter of a new Congress, but it will take additional steps this year to consider these recent events and consult with employees."	April 2023
General Electric	8th January 2021	"The GEPAC board has voted to suspend donations to those who voted to oppose the Electoral College results. This is not a decision we made lightly, but is one we believe is important to ensure that our future contributions continue to reflect our company's values and commitment to democracy."	March 2022
Cigna	8th January 2021	"Accordingly, CignaPAC will discontinue support of any elected official who encouraged or supported violence or otherwise hindered the peaceful transition of power."	March 2021
Intel	8th January 2021	"…will not contribute to members of Congress who voted against certification of the Electoral College vote as we feel that action was counter to our company's values."	March 2022
Amazon	8th January 2021	"…has suspended contributions to any member of Congress who voted to override the results of the U.S. presidential election."	September 2022

higher granularity of political preference over a binary "Red State vs. Blue State" classification.[13] Finally, the polarization measure is calculated before the 2020 elections. Therefore, any concerns regarding the effect of the election itself on political polarization are mitigated. The product of *CS* and *KSS* for each state gives us a measure of exposure of firms' operations to political polarization, scaled by the importance of that state to the firm.

Finally, to estimate the economic significance of each state, we scale the product of *CS* and *KSS* by the State Leading Indices (*SLI*) that predict the 6-month economic growth rates for US states published by the Federal Reserve Bank of Philadelphia. It is a commonly used index for macroeconomic activities (Crone & Clayton-Matthews, 2005). These indices take into account a range of economic parameters that predict economic activities within a state: state-level housing permits, state initial unemployment insurance claims, delivery times from the Institute for Supply Management (ISM) manufacturing survey, and the interest rate spread between the 10-year Treasury bond and the 3-month Treasury bill. For each firm, we take the product of the *CS* and *KSS* for each state noted in the annual

[13] In the appendix, we show that *Red* or *Blue* classification of the state in which a firm is headquartered has no meaningful effect on the likelihood of announcing the pause of PAC donations.

reports and the growth rate in the 6-month seasonally adjusted *SLI* of that state. This three-way product of *CS, KSS,* and *SLI* gives us economically weighted polarization exposure (*EwPE*).[14]

For every firm, we take the arithmetic mean of the *EwPE* of all the states of operations. The mean (median) of *EwPE* for our sample firms is 0.113 (0.139). Companies in the highest quartile of the polarization distribution of the sample firms (*EwPE* $>$ 0.267) are classified as exposed to high polarization (*HP*). Similarly, companies in the lowest quartile (*Polarized Environment* $<$ 0.053) of the polarization distribution are classified as low polarization (*LP*).

1.3. Political risk measure

The second main independent variable is the political risk faced by a firm. We collect information on firm-level political risks from Hassan et al. (2019). It is a measure developed by analyzing the transcripts of quarterly conference calls of CEOs with equity analysts. The weightage of words related to political risks in the total transcript provides a metric for measuring the political risk exposure of individual firms. We use the political risk faced by our sample firms in quarter 4 of 2020 (*Political Risk Exposure)*. The mean (median) of *Political Risk Exposure* is 193.50 (108.44). Companies in the highest quartile of the political risk distribution of the sample firms (*Political Risk Exposure* $>$ 241.66) are classified as exposed to high political risk (*HR*). Similarly, companies in the lowest quartile (*Political Risk Exposure* $<$ 45.62) of the political risk distribution are classified as exposed to low political risk (*LR*).

Hassan et al. (2019) construct the overall measure of the political risk index from a range of sub-indices like: "economic policy & budget," "environment," "trade," "institutions & political process," "health care," "security & defence," "tax policy," and "technology & infrastructure. Arguably, some of these sub-indices are more relevant for PAC-donations decisions than others. Therefore, we also examine the effect of these sub-indices of political risk separately in our empirical tests.

1.4. Store visits

We source store-level customer footfall data from SafeGraph Inc., which uses anonymized geolocation data from over fifty million smartphones. The users must opt-in for the geo-tracking to be included in the database.[15] This data allows the researcher to measure how many smartphones were at any location at different times of the day. By matching this data with the store's location (latitude and longitude), we can measure the number of visits to a store per day and unique customers visiting a store. Store visit data has been used as a reliable proxy of customer engagement with a firm (Gurun, Nickerson and Solomon, 2023; Bizjak et al., 2022; Painter, 2020). In this paper, we use information on the number of store visits by unique customers for firms with their own brand physical stores. For example, Coca-Cola is sold in many supermarkets, but the company does not have its own store. Customer visits to a supermarket are not a reliable estimate of their purchasing intent for Coca-Cola products. Therefore, there is no store visit data for these companies. We measure weekly store visits for the period December 2020-February 2021. It gives us a sample of 99,538 stores of 317 firms. In this sample, we have 107 firms that have announced a PAC donation pause. Our sample size is comparable to other papers using Safegraph store visit data for overlapping periods (Bizjak et al., 2022; Painter, 2020).

Although SafeGraph data covers around 50 million unique devices, it is still a fraction of the total number of smartphone users in the United States. Specifically, urban, younger ($<$ 50 years old), and higher-income mobile phone users are overrepresented in this data. This produces a partial observability problem, but it is not immediately clear in which direction it might bias our results. These are customers who can be more likely to make purchasing decisions based on politics but are also the more economically important demographics to firms. We note this as a caveat to the generalizability of our results.

1.5. Control variables

We control for firm- and industry-level factors likely to be associated with corporate political statements. We control for the log of total assets (*Firm Size),* profitability (*ROA),* leverage (*Debt-to-Equity Ratio)*, and institutional ownership (*Institutional Shareholding)*. All financial variables are winsorized at the 1% level. Further, since our exposure to polarization and political risk measures is based in the domestic US context, we control the company's dependence on domestic stakeholders by the ratio of domestic sales to total sales. We use Compustat to obtain net sales by geographic segments and compute sales for "USA" and "USA Operations".[16] We also use an indicator for firms without a PAC (*No PAC*).

We also control for corporate governance characteristics: the number of directors on the board (*Board Size)* and the fraction of independent directors (*Board Independence)*. Both the motives to engage in socio-political discussions and the value effects of doing so can be stronger in more competitive industries. (Gangopadhyay and Homroy 2020). Therefore, we also control for industry competitiveness using a Herfindahl-Hirschmann index constructed using 3-digit NAICS codes. All independent variables are lagged by one period.

[14] One concern with using a composite matrix could be that the constituent factors can have different effects on our outcome of interest. In an appendix, we show results to assuage such concerns.

[15] The SafeGraph data is generally representative of the general US population with minor overrepresentation of educated and urban customers (Squire, 2019). For a detailed description of the database, please see Painter (2020) and SafeGraph's data documentation: https://docs.safegraph.com/docs/places.

[16] In the appendix, we differentiate between companies with more reliance on domestic sales vs companies with less reliance on domestic sales.

Finally, the CEO's political leanings can affect corporate strategic activities (Cohen et al., 2019). Therefore, we examine CEOs' political leanings using data on their donations to political candidates, committees, and parties from the Federal Election Commission database for 2014–2020. We follow the multi-level matching protocol of Cohen et al. (2019) and Gangopadhyay and Homroy (2022) to link the FEC database with the list of S&P 500 CEOs. It yields a final sample of 429 CEOs for whom we have information on political donations. Further, we use information on the party affiliations of Political Action Committees (PACs) and leadership committees in the FEC database to classify the partisan nature of political contributions. Most CEOs donate to both the Republican and Democratic parties, but usually give more to one of them. *Democrat-Leaning CEO* equals '1′ if the average donation to the Democratic Party is at least 25 percent higher than to the Republicans, and 0 otherwise.[17] In our sample, 68 percent of the CEOs are Republicans, 19 percent are Democrats, and 13 percent are Neutral.

Further, we develop a measure of a firm's employees' political leanings. We group all individual donations reported in the FEC database by the employer's name. When we exclude the CEO's donations, the remaining donations are made by the firm's employees. *Democrat-Leaning Employees* equals '1′ if the total donation of all employees over our sample period to the Democrats is at least 20 percent more than that to the Republicans, and 0 if otherwise.[18] Using this measure, we classify 48 percent of firms to have Democrat-leaning.[19]

2. Empirical analysis

2.1. Likelihood of announcing a pause in PAC donations

We provide descriptive evidence on the likelihood of PAC donations pausing following the Capitol riots, conditional on the firm's exposure to polarization and political risks. We use the high/low polarized environment and high/low political risk to create a 2x2 matrix. We map the 118 announcements of PAC donation pauses along the four quadrants. The distribution is shown in Fig. 1. There are no observations in the *LPLR* and *LPHR* quadrants, 76 (64.4%) in the *HPLR* quadrant, and 29 (24.6%) in the *HPHR* quadrant.[20] In comparison, 58 and 64 non-announcing firms are in the *HPLR* and *HPHR* quadrants, respectively. The distribution of events along these quadrants highlights the role of political polarization among stakeholders in triggering corporate political statements. When the exposure to polarization is high and political risk is low (*HPLR)*, firms stand to gain from making political statements as a market segmentation tool. Two factors can explain the HPHR firms' PAC pause announcements. As with HPLR firms, there are potential gains from making political statements to polarized customers. Additionally, when the political risk is high, staying silent on politically divisive issues can be costly if the customers are polarized (Becker & Strömberg, 2012; Gilje, 2016). Therefore, *HPHR* firms are also more likely than the baseline LPLR group to announce a PAC pause. Finally, in low-polarization operating environments, firms do not derive any strategic benefits from such announcements, regardless of political risk.

More formally, we estimate a linear probability model of the likelihood of *PAC Pause* conditional on firm, CEO, and corporate governance characteristics. We estimate specifications of the type with robust standard errors:

$$\Pr(PAC\,Pause) = g(Firm\,Characteristics,\ Corporate\,Governance\,Characteristics,\ Industry\,Characteristics) \quad (1)$$

We present the results in Table 3. We show that the likelihood of announcing PAC donations is statistically significantly higher for companies operating in a polarized environment. The likelihood of announcing a pause in PAC donations increases by 2.2% for a unit increase in *EwPE*. However, there is no statistically significant effect of *Political Risk Exposure* on the likelihood of announcing a PAC Pause. In terms of the control variables, larger, more profitable firms operating in more competitive industries are more likely to pause PAC donations. Therefore, polarization among firms' customers seems to be the key determinant of these announcements.[21]

Next, we introduce interaction terms to examine the joint effects of the polarized operating environment and the firm's political risk. We examine the interaction effect of *HP*HR*, *HP*LR*, and *LP*HR* with respect to the baseline of *LP*LR*. We find that both sets of companies characterized by *HP*HR* and *HP*LR* are more likely to announce *PAC Pause* than the baseline. These cross-sectional results corroborate the descriptive analysis presented in Fig. 1.

2.2. Short-run price effects

To examine the economic effects of the PAC pause announcements using an event study approach. The Capitol riots and subsequent pausing of corporate PAC donations are unexpected events for the market. Therefore, the abnormal returns for announcing firms can be seen as the investors' sentiments about the present value of their future profitability. We compute cumulative abnormal returns (CARs) using a standard market-adjusted CAPM model over a three-day event window centered at the announcement date (-3 to $+3$), and the estimation window is (-250, -4). The abnormal return is the difference between a firm's return and the value-weighted

[17] We use different thresholds to check the robustness of our results: more than 15, 20, and more than 50 percent of the average donations to any one party. The fractions of Republican and Democrat-leaning CEOs remain similar for different thresholds for political donations.

[18] The fractions of Democrat-leaning employees remain similar if we use a threshold of 15 and 20 percent.

[19] Using this threshold, 68 percent of the CEOs are Republicans, 19 percent are Democrats, and 13 percent are Neutral (the gap in donations to both parties is up to 5 percent).

[20] The remaining six announcements are by firms that are not in the highest or lowest quartiles of polarization and political risk.

[21] In results shown in the appendix, we find qualitatively similar results with logit models.

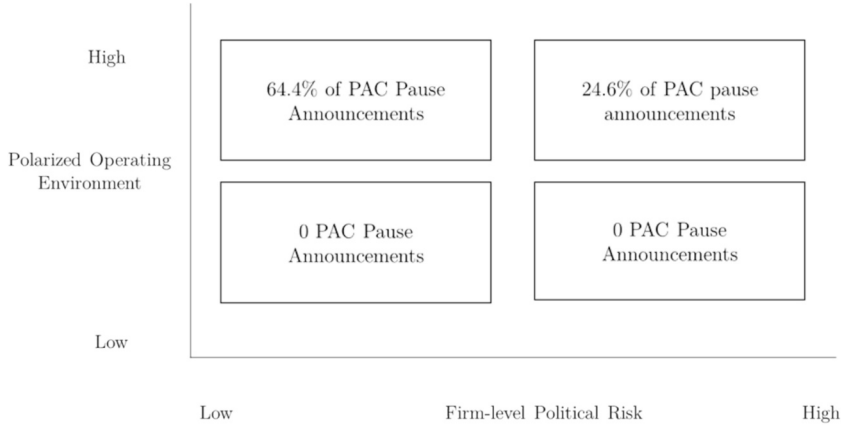

Fig. 1. Distribution of PAC donations pause announcements. This figure shows the fraction of events along the 2x2 matrix of political risk and polarization. Polarization is measured using an economically weighted index of political polarization in a firm's operating environment. Political risk is measured using semantic analysis of the CEO's conference calls with analysts, as provided by Hassan et al. (2019). High and Low refer to the top and bottom quartiles of the distributions of political polarization and political risk among sample firms.

Table 3
Likelihood of PAC donations pause. This table provides the linear probability estimates of the likelihood of PAC donations pause, conditional on exposure to stakeholders' political preferences and political risks (column 1), firm characteristics (column 2), and corporate governance characteristics (column 3). All specifications are estimated with industry dummies. Variable definitions are provided in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	Dependent Variable: PAC Pause		
	(1)	(2)	(3)
EwPE	0.029*** (0.009)	0.022*** (0.007)	0.022*** (0.007)
Political Risk Exposure	0.017	0.016	0.016
	(0.011)	(0.010)	(0.014)
No PACs	−0.002	−0.001	−0.001
	(0.004)	(0.003)	(0.003)
Democrat-Leaning Employees	0.039***	0.036**	0.036***
	(0.012)	(0.010)	(0.012)
Democrat-Leaning CEO	−0.008	−0.005	−0.005
	(0.011)	(0.012)	(0.012)
MTB		0.154 (0.051)	0.156 (0.058)
Size		0.323 (0.109)	0.319 (0.115)
Leverage		0.027 (0.025)	0.028 (0.025)
High Competition		0.069*** (0.023)	0.067** (0.024)
Customer-Facing		0.013**	0.014**
		(0.005)	(0.005)
Board Size			0.020 (0.017)
Board Independence			0.029 (0.022)
Institutional Ownership			−0.009 (0.012)
Industry dummies	Yes	Yes	Yes
N	505	505	505
Adjusted-R^2	0.223	0.249	0.263

market return on the S&P 500 index. We employ methods developed by Kolari and Pynnönen (2010) and Kolari, Pape, and Pynnönen (2018) to determine standard errors. These methods take into account the impact of event-induced volatility and cross-correlation in security returns that arise due to the partially overlapping event windows of the sample firms. We present the results in Table 4.

On average, an announcing firm's three-day and five-day cumulative abnormal returns are 0.15% and 0.22% lower than the market portfolio. Both these estimates are statistically significant at the 5% level. Therefore, the PAC donations pause announcement was not met with positive investor sentiments. In a placebo test, we examine the price reactions for a randomly selected synthetic control group of non-announcing firms that are similar in size, profitability and industry composition. These firms show no significant price reaction around January 8th and January 11th.

Since companies differ in the exposure to political polarization and the political risk in their operating environment, we examine the cross-sectional differences in equity returns conditional on these factors. We present the results of the cross-sectional regressions of the investor reactions (CAR [-3, +3]), conditional on firm characteristics, the interaction terms *HP*HR* and *HP*LR,* and industry characteristics in Table 5. Since *LP* firms make no PAC pause announcements, interactions of these firms are omitted.

We document differences in announcement returns depending on the interaction of political risk and exposure to political

Table 4
Cumulative announcement return. This table presents the estimates from the event study using equally weighted CARs (panel A) and value-weighted CARs (panel B). Panel C provides placebo tests with a synthetic control group of 100 non-announcing firms around the announcement dates. The estimation period is (−250, −4) before the Capitol Attacks. Based on the Kolari and Pynnönen (2010) method for calculating standard errors, T-statistics are given in brackets. ** represents statistical significance at 5% levels.

Panel A: Equal Weighted Returns				
	All Events	PAC-Pause Republicans	8th January Announcements	11th January Announcements
	N = 1,188	N = 349	N = 253	N = 179
CAR [0,0]	−0.12%***	−0.14%***	0.15%**	−0.12%*
CAR [-1, +1]	−0.15%***	−0.18%***	−0.16%**	−0.14%*
CAR [-3, +3]	−0.21%***	−0.24%***	−0.28%**	−0.19%*
Panel B: Value Weighted Returns				
	All Events	PAC-Pause Republicans	8th January Announcements	11th January Announcements
	N = 1,188	N = 349	N = 253	N = 179
CAR [0,0]	−0.13%***	−0.14%***	−0.15%**	−0.12%*
CAR [-1, +1]	−0.17%***	−0.19%***	−0.19%**	−0.15%*
CAR [-3, +3]	−0.23%***	−0.26%***	−0.29%**	−0.20%*
Panel C: Placebo Tests				
	8th January Announcements		11th January Announcements	
	N = 100		N = 100	
CAR [0,0]	0.003%		0.002%	
CAR [-1, +1]	0.001%		−0.004%	
CAR [-3, +3]	−0.005%		−0.009%	

Table 5
Multivariate CAR regressions. In this table, we provide the multivariate regressions of the price reaction. The dependent variable is CAR in the period (−3, +3) days around PAC donations announcements. In column 1, we use continuous measures of firms' politically polarized operating environment and political risk exposure. In column 2, we add the interaction terms for high and low political polarization and political risk exposure. Variables are defined in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

Dependent Variable	CAR [-3, +3]	
	(1)	(2)
EwPE	0.019**	
	(0.009)	
Political Risk Exposure	0.008	
	(0.006)	
HP x LR		0.008***
		(0.002)
HP x HR		−0.030**
		(0.014)
HP		0.004**
		(0.002)
HR		−0.003**
		(0.001)
Democrat-Leaning Employees	0.013	0.011
	(0.018)	(0.015)
Democrat-Leaning CEO	0.005	0.003
	(0.004)	(0.003)
MTB	0.090**	0.096**
	(0.041)	(0.044)
Size	0.127***	0.121**
	(0.045)	(0.050)
Leverage	0.012	0.008
	(0.015)	(0.011)
High Competition	0.038***	0.035**
	(0.013)	(0.015)
Customer Facing	0.017**	0.016**
	(0.008)	(0.008)
Board Size	0.009	0.008
	(0.009)	(0.006)
Board Independence	0.010	0.007
	(0.013)	(0.010)
Institutional Ownership	0.005	0.003
	(0.004)	(0.002)
N	133	133
Adjusted-R^2	0.211	0.258

polarization. Announcing firms categorized as *HP*LR* have higher returns than the baseline, and firms characterized by *HP*HR* have statistically significantly lower CAR than the baseline. Investors react positively to PAC pause announcements from companies that operate in highly polarized states and face lower political risks. These companies have lower costs of direct political statements but stand to gain from the polarization, and investors price it in the equity market. However, investors react negatively to PAC pause announcements from companies operating in highly polarized states and face high political risks. The large difference in the magnitudes of effects (0.08 for *HPLR* vs. −0.31 for *HPHR*) drives the net negative average price reaction documented in Table 4.

2.3. Stakeholder engagement

What is the longer-term financial impact on firms that make direct political statements? We examine this question using quarterly financial data. We argue that if political statements are strategic, we should detect a positive effect of the PAC pause announcements on future sales revenues and profitability. Additionally, we estimate the effect on gross margins ($\frac{Revenues - CostofGoodsSold}{Revenues}$) to examine whether increases in monopolistic pricing power drive an increase in sales and profit. Announcements of PAC donations pause are one-off events, and the effect will likely be localized immediately following financial quarters (Bhagwat, Warren and Beck, 2020). Therefore, we estimate specifications of the following type:

$$Ln(FinancialOutcome)_{qt} = \beta_1 PACPause_{qt-1} + \phi\begin{pmatrix} FirmCharacteristics_{qt}, CorporateGovernanceCharacteristics_{qt}, \\ IndustryCharacteristics_{q} \end{pmatrix} + FirmFE \quad (2)$$

In these regressions, β_1 is the *within-firm* variations in the average sales turnover and profitability before (2020 Q1 − 2020 Q4) and after the announcement of PAC-donations pause (2021 Q1 − 2021 Q3). With firm-fixed effects, these specifications control for unobserved firm-level factors that might affect sales and profitability, so long as these factors are constant over the short time window within which we constrain our observations. We show the results in columns 1, 3 and 5 of Table 6. Firms that announce PAC donations

Table 6
Effects of PAC pause on quarterly financial performance. In this table, we provide the multivariate regressions of the economic effects. The sample consists of S&P 500 firms for 2020 to 2021 Q3. In panel A, we present the effects of corporate political statements on quarterly sales revenues; in panel B, we show the effect on profitability measured by returns on assets (ROA); and in panel C, we show the effect on gross margins defined as $\frac{Revenues - CostofGoodsSold}{Revenues}$. Within each panel, column 1 shows the firm fixed effects estimates; column 2 shows the results with continuous measures of the politically polarized operating environment and political risk exposure; and column 3 shows the results with the high and low politically polarized environment and political risk exposure indicators. All specifications contain the full set of control variables. Variables are defined in Appendix 1. Robust standard errors, clustered at the firm level, are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	Quarterly Sales			ROA			Gross Margins		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PAC Pause	0.026***	0.009	0.011	0.009***	0.010	0.007	0.019***	0.001	0.003
	(0.009)	(0.005)	(0.008)	(0.002)	(0.008)	(0.008)	(0.006)	(0.003)	(0.003)
PAC Pause x EwPE		0.028***			0.013***			0.017***	
		(0.008)			(0.004)			(0.003)	
PAC Pause x Political Risk Exposure		0.010			−0.001			0.008	
		(0.007)			(0.004)			(0.011)	
PAC Pause x *HP x LR*			0.020**			0.015**			0.018***
			(0.009)			(0.007)			(0.005)
PAC Pause x *HP x HR*			0.012**			0.010**			0.008**
			(0.005)			(0.004)			(0.003)
EwPE		0.006			0.012			0.009	
		(0.008)			(0.010)			(0.009)	
Political Risk Exposure$_{t-1}$		−0.002			−0.006			−0.002	
		(0.003)			(0.005)			(0.003)	
HP x LR			0.004			0.009			0.007
			(0.006)			(0.006)			(0.007)
HP x HR			0.010			0.003			0.013
			(0.009)			(0.008)			(0.011)
HP			0.002			0.004			0.005
			(0.002)			(0.006)			(0.005)
HR			−0.007			−0.001			−0.003
			(0.006)			(0.002)			(0.004)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	No	No	Yes	No	No	Yes	No	No
Quarter Dummies	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
Year Dummies	Yes	No	No	Yes	No	No	Yes	No	No
Industry Dummies	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
N	3,535	3,535	3,535	3,535	3,535	3,535	3,535	3,535	3,535
Adjusted-R^2	0.207	0.233	0.281	0.220	0.242	0.285	0.219	0.240	0.288

pause have higher sales turnover, profitability, and gross margins in the following quarters. On average, announcing firms have 2.6% higher sales revenues, 1.9% higher gross-margins, and 0.9% higher profitability than non-announcing firms.

In columns 2, 4 and 6, we examine the interaction effects of *EwPE* and *Political Risk* with PAC pause announcements on sales revenues, profitability and gross margins, respectively. These regressions provide cross-sectional differences in the financial outcomes of announcing firms compared to non-announcing firms. The interaction term *EwPE * PAC Pause* is positive and statistically significant, while the interaction term *Political Risk * PAC Pause* is not statistically significant at conventional levels. Since *EwPE* is a continuous measure of polarization exposure, our results indicate that the financial returns to PAC pause announcements increase with a firm's exposure to political polarization. Notably, the standalone *PAC Pause* dummy becomes statistically insignificant, indicating that the announcing firm's polarisation exposure fully explains PAC donations' economic effects.

Finally, we estimate cross-sectional regressions with the discrete interaction terms *HP*HR* and *HP*LR* to examine the differential effects of firms with varying exposure to political polarization and political risk. We introduce the interaction terms in columns 3, 6 and 9 of Table 6. We see that compared to the control group, both *HP*HR* and *HP*LR* groups gain in sales and profitability. These long-term effects contrast with the short-term price effects reported in Table 3: *HP*LR* companies have positive announcement returns, but *HP*HR* companies have negative announcement returns. These results are robust to industry-quarter fixed effects that absorb any short-term industry trends and industry sales seasonality.

A plausible explanatory factor for the difference in short-term and long-term economic effects of *HP*HR* following the announcement of the PAC donations pause is the availability of information about risks and customer polarization to managers and investors. Investors have information about the managers' view of political risks through the analysts' conference calls. On the other hand, managers are more likely to have more information on *both* the political risk exposure and the political polarization among the firm's customer base. Therefore, we examine if managerial information on customer behaviour explains our result. We measure the change in weekly store visits following PAC pause announcements relative to non-announcing firms.

In columns 1 and 2, we find excess footfall of approximately 2% in stores of announcing firms, which cannot be explained by macroeconomic, local, and industry-specific demand shocks. In these models, the dependent variable is the natural log of customer footfall to a store in a given week. These linear regression models are estimated with store-fixed effects and county-month-year and industry-month fixed effects to ensure that confounding factors such as pandemic-related restrictions, store location, and industry-specific demand and supply are not contaminating our results. We also use a more stringent specification with industry-county-week fixed effects to measure excess customer visits to a store of an announcing firm relative to a store of a non-announcing firm in the same industry and county. We report these results in Table 7.

Furthermore, we find that the excess footfall in stores is of similar magnitude for announcing firms in both *HPHR* and *HPLR* quadrants. Therefore, these results provide supporting evidence for the conjecture that firms have more granular information about customer behaviour than investors with diversified portfolios. This difference in information sets can explain the gap between announcement returns and the long-term economic effects of political advocacy for firms with high political risk. However, we note that information asymmetry can capture a range of different information frictions between shareholders and managers. For example, shareholders can have different priors about regulatory retaliation to political advocacy.

2.4. Mechanisms

Corporate political advocacy can affect profitability through other channels. If that is the case, these mechanisms will confound our customer-polarization mechanism. We examine whether PAC pause announcements are correlated with outcomes related to employee rather than customer preferences (Mkrtchyan et al., 2023; Burbano, 2020). In Table 8, we present the firm-fixed effects results of PAC pause announcements on employee productivity and total factor productivity. We measure employee productivity by sales per employee and total factor productivity (TFP) by the residuals from industry-specific regressions of sales revenue on the number of employees, fixed assets, and year-fixed effects.

We show that PAC pause announcements are associated with increased sales per employee in the following quarter. Together with

Table 7
Effects of PAC pause announcements on customer visits to stores. This table shows cross-sectional differences in weekly store visits following PAC pause announcements relative to non-announcing firms. The sample consists of 99,538 stores of 317 firms, of which 107 have announced PAC donation pause from Dec 1, 2020, to Feb 28, 2021. Standard errors, clustered at the county-week level, are in the brackets. ***, ** and * represent statistical significance at 1%, 5%, and 10% levels.

	Ln (Store Visits)					
	All Firms		HPLR Firms		HPHR Firms	
	(1)	(2)	(3)	(4)	(5)	(6)
PAC Pause	0.018***	0.020***	0.020***	0.022***	0.019***	0.020***
	(0.005)	(0.003)	(0.006)	(0.005)	(0.006)	(0.008)
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Store Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
County-month Fixed Effects	Yes	No	Yes	No	Yes	No
Industry-Week Fixed Effects	Yes	No	Yes	No	Yes	No
Industry-County-Week Fixed Effects	No	Yes	No	Yes	No	Yes
N	1,194,456	1,194,456	437,200	437,200	475,324	475,324
Adjusted-R^2	0.809	0.829	0.833	0.841	0.791	0.798

Table 8
Mechanisms for economic effects. In this table, we provide the results for the mechanisms underlying PAC pause announcements' effect on profitability. The dependent variables in columns 1, 2, and 3 are sales per employee, natural logs of the number of employees and total factor productivity. All specifications contain the full set of control variables. Variables are defined in Appendix 1. Robust standard errors, clustered at the firm level, are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	Sales per Employee (1)	Ln (Employees) (2)	TFP (3)
PAC Pause	0.016**	0.009	0.004
	(0.007)	(0.006)	(0.011)
Control Variables	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
N	3,535	3,535	3,535
R^2	0.275	0.179	0.163

results from Table 6, this can indicate two (non-mutually exclusive) possibilities: (a) sales revenue increased, but the number of employees did not increase, and (b) the number of employees did not change, but sales per employee increased due to an increase in employee productivity. Channel (b) is likely if employees feel more engaged in companies that make political statements. In columns 2 and 3, we show no increase in the number of employees in firms announcing PAC pause and no statistically significant increase in TFP. These results indicate that increased sales revenue is most plausibly due to customer preference for firms that announce PAC pauses rather than to increased employee engagement and productivity. Since employees are heterogeneous in their political beliefs, we present this as indicative of the labour-market channel for the value effects.

2.5. Further tests and robustness

Resuming PAC donations

We examine the likelihood that firms will resume PAC donations within a year of announcing a pause. In a linear probability set-up, we show how polarization exposure and political risk affect the likelihood of resuming PAC donations within one year of the pause announcement. We present the results in Table 8 for the sample of announcing firms. In column 1, we show that *EwPE* is negatively correlated with the likelihood of resumption, but the likelihood of resumption increases with political risk. These results indicate that whilst polarization exposure strongly predicts political advocacy, political risk determines whether the firms continue their advocacy stance.

In column 2, we further show that *HPHR* firms are most likely to resume PAC donations, whereas HPLR firms are less likely to do so. These results indicate that firms engage in symbolic political advocacy and can deviate from their commitments when faced with high political risk.

Table 9
Resuming PAC donations. This table provides the linear probability estimates of the likelihood of resuming PAC donations within one year of the Capitol riots. The sample consists of 118 announcing firms for the years 2021–2022. All specifications are estimated with industry dummies. Variable definitions are provided in appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	Resumed (1)	(2)
EwPE	−0.005*	
	(0.003)	
Political Risk Exposure	0.048***	
	(0.009)	
HP x LR		−0.008*
		(0.004)
HP x HR		0.060***
		(0.014)
HP		−0.007**
		(0.003)
HR		0.013**
		(0.005)
Democrat-Leaning Employees	−0.008*	−0.009
	(0.005)	(0.006)
Democrat-Leaning CEO	0.000	0.001
	(0.001)	(0.001)
Control Variables	Yes	Yes
Industry Dummies	Yes	Yes
N	236	236
Adjusted-R^2	0.194	0.228

Heterogeneity

An important variation in the PAC pause announcements was that 36 companies pledged to pause donations to the Republican Party, while 82 companies paused PAC donations to all PACs. It is plausible that the former type of announcement is more politically risky than the latter. The market participants can perceive pausing PAC donations to all parties as a hedging strategy, whereas pausing to only Republicans is a more partisan stance. We examine the determinants of firms making these two types of announcements and the subsequent economic effects. We present the results in Table 9. In these cross-sectional regressions, the comparison group consists of firms that made no PAC pause announcements. Therefore, when estimating the effect of PAC pause on Republicans, we exclude from the control group firms that announce a PAC pause to all parties, and vice versa (see Table 10).

In panel A, we show that *EwPE* is positively and statistically significantly correlated with the likelihood of both types of PAC pause announcements. However, exposure to political risk is statistically significantly associated with the likelihood of announcing a PAC pause across all parties, but not with the likelihood of announcing a PAC pause for the Republican Party. This result indicates that firms with high political risk seem to announce a PAC donations pause to all parties as a risk-hedging strategy.

In panel B, we show that the average announcement returns are negative and qualitatively similar for firms making both types of announcements. In panel C, we show the longer-term financial returns. Firms that announce PAC donations pause, either to the Republican party or all parties, gain in sales and profitability in the following quarters. Our results show variations in the motivations for the two types of PAC pause announcements but similar financial returns.

Entropy Balancing

To address potential differences between announcing and non-announcing firms, we estimate our baseline models using entropy balancing (Hainmueller and Xu, 2013). This is a generalization of the standard propensity score matching models that adjusts for random and systematic differences between the 'treatment' announcing firms and 'control' non-announcing firms. A key advantage of this method is that it allows observation weights to vary smoothly, leading to larger samples and more efficient estimators. In a Hainmueller (2012) binary-treatment (announcement or not) framework, we balance the treatment and control groups on the covariates used as controls in Table 2. The results, reported in Table 11, are qualitatively similar to the baseline estimates.

Robustness Tests

We present a range of additional tests to ensure our results are not artefacts of the variable constructions in Table 12. First, many US companies have a global reach and may be influenced by international political factors. We examine whether companies with greater dependence on domestic sales are more likely to announce a pause in PAC donations and whether they experience different financial returns from such strategies. We partition the sample based on the threshold of at least 50% of sales revenue from the domestic US market. We find a statistically significant difference in the baseline results. *Ceteris paribus,* firms with high domestic sales dependence are more likely to announce a pause in PAC donations. Within this group, gains in sales and profitability are also higher for announcing firms than for non-announcing firms.

Second, we test the validity of our polarization measure. Instead of using the (Kaplan, Spenkuch, and Sullivan 2019) To measure polarization, we use the gap between Republican and Democratic voters within the states: the larger the gap, the more polarized a state is. This measure is the difference between the average fraction of votes received by the Democratic and Republican candidates in the firm's operating states during the 2020 Presidential Elections. Our baseline results remain unchanged.

Third, our baseline models include all operating states in constructing the *EwPE* measure. However, the political orientation of the headquarters state often affects corporate strategic decisions (Di Giuli & Kosteovsky, 2014; Cohen et al., 2019). Therefore, we assess the robustness of our results with respect to the political orientation of the firm's headquarters state, which underpins our baseline results. We classify firms as Red and Blue based on the partisan lean of the headquarters state, using data on headquarters location from Compustat and the average proportion of the vote for Republican candidates in the 2012, 2016, and 2020 Presidential elections. We construct a dummy, *Red State*, which equals 1 if the fraction of votes received by Republican presidential candidates is greater than that of Democratic candidates. If the home state's voting patterns explain the PAC pause announcements, we should expect companies headquartered in Republican states to be less likely to make such announcements. We find no statistically significant effect of being headquartered in a *Red State* on the likelihood of announcing the pause of PAC donations. These results further indicate that customers' political polarization in the states where a firm operates drives corporate political advocacy.

We present further robustness tests in the appendix. First, we use the unscaled KSS index to measure polarization exposure. This allows us to separate the effect of stakeholders' ideological polarization from their economic relevance. In the appendix, we tabulate results and show that our baseline results remain qualitatively similar when we use the unscaled KSS index. Next, Hassan et al. (2019) measure of political risk exposure of a firm is a composite of several factors: "economic policy & budget," "environment," "trade," "institutions & political process," "health care," "security & defence," "tax policy," and "technology & infrastructure. Some of these factors are likely to be more relevant in a firm's decision to make direct political statements. Therefore, we use "institutions & political process," "tax policy," "economic policy & budget," and "trade" to re-construct the high and low political risk indicators. In an appendix, we show that the sales and profitability outcomes from announcing the PAC pause remain qualitatively similar to the baseline.

The announcement of the PAC donations pause happened over two trading days. There were 49 announcements by sample firms on Friday, 8th January 2021, and 69 events on Monday, 11th January 2021, including two announcements over the weekend. It is

Table 10
Types of PAC pause announcements. In this table, we provide estimates for two types of PAC pause announcements: companies announcing they will pause PAC donations to Republicans (PAC Pause − Republicans) and companies that announced they would pause PAC donations to all parties (PAC Pause − All). In panel A, we show the results for the likelihood of these two types of announcements, conditional on the politically polarized environment and the political risk exposure. In panel B, we show these two types of announcements' economic outcomes (sales revenues and profitability). Models estimating the effect of *PAC Pause-Republicans* exclude the firms announcing *PAC Pause-All* from the control group and vice-versa. All specifications contain the full set of control variables. Variables are defined in Appendix 1. Robust standard errors (clustered at the firm level in Panel B) are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

Panel A	PAC Pause − Republicans	PAC Pause- ALL		
	(1)	(2)		
EwPE	0.030***	0.021**		
	(0.010)	(0.009)		
Political Risk Exposure	0.015	0.012**		
	(0.011)	(0.006)		
Industry Dummies	Yes	Yes		
N	401	491		
Adjusted R^2	0.210	0.182		
Panel B	Ln (Sales Revenue)	ROA	Ln (Sales Revenue)	ROA
	(1)	(2)	(3)	(4)
PAC Pause − Republicans x EwPE	0.032**	0.027***		
	(0.013)	(0.012)		
PAC Pause − Republicans x Political Risk Exposure	0.014	0.000		
	(0.011)	(0.000)		
PAC Pause − All x EwPE			0.025***	0.021***
			(0.008)	(0.006)
PAC Pause − All x Political Risk Exposure			0.008	0.002
			(0.006)	(0.002)
Control Variables	Yes	Yes	Yes	Yes
Quarter Dummies	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes
N	3,535	3,535	3,535	3,535
Adjusted-R^2	0.201	0.243	0.261	0.255

Table 11
Entropy-balanced sample. In this table, we provide the multivariate regressions of the likelihood of announcing PAC pause (column 1) and the likelihood of PAC resumption (column 2) using an entropy-balanced sample. Both specifications include the full set of control variables and industry dummies. All variables are defined in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	PAC Pause	PAC Resume
	(1)	(2)
EwPE	0.021***	−0.008**
	(0.005)	(0.003)
Political Risk Exposure	0.012	0.045***
	(0.009)	(0.014)
Other Control Variables	Yes	Yes
Industry Dummies	Yes	Yes
N	371	236
Adjusted R^2	0.425	0.236

plausible that the first set of announcements generated market anticipation, and that the announcements on the second trading day had no price effects. In an appendix, we show weak evidence of market anticipation. The returns are stronger for firms announced on Friday, 8 January: the p-value of the differences in CAAR between the two dates is 0.084. However, the abnormal returns are also statistically significant and economically meaningful for announcements made on the 11th of January. The longer-term value effects are similar to announcements made on these two dates following the Capitol riots. For the regressions on the longer-term value effects, we exclude firms announcing a PAC pause on 11th January 2021 from the control group in panel A, and we exclude firms announcing a PAC pause on 8th January 2021 from the control group in panel B.

We also show how actual PAC donations change following the PAC pause announcements. From monthly PAC donation data from December 2020 to March 2021, we find that companies with higher polarization exposure reduce PAC donations following

Table 12
Robustness tests. This table provides the linear probability estimates of the likelihood of PAC pause announcements, with control for a fraction of domestic sales (column 1), an alternate measure of polarization (column 2), a measure of partisan-leaning of corporate headquarters (column 3) and with controls for CEOs' political views (column 4). All specifications are estimated with the full set of control variables and industry dummies. Variables are defined in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	Dependent Variable: PAC Pause			
	(1)	(2)	(3)	(4)
EwPE	0.029***			0.027***
	(0.009)			(0.007)
Political Risk Exposure	0.017	0.016	0.018	0.016
	(0.011)	(0.010)	(0.014)	(0.011)
Fraction Domestic Sales	0.234			
	(0.212)			
Democrat − Republican Gap		0.019***		
		(0.005)		
Red State			0.009	
			(0.006)	
Control Variables	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes
N	505	505	505	505
Adjusted-R^2	0.215	0.177	0.164	0.218

announcements, and this effect is concentrated among HPHR companies, which also face higher political risk. This provides corroborating evidence that PAC pause announcements also changed actual donation behaviour.

Further, to measure institutional shareholders' organizational culture, we collect all donations made by individuals who voluntarily disclosed their affiliation with institutional managers in political donation files (Hong & Kostovetsky, 2012). We gather a list of institutional managers reported in Form 13F. The Securities and Exchange Commission (SEC) requires filings of stock transactions and holdings for all institutional managers with $100 million or more in assets under management. We then merge the list of institutional managers with the political donation files by the institutional managers' names and occupations. Controlling for the institutional shareholders' politics does not change our results.

Finally, we ensure that our economic effects do not reflect industry trends or seasonality. Therefore, we estimate the baseline models in Table 5 using industry-quarter dummies instead of firm fixed effects. Our results remain unaffected.

3. Conclusion

The social and political impacts of large corporations have been sharply in focus in recent times. Corporate political influence has become a salient economic issue amid rising income inequality, political polarization, and legal changes such as Citizens United v. *FEC* (Hersh, 2022; Glazer and Cutter, 2021). US firms also increasingly engage in political advocacy by making public statements on contentious political issues (Poliquin & Hou, 2022). This paper shows that political advocacy is a form of corporate political engagement driven by strategic opportunities in the product and labour markets. We show that customers' and employees' political views strongly predict firms' likelihood of pausing PAC donations following the Capitol riots in January 2021. However, firm-level political risks do not seem to affect the likelihood of such announcements.

The economic effects of political advocacy depend on the interaction of a firm's exposure to politically polarized stakeholders and the political risk it faces. Firms with high political polarization exposure in their operating environment and low political risk have positive stock price reactions to announcing a PAC pause. In contrast, firms with high polarization exposure and political risk have negative stock price reactions to announcing a PAC pause. However, both groups of firms saw sales and profits increase in the two quarters following the PAC pause announcements.

Our results also suggest that corporate political advocacy can be symbolic. Firms make political statements when the likely returns are high due to stakeholder polarization. However, they are also more likely to deviate from their advocacy stance when they face high political risk. Firms with high polarization exposure and political risk were more likely to resume PAC donations within one year of the Capitol riots.

We highlight several open questions for future research. This paper is among the first to provide descriptive evidence on the determinants and economic effects of corporate political advocacy (Poliquin & Hou, 2022). Since political advocacy is a relatively new phenomenon, an important question for future research is how firms combine advocacy with traditional forms of political engagement, like political donations and lobbying (Akey, 2015; Green & Homroy, 2022). Another important extension will be to use granular

information on stakeholders' reactions to political advocacy (Painter, 2021; Gangopadhyay & Homroy, 2022). For example, heterogeneity in customer reaction to political advocacy can be examined using geospatial data on store visits. Finally, we focus on political advocacy following an idiosyncratic political event. It is important to validate these results with a larger sample of corporate political advocacy events.

CRediT authorship contribution statement

Swarnodeep Homroy: Project administration, Formal analysis, Data curation, Conceptualization. **Shubhashis Gangopadhyay:** Writing – review & editing, Writing – original draft, Methodology.

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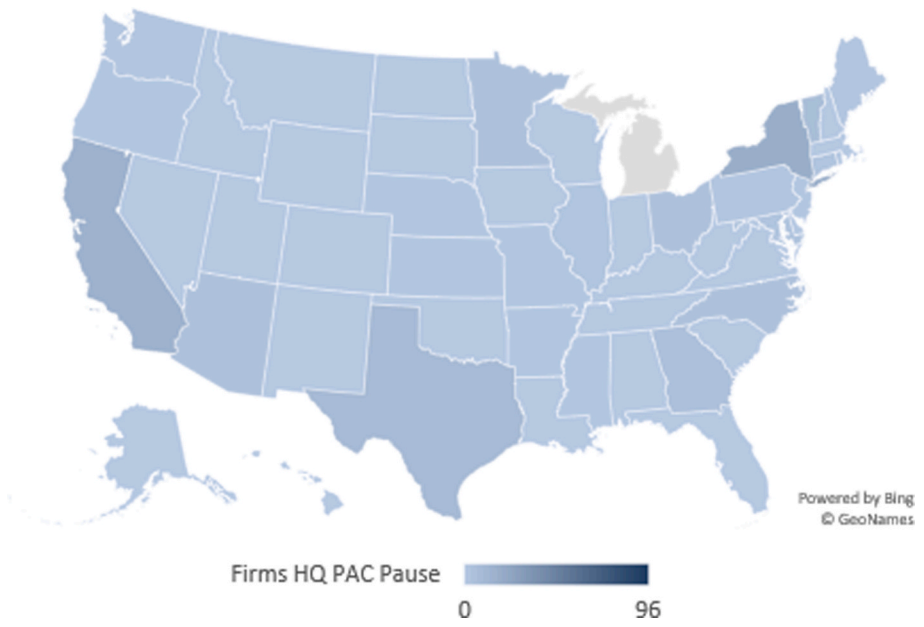
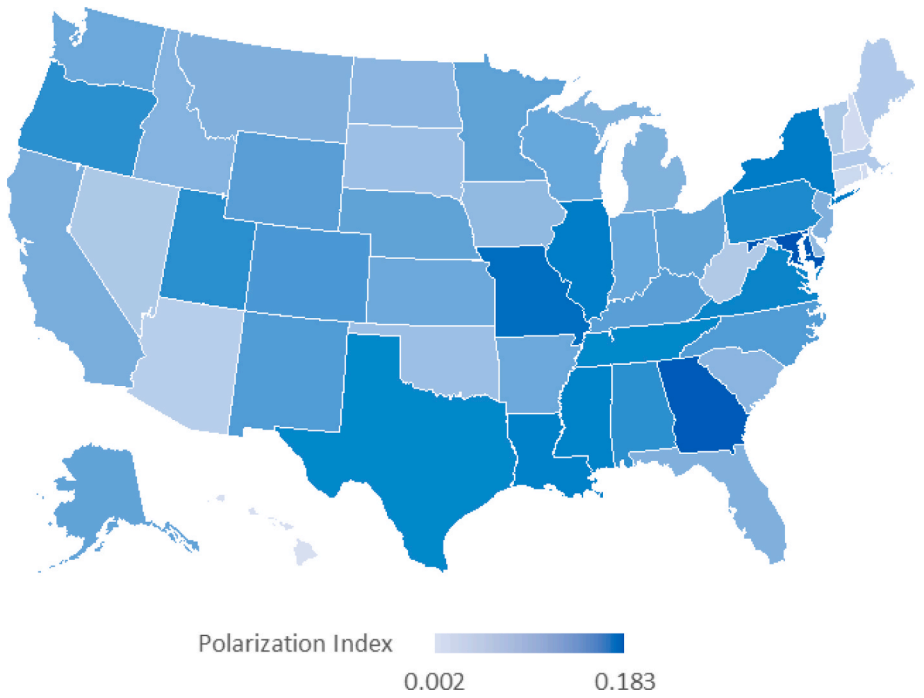
Appendix 1. Variable descriptions

Variables	Definition
PAC Pause	Dummy = 1 if a company announced a pause of PAC donations following the violence in the US Capitol on January 6, 2021.
Resumed	Dummy = 1 if a company resumed PAC within one year of the Capitol Riots.
CS	The citation shares for each state from the count of the number of citations for each state within a company's 10-K filings between 2017 and 2020.
KSS	The within-state political polarization using the metric developed by Kaplan, Spenkuch, and Sullivan (2019). This measure is constructed based on the spatial sorting of Republican and Democrat voters within a state.
SLI	The prediction of US states' 6-month economic growth rates from FRED.
EwPE	The product of CS and KSS, scaled by SLI
Political Risk Exposure	Firm-level political risk measure based on Hassan et al. (2019)
HP	Dummy = 1 if a company is in the top quartile of the *EwPE* distribution.
LP	Dummy = 1 if a company is in the bottom quartile of the *EwPE* distribution.
HR	Dummy = 1 if a company is in the top quartile of the *Political Risk Exposure* distribution.
LR	Dummy = 1 if a company is in the bottom quartile of the *Political Risk Exposure* distribution.
HR-1	Dummy = 1 if a company is in the top quartile of the *Political Risk Exposure* distribution, including only the "institutions & political process," "tax policy," "economic policy & budget," and "trade" subindices.
LR-1	Dummy = 1 if a company is in the bottom quartile of the *Political Risk Exposure* distribution, including only the "institutions & political process," "tax policy," "economic policy & budget," and "trade" subindices.
Ln (Store Visits)	Natural log of the number of unique consumers visiting the firms' stores weekly.
ROA	Net Profits/Total Assets
MTB	Market Capitalization/Book Value of Total Assets
Size	Natural log of Total Assets of the firm
TFP	The residuals from industry-specific regressions of sales revenue on the number of employees, fixed assets, and year-fixed effects
Sales per Employee	Sales revenues are scaled by the number of employees.
Ln (Employees)	Natural log of the number of employees
Leverage	Debt-to-Equity Ratio
Gross Margins	$\frac{Revenues - CostofGoodsSold}{(Revenues)}$
High Competition	Dummy = 1 if the firm is in the bottom quartile of the HHI distribution
Customer-Facing	Dummy = 1 if the firm sells goods/services to retail customers
Board Size	Number of Directors on the Board
Board Independence	The fraction of Non-executive Independent Directors on the Board
Institutional Ownership	The fraction of Shares Outstanding held by institutional investors
Fraction Domestic Sales	Sales in "USA" and "USA Operations" as a fraction of total annual sales turnover.
Red State	Dummy = 1 if the average fraction of votes received by the Republican candidate in the 2012, 2016 and 2020 Presidential elections is higher than the Democrat candidate in the state where a firm is headquartered.
Democrat-Republican Gap	The difference in the average fraction of votes received by the Democrat and the Republican candidates in the 2020 Presidential Elections in the states of operations of a firm.
Democrat-Leaning Employees	Dummy = 1 if the political contribution of all non-CEO employees of a company to the Democrats is at least 10 percent more than to the other political parties.
Democrat-Leaning CEO	Dummy = 1 if the CEO's political donations to the Democratic party are at least 25% more than that to the Republican party.

Appendix 2A. Spatial distribution of headquarters of companies pausing PAC donations



Appendix 2B. Polarized states in the US as per Kaplan et al. (2019)



Appendix 3. Alternate measures of polarization exposure. In this table, we present the results for the economic effects of PAC pause announcements using unscaled KSS index as a measure of polarization exposure. Columns 1 and 2 present results for PAC pause likelihood and return on assets, respectively. All specifications contain the full set of control variables. Variables are defined in Appendix 1. Robust standard errors are in the brackets. *, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.**

	PAC Pause Announcements (1)	ROA (2)
KSS	0.038*** (0.006)	0.003 (0.005)
Political Risk	0.010 (0.008)	−0.007 (0.004)
PAC Pause x KSS		0.018*** (0.006)
PAC Pause		0.005 (0.005)
Control Variables	Yes	Yes
Quarter Dummies	No	Yes
Industry Dummies	Yes	Yes
N	5,05	3,535
Adjusted-R^2	0.188	0.234

Appendix 4. Alternate measures of political risk exposure

In this table, we present the results for the economic effects of PAC pause announcements using an alternate way to classify firms facing high and low political risks. HR-1 (LR-1) denotes companies in the top (bottom) quartiles of the Political Risk Exposure distribution, including only the "institutions & political process," "tax policy," "economic policy & budget," and "trade" subindices. Columns 1 and 2 present results for sales revenues and return on assets, respectively. All specifications contain the full set of control variables. Variables are defined in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	Ln (Sales Revenues) (1)	ROA (2)
PAC Pause x *HPx LR-1*	0.022*** (0.007)	0.025** (0.009)
PAC Pause x *HPx HR-1*	0.013** (0.005)	0.012*** (0.004)
Control Variables	Yes	Yes
Quarter Dummies	Yes	Yes
Industry Dummies	Yes	Yes
N	3,535	3,535
Adjusted-R^2	0.283	0.286

Appendix 5. Change in monthly PAC donations

This table provides the effect of PAC pause announcements on actual PAC donations between December 2020 and March 2021. All specifications are estimated with industry dummies. Variable definitions are provided in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

Dependent Variable	Ln (PAC Donations) (1)	(2)
PAC Pause x EwPE	−0.162** (0.064)	
PAC Pause x *HP x LR*		0.048 (0.054)
PAC Pause x *HP x HR*		−0.183** (0.075)
Control Variables	Yes	Yes
Firm Fixed Effects	Yes	Yes
Month Fixed Effects	Yes	Yes
N	2,020	2,020
Adjusted-R^2	0.169	0.198

Appendix 6 Alternate event dates

In this table, we estimate two types of PAC pause announcements: companies announcing they will pause PAC donations on the 8th of January 2021 and companies that announced they will pause PAC donations on the 11th of January 2021. In panels A and B, we show the results for the short-term (announcement effects) and the long-run economic outcomes (sales revenues and profitability), respectively. Models estimating the effect of PAC Pause announcements on the 8th of January exclude firms announcing PAC Pause on the 11th of January from the control group, and the models estimating the effect of PAC Pause announcements on the 11th of January exclude firms announcing PAC Pause on the 8th of January from the control group. All specifications contain the full set of control

variables. Variables are defined in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	Announcements on 8th January		Announcements on 11th January	
	Ln (Sales Revenue)	ROA	Ln (Sales Revenue)	ROA
	(1)	(2)	(3)	(4)
PAC Pause	0.030** (0.011)	0.021*** (0.008)	0.027** (0.010)	0.018** (0.007)
Control Variables	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes
Quarter Dummies	Yes	Yes	Yes	Yes
N	2,975	2,975	3,031	3,031
Adjusted-R^2	0.200	0.209	0.213	0.231

Appendix 7. Likelihood of PAC donations pause: logit models

This table provides the marginal effects from the logit estimates of the likelihood of PAC donations pause, conditional on the firm (column 1), CEO (column 2) and corporate governance characteristics (column 3). All specifications are estimated with industry dummies. Variable definitions are provided in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	Dependent Variable: PAC Pause		
	(1)	(2)	(3)
EwPE	0.023*** (0.004)	0.024*** (0.008)	0.020*** (0.006)
Political Risk Exposure	0.012	0.009	0.014
	(0.017)	(0.008)	(0.014)
Firm Controls	Yes	Yes	Yes
CEO Controls	No	Yes	Yes
Governance Controls	No	No	Yes
Industry dummies	Yes	Yes	Yes
N	505	505	505

Appendix 8 Board of directors partisanship

In this table, we provide the multivariate regressions of the likelihood of announcing PAC pause (column 1), price reaction (column 2) and likelihood of PAC resumption (column 3). Democrat-Leaning Board is a dummy, which equals 1 if over half the board members (including the CEO) are predominantly Democrat donors. All other variables are defined in Appendix 1. Specifications include the full set of control variables. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

	PAC Pause	CAR [-3, +3]	PAC Resume
	(1)	(2)	(3)
EwPE	0.030*** (0.010)	0.019** (0.009)	−0.005* (0.003)
Political Risk Exposure	0.015 (0.011)	0.008 (0.006)	0.048*** (0.009)
Democrat-Leaning Board	0.003 (0.003)	0.008 (0.007)	−0.001 (0.002)
Democrat Employees	0.043*** (0.014)	0.013 (0.018)	−0.010* (0.004)
Other Control Variables	Yes	Yes	Yes
Industry Dummies	Yes	No	Yes
N	371	133	236
Adjusted R2	0.421	0.219	0.232

Appendix 9. Investor preference

In this table, we provide the multivariate regressions of the price reaction. The dependent variable is CAR in the period (−3, +3) days around PAC pause announcements. In column 1, we control for *Socio-Environmentally Oriented Investors,* which is a dummy = 1 if at least 20% of the institutional shareholding is concentrated among investors with a socio-economic preference; in column 2, we control for *Management Friendly Investors,* which is a dummy = 1 if at least 20% of the institutional shareholding is concentrated among investors who are management friendly on shareholder proposals. Investor ideology categorizations are done following Bolton et al. (2020). Specifications include the full set of control variables. Variables are defined in Appendix 1. Robust standard errors are in the brackets. ***, ** and * represent statistical significance at 1%, 5% and 10% levels, respectively.

Dependent Variable	CAR [-3, +3]	
	(1)	(2)
EwPE	0.017** (0.008)	0.020** (0.009)
Political Risk Exposure	0.009 (0.007)	0.008 (0.006)
Socio-Environmentally Oriented Investors	0.010**	
	(0.004)	
Management Friendly Investors		0.014** (0.006)
Other Covariates	Yes	Yes
N	133	133
Adjusted-R^2	0.224	0.267

Data availability

Data will be made available on request.

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