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UNIVERSITY OF SOUTHAMPTON

Faculty of Social Sciences
Southampton Business School

**Voluntary Disclosures: Three Empirical Studies in
Corporate Political Disclosure**

by

Mahmoud Nasr

ORCID: [0000-0002-0099-8945](https://orcid.org/0000-0002-0099-8945)

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Abstract

Faculty of Social Sciences

Southampton Business School

Doctor of Philosophy

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by

Mahmoud Nasr

This thesis contributes to the field of voluntary disclosures by investigating the determinants for corporate political disclosure practices through three empirical papers. First, it investigates the impact of CEO inside debt holdings on corporate political disclosure (CPD). Second, it examines the role of promotion-based incentives among non-CEO executives on CPD level. Finally, it investigates whether and, if so, how conditional accounting conservatism influences CPD level.

First, we provide evidence that inside debt holdings motivate CEOs to enhance CPD, particularly for sensitive firms' political activities. Cross-sectional analysis reveals that the effect of CEO inside debt on CPD is stronger in financially constrained firms and in firms headquartered in more corrupt states, and it is more pronounced among Democratic CEOs compared to Republican CEOs. Second, we find that promotion-based incentives act as an effective internal governance mechanism in promoting CPD. Further tests find that that the strength of this relationship depends on the likelihood of internal CEO succession, lobbying intensity, and exposure to external political risk. Finally, we find a negative association between conditional conservatism and CPD. Cross-sectional analysis reveals that the negative association is stronger in politically hedged firms and firms headquartered in more politically corrupt states. This relationship is also more pronounced when firms face greater pressure from equity investors.

The results of this thesis have important policy implications. First, given the growing concerns around CPD, our findings can help compensation committees to consider mandating the inclusion of inside debt holdings as a critical component of CEO pay structures to keep corporate political activities under investors' radar. Furthermore, executive compensation oversight should extend beyond CEO total pay to include internal pay dispersion such promotion-based pay gaps within top management team, can positively influence voluntary CPD by aligning executives' career motivations with disclosure expectations. Finally, policymakers might consider mechanisms that empower investor engagement, such as disclosure votes or enhanced shareholder rights, as tools to counterbalance the opacity created by conservative accounting.

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Declaration of Authorship

I, Mahmoud Nasr, declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
5. I have acknowledged all main sources of help;
6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;
7. Part of this work has been published as:
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 - Nasr, M., Zalata, A.M., Vithana, K., and Elmahgoub, M., 2025. Beyond the CEO: Tournament incentives and corporate political disclosure. *Journal of Accounting Literature* (Revise and resubmit).
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Signed:Date:.....

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My daughters, Farida and Khadija, the sweetest chapter in my life

My brothers and sisters, for their constant support and belief in me

Chapter 1 Introduction

1.1 Thesis Background and Motivation

Corporate disclosure represents a primary channel through which firms communicate information to shareholders. While much of this disclosure is mandated, such as financial statements, footnotes, and management discussion and analysis, many firms also engage in voluntary disclosures. These include management forecasts, analyst presentations, earnings calls, press releases, and other corporate reports. A more recent form of voluntary disclosure is corporate political disclosure (CPD), which has become an increasingly important component of firms' voluntary disclosure practices (Goh et al., 2020).¹ Corporate political contributions in US typically falls into two categories: (1) “*observable*” spending, which is publicly disclosed, such as direct lobbying, contributions to corporate Political Action Committees (PACs), 527 organizations, and state-level expenditures, and (2) “*unobservable*” spending, which remains undisclosed and occurs through intermediaries like trade associations and Super PACs (Baloria et al., 2019).

Observable spending is subject to narrow disclosure requirements under existing campaign finance laws. Specifically, the Federal Election Campaign Act mandates the reporting of corporate PAC contributions and expenditures, while the Lobbying Disclosure Act requires firms to report their lobbying expenditures and activities. However, these disclosures are not integrated into companies' securities filings. Moreover, state-level political spending is governed by separate disclosure regimes; in many states, requirements are considerably less stringent than those at the federal level. As a result, information about corporate political

¹ This thesis focuses on “disclosure” rather than “transparency”. Although these terms are sometimes used interchangeably in the accounting literature, they refer to distinct constructs. Disclosure refers to the quantity and extent of information provided by firms, encompassing both mandatory and voluntary communications to stakeholders (Healy & Palepu, 2001; Verrecchia, 2001). Transparency, by contrast, is a broader construct that also encompasses the quality, clarity, accuracy, and interpretability of that information, as well as its dissemination and accessibility to outside parties (Bushman et al., 2004). This thesis focuses specifically on corporate political disclosure, the extent to which firms publicly report information about their political spending activities. The CPA–Zicklin Index, is employed as the main proxy for CPD, captures the quantity and scope of such disclosures and therefore reflects the disclosure dimension of the information environment rather than the full transparency construct.

activity is fragmented across multiple agencies and platforms, including the Federal Election Commission (FEC), the Internal Revenue Service (IRS), and various state offices (Goh et al., 2020), which subsequently induce investors to exert additional effort to collect and consolidate this information to form a complete view of a firm's political engagement.

In contrast, unobservable political spending remains largely undisclosed. Notably, most of the corporate political spending over the last four US election cycles (2007-2020) has flowed through unobservable channels (Guedhami et al., 2025). Indeed, most firms avoid directly engage in political activities because they would have to reveal their identity. Instead, they typically contribute indirectly, by giving money to political parties, trade associations, or Super PACs. These recipients are not legally required to disclose their donors or the amounts they receive. This lack of disclosure was further amplified after the Citizens United (2010) decision, which lifted restrictions on corporate independent political expenditures (Baloria et al., 2019).

These concerns have prompted significant shareholder demand for disclosure, with the SEC receiving over 1.2 million public comment letters on the matter, the highest number in its history (Baloria et al., 2019). Despite increased demand for disclosure, CPD remains largely voluntary and significant variation exists in disclosure practices among firms (Goh et al., 2020). For example, AT&T in 2025 provides a semi-annual report of 58 pages titled "political engagement report" that identifies its contributions to state political candidates, political parties, and PACs.² In contrast, major firms such as Berkshire Hathaway and Tesla provide no disclosures about their political spending.³

In this new era of voluntary corporate disclosure, recent studies focus on the consequences of CPD for capital market participants (e.g., DeBoskey et al., 2021; Almaghrabi & Tsalavoutas,

² <https://sustainability.att.com/ViewFile?fileGuid=9ec73f9b-144f-4237-b725-578cb44f18f8> (accessed 1 December 2025)

³ <https://www.ft.com/content/4613bad1-27a0-4a23-87f6-a364350258c7> (accessed 1 December 2025)

2022). However, little is known about the internal forces that drive firms' political disclosure choices. This gap raises a fundamental question: what motivates firms to disclose or conceal information about their political spending? Accordingly, this thesis focuses on the determinants of CPD. Building on seminal papers in disclosure literature (e.g., Diamond & Verrecchia, 1991; Healy & Palepu, 2001; Graham et al., 2005), the authors identify managerial incentives to be one of the factors that influence managers' decision for voluntary disclosure. First, prior studies show that CEO equity incentives play a significant role in shaping firms' disclosure practices (e.g., Aboody & Kasznik, 2000, Armstrong et al., 2013, Wruck & Wu, 2021). Therefore, it is important to examine how distinct types of CEOs' incentives influence voluntary CPD.

Second, we extend the understanding of top managerial incentives by examining how the incentives of non-CEO executives influence CPD practices. Unlike CEOs, non-CEO executives are subject to both equity-based compensation and promotion-based incentives, which may shape their preferences for disclosure. Accordingly, this study investigates the extent to which promotion-based incentives among top management team members affect firms' voluntary political disclosure practices.

Finally, the third paper moves beyond focusing solely on top management's incentives and instead examines how firm-level financial reporting practices and reporting culture (e.g., a more conservative reporting orientation) shape CPD. Specifically, this thesis examines whether accounting conservatism, a fundamental feature of financial reporting, systematically influences firms' incentives to disclose political spending. This thesis examines CPD through a multi-level framework that integrates executive incentives and firm-level reporting characteristics. The three studies sequentially examine the roles of CEOs' inside debt incentives, promotion-based incentives among non-CEO executives, and financial reporting conservatism in shaping firms' political disclosure decisions.

1.2 Thesis Aims and Research Questions

The main aim of this thesis is to investigate the determinants of voluntary CPD. To achieve this aim, drawing on the insights from agency theory, upper echelons theory, tournament theory, social identity theory, and accounting theory, the thesis comprises three empirical studies each to address a specific research question. The first study examines whether the structure of CEO compensation influences disclosure incentives, with a particular focus on inside debt holdings. More specifically, this study seeks to answer two main questions. (1) Do inside debt holdings motivate CEOs to voluntarily disclose information not required under reporting standards? (2) What conditions moderate the strength of this relationship? The second study extends the analysis beyond the CEO by examining how tournament-based promotion incentives among non-CEO top executives influence CPD level. Particularly, it investigates: (1) Do promotion-based incentives for non-CEO executives enhance CPD level? (2) What boundary conditions amplify or attenuate this relationship, if any? The third study investigates whether a firm's degree of conservatism in financial reporting is associated with CPD level. This study also examines the role of internal and external factors, including political hedging strategies, and outside pressure from equity holder, in shaping firms' disclosure practices.

1.3 Research Methodology

As the primary objective of this thesis is to provide empirical evidence on the determinants of CPD practices, a positivist paradigm and a deductive research approach are adopted across the three studies. The positivist stance assumes the existence of an observable reality that can be measured and modelled, aligning well with this thesis's aim of producing objective, evidence-based conclusions that are replicable and generalisable. Each study applies quantitative methods to test theoretically grounded hypotheses derived from prior literature. Specifically, the first study draws on the voluntary disclosure literature and agency-based research on CEO incentives to examine whether and how CEO inside debt holdings influence the level of CPD. The second study builds on tournament theory to investigate how internal pay dispersion among non-CEO executives, reflecting promotion-based incentives, affects CPD. The third study

engages with the accounting conservatism literature to explore whether conditional conservatism disciplines voluntary disclosure practices, particularly in politically sensitive contexts. Together, these studies adopt a theoretically grounded, empirically rigorous approach to identify internal determinants of CPD and highlight the nuanced ways in which incentive structures and reporting choices intersect in shaping disclosure.

To construct the variables required for hypothesis testing, the thesis relies on secondary data from well-established databases. We collect data from various sources: political disclosure data are downloaded from the CPA-Zicklin Center website; executives' data are obtained from the ExecuComp; financial and accounting data are collected from the Compustat and Bloomberg. Finally, data on corporate political spending are manually collected from various filings to fully capture a firm's observable spending (e.g., lobbying expenditures, contributions made by PACs, contributions to 527 organizations, and state-level spending). Lobbying expenditures and contributions to 527 organizations are obtained from the Center for Responsive Politics (CRP), contributions by PACs are obtained from the FEC website, and state-level spending data are extracted from the National Institute on Money in State Politics. Each empirical chapter employs ordinary least squares (OLS) regression with year and industry fixed effects to control for unobserved heterogeneity across time and sectors.

1.4 Thesis Findings

This thesis comprises three empirical studies, each investigating a distinct determinant of voluntary CPD. While each study addresses specific research questions, they are unified by a central objective: to advance understanding of the underlying drivers of voluntary CPD. A brief overview of the key findings from each study is provided below.

1.4.1 Study One

Study one, titled “CEO inside debt and corporate political disclosure”⁴, examines whether CEO inside debt holdings affects CPD level. “Inside debt holdings” refers to the unsecured and unfunded components of CEO compensation, such as pension claims and other deferred compensation, that create fixed future obligations for the firm and are contingent on the firm’s solvency (Edmans & Liu, 2011). Unlike equity incentives, which reward upside performance, inside debt aligns a CEO’s wealth with the firm’s downside risk and long-term stability (Wei & Yermack, 2011). These debt-like holdings motivate the CEO to adopt conservative corporate policies, reduce risk exposure, and avoid actions that may jeopardize the firm’s ability to meet future obligations (Cassell et al., 2012; Anantharaman et al., 2014). Extant literature confirms that CEOs with higher inside debt holdings implement less risky investment and financial policies and help preserve the firm’s distance to default (e.g., Sundaram & Yermack, 2007; Cassell et al., 2012). However, the extent to which these incentives affect disclosure policies remains unclear. Given that voluntary disclosure practices such as political disclosure is under managerial discretion, it provides ideal settings to examine whether and how CEOs’ inside debt holdings shape firms’ political disclosure behavior.

The study concludes that, consistent with the optimal contracting view of agency theory, there is a positive association between inside debt holdings and political disclosure, particularly for sensitive firms’ political activities. The results suggest that disclosure serves as a risk mitigation mechanism for CEOs with substantial inside debt, particularly in politically sensitive contexts. Cross-sectional analyses reveal that the relationship is stronger in firms facing higher financial constraints and in more politically corrupt states, where disclosure may serve to shield firms from external rent-seeking. Drawing on upper echelons theory, the study further documents that CEO political ideology matters. Importantly, the effect of inside debt holdings is stronger

⁴ This chapter has been published as: Nasr et al., 2025. CEO inside debt and corporate political disclosure. *Journal of Accounting and Public Policy*, 54, p.107378. <https://doi.org/10.1016/j.jaccpubpol.2025.107378>

among Democratic CEOs, whose ideological predispositions may align with and reinforce economic incentives to disclose.

1.4.2 Study Two

Study two, titled “Beyond the CEO: Tournament incentives and corporate political disclosure”⁵, examines the effect of promotion-based incentives for non-CEO executives in the top management team on CPD level. While existing research emphasizes the role of individual leaders, particularly CEOs and CFOs, in corporate reporting decisions (e.g., Armstrong et al., 2013; Wruck & Wu, 2021), the influence of other executives has received little attention. Unlike the CEOs, whose incentives are largely shaped by performance-contingent compensation contracts, non-CEO executives also face promotion-based incentives that arise from internal labor market competition for promotion to the highest level of the managerial hierarchy, namely the CEO position (Lazear & Rosen 1981; Kale et al., 2009; Kini & Williams, 2012). The primary aim of the second study is to investigate whether promotion-based incentives for non-CEO executives influence CPD level.

The study finds that, consistent with tournament theory, firms exhibiting greater pay dispersion between CEOs and non-CEO executives are associated with higher levels of CPD. This evidence suggests that promotion-based incentives function as an effective internal governance mechanism that encourages transparency in politically sensitive domains. To corroborate our theoretical argument and main hypothesis that promotion-based incentives for non-CEO executives have the ability to influence the extent of CPD, the study conducts cross-sectional analyses exploiting variation in executives’ promotion-based incentives. These tests show that the strength of this relationship depends on executives perceived probability of promotion. In particular, the tournament incentive – CPD association weakens when the CEO is expected to be appointed from outside the firm and strengthens when internal succession is more likely.

⁵ This chapter has received a revise and resubmit decision from the *Journal of Accounting Literature*.

Drawing on core tenets of tournament theory, the study also identifies additional contextual factors influencing this relationship. Specifically, lobbying intensity attenuates the effect, suggesting it may act as a substitute for political disclosure, while heightened exposure to external political risk amplifies non-CEO executives' incentives to enhance CPD.

1.4.3 Study Three

Study three, titled “Does accounting conservatism discipline voluntary disclosure? Evidence from corporate political disclosure”, examines whether firms' financial reporting conservatism is associated with voluntary CPD. Building on the political cost hypothesis, firms may adopt conditional conservatism to appear less profitable and avoid scrutiny, thereby also limiting voluntary political disclosures to reduce regulatory exposure. From an agency perspective, conservatism discourages discretionary spending like political contributions due to its asymmetric treatment in earnings recognition. Alternatively, conservative reporting may complement political disclosure by reducing information asymmetry. These contrasting perspectives render the relationship between conditional conservatism and CPD theoretically ambiguous. Therefore, the study examines whether and how conditional conservatism influences firms' political disclosure decisions, this study sheds light on whether financial reporting discipline and political disclosure act as substitutes or complements in firms' broader disclosure strategies.

The third study concludes that, consistent with the political cost hypothesis, firms characterized by high degree of conditional conservatism exhibit lower levels of political disclosure. This evidence suggests that conditional accounting conservatism functions as a substitute for more salient form of disclosure, such as CPD. Supplemental cross-sectional analyses further reveal that the strength of this relationship is influenced by internal factors, such as political hedging strategies, and external factors, such as the level of political corruption. The study also identifies additional factors that condition this relationship such as pressure from equity investors.

1.5 Thesis Contribution

While Sections 1.4.1 to 1.4.3 outline the research questions and findings of each study, this section explains how the three studies collectively achieve the thesis's objective: to advance understanding of the internal drivers of voluntary CPD. While each study focuses on a distinct driver of CPD, they are designed to complement one another and collectively develop a multi-level explanation of firms' political disclosure.

The first study establishes the foundational premise of the thesis that voluntary CPD is shaped by internal governance forces rather than external stakeholder pressures alone. By demonstrating that CEO inside debt holdings, a dimension of executive compensation that aligns CEO incentives with those of debtholders, positively influence CPD, this study identifies the CEO's personal compensation structure as a theoretically coherent and empirically significant determinant of political disclosure. The second study builds directly on this foundation by asking whether the CEO-level findings of the first study generalise to the broader executive team. Rather than treating the CEO as the sole decision-maker of disclosure decisions, the second study shifts attention to the incentive structures operating across the wider top management team (TMT) and examines how promotion-based tournament incentives among non-CEO executives shape CPD. In doing so, it extends the thesis's argument in an important direction: voluntary CPD is not determined solely by the CEO's compensation structure but is also shaped by the competitive incentive dynamics embedded within the firm's executive hierarchy. This extension is theoretically meaningful because it demonstrates that disclosure behaviour is a collective organisational outcome, reflecting the incentive environment of the entire TMT rather than the preferences of a single executive.

The third study extends the framework further by moving beyond executive compensation incentives entirely and examining whether the firm's overall reporting orientation, specifically,

its degree of conditional conservatism, is associated with CPD. This extension is theoretically motivated by a recognition that disclosure behaviour cannot be fully explained by executive incentives alone; it is also shaped by the broader reporting culture and discipline within which those incentives operate. By showing that accounting conservatism and voluntary political disclosure are systematically related, operating as substitutes in some contexts and complements in others, the third study introduces a firm-level reporting mechanism that complements the executive-level mechanisms identified in the first and second studies.

The progression from the first study to the third study reflects a deliberate and theoretically motivated expansion in the level of analysis: from the individual CEO to the executive team, to the firm's overall reporting orientation. This multi-level structure is central to the thesis's design and reflects its core theoretical claim: that voluntary CPD is not the product of any single mechanism in isolation but rather emerges from a layered system of internal governance and reporting forces operating simultaneously at multiple levels of the organisation.

Collectively, the three studies establish that voluntary CPD is jointly determined by CEO compensation design, TMT incentive structures, and firm-level reporting discipline. This evidence supports a broader theoretical claim that politically sensitive disclosure is not reducible to any single governance mechanism, but rather emerges from the interaction of incentive, organisational, and reporting forces operating simultaneously across multiple levels of the firm. By demonstrating that these forces operate jointly and systematically, the thesis advances the voluntary disclosure literature beyond single-mechanism explanations and offers a more comprehensive account of why firms differ in their political disclosure.

1.6 Thesis Structure

The structure of this thesis is as follows: 1) Chapter 2 presents the first empirical study, which investigates the influence of CEO inside debt on firms' political disclosure practices. The chapter begins by outlining the literature on CEO inside debt, and the literature on CPD. It

develops the research hypothesis based on the alignment of CEO incentives with creditor interests and the potential implications for political disclosure. The chapter then details the research design, including variable construction, sample selection, and empirical methodology. The main results and robustness tests are presented and discussed, followed by concluding remarks on the study's implications, limitations, and avenues for future research. 2) Chapter 3 introduces the second study, which explores how internal pay dispersion within TMT affects voluntary CPD. The chapter is motivated by tournament theory and research on promotion-based incentives. It reviews relevant literature, develops the hypothesis linking promotion-based incentives to disclosure behavior, and outlines the empirical design. The chapter then presents descriptive statistics, correlations, and multivariate regression results, followed by additional analyses including interaction effects and robustness checks. The chapter concludes by summarizing key findings and suggesting directions for future research. 3) Chapter 4 introduces the third study, which examines whether and how conditional accounting conservatism influences CPD. Similarly, the chapter first provides the theoretical background, and relevant literature then develops competing hypotheses regarding the role of conservatism on CPD. Following a discussion of data sources and methodology, the chapter presents the main empirical findings along with several cross-sectional analyses and robustness tests. It concludes by reflecting on the study's contributions and offering suggestions for future research on accounting conservatism and political disclosure.

Chapter 2 CEO inside debt and corporate political disclosure⁶

Abstract

This paper investigates the impact of CEO inside debt holdings on corporate political disclosure (CPD) using a sample of S&P 500 firms. Our results indicate that inside debt holdings motivate CEOs to enhance CPD. These findings are robust across various proxies and endogeneity tests. Our mediation analysis shows that CEOs with high levels of inside debt use CPD to reduce the firm's probability of default. Cross-sectional analysis reveals that the effect of CEO inside debt on CPD is stronger in financially constrained firms and in firms headquartered in more corrupt states, and it is more pronounced among Democratic CEOs compared to Republican CEOs. Overall, these findings highlight the significance of CEO incentive structures in shaping corporate disclosures.

Keywords: CEO inside debt, deferred compensation, risk-taking, corporate political disclosure

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2.1 Introduction

This study examines whether CEO inside debt holdings affect corporate political disclosure (CPD) using a sample of S&P 500 firms. CPD has emerged as a central issue in disclosure literature, driven by growing concerns over transparency, accountability, and stakeholder trust. The US Supreme Court decision, *Citizens United v. Federal Election Comm., 2010*, which permitted firms to make unlimited political expenditures without stringent public disclosure requirements, has exacerbated concerns about the opacity of corporate political spending (Beets & Beets, 2019; Goh et al., 2020). This discretion has led to uneven voluntary disclosure practices.

This lack of disclosure has raised significant concern among stakeholders. Following the 2021 Capitol Hill attack, the Centre for Political Accountability (CPA) revealed that several public companies had donated to organizations connected to the chaos (CPA, 2022). Stakeholders voice concerns that undisclosed “dark money” political contributions may signal managerial opportunism, reputational risk, or misalignment with firm strategy (Werner, 2017; Baloria et al., 2019; Minefee et al., 2021; Ali et al., 2022). These issues have prompted significant shareholder demand for enhanced transparency, with the SEC receiving over 1.2 million public comment letters on the matter, the highest number in its history (Baloria et al., 2019). Meanwhile, lenders view political opacity as a source of information risk, which can increase borrowing costs and tighten credit conditions (DeBoskey et al., 2021; Almaghrabi & Tsalavoutas, 2022). In this environment, political disclosure has come to be seen not only as a signal of ethical conduct but also as a mechanism to manage stakeholder perceptions and mitigate financial risk.

Despite increased demand for transparency, CPD remains largely voluntary in the United States and significant variation exists in disclosure practices among firms (Goh et al., 2020). This raises the question: What drives firms to disclose or conceal political spending information? Prior research highlights external pressures from shareholders, regulators, and watchdog groups

(Werner, 2017; Baloria et al., 2019; Minefee et al., 2021; Ali et al., 2022), but internal managerial incentives remain underexplored. While some studies explore how CEO equity incentives shape firms' disclosure practices (e.g., Aboody & Kasznik, 2000, Armstrong et al., 2013, Wruck & Wu, 2021), their findings suggest that this type of compensation does not effectively mitigate agency problems and, in fact, may even induce CEOs to prioritize short-term objectives, and potentially withhold information to extract private rents and achieve personal gains. In this study, we investigate the role of CEO inside debt holdings in shaping firms' political disclosure behavior.

“Inside debt holdings” refers to the unfunded and unsecured components of CEO compensation, such as pension claims and deferred compensation, that create fixed future obligations for the firm and are contingent on the firm's solvency (Edmans & Liu, 2011). Accordingly, inside debt expose CEOs to the same level of risk faced by creditors, making them more “risk averse” to safeguard the value of their deferred compensation (Jensen & Meckling, 1976; Edmans & Liu, 2011), aligning their interests with the debtholders' interests, hence alleviating their expropriation concerns (Wang et al., 2018). Empirical studies show that CEOs holding large inside debts exhibit less risk-seeking behaviour (Cassell et al., 2012; Chi et al., 2017), pursue more accountable and less opportunistic financial policies, and avoid using corporate resources for personal gain, thus reducing the risk of default (He, 2015). Nevertheless, extending this argument to CPD remains ambiguous.

There are two competing perspectives on how CEO inside debt holdings may influence CPD. One view, grounded in optimal contracting theory, suggests that CEOs with substantial inside debt are incentivised to promote political disclosure as a strategy to manage downside risk and preserve firm value. Inside debt aligns the CEO's wealth with the firm's long-term solvency, encouraging risk-averse behavior and greater openness in politically sensitive areas. Anecdotal evidence shows that transparent political disclosure creates value for firms, such as better access to finance (DeBoskey et al., 2021; Almaghrabi & Tsalavoutas, 2022), lower cost of capital

(Adrian et al., 2022), and positive investor reactions (Werner, 2017). It is also associated with higher levels of institutional ownership, improved firm performance, and greater analyst coverage, while reducing forecast errors (Goh et al., 2020). These benefits that are particularly valued by CEOs, whose holdings depend on the firm's stability.

In contrast, an alternative perspective rooted in rent extraction theory argues that inside debt may reduce pay-performance sensitivity, leading to weaker alignment with shareholder interests and increased managerial entrenchment (Goh & Li, 2015). CEOs with substantial pension holdings may use political engagement to pursue personal goals, such as higher compensation, post-retirement appointments, or ideological agendas (Arlen & Weiss, 1995; Coates, 2012; Greiner et al., 2023), while avoiding disclosure that could expose these activities to scrutiny. In such scenario, political disclosures may limit CEOs' influence by deterring political allies or constraining covert strategic behavior (Prabhat & Primo, 2019; Jia et al., 2023). From this view, CEOs with substantial holdings may have incentives to obscure political spending in order to preserve discretion and extract private benefits.

The two opposing arguments discussed above suggest that the question of whether CEOs' inside debts enhance CPD is ex-ante far from clear. Therefore, our study tests these competing hypotheses using a sample of S&P 500 firms from 2012 to 2021. We investigate whether CEOs with high inside debt holdings influence CPD level. We find that higher levels of CEO inside debt are associated with greater political disclosure, supporting the theoretical argument that such debts act as a mechanism to restrain risky behaviour, reduce information asymmetry, minimise agency cost, and therein promote CPD. We also find that CEOs with higher levels of inside debt demonstrate a stronger tendency to prioritize the disclosure of sensitive components of firms' political activities, particularly those linked to trade associations spending. Further, our theoretical argument suggests CEOs with more debt-based compensation uses CPD as a mechanism to reduce default risk. Our mediation analysis confirms that CPD mediates the

relationship between CEO inside debts and probability of default. In other words, the increased CPD level, driven by CEOs with higher level of inside debt, leads to a higher distance to default.

Next, we conduct three sets of cross-sectional tests to explore how inside debt affects managers' incentives to enhance CPD. First, when firms face a high level of financial constraints, CEOs with greater inside debt become more cautious, concerned about protecting the value of their deferred debt from potential liquidation or improving the value of their inside debt in the case of liquidation. We find empirical support that the impact of debt-based compensation on CPD is more pronounced in firms at higher risk of financial constraint. Second, corruption is an important mechanism through which government officials use their power to seize firm resources and extract rent (Shleifer & Vishny, 1993). Firms headquartered in corrupted states have incentives to counteract the threat from corrupt officials by engaging in defensive financial policies (Smith, 2016) and may use disclosures as a tool to abate corruption cost (Brown et al., 2021; Chen et al., 2021). As a result, we expect the influence of inside debt on CPD is amplified in firms headquartered in more corrupt districts. Using number of corruption convictions of government officials, we document that the relation CEO inside debt and CPD is stronger for firms located in more corrupt states. Third, we consider the moderating effect of CEO political ideology. Bhandrai et al. (2020) assert that the political ideology of CEOs constitutes a significant determinant for reporting quality due to the divergence in the risk preferences between Republican and Democratic CEOs and therefore we investigate whether the alignment of interests through inside debt is sufficiently robust to supersede individual ideological tendencies. Interestingly, we find that Republican CEOs with high inside debt compensation are less transparent on political spending than Democratic CEOs demonstrating that the alignment between CEO inside debts and CPD is not merely a matter of financial incentives but also deeply associated with their political beliefs. Finally, given that CEO compensation contracts and CPD may be endogenous, we employ different methods, including entropy balancing, instrumental variable estimation, and the propensity score matched approach, to address potential endogeneity concerns.

This study makes several contributions to the existing literature. First, despite shareholders' growing demands for greater political transparency, to our knowledge, no prior study has investigated CEOs' incentives to induce firms' CPD. This study addresses this void by providing initial evidence of the impact of inside debt holdings on political spending disclosures. Prior studies (e.g., Cassell et al., 2012; He, 2015; Wang et al., 2018) have documented that inside debt significantly affect various corporate outcomes, including, risk-taking activities, financial reporting quality, and conservative reporting. Yet, it could be argued that the true impact of inside debts might be diminished in such studies, as financial and investment policies often remain consistent and therefore allow for limited managerial discretion (Fee et al., 2013). Therefore, we depart from this line of research by focusing on unique settings having a higher degree of managerial discretion and highlight the role of inside debt compensation in promoting political disclosure. Based on our findings, compensation committees might consider mandating the inclusion of inside debt holdings as a critical component of CEO pay structures to keep corporate political activities under investors' radar. Second, our findings show that political disclosure is not merely a signalling mechanism or response to stakeholder pressure; it is a risk management strategy driven by managerial incentives. We show that higher levels of CEO inside debt are associated with greater political disclosure, and such disclosure practices are linked to improved financial stability, as measured by increased distance to default. Our study responds to calls for greater theoretical clarity around the mechanisms linking executive incentives to disclosure outcomes (e.g., Wruck & Wu, 2021) and the understanding of how compensation structure shapes corporate disclosure. Finally, we explore key mechanisms and boundary conditions that affect the strength of this relationship. We document that the effect of CEO inside debt on CPD is stronger in firms facing greater financial constraints, headquartered in more politically corrupt states, and led by Democratic-leaning CEOs. These findings highlight that the influence of inside debt incentives is shaped by both institutional context and individual preferences, expanding our understanding of how compensation structures interact with broader firm characteristics and CEO political

ideology. The remainder of this paper is organized as follows. Section 2 provides background. Section 3 reviews the relevant literature and develops the research question. Section 4 outlines the research methodology. Sections 5, 6, and 7 present our empirical findings. Finally, Section 8 concludes the study.

2.2 Literature and hypothesis development

2.2.1 Literature on the role of CEO inside debt holdings

2.2.1.1 A taxonomy of CEO inside debt holdings

Inside debt typically consists of two main components: defined benefit (DB) pension plans⁷ and non-qualified deferred compensation plans (Wei & Yermack, 2011). DB pension plans generally take two distinct forms: (a) qualified DB pension plans (regular pension plans), which are offered to all employees, and (b) non-qualified DB pension plans, known as Supplemental Executive Retirement Plans (SERPs). SERPs are non-contributory pension plans (i.e., fully funded by the firm) that designed as part of a competitive compensation package for CEOs (Kalyta & Magnan, 2008). Unlike qualified plans, which must be funded under the Employee Retirement Income Security Act of 1974 (ERISA), SERPs are not subject to such funding requirements (Cadman & Vincent, 2015; Edmans et al., 2017). Consequently, in the event of bankruptcy, the Pension Benefit Guarantee Corporation (PBGC) assumes responsibility for covering any shortage in qualified plans, but only up to a maximum limit (USD 141,590 per beneficiary in 2024) however, the remaining balance of an executive's pension, potentially amounting to millions of dollars per year, is covered by the firm's SERP. Therefore, the bulk

⁷ Apart from DB plans, another form of pension plans is the defined contribution plans, such as 401(k) plans. Unlike DB plans, defined contribution plans are considered equity-like and do not promise a specific retirement benefit (Choy et al., 2014). Their structure diminishes their effectiveness in curbing excessive managerial risk-taking relative to DB pension plans, which position managers as fixed claimants on firm resources, similar to creditors (Garman & Kubick, 2025). More importantly, DB pensions are more often provided to CEOs, whereas defined contributions pensions are typically offered to lower-level employees (Bebchuk & Fried, 2004b). Sundaram and Yermack (2007) report that more than half the CEOs of S&P500 firms have DB pensions. Moreover, data on defined contribution pension plans are not available in accessible databases (Walker, 2018) and when exist for some CEOs, their amounts are typically small and difficult to determine in a systematic manner (Wei & Yermack, 2011). Therefore, following existing literature on inside debt (e.g., Cassell et al., 2012; He 2015, etc), we focus our discussion and analysis on DB pension plans.

of executive pensions are unsecured, leaving executives' benefits at risk and contingent on firm value at liquidation (Wei & Yermack, 2011; Garman & Kubick, 2025).

The other component of CEO inside debt is the non-qualified deferred compensation plans (NQDC), which generally refers to a portion of the CEO's current compensation that CEO voluntarily deferred and scheduled for withdrawal at a later date (Anantharaman et al., 2014).⁸ Like SERPs, NQDC plans are generally unsecured and unfunded, a structure that underpins their classification as "debt-like incentives". In essence, NQDC plans function as contractual commitments between the CEO and the firm and are not subject to ERISA funding regulations but are instead governed by Section 409A of the Internal Revenue Code. For these plans, the underlying assets must remain accessible to the company's general creditors in the event of bankruptcy to retain their tax-deferred status. Consequently, CEOs' claims on the firm's assets through NQDC plans are analogous to unsecured debt and thus exposed to a high probability of loss if bankruptcy occurs.⁹

Taken together, DB pension and NQDC plans resemble debt-like payoffs (i.e., "inside debt") as they are generally unfunded and unsecured. In the event of bankruptcy, CEOs are treated as unsecured creditors and can only recover their claims proportionally to the firm's liquidation value. This structure exposes CEOs' inside debt holdings to default risk and aligns their incentives more closely with those of external creditors, which encourage risk-averse behavior and long-term value preservation.

To operationalize the concept of inside debt in an empirical construct, Sundaram and Yermack (2007) measure CEOs' debt-based incentives relative to their equity-based incentives using the

⁸ NQDC plans may take different forms. Some firms may permit deferral of salary only, while others also allow deferral of long-term incentive compensation and gains from the exercise of stock options or from the sale of restricted stock (Bebchuk & Fried, 2004b). For example, according to the proxy statement of Aflac, Inc., "*The Executive Deferred Compensation Plan (EDCP) allows certain U.S.-based officers, including the Named Executive Officers (NEOs) (the "Participants"), to defer up to 75% of their base salaries and their annual non-equity incentive awards.*" (Aflac Inc. 2024 p.67).

⁹ Although firms may use "rabbi" trusts for NQDC plans, the plans remain legally unfunded because these assets are subject to the claims of the creditors in the event of bankruptcy (Wei & Yermack, 2011).

CEO debt-to-equity ratio (*CEO D/E*).¹⁰ CEO debt is defined as the sum of the present value of defined-benefit pensions and total balances of non-qualified deferred compensations, while CEO equity comprises the value of stock and the intrinsic value of stock options held by the CEO.

A strand of empirical studies (e.g., Guay, 1999; Rajgopal & Shevlin, 2002; Coles et al., 2006; Armstrong & Vashishtha 2012; Armstrong et al., 2013) highlights the risk-seeking incentives associated with CEO equity-based compensation. The challenge is, when CEOs are compensated primarily with equity, they have incentives to increase firm risk beyond acceptable levels to maximize their equity values at the expense of debtholders. By contrast, when CEOs receive compensation that includes both debt and equity components, we would expect them to manage the firm more conservatively. Because equity-based incentives embed convex payoffs that encourage risk-taking, while debt-based incentives embed unsecured debt claims that encourage risk aversion, the CEO D/E ratio captures the net effect of these competing incentives. For instance, an increase in CEO equity holdings (while holding inside debt constant) reduces the CEO D/E ratio and thereby shifts the CEO's payoff structure toward that of an equity-holder, potentially heightening risk-taking incentives. Conversely, larger inside debt holdings relative to equity increase the CEO D/E ratio and align the CEO's interests more closely with debtholders, thereby mitigating traditional agency costs of debt (i.e., risk-shifting and excessive payouts). In this way, the CEO D/E ratio measures the proportion of debt-like to equity-like incentives.

2.2.1.2 *Related theoretical and empirical evidence*

In their seminal work, Jensen and Meckling (1976) were the first to introduce the concept of inside debt in firms characterised by separation of control and ownership. In their theoretical framework, agency costs arise from the divergence of interests between CEOs and outside

¹⁰ Edmans and Liu (2011) suggest scaling CEO debt-to-equity ratio (CEO D/E) by the firm's debt-to-equity ratio. We also employ this measure in our robustness checks.

shareholders and debtholders. Agency costs of equity arise when CEOs use corporate resources to maximize their personal interests by maximizing shareholders' wealth. Jensen and Meckling (1976) suggested that providing CEOs with equity incentives (e.g., shares and options) would align their interests with those of shareholders. However, the associated outcome of such alignment would encourage CEOs to engage in risky actions that disproportionately benefit CEOs and shareholders at the expense of debtholders (i.e., risk shifting problem) (e.g., Dewatripont & Tirole, 1994; Coles et al., 2006).¹¹ As a remedy, Jensen and Meckling (1976) suggested that the optimal compensation structure should include both equity and debt in proportions that mirror the firm's capital structure, aligning the CEO's incentives with the interests of both shareholders and debtholders.

Two main theoretical perspectives dominate the literature on inside debt. The first is the optimal contracting view, which views inside debt as an effective governance mechanism to align managerial incentives with creditor interests under the threat of bankruptcy. Edmans and Liu (2011) develop a theoretical model showing that inside debt can mitigate the risk-shifting incentives created by equity compensation. They highlight that, unlike salary or bonus-based incentives, inside debt provides a positive payoff, even in bankruptcy, proportional to the firm's liquidation value. This gives CEOs a direct incentive not only to avoid default but also to preserve firm value in the longer-term or if bankruptcy occurs. They also find that offering CEOs equal proportions of equity and debt is not optimal; however, a debt-to-equity ratio with a debt bias is optimal when there is a high probability of bankruptcy and there is a need to increase the liquidation value.

In contrast, the managerial power perspective argues that inside debt can serve as a channel for rent extraction. From this perspective, large pension and deferred compensation plans may

¹¹ Specifically, when CEOs engage in risky projects, any potential gains are largely captured by CEOs and shareholders, while debtholders receive only a fixed payoff. However, if these risky projects fail, debtholders bear accidental risk and might lose part or full value for their investments (Harris & Raviv, 1991).

reflect CEO bargaining power rather than optimal contract design (Bebchuk & Fried, 2004a; Bebchuk & Jackson, 2005). These forms of compensation are often opaque, less sensitive to performance, and not subject to the same scrutiny as equity pay (Goh & Li, 2015). Bebchuk and Jackson (2005) characterize pensions as “stealth compensation.” Supporting this view, Kalyta and Magnan (2008) find that the use and size of supplemental executive retirement plans (SERPs) correlate with CEO power, while Cadman and Vincent (2015) and Goh and Li (2015) find that such benefits are not strongly linked to firm performance.

On the empirical side, existing literature supports the risk-moderating role of inside debt. Sundaram and Yermack (2007) find that CEOs holding large inside debt tend to adopt strategies that reduce overall firm risk, thereby lowering the likelihood of default threatening pension payouts. Wei and Yermack (2011) find that the market responds positively to disclosure of CEO inside debt, with bond prices rising and equity prices falling, consistent with a shift in managerial alignment towards debtholders. Inside debt has also been shown to reduce corporate risk-taking (Cassell et al., 2012; Phan, 2014; Srivastav et al., 2018), tax aggressiveness (Chi et al., 2017), and dividend payouts (Eisdorfer et al., 2015), while increasing cash holdings (Liu et al., 2014). From a financing perspective, inside debt is associated with favourable credit terms. Lenders perceive CEOs with large inside debt holdings as more risk-averse and creditor-aligned, resulting in lower yield spreads and fewer restrictive covenants (Chava et al., 2010; Anantharaman et al., 2014; Dang & Phan, 2016; Borah et al., 2020; Shen & Zhang, 2020). More recently, Chen et al. (2024) document a negative relationship between CEO inside debt and firms’ exposure to ESG-related reputational risks.

Extending this literature to firms’ reporting policies, He (2015) finds that inside debt holdings are associated with higher reporting quality, improved internal controls, and reduced stock price crash risk. Dhole et al. (2016) report a negative association between inside debt and both accrual- and real-based earnings management. Wang et al. (2018) show that conservative financial reporting and inside debt operate as substitutes in mitigating agency costs between

CEOs and debtholders. Taken together, these findings establish that inside debt plays a critical role in shaping managerial behavior across investment, financing, and reporting domains.

Notably, existing research has predominantly focused on highly regulated settings, where violations of accounting standards can have detrimental long-term consequences for firm stability. For example, aggressive financial reporting may harm a firm's reputation and lead to significant financial penalties (Karpoff et al., 2008). In such context, CEOs with substantial inside debt holdings may have strong incentives to ensure compliance with accounting standards in order to safeguard the firm's financial health and, by extension, the value of their inside debt holdings. However, there is limited evidence on whether inside debt serves as a complement to or a substitute for strict disclosure requirements. This raises an important research question: Do inside debt holdings motivate CEOs to voluntarily disclose information not required under reporting standards? This question is particularly salient in the context of CPD, which remain relatively unregulated and lack a unified reporting framework (Goh et al., 2020). Our study addresses this gap by examining whether CEOs with significant inside debt holdings are more or less likely to disclose political spending.

2.2.2 Literature on corporate political disclosure

Arguably, CPD is one of the most challenging reporting decisions related to corporate political spending information. Generally, there are two main types of political spending: (1) that which is publicly disclosed, coined "observable" spending (through direct lobbying, corporate Political Action Committees (PACs), "527" organizations, and state-level spending) and (2) that which is not publicly disclosed, coined "unobservable" spending (through trade associations, and Super PACs) (Baloria et al., 2019). In general, these entities have no limit on how much they can receive from firms, implying that firms can use considerable amounts of their funds for political lobbying. While entities receiving observable spending are required to disclose the names of donors and the full amounts they received, those receiving unobservable spending have no legal obligation to disclose such information. Indeed, some firms engage

indirectly in political activities through third parties, often called “intermediaries,” to influence politics (Bebchuk, 2019).

This lack of disclosure was further amplified by the *Citizens United* (2010) decision, which lifted restrictions on corporate independent political expenditures while still prohibiting direct contributions to federal candidates. In practice, this ruling enabled firms to allocate substantial funds to political campaigns and lobbying efforts at both the federal and state levels without consistent or centralised disclosure (Coates, 2012; Baloria et al., 2019).¹²

Furthermore, even for observable corporate political spending, the information is scattered among many separate filings with different agencies through their websites, including the Federal Election Commission (FEC), Internal Revenue Service, and various state-level offices (Goh et al., 2020). Investors must exert significant effort to collect and consolidate this data to form a complete view of a firm’s political footprint. In addition to the difficulties in accessing reliable information, most firms fail to disclose internal policies governing political contributions, the board’s oversight role, or the criteria used to evaluate political spending decisions. This opacity obscures whether such expenditures reflect firm-wide strategic interests or the personal agendas of top executives. The absence of robust disclosure practices weakens accountability and makes it difficult for investors to assess the alignment between managerial behavior and shareholder or stakeholder value.

From a theoretical perspective, voluntary disclosure reduces information asymmetry, enhances a firm’s information environment, and lowers the cost of capital (Diamond & Verrecchia, 1991; Healy & Palepu, 2001; Graham et al., 2005). In this context, CPD can play an important signalling function. It enables investors to distinguish between politically strategic firms and those using political channels for opportunistic purposes (Bebchuk et al. 2019). Recent

¹² According to the Center for Responsive Politics (CRP), money spent by groups that keep their donors secret increased from USD 100 million in 2008 to USD 300 million in 2012 (Salant, 2016)

empirical evidence supports this notion. Adrian et al. (2022) find that CPD reduces asymmetry between managers and investors, improves stock liquidity, and lowers the cost of equity. Similarly, firms with higher levels of political disclosure tend to face lower borrowing costs (DeBoskey et al., 2021; Almaghrabi & Tsalavoutas, 2022) and attract more institutional ownership (Goh et al., 2020). CPD also communicates how firms take the advantage of political connections to secure government contracts, shape regulatory outcomes, and facilitate mergers and acquisitions (Werner, 2017).

Despite the potential benefits of CPD, self-interested CEOs may have greater incentives to obscure political disclosures, particularly when such spending could be perceived as overinvestment or self-serving strategies (Greiner et al., 2023). Consequently, unless suitably compensated, risk-averse CEOs may be reluctant to disclose if they are uncertain how such disclosures might affect their wealth (Nagar, 1999; Nagar et al., 2003).

Overall, CPD occupies a unique setting within the broader voluntary disclosure literature, characterized by substantial managerial discretion, limited regulatory oversight, and a heightened risk of agency conflicts. As such, it offers a compelling context to examine how internal incentive structures, such as CEO inside debt, shape disclosure behavior in politically sensitive and high-discretion settings.

2.2.3 Hypothesis development

The structure of compensation contracts plays a predominant role in shaping managerial incentives and corporate disclosure behavior. When CEOs provide voluntary disclosures, they often do so with the expectation of influencing the market value of their equity-based compensation. While equity-based compensation is intended to align CEO incentives with shareholder interests, existing research suggests that it can instead foster short-termism, potentially leading CEOs to prioritize personal financial gains over long-term shareholder value. In particular, existing studies show that CEOs with large equity holdings are more likely

to manipulate earnings (Burns & Kedia, 2006), time disclosures strategically (Aboody & Kasznik, 2000; Brockman et al., 2008),¹³ and reduce disclosure quality (Wruck & Wu, 2021). This behavior stems from the fact that equity values are highly sensitive to share price volatility (Coles et al., 2006). That is, equity incentives may impair disclosure quality and increase information asymmetry, especially in areas where disclosure is discretionary.

Unlike equity holdings, inside debt holdings are unsecured and unfunded claims and therefore may induce CEOs to reduce firm risk, protect long-term firm value, and reduce the likelihood of default (Sundaram & Yermack, 2007; Edmans & Liu, 2011; Cassell et al., 2012). Indeed, inside debt holdings align the interests of CEOs with those of debtholders and incentivize CEOs to adopt a long-term perspective, prioritizing their firm's stability over short-term market performance (He, 2015). Therefore, we argue that inside debt holding induces CEOs to be more transparent in non-mandatory disclosure domains (e.g., political disclosures). Drawing on the optimal contracting perspective, we discuss below how CEOs with greater inside debt holdings relative to their equity-based compensation are more inclined to enhance CPD in order to safeguard both their personal wealth and the firm's stability.

First, political disclosure acts as a strategic tool for risk management. Generally, increased levels of CPD improve firms' information environment and reduce the information asymmetry among investors (e.g., Diamond & Verrecchia, 1991; Healy & Palepu, 2001). The absence of proper disclosure of a firm's political spending can increase investor uncertainty about its political activities. This, in turn, raises firm-specific (idiosyncratic) risk, which disproportionately harms debtholders and CEOs with inside debt incentives (Anderson & Core, 2018). Cassell et al. (2012) note that CEOs with high inside debt holdings tend to prioritize firm value preservation and minimize the risk of default by avoiding actions that increase operational

¹³ Nagar et al. (2003) find that voluntary disclosure is positively associated with the value of CEO equity holdings, however they do not examine whether their findings are driven by the reward effect or risk effect of equity incentives (Wruck & Wu, 2021).

and financial risk. Given that higher idiosyncratic risk increases the probability of default (Chava & Purnanandam, 2010), mitigating such risk is especially salient for CEOs whose inside debt is tied to the firm's solvency and liquidation value (Cassell, 2012). Moreover, disclosure studies evince that transparent firms generally experience lower idiosyncratic return volatility (Rajgopal & Venkatachalam, 2011; Reber et al., 2022). Consequently, CEOs with a higher ratio of inside debt holdings to their equity holdings tend to strategically disclose political spending as a means of reducing firm idiosyncratic risk and preserve the value of their debt holdings (Cassell, 2012).

Second, He (2015) posits that inside debt holders seek to mitigate decisions that could trigger reputational damage or regulatory sanctions. Given the negative investor reactions to the accidental disclosure of firms' covert political ties (Minefee et al., 2021), such leaks can pose substantial reputational and regulatory risks. Covert political engagements are particularly susceptible to scrutiny from social activists (McDonnell et al., 2015; McDonnell & Werner, 2016), and resulting political scandals can erode firm reputation, leading to declines in stock value (Hung et al., 2015) and potential CEO dismissals (Ertugrul & Krishnan, 2011). Based on this, CEOs with high inside debt holdings may adopt a proactive disclosure strategy regarding their firms' political activities (i.e., reputational insurance). Such disclosure not only enhances the firm's reputation and reassures investors about the strategic value of political activities, but it also reinforces expectations of higher future cash flows (e.g., minimize regulatory costs and securing profitable government contracts) (Werner, 2017; Baloria et al., 2019).

Finally, to ensure long-term stability, firms often rely on external financing to fund their new investment and ongoing operational activities. However, securing favourable financing terms requires firms to establish credibility with investors and creditors by maintaining transparent corporate disclosures and reducing information asymmetry (Healy & Palepu 2001). Political activities are inherently difficult for finance providers to monitor, especially when conducted

through opaque channels, such as trade associations and Super PACs.¹⁴ The lack of disclosure increases finance providers' uncertainty, raising the perceived risk of expropriation or regulatory fallout. In response, creditors may impose higher interest rates, tighter covenants, or restricted access to capital (Lu et al., 2010; Demerjian, 2017; Prilmeier, 2017).¹⁵ Arguably, securing debt financing on favourable terms (e.g., low interest rates and fewer covenants) increases a firm's available funds, reduces financial pressure, and thereby enhances the firm's ability to meet its future obligations, including those owed to inside debt holders. Consequently, CEOs whose incentives are tilted away from inside equity and toward inside debt could have a direct financial interest in safeguarding the firm's solvency, as their personal claims are subordinated in bankruptcy and contingent on the firm's ongoing creditworthiness.

Despite these arguments, different approach to study the inside debts is by perceiving them as part of the agency problem. Under this approach, known as managerial power theory, prior literature recognizes that compensation arrangements reflect managerial rent-seeking rather than provisions for efficient incentive contracts. This view suggests that CEO inside debt may not necessarily promote political disclosure and may, under some conditions, discourage it. Bebchuk and Jackson (2005) argue that debt-like executive compensation can operate as a form of "stealth" compensation because pension and deferred compensation arrangements are generally less visible and less performance-sensitive than equity-based pay. To the extent that inside debt reflects managerial power rather than efficient contracting, it may weaken CEOs'

¹⁴ A notable example of this is the Enron case, where the company employed extensive political spending to influence the passage of the Commodity Futures Modernization Act (CFMA) in 2000. This legislation effectively removed regulatory constraints on over the counter (OTC) derivatives, allowing Enron executives to engage in high-risk speculation aimed at maximizing shareholder value, often at the expense of creditors. As creditors bore the downside risk without capturing the upside returns, the collapse of Enron left unsecured creditors absorbing the majority of the losses (i.e., they recovered about 53% of their debt values) (Min, 2016).

¹⁵ For instance, creditors may impose restrictive capital covenants to limit the maximum amount of debt a firm can use. The primary purpose of these covenants is to create obstacles that discourage firms from engaging in riskier activities, such as political activities, which may benefit shareholders at the expense of debtholders (Jensen & Meckling, 1976; Christensen & Nikolaev, 2012).

alignment with shareholder interests and contribute to managerial entrenchment (Kalyta & Magnan 2008; Cadman & Vincent 2015; Goh & Li 2015). In such settings, politically sensitive expenditures may provide private benefits to CEOs, including enhancing personal influence, cultivating political capital, improving post-retirement employment prospects, or advancing personal ideological preferences (Arlen & Weiss, 1995; Coates, 2012; Greiner et al., 2023). This possibility is particularly relevant in the CPD setting, where disclosure remains largely voluntary and politically sensitive, leaving CEOs considerable discretion over whether politically controversial activities are revealed or concealed. From this perspective, greater political disclosure is costly because it exposes the beneficiaries, channels, and governance of corporate political spending to shareholder, media, and regulatory scrutiny, thereby constraining CEOs' discretion over activities that may yield private benefits. More extensive disclosure may also weaken the value of political ties by making such relationships more visible and potentially deterring politicians from accepting support that becomes publicly traceable (Jia et al. 2023). In addition, CPD could give anticorruption agencies access to their firms' political strategies, which might result in litigation imposed against their companies, increase the probability of negative media coverage, and the risk of having to accept unfavourable government regulations (Prabhat & Primo, 2019). Accordingly, when inside debt reflects managerial power rather than creditor alignment, CEOs with substantial inside debt may prefer opacity over disclosure and may therefore have incentives to obscure, rather than disclose, the firm's political activities.

H1: There is a significant relationship between a CEO's inside debt and the level of corporate political disclosure.

2.3 Sample and variables construction

2.3.1 Sample selection and variable construction

As in Goh et al. (2020), we start our sample with all firms in the S&P 500 with available Corporate Political Accountability and Disclosure Index data, created by CPA-Zicklin Center

over ten years from 2012 to 2021.¹⁶To construct our sample, we collect data from various sources: political disclosure data are downloaded from the CPA-Zicklin Center website; executives' data are obtained from the ExecuComp; financial and accounting data are collected from the Compustat and Bloomberg. Finally, as in Baloria et al. (2019), data on corporate political spending are manually collected from various filings to fully capture a firm's observable spending (e.g., lobbying expenditures, contributions made by PACs, contributions to 527 organizations, and state-level spending). Lobbying expenditures and contributions to 527 organizations are obtained from the Center for Responsive Politics (CRP), contributions by PACs are obtained from the FEC website, and state-level spending data are extracted from the National Institute on Money in State Politics.

The initial sample was 617 firms, with 4021 firm-year observations, that have political spending disclosure data. After matching and removing firm-year observations with missing independent and control variables. Then, we exclude non-US incorporated firms and financial firms from our sample¹⁷. Our final sample was 454 firms with 2790 firm year observations. Table 2.0-1 reports the sample selection procedures and industry classifications using the SIC code; the sample is spread evenly during the sampling period and not weighted towards or restricted to certain industries.

¹⁶ Based on the information disclosed by the companies in their website content and reports, the CPA-Zicklin Center captures political spending disclosure for firms and creates an index to measure the level of political spending transparency. The reason for starting our sample from 2012 is that the CPA-Zicklin Center reported its first PT index in 2011 for companies in the S&P 100, then started to expand its index to include S&P 200 firms in 2012 and 300 firms in 2013 and 2014. In 2015, the index was extended to include all S&P 500 firms. The data is publicly available on their website www.politicalaccountability.net/cpa-zicklin-index/. The data was accessed on 01/04/2022.

¹⁷ Under the Federal Election Campaign Act (FECA) of 1974, non-US incorporated are not allowed to make political contributions to influence US politics (Federal Election Commission, 2018, p.33)

Table 2.0-1: Sample selection and distribution

Panel A: Sample selection

	Firm	Firm-year
S&P 500 with political spending disclosure data	618	4,021
Less: Missing observations after matching with Execucomp data		(265)
Less: Missing firms specific variables		(133)
Less: Incorporated outside the US		(122)
Less: Observations related to financial firms (SIC 60 -69)		(711)
Final sample	454	2790

Panel B: Sample composition by industry and year

Industry	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Construction	0	0	0	4	5	5	5	5	5	5	34
Manufacturing	59	60	97	151	150	158	160	169	160	142	1306
Mining	16	16	17	25	24	24	20	19	18	14	193
Public	2	2	2	2	2	2	2	2	2	2	20
Retail	12	12	21	33	34	33	29	30	27	17	248
Services	9	9	23	48	49	51	56	59	63	38	405
Transportation	27	28	38	61	63	63	61	57	52	51	501
Wholesale	3	3	6	11	10	10	9	10	11	10	83
Total	128	130	204	335	337	346	342	351	338	279	2790

Notes: This table presents the sample selection procedure (Panel A) and distribution by industry and year using (Two-digit SIC Code) (Panel B)

2.3.2 Empirical model and variables measurement

To investigate whether CEO inside debt holdings influences the CPD level, we estimate the following empirical model

$$CPDisc_{i,t} = \beta_0 + \beta_1 CEO\ D/E_{i,t} + \gamma Control_{i,t} + IndustryFE + YearFE + \varepsilon_{i,t} \quad (1)$$

The dependent variable in this study is the level of CPD (*CPDisc*). We measure *CPDisc* using the CPA-Zicklin Index, a widely used measure developed through a joint initiative of the Center for Political Accountability and the Carol and Lawrence Zicklin Center for Business Ethics Research at the Wharton School of the University of Pennsylvania (Baloria et al., 2019; Goh et al., 2020; Almaghrabi & Tsalavoutas 2022). The index is constructed by systematically reviewing publicly available information and documents published on firms' websites and assigning numerical scores based on a predetermined set of disclosure criteria. When publicly

available information is insufficient, the Center supplements this review by contacting firms directly. The development process also includes several features that support the measure's reliability and content validity: more than 40 percent of sampled firms provided comments during the process, 60 experts from the corporate, NGO, academic, and institutional investor communities reviewed the framework, and approximately half of the firms in the sample responded to the Center's rating assessments (Goh et al. 2020). In addition, an independent audit of the 2022 CPA-Zicklin Index evaluated the integrity and credibility of firms' voluntary CPD (Hanna & Laufer, 2024). Taken together, these features support the use of the CPA-Zicklin Index as a detailed and systematically developed measure of CPD.

The CPD index for each firm is based on a total of 24 items classified into three major dimensions: (1) disclosure (*P_Disclosure*), (2) policy (*P_Policy*), and (3) oversight of political spending (*P_Oversight*). The disclosure sub-index (from 1 to 9) captures whether the firms disclose political contributions to political candidates, parties, committees, tax-exempt '527 groups' and other such organizations, as well as trade or government associations. The policy sub-index (from 10 to 16) captures whether the firms disclose their policies used in governing political spending from corporate funds and the conditions needed to be met for the recipients. Finally, the Oversight sub-index (from 17 to 24) considers information about board committees responsible for reviewing and approving any political spending and ensuring that internal procedures are consistent with firms' political spending policies and whether firms release a report for such spending. Each item is assigned a numerical score by the CPA-Zicklin Center according to its scoring framework, with item-level maximum scores ranging from 2 to 6 points. The maximum scores are 36 points for the disclosure dimension, 18 points for the policy dimension, and 18 points for the oversight dimension, yielding a total possible score of 72 points. We derive *CPDisc* as the sum of the item-level scores across all 24 indicators, such that higher values indicate more extensive political spending disclosure and stronger governance over political spending.

The purpose is to examine the motives underlying the CEOs who holds inside debt (i.e., CEO pensions and deferred compensation), we follow Sundaram and Yermack (2007) and focus on measures of inside debt that are specifically related to CEO rather than the firm itself. The most frequent proxy for inside debt is the CEO debt-to-equity ratio (*CEO D/E*), where CEO debt holdings are the sum of the present values of accumulated pensions and deferred compensation. Regarding CEO equity holdings, these are the sum of the values of both accumulated stock holdings and the Black-Scholes value of options holdings (e.g., Cassell et al., 2012; Chi et al., 2017). However, we use two other alternative measures of CEO inside debt (i.e., CEO's debt-to-equity ratio to firm's debt-to-equity ratio (*CEO-firm D/E*) the robustness check section. The details for variable measurement and option valuation are provided in Appendix B.

Extant research on voluntary disclosures suggests that equity-based incentives induce CEOs to enhance disclosure levels (Armstrong et al., 2013; Wruck & Wu, 2021). Therefore, we control *CEO delta and CEO vega*. We also control for CEO characteristics that might affect disclosure levels, including *CEO age, CEO tenure, and CEO gender*. Furthermore, Almaghrabi and Tsalavoutas (2022) argue that annual political spending intensity significantly affects the level of CPD. Therefore, we control for political spending intensity (*Spending intensity*). Additionally, prior studies (e.g., DeBoskey et al., 2021) note that the number of analysts making recommendations affects the disclosure quality, hence we control for the number of analysts' recommendations (*Analyst*). We also control for industry concentration (*HHI*), which is known to affect political disclosure (Goh et al., 2020). Finally, we also control for firm specific characteristics, such as firm profitability (*ROA*), *leverage, firm size, capital expenditures (Capex)*, and book to market ratio (*BM*).

In order to control for industry- specific effects and year effects, we include both year fixed effects and industry fixed effects, based on the two-digit SIC code. We also winsorize all continuous variables at the 1st and 99th percentiles to remove the effect of outliers. Also, as recommended by Peterson (2009), we use the heteroskedasticity robust standard errors,

adjusted to account for correlations within firms and years' clusters which may affect the significance of our regression model.¹⁸ A list of variables and their definitions is provided in Appendix D.

2.3.3 *Summary statistics*

Table 2.0-2 shows the descriptive statistics for our variables. *CPD* has a mean value of 46.14 demonstrating low level of political spending disclosure. Focusing on *CPD* components, *P_Policy* has a highest mean value of 60.03 compared to the other two categories, which are *P_Disclosure* of a mean value 41.59 and *P_Oversight* of a mean value of 41.75. That is, most firms provide more information about their political spending policies than the information on the actual political payments made to candidates, or the oversight mechanism used to regulate this political spending (Goh et al., 2020; Ali et al., 2022). Table 2.0-2 also shows that the mean of CEO debt-to-equity ratio (*CEO D/E*) is around 0.283. By comparison, Wei and Yermack (2011), and Shen and Zhang (2020), report that the mean values of CEO debt-to-equity ratio are 0.22 and 0.28, respectively.

¹⁸ We do not employ firm fixed effects as the variations in corporate political disclosures are very small within a firm across years (Almaghrabi & Tsalavoutas, 2022; Ali et al., 2023), which means that adding firm fixed effects would remove the cross-sectional variations of interest (Wooldridge, 2016, p.461). However, as suggested by Thompson (2011), we estimate our regressions using two-way clustered standard errors (across firms and years). Moreover, among our robustness check, we employ firm-level regressions by estimating regression model using averaged CPD scores, and averaged dependent and control variables over the sample period (i.e., one observation is constructed for each firm)

Table 2.0-2: Descriptive statistics.

	N	Mean	SD	25th	Median	75th
<i>CPDisc</i>	2790	46.14	32.95	10.00	50.00	76.39
<i>P_Disclosure</i>	2790	41.59	35.78	5.56	38.89	75.00
<i>P_Policy</i>	2790	60.03	32.47	27.78	72.22	88.89
<i>P_Oversight</i>	2790	41.75	35.30	0.00	44.44	77.78
<i>CEO D/E</i>	2790	0.24	0.35	0.00	0.09	0.33
<i>CEO-firm D/E</i>	2744	0.61	0.74	0.01	0.36	0.95
<i>CEO-firm D/E >1</i>	2744	0.34	0.48	0.00	0.00	1.00
<i>CEO delta</i>	2790	6.41	1.54	5.44	6.41	7.30
<i>CEO vega</i>	2790	3.63	3.18	0.00	5.23	6.53
<i>CEO age</i>	2790	57.47	6.12	54.00	57.50	61.00
<i>CEO tenure</i>	2790	6.33	6.49	2.00	5.00	8.00
<i>CEO gender</i>	2790	0.05	0.22	0.00	0.00	0.00
<i>Spending intensity</i>	2790	11.27	5.52	11.26	13.44	14.79
<i>Lobbying intensity</i>	2790	10.61	5.94	10.60	13.24	14.55
<i>PAC intensity</i>	2790	6.99	5.69	0.00	10.22	11.85
<i>Org 527 intensity</i>	2790	1.97	4.28	0.00	0.00	0.00
<i>State-level intensity</i>	2790	5.60	5.80	0.00	3.93	11.43
<i>Analyst</i>	2790	23.06	8.06	18.00	22.00	28.00
<i>HHI</i>	2790	0.22	0.18	0.12	0.16	0.27
<i>ROA</i>	2790	0.07	0.07	0.03	0.07	0.11
<i>Leverage</i>	2790	0.63	0.19	0.50	0.63	0.75
<i>Firm size</i>	2790	3.30	1.28	2.37	3.26	4.22
<i>Capex</i>	2790	0.04	0.04	0.02	0.03	0.06
<i>BM</i>	2790	0.32	0.27	0.14	0.26	0.45

Notes: This table shows the summary statistics of the variables used in the baseline analysis. All continuous variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix D.

Table 2.0-3 shows the correlation among all variables. The correlation coefficient between *CPD* and its components *P_Disclosure*, *P_Policy*, and *P_Oversight* is relatively high as expected. Focusing on our main variable of interest *CPD*, the correlation between *CPD* and *CEO D/E* is positive and statistically significant ($\rho = 0.165$; at $p < 0.01$). This preliminary result indicates a positive association between CEOs' inside debt and disclosure level. Similarly, the positive association for other inside debt proxies still holds, with *CEO-firm D/E* and *CEO-firm D/E >1* positively correlated with *CPD* at the 1% significance level.

Table 2.0-3: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) CPDisc	1.000										
(2) P_Disclosure	0.967***	1.000									
(3) P_Policy	0.919***	0.814***	1.000								
(4) P_Oversight	0.938***	0.843***	0.874***	1.000							
(5) CEO D/E	0.165***	0.155***	0.155***	0.159***	1.000						
(6) CEO-firm D/E	0.115***	0.117***	0.101***	0.100***	0.755***	1.000					
(7) CEO-firm D/E > 1	0.103***	0.098***	0.099***	0.096***	0.639***	0.817***	1.000				
(8) CEO delta	0.008	0.002	0.015	0.010	-0.360***	-0.249***	-0.189***	1.000			
(9) CEO vega	0.034**	0.033*	0.034**	0.028*	-0.169***	-0.030*	0.001	0.507***	1.000		
(10) CEO age	0.004	0.002	0.006	0.008	0.048***	0.042**	0.049***	0.216***	0.000	1.000	
(11) CEO tenure	-0.123***	-0.118***	-0.110***	-0.119***	-0.093***	-0.086***	-0.072***	0.486***	0.037**	0.435***	1.000
(12) CEO gender	0.057***	0.038**	0.074***	0.067***	0.038**	0.006	-0.004	-0.071***	-0.058***	-0.024	-0.079***
(13) Spending intensity	0.370***	0.330***	0.386***	0.361***	0.191***	0.100***	0.133***	0.079***	0.085***	-0.014	-0.091***
(14) Analyst	0.229***	0.222***	0.213***	0.209***	-0.094***	-0.064***	-0.054***	0.229***	0.062***	-0.078***	0.020
(15) HHI	-0.025	-0.027*	0.001	-0.037**	-0.016	0.065***	0.074***	0.077***	0.103***	0.026	-0.007
(16) ROA	-0.082***	-0.064***	-0.099***	-0.085***	-0.168***	0.101***	0.076***	0.152***	0.123***	-0.036**	0.027*
(17) Leverage	0.207***	0.183***	0.206***	0.214***	0.123***	-0.068***	-0.050***	-0.040**	-0.004	0.067***	-0.027
(18) Firm size	0.307***	0.278***	0.323***	0.290***	0.035**	0.079***	0.076***	0.205***	0.148***	0.069***	-0.041**
(19) Capex	0.040**	0.008	0.091***	0.049***	0.091***	0.039**	0.054***	-0.001	-0.027	0.006	-0.055***
(20) BM	0.072***	0.069***	0.051***	0.081***	0.195***	-0.029*	-0.038**	-0.153***	-0.154***	0.064***	-0.038**

Variables	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
(12) CEO gender	1.000								
(13) Spending intensity	0.012	1.000							
(14) Analyst	0.010	0.169***	1.000						
(15) HHI	0.037**	0.041**	-0.062***	1.000					
(16) ROA	0.018	-0.143***	0.051***	0.102***	1.000				
(17) Leverage	0.053***	0.238***	-0.104***	-0.049***	-0.206***	1.000			
(18) Firm size	0.055***	0.281***	0.273***	0.183***	0.072***	0.242***	1.000		
(19) Capex	0.017	0.126***	0.197***	0.029*	-0.004	-0.115***	0.019	1.000	
(20) BM	-0.005	0.103***	-0.063***	-0.114***	-0.439***	-0.061***	-0.066***	-0.043**	1.000

Notes: This table presents a matrix of Pearson correlation coefficient pairs between key variables of interest. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively (two-tailed test). All variables are defined in Appendix D.

2.4 Main results

2.4.1 Effect of CEO inside debt on CPD level

Table 2.0-4 presents the results of our main regression. Columns 1 and 2 report basic specifications that regress the CEO inside debt (*CEO D/E*) on the CPD level (*CPDisc*) without fixed effects and other control variables (Column (1)), and with fixed effects but without other control variables (Column (2)). The results from these tests show a significant positive coefficient on *CEO D/E* (coefficients = 16.495 and 14.443 respectively, $p < 0.01$), indicating that inside debt holding acts as an incentive for CEOs to enhance their firms' political disclosure. Column 3 reports the results after controlling CEO and firm specific factors, as well as including year and industry fixed effects. The positive association continue to hold. To further control the equity incentives, in Column 4 of Table 2.0-4, we include *CEO delta* and *CEO vega* in the model. In line with the conflicting effects of equity-based incentives on managerial risk-taking (e.g., Wruck & Wu, 2021), our results reveals that the coefficients for *CEO delta* and *CEO vega* are not statistically significant. More importantly, the corresponding coefficient for *CEO D/E* is (9.755, $p < 0.01$). Based on our estimation in Column 4, this finding is economically significant, with a one standard deviation increase in *CEO D/E* associated with a 10.4 % increase in the *CPDisc*. Given that Table 2.0-4 shows 25 % of firms have zero inside debt holdings, it is plausible these are newer or non-traditional firms, unlike more established firms with established pension plans (Sundaram & Yermack, 2007). To assess whether our results are driven by differences between high-debt and low-debt firms, we exclude firms with zero inside debt holdings from the analysis. The results reported in Column 5 show that CEOs inside debt holdings are positively associated with CPD level. Taken together, the results presented in Table 2.0-4 offer considerable evidence suggesting that CEOs with more inside debt enhance political disclosure, presumably as a risk management strategy to protect the value of their inside debt (pension and deferred funds). Our empirical

results support our theoretical argument that CEO inside debt reduces the agency problem of political information asymmetry by enhancing the level of CPD.

In terms of control variables, our results are consistent with the prior literature; for instance, *Spending intensity* is positively related to CPD level (Almaghrabi & Tsalavoutas, 2022). Also, higher CPD levels are associated with lower levels of industry concentration (*HHI*). This suggests that firms in very competitive industries exhibit more political disclosure. This result is consistent with DeBoskey et al. (2021), whose findings show that in such industries, firms tend to disclose more information to reduce information asymmetry and enhance disclosure, thus, facilitating access to capital markets and reducing the cost of debt.

Table 2.0-4: CEO inside debt and corporate political disclosure

<i>Dep Var</i>	<i>Corporate Political Disclosure (CPDisc)</i>				
	(1)	(2)	(3)	(4)	(5)
CEO D/E	16.495*** (9.92)	14.443*** (8.34)	9.897*** (6.03)	9.755*** (5.55)	6.083*** (2.000)
CEO delta				-0.323 (-0.61)	-0.060 (0.785)
CEO vega				0.196 (0.92)	0.056 (0.284)
CEO age			0.079 (0.81)	0.081 (0.83)	0.061 (0.128)
CEO tenure			-0.466*** (-5.35)	-0.437*** (-4.33)	-0.431*** (0.122)
CEO gender			2.784 (1.28)	2.894 (1.32)	6.280** (2.493)
Spending intensity			1.544*** (13.13)	1.546*** (12.94)	1.755*** (0.143)
Analyst			0.698*** (8.85)	0.708*** (8.88)	0.839*** (0.101)
HHI			-12.486*** (-3.76)	-12.349*** (-3.72)	-9.251** (3.762)
ROA			1.040 (0.11)	1.098 (0.11)	-18.127 (12.313)
Leverage			14.434*** (4.07)	14.318*** (4.02)	10.996** (4.560)
Firm size			4.992*** (9.09)	4.989*** (8.95)	3.773*** (0.662)
Capex			-16.101 (-0.80)	-14.344 (-0.72)	-8.928 (23.661)
BM			-1.503 (-0.54)	-1.417 (-0.51)	-4.288 (3.228)
Constant	42.188*** (56.76)	42.680*** (58.27)	-13.119** (-2.08)	-12.378* (-1.84)	-7.702 (8.484)
Year FE	No	Yes	Yes	Yes	Yes
Industry FE	No	Yes	Yes	Yes	Yes
Adjusted R ²	0.03	0.07	0.26	0.26	0.25
Observations	2790	2790	2790	2790	2124

Notes: This table presents the results of the effect of CEO inside debt on the level of CPD. Columns (1–4) report the results of estimating this effect using different sets of control variables, while Column (5) focuses on firms with non-zero inside debt holdings. Year and industry fixed effects (FE) are included in all columns. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

2.4.2 *Mediating effect of CPD*

So far, our hypothesis is grounded on the assumption that CEOs with substantial inside debt holdings strategically utilize CPD to safeguard their personal financial interests and reduce the

firm's default risk. In this subsection, we use a path analysis and formally test whether CPD serves as a path through which CEOs with inside debt can reduce the probability of default.¹⁹

Following Dhole et al. (2016), and Li and Wang (2023a), we perform path analysis that decompose the correlation between two variables into a direct path and indirect path that includes a mediating variable. The intuition behind the path analysis is illustrated in Figure 1. Path ABC shows the total effect of CEO inside debt on distance to default, which can be decomposed into indirect and direct effects. Path A demonstrates the effect of CEO inside debt on CPD, and Path B corresponds to the effect of CPD on distance to default. Paths A and B comprise the indirect effect (mediating effect) of CEO inside debt on distance to default. Path C represents the direct effect of CEO inside debt on distance to default.

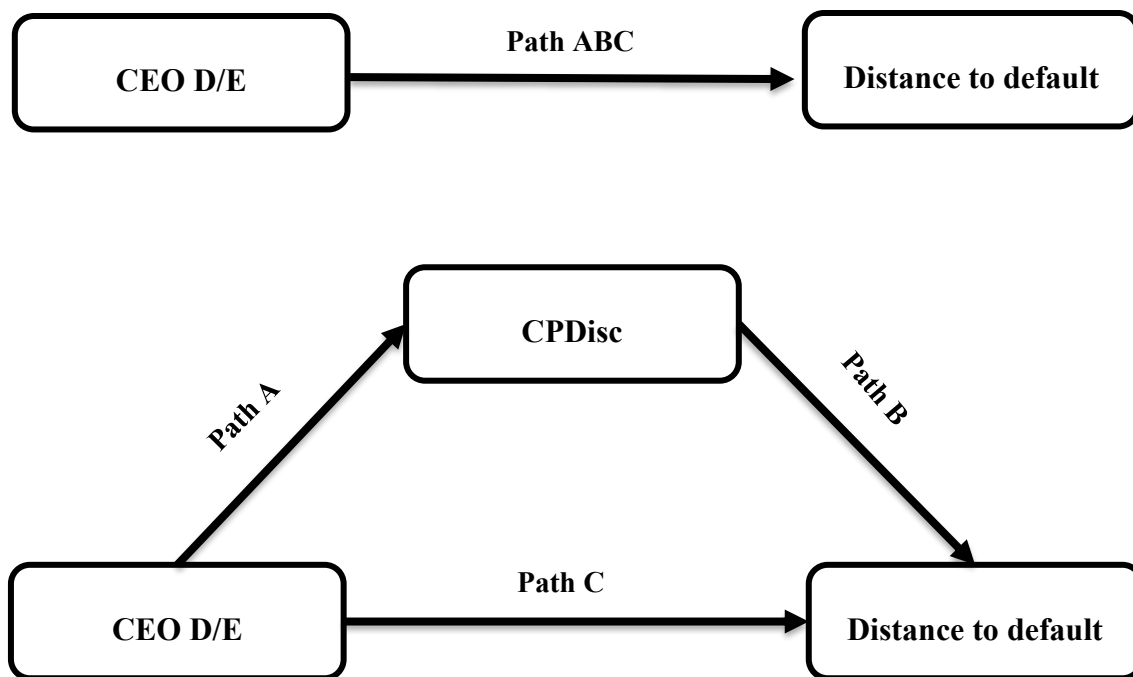


Figure 2.0-1: Path analysis

¹⁹ Path analysis belongs to a class of causal models used to explain the correlation structure among several related variables. The correlation between two variables is decomposed into a direct path and an indirect path that includes a mediating variable.

Following Baron and Kenny (1986), the following system of equations is estimated simultaneously:

$$DistToDef_{i,t} = \beta_0 + \beta_1 CEO D/E_{i,t} + \gamma Control_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$CPDisc_{i,t} = \beta_0 + \beta_2 CEO D/E_{i,t} + \gamma Control_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$DistToDef_{i,t} = \beta_0 + \beta_3 CEO D/E_{i,t} + \delta_1 CPDisc + \gamma Control_{i,t} + \varepsilon_{i,t} \quad (4)$$

Where the distance to default (*DisToDef*) is a proxy to capture a firm's default risk. The total effect of CEO inside debt on distance to default (β_1) can be decomposed into the direct effect of CEO inside debt on distance to default (β_3) and the mediation effect ($\beta_2 X \delta_1$). Our focus is on path coefficients ($\beta_2 X \delta_1$), which denote the effect of the mediating path from CEO inside debt to distance to default mediated through CPD. Table 2.0-5 reports the results of path analysis. Panel A presents the results from the structural equations. Specifically, Column (1) examine Path A by estimating Eq. (3) and show that CEO inside debt (*CEO D/E*) is positively related to *CPD*, consistent with our main findings. Column (2) examine Paths B and C by estimating Eq. (4) and show that both CEO inside debt (*CEO D/E*) and *CPD* are positively related to distance to default. These results suggest that, after taking into account the direct effect of CEO inside debt on distance to default, CEO inside debt (*CEO D/E*) can also indirectly increase distance to default (*DisToDef*) through its effect on increasing CPD. Panel B presents and tests the significance of the indirect effect using Sobel (1982) and shows that the mediating effect that operates through CPD is 0.114, accounting for 11% of the total effect of CEO inside debt (*CEO D/E*) on distance to default (*DisToDef*). The z-statistics suggest that these indirect effects are statistically significant at the 1% level. Overall, the path analysis confirms that increased CPD level, driven by CEO inside debt, leads to a lower probability of default.

Table 2.0-5: Mediation analysis

Panel A: Path analysis		
<i>Dep Var</i>	<i>CPDisc</i>	<i>DisToDef</i>
	(1)	(2)
CEO D/E	9.942*** (5.65)	0.916*** (4.56)
CPD		0.012*** (4.90)
Controls	Yes	Yes
Year FE	Yes	Yes
Industry FE	Yes	Yes
N	2782	2782
Panel B: Mediating effects		
Indirect effect - CEO D/E x CPDisc		0.118***
Sobel <i>z-statistics</i> for the indirect effect		3.701
Direct effect		0.916
Total effect		1.034

Notes: This table displays the results of the mediating effect of corporate political disclosure (CPDisc) on the relationship between CEO inside debt (*CEO D/E*) and distance to default (*DisToDef*). Column (1) reports the results of regression when the dependent variable is CPDisc. Column (2) reports the results when the mediator is CPDisc. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

2.5 Addressing endogeneity

So far, we find CEO inside debt plays a key role in enhancing firms' political disclosure. Nevertheless, endogeneity problems are widely accepted in accounting research, potentially affecting empirical coefficients leading to biased results. The econometrics literature (e.g. Antonakis et al., 2010; Larcker & Rusticus, 2010) has recommended several ways of dealing with potential endogeneity concerns. We use four distinct ways to address them, namely (1) entropy balancing, (2) the instrumental variable approach, (3) GMM and (4) the propensity score matched approach.

2.5.1 Entropy balancing

It is worth noting that significant differences between firms with high- and low-inside debts in certain firm-level characteristics, raising the concern that latent variables simultaneously determine the inside debts and CPD level. To address this concern, we employ the entropy-

balancing method. This approach ensures that CEO and firm-level characteristics are comparable across CEOs with high and low-inside debts, thereby mitigating the potential bias from omitted variables and enhancing the robustness of our results.²⁰

We split our sample based on the median value of inside debts. Table C.1 in the Appendix shows there are no significant differences in control variables after entropy balancing the variables among the two groups. Further, Column 1 of Table 2.0-6 shows the regression results using entropy balancing, suggesting that CEOs with high inside debt do promote more CPD. This suggests that the positive association between debt-based compensation and CPD is not driven by unobservable factors.

2.5.2 *Instrumental variable (IV) approach*

Two-Stage Least Squares (2SLS) estimations are commonly used to alleviate reverse causality that may lead to endogeneity problems (Larcker & Rusticus, 2010). The valid instruments must satisfy two conditions: (1) relevance: a significant correlation with the endogenous variable, (i.e., CEO D/E) and the (2) exclusion restriction: no direct effect on CPD other than through CEO D/E. We employ three instruments that satisfy both conditions, which directly influence CEO inside debt holdings but are unlikely to affect the CPD level. The selection of the three instruments is based on previous studies: (1) *Wage Tax Rate* (2) *Mortgage Subsidy* (e.g., Anantharaman et al., 2014; Freund et al., 2021), and (3) *Marginal Tax Rate* (e.g., Lee et al., 2021).

²⁰ Entropy balancing is a matching technique that uses a reweighting approach based on distributional properties to adjust the weights assigned to each observation and achieve covariate balance between the treatment and control groups (Chapman et al., 2019). In doing so, this method guarantees the outcomes are no longer affected by the missing variables or the differences between control variables among the two groups.

Firstly, the *Wage Tax Rate* satisfies the relevance condition. With regard to the *Wage Tax Rate*, anecdotal evidence suggests that tax planning options affect compensation committee strategies. Since the tax-exempted nature of defined pension benefits and deferred compensation gives CEOs the advantage of deferring their compensation, and thus the accrued tax liability, to future periods, they may have more incentive to defer it in higher tax rate states, in the quest to pay less tax on their deferred compensation (Chason, 2006). This suggests a positive association between the *Wage Tax Rate* and inside debt compensation. The exclusion restriction is satisfied because state-level wage tax rates reflect broader fiscal policy considerations that are unrelated to a firm's political disclosure decisions. The *Mortgage Subsidy* satisfies the relevance condition because it reduces the CEO's personal tax burden through an alternative channel, thereby diminishing the relative tax advantage of deferring compensation through inside debt instruments. This generates a negative association between mortgage subsidy and CEO inside debt (Anantharaman et al., 2014; Freund et al., 2021). The exclusion restriction is satisfied because mortgage subsidy rates are determined by housing and fiscal policy at the state level and have no plausible direct channel through which they would influence a firm's CPD decisions independently of their effect on executive compensation structure. Data for both the *Wage Tax Rate* and *Mortgage Subsidy* are obtained from Feenberg and Coutts (1993) using the TAXSIM model.

The *Marginal Tax Rate* satisfies the relevance condition because firms expecting higher future tax rates find the future tax deduction from pensions and deferred compensation more valuable relative to other forms of compensation, reducing the incentive to hold inside debt when current marginal tax rates are already high (Core & Guay, 1999; Sundaram & Yermack, 2007). This generates a negative association between the *Marginal Tax Rate* and CEO inside debt. The exclusion restriction is satisfied because corporate marginal tax rates reflect firm-level

profitability and tax planning considerations that are determined independently of firms' political disclosure decisions.²¹

The results of the first-stage estimation are reported in Column 2 of Table 2.0-6 and show that our instruments are significantly related to *CEO D/E*. We find that *Wage Tax Rate* exerts a positive significant influence on *CEO D/E*, whereas the *Mortgage Subsidy* and *Marginal Tax Rate* exhibit negative significant effects. The second-stage estimation is reported in Column 3 of Table 2.0-6 and shows that the coefficient on the predicted value of *CEO D/E* remains positive and significant, suggesting that CEO inside debt continues to have a significant and positive effect on CPD level. As in Liu et al. (2014) and other studies (e.g., Mkrtchyan et al., 2023, Li & Wang, 2023), we report a greater coefficient on instrumented *CEO D/E* than in our baseline results. Jiang (2017) offers two potential explanations for this frequently observed phenomenon. First, the two-stage least squares (2SLS) coefficient may capture a local average treatment effect that exceeds the population average treatment effect. Second, the instruments may be weak. Given that the *Cragg-Donald Wald F-statistic* is 29.85, which is above the Stock-Yogo weak ID test critical value of 13.91. The *Sargan-Hansen statistic* overidentification test produces a *J-statistic* of 2.70, which is statistically insignificant with a *p-value* of 0.2585. Therefore, we ascertain that our instruments are not weak and meet the exclusion criteria, suggesting that they are more likely capturing a local average treatment effect rather than being weak.

2.5.3 *Dynamic generalized method of moments (GMM)*

In the addition to IV approach to address endogeneity, we estimate the relation between CEO inside debt and CPD level using a dynamic GMM panel estimator developed by (Arellano &

²¹ We also considered other instruments, such as long-term capital gains tax rates, the industry median for CEO inside debt compensation and CEO age; previous studies suggest such variables, but they do not meet the exclusion requirement for instruments.

Bond, 1991). The dynamic GMM estimator based mainly on eliminating any potential bias that may arise from time invariant unobserved heterogeneity along with reduce the necessity of using external instruments (Wintoki et al., 2012). In our GMM estimation, we include one period lag of CPD level, as it may affect executive's compensation in the next year. Also, we follow Wintoki et al. (2012) recommendations to use the second lags of all explanatory variables as instruments and use the year dummies as exogenous variable.

Column 4 of Table 2.0-6 report the results. The GMM results corroborate our OLS and 2SLS results and confirm that CEO inside debt is positively associated with CPD levels. Also, the *P-value* of *AR1* and *AR2* asserts the absence of first order and second-order serial correlations, and the Hansen test results assure the instruments' validity.

Table 2.0-6: Endogeneity issues

<i>Dep. Var</i>	<i>Entropy</i>	<i>IV</i>	<i>IV</i>	<i>GMM</i>
	<i>Balancing</i>	<i>first stage</i>	<i>second stage</i>	
	<i>CPDisc</i>	<i>CEO D/E</i>	<i>CPDisc</i>	<i>CPDisc</i>
	(1)	(2)	(3)	(4)
CEO D/E	10.074*** (5.42)		77.958*** (6.32)	10.788** (1.98)
Wage Tax Rate		0.009*** (4.65)		
Mortgage Subsidy		-0.005** (-2.56)		
Marginal firm tax		-0.104*** (-7.83)		
CEO delta	-0.656 (-0.90)	-0.100*** (-14.10)	6.592*** (4.48)	-1.150 (-0.92)
CEO vega	0.349 (1.27)	0.005*** (2.72)	-0.216 (-0.81)	0.002 (0.00)
CEO age	0.099 (0.76)	0.003*** (3.08)	-0.120 (-0.98)	-0.113 (-0.25)
CEO tenure	-0.544*** (-4.93)	0.007*** (6.05)	-0.980*** (-5.98)	0.020 (0.06)
CEO gender	6.856*** (2.86)	0.033 (1.00)	-0.812 (-0.27)	-6.227 (-1.42)
Spending intensity	1.745*** (12.44)	0.009*** (9.52)	0.910*** (5.19)	0.478 (0.78)
Analyst	0.688*** (7.36)	-0.002*** (-2.84)	0.868*** (8.79)	0.345 (0.97)
HHI	-9.710*** (-2.61)	0.019 (0.44)	-11.172** (-2.49)	-16.390 (-0.87)
ROA	4.646 (0.40)	0.007 (0.08)	-3.586 (-0.32)	-44.243 (-1.35)
Leverage	16.330*** (3.76)	0.149*** (4.71)	4.395 (0.97)	-0.152 (-0.01)
Firm size	3.489*** (5.08)	0.030*** (5.46)	2.988*** (3.92)	-2.785 (-1.08)
Capex	-16.178 (-0.67)	0.320* (1.78)	-30.322 (-1.29)	47.182 (0.86)
BM	0.392 (0.11)	0.169*** (5.48)	-11.585*** (-2.77)	-7.328 (-0.86)
Constant	-10.719 (-1.26)	0.467*** (5.38)	-65.403*** (-5.37)	55.718 (0.53)
<i>Year FE</i>	Yes	Yes	Yes	Yes
<i>Industry FE</i>	Yes	Yes	Yes	Yes
<i>Observations</i>	2790	2783	2783	2283
<i>Adjusted R²</i>	0.22			-
F Test of excluded instruments P-value	-	29.85*** (0.000)		
Cragg-Donald Wald F statistic	-	-	29.40	--

Sargan-Hansen statistic	-	-	2.70	
P-value	-	-	(0.258)	
AR1 (p-value)				0.000
AR2 (p-value)				0.853
Sargan (p-value)				0.818
Hansen-J (p-value)				0.297

Notes: This table illustrates the regression results of corporate political disclosure (*CPDisc*) on CEO inside debt and other control variables after employing entropy balance method, two-stage least squares instrumental variable (IV) regressions and GMM. For entropy balancing, the observations are weighed to equate means for covariates between CEOs with high inside debt and CEOs with low inside debt. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D

2.5.4 Propensity score matched (PSM) sample

The PSM approach is another method to reduce selection bias. We divide our sample into two groups: CEOs with high inside debt (above median – the treatment group) and CEOs with low inside debt (below median – the control group). Using the logit model, we calculate the propensity score of the likelihood of selecting a CEO with high inside debt. We include all control variables used in the main model as covariates. Following Shen and Zhang (2020), we match each observation in the treatment group with one in the control group, using the nearest neighbour method with a caliper of 0.01. We also employ matching without replacement, to prevent matching observations with high propensity scores more than one time (Shipman et al., 2017). We obtain a matched sample of 1598 firm-year observations.

The results in Panel A of Table 2.0-7 show no statistically significant differences in the attributes between the treatment and control group. This indicates that the covariates are balanced (there are no differences) between the two groups, which supports the reliability of the matching process. Moreover, Panel B of Table 2.0-7 shows that *CEO D/E* is significantly associated with CPD (Coefficient = 5.553; $p < 0.01$). Thus, estimates of the matched sample lend support to our main findings, and provide evidence for there being no endogeneity.

Table 2.0-7: Propensity score matching

Panel A: Pre- and post-match samples for PSM

<i>Dep Var</i>	<i>High CEO /E</i>	
	(1)	(2)
	<i>Pre-match sample</i>	<i>Post-match sample</i>
CEO delta	-0.373 ^{***} (-12.20)	0.035 -0.85
CEO vega	0.071 ^{***} (6.10)	-0.018 (-1.20)
CEO age	0.022 ^{***} (4.15)	0.001 -0.15
CEO tenure	0.010 [*] (1.82)	0.001 (0.11)
CEO gender	-0.260 ^{**} (-2.10)	0.011 (0.07)
Spending intensity	0.023 ^{***} (4.23)	-0.006 (-0.91)
Analyst	-0.030 ^{***} (-7.09)	0.005 (1.01)
HHI	-0.418 ^{**} (-2.53)	-0.104 (-0.51)
ROA	0.168 (0.36)	0.434 (0.76)
Leverage	1.081 ^{***} (6.06)	0.082 (0.37)
Firm size	0.293 ^{***} (10.65)	0.009 (0.26)
Capex	-0.322 (-0.35)	-0.461 (-0.40)
BM	0.395 ^{***} (2.92)	0.124 (0.77)
Constant	0.362 (0.82)	-0.45 (-0.81)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Pseudo R^2	0.20	0.004
Observations	2790	1598

Panel B: Regression analysis using PSM

<i>Dep. Var.</i>	<i>CPDisc</i>
	(1)
<i>CEO D/E</i>	5.553*** (3.93)
<i>Year FE</i>	Yes
<i>Industry FE</i>	Yes
<i>Adj. R²</i>	0.24
<i>Observations</i>	1598

Notes: This table illustrates the regression results of corporate political disclosure (*CPDisc*) on *CEO D/E* and other control variables after employing Propensity Score Matching (PSM) technique. We split the CEOs with high (low) inside debts above (below) median as the treatment (control) group. We then obtain comparable firm pairs with similar characters according to the following procedures. We first estimate a logit model in which we use the dummy of high inside debts as the dependent variable. We then match each observation in the treatment group with one in the control group, using the nearest neighbour method with a calliper of 0.01 with no replacement. Year and industry fixed effects (FE) are included in the regression. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

2.6 Cross sectional analysis

2.6.1 Financial constraints

Our analysis so far provides evidence supporting the notion that high inside debt for CEOs motivates increased CPD, which reduces information asymmetry, and facilitates firms' access to external financing. Prior studies highlight that financial constraints critically influence a firm's default risk, as financially constrained firms often face difficulties in securing external financing, which limits their investment capacity (Lamont et al., 2001; He & Ren, 2023). In these firms, CEOs with significant inside debt holdings face greater challenges in protecting the value of their deferred compensation and obtaining necessary financing (Liu et al., 2014). As a result, these firms may experience an increase in the likelihood of default (Cathcart et al., 2020). Consequently, we expect the positive relationship between CEO inside debt and political spending disclosure to be more pronounced among financially constrained firms.

To measure financial constraints, following prior studies (e.g., Bhandari & Golden, 2021; He & Ren, 2023), we employ the KZ index as a proxy for financial constraint, where firms with a higher KZ index are more financially constrained. To enhance the reliability of our results, we

use a dummy variable that takes the value of 1 if the firm is in the upper quartile of the KZ index distribution, and 0 otherwise.

Column 1 of Table 2.0-8 shows the effect of financial constraints on the relationship between CEO inside debt and CPD level. Consistent with our proposition, we find that coefficient estimates of *CEO D/E * High KZ index* is significant and positive (Coefficient = 7.924, $p < 0.01$). This provides evidence that the beneficial effect of inside debt compensation to CPD is more pronounced in firms with a high level of financial constraints.

Table 2.0-8: Cross sectional analysis

<i>Dep Var</i>	<i>Corporate political disclosure (CPDisc)</i>		
	(1)	(2)	(3)
CEO D/E	6.396^{***} (2.90)	9.799^{***} (5.62)	11.091^{***} (6.11)
CEO D/E * High KZ index	7.942^{***} (2.62)		
CEO D/E * State corruption		17.550[*] (1.87)	
CEO D/E * RepIndexTen			-10.943^{***} (-3.61)
High KZ index	-2.130 (-1.28)		
State corruption		7.475 [*] (1.84)	
RepIndexTen			-1.714 (-1.30)
Constant	-9.851 (-1.45)	-9.687 (-1.44)	-7.581 (-1.11)
Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R ²	0.26	0.26	0.26
Observations	2776	2790	2774

Notes: This table presents the regression in which the dependent variable is corporate political disclosure (*CPDisc*). *High KZ index* is an indicator variable that takes the value of 1 if the firm is in the upper quartile of the distribution of the KZ index, and zero otherwise. *State corruption* is Annual number of corruption convictions from the Department of Justice Public Integrity Section divided by the population in the state and then multiplying by 100,000. *RepIndexTen* is an index is computed as the total donations to the Republican Party minus the total donations to the Democratic Party, divided by the total donations to both parties over the CEO's entire tenure. Control variables are similar to Table 2.0-4, but their coefficient estimates are not reported for brevity. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

2.6.2 *State level corruption*

We further investigate the potential influence of political corruption on the relationship between CEOs inside debt and CPD. Shleifer and Vishny (1993) introduced the “grabbing hand” theory of corruption, in which government officials use their power to seize firm resources and extract rent. Dass et al. (2016) show that firms headquartered in politically corrupt states experience declines in their overall firm value. Therefore, firms might implement different investment policies, and disclosure policies to protect their resources and avoid engaging in corrupt practices. For instance, according to Smith’s (2016) shielding hypothesis, firms operating in corrupted states tend to hold less cash (to be less vulnerable to bribes) and to rely more heavily on leverage to minimize expropriation by rent-seeking officials, thus avoid exposing firms to bankruptcy in the long term²². Furthermore, Brown et al. (2021) provide evidence that firms located in politically corrupted states tend to use voluntary disclosure as a tool to abate corruption costs.

Considering these risks, CEOs with substantial amounts of deferred compensation may adopt a more cautious stance to safeguard their compensations. As a strategic response, they may strengthen their political activity transparency, especially when operating in states with high levels of corruption. By doing so, they aim to avoid public scrutiny and minimize potential corruption costs. To investigate our conjecture, we follow Smith (2016) and use the annual number of corruption conviction cases reported for each state as a proxy for political corruption. We extract the number of those convictions in each state and match that to the states in which our sample firms are headquartered. Column 2 of Table 2.0-8 shows the effect of political corruption on the nexus between CEO inside debt and CPD. We find that coefficient

²² In an un-tabulated test, we examined this premise to validate our argument. We thank one of our anonymous reviewers for suggesting this test.

estimates of *CEO D/E * State corruption* is significant and positive (Coefficient = 17.550, $p < 0.1$). These findings suggest that CEO inside debt enhances political disclosure in highly corrupted districts and lend support to the “grabbing hand” theory of corruption, in which CEOs with high inside debt adjust the political disclosure level to abate political corruption costs.

2.6.3 *CEO political ideology*

Insights from upper echelons theory suggest that “executives inject their personal givens, knowledge, assumptions, and beliefs into their business decisions” (Hambrick, 2007; Gupta et al., 2018). Drawing on this, when political ideology is considered one of the main implicit executive values, it ultimately influences their decision-making and therein shapes organizational outcomes. The most powerful way to capture differences in political ideology is the liberal-to-conservative or left-right distinction (Jost, 2006). Individuals with liberal ideologies share similar perspectives, such as concern for equality in economic opportunity, social justice, human rights, environmental management, collective responsibility, and egalitarianism, while conservatives tend to endorse traditional values, the status quo, free market competition, and individual responsibility (Jost et al., 2003; Jost, 2006). Particularly, conservatives tend to resist change from the familiar and are less likely to accept strong external stimuli on these issues than liberals (Tetlock, 2000).

These ideological traits translate into distinct preferences regarding corporate disclosure outcomes (e.g., Cohen et al., 2019; Arikan et al., 2023; Elnahas et al., 2024). Democratic-leaning executives, consistent with liberal values, are typically more open to stakeholder engagement, regulatory oversight, and voluntary disclosure practices (Chin et al., 2013; Hutton et al., 2015; Chin et al., 2017). In contrast, Republican-leaning executives, who prioritize firm autonomy and limited government intervention, may view extensive disclosure, especially on politically sensitive matters such as corporate political activity, as a potential risk to

organizational control or a trigger for regulatory scrutiny (Hutton et al., 2015). This is supported by recent empirical evidence showing that Republican CEOs are generally less transparent than Democratic CEOs (Cohen et al., 2019). While both Republican and Democratic CEOs with high inside debt share the same risk-mitigation motives, Republican CEOs may be less inclined to fully pursue CPD due to ideological preferences. As a result, although inside debt strengthens the incentive for CPD, this relationship is notably less pronounced among Republican CEOs, who may strategically limit disclosure to avoid drawing regulatory attention or scrutiny, even at the cost of reducing some of the risk-reducing benefits of CPD. Consequently, we investigated whether a Republican CEO with significant inside debt will opt for lower levels of disclosure than a Democratic CEO with similar incentives. In other words, we investigate whether CEO political orientation moderates the relationship between CEO inside debt and political disclosure.

To investigate this conjecture, we capture CEOs' political ideology through their political contributions to Republican and Democratic Senate, House, and presidential candidates, as well as to party committees during political campaigns.²³ We obtain the data from the FEC website,²⁴ which provides the political contributions of each donor associated with his or her occupation and employer's name. The ExecuComp database provides the executive name, company name, and fiscal year, which we match with the donor's name, employer, and transaction date provided by the FEC website. We manually collect the political donation data for all executives from 1996 to 2022 to avoid any bias in our results. Following prior studies (Hutton, 2015; Unsal et al., 2016; Bhandari et al., 2020; Elnahas et al., 2024), we employ

²³ CEOs can contribute to political parties in two ways: indirectly through a company's Political Action Committee (PAC), and directly through individual contributions. Identifying CEO ideology by tracking PAC contributions is challenging, since PACs contribute to multiple parties simultaneously (Cooper et al., 2010). Therefore, we focus on their direct contribution to political parties.

²⁴ See <https://www.fec.gov/> for detail.

Republican Index Tenure (*RepIndexTen*) as a measure of a CEO's political ideology. This index is computed as the total donations to the Republican Party minus the total donations to the Democratic Party, divided by the total donations to both parties over the CEO's entire tenure. This index ranges from -1 (indicating a strong Democrat) to 1 (indicating a strong Republican).

Column 3 of Table 2.0-8 shows the effect of political ideology on CEO inside debt holdings and CPD. We find that coefficient estimates of *CEO D/E* is still positive and significant while those of *CEO D/E * RepIndexTen* is significant and negative (Coefficient = -10.943, $p < 0.01$).²⁵ That is, while Democratic CEOs with high inside-debt-based compensation are more transparent with respect to political spending, Republican CEOs, even when incentivized with inside debt, are more likely to engage in less transparent practices, potentially due to their conservative ideologies to prioritise firms' economic benefits, maintain competitive advantages and protect proprietary information. This finding suggests that the alignment between CEO inside debt and CPD is not merely a matter of financial incentives, but also deeply associated with the CEOs' political beliefs.

2.6.4 CFOs' inside debt

Extant research shows that CEOs' and CFOs' incentives could jointly and separately affect disclosure levels. On the one hand, some studies argue that CFO incentives have a more significant impact than CEO incentives on disclosure policy (e.g. Jiang et al., 2010; Chava & Purnanandam 2010). This is likely because CFOs receive higher bonuses and are incrementally rewarded when their companies achieve earnings forecasts and better disclosure quality, so

²⁵ We also employ alternative proxy, *Rep_Dummy* as an indicator variable that equals 1 if a CEO donated more to the Republican party than to the Democratic party during her/his entire tenure, and 0 otherwise. Our results remain consistent across this measure (untabulated).

would strive to enhance disclosure quality. On the other hand, there is a strand of studies showing CEO incentives to be more powerful than CFO incentives with regards to reporting practices. This is likely due to any contest over preferences between the CEO and CFO being won by the CEO, given the authority to fire the CFO (Mian, 2001). As a result, CFO incentives have less impact on disclosure policy in the presence of large CEO incentives (Chi et al., 2017). Therefore, under this further analysis, we focus on both CEO and CFO inside debt. Following (Jiang et al., 2010; Chi et al., 2017), we investigate separately and jointly the effect of CFOs inside debt on CPD. Under Column 1 of Table 2.0-9 we focus on CFOs with inside debt. The results shows that *CFO D/E* has an impact on CPD. Compared to the coefficient of CEO inside debt (as reported in Tables 2.0-4 and 2.0-12) and of CFO inside debt (reported in Table 2.0-9), CEOs debt compensation has a more substantial impact on CPD. Therefore, we jointly include CEO and CFO inside debt in the regression models. In Column 2, we find *CEO D/E* to be significantly related to political disclosure and *CFO D/E* to be insignificant. Thus, we are able to conclude that CEO inside debt affects political disclosure more than CFO inside debt does. This result is consistent with studies that compare CEO and CFO incentives and their effects on corporate disclosure decisions (Chava & Purnanandam, 2010). In sum, we find evidence that CEO inside debt has a more substantial effect on CPD than CFO inside debt does.

Table 2.0-9: CFO inside debt, CEO inside debt, and corporate political disclosure

<i>Dep. Var.</i>	<i>Corporate political disclosure (CPDisc)</i>	
	<i>Sample with CFO only</i>	<i>CEO vs CFO</i>
	(1)	(2)
CFO D/E	6.679*** (4.48)	2.468 (0.92)
CEO D/E		8.383** (2.49)
Constant	-30.957*** (-4.96)	-31.112** (-2.15)
<i>Controls</i>	Yes	Yes
<i>Year FE</i>	Yes	Yes
<i>Industry FE</i>	Yes	Yes
Adjusted R ²	0.25	0.27
Observations	2737	2737

Notes: This table presents the regression results of corporate political disclosure (*CPDisc*) on CFO inside debt (*CFO D/E*) and other control variables. Column (1) includes CFO inside debt as a main independent variable. Column (2) includes both CEO inside debt and CFO inside debt as independent variables. Control variables are similar to Table 2.0-4, but their coefficient estimates are not reported for brevity. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

2.7 Robustness check

2.7.1 CPD index components

The CPA-Zicklin score for CPD comprises three categories: disclosure (*P_Disclsoure*), policy (*P_Policy*), and oversight (*P_Oversight*). The first category comprises nine items, and the information for the first two items must be disclosed in FEC and Senate Office filings (Goh et al., 2020), therefore, one could argue that our previous findings might be driven by the mandatory instead of voluntary components. As a remedy, and to ensure robustness of the findings, we repeat our regression by replacing the main dependent variable (*CPD*) with the three individual categories (*P_Disclsoure*, *P_Policy*, *P_Oversight*). The results in Panel A of Table 2.0-10 are consistent with our main analysis.

As a further robustness test, we focus our analysis on disclosure of payments to trade associations and other tax-exempt organizations, as “*dark money*” or unobservable expenditure. While these organizations must report their receipts and disbursements to the IRS,

including their recipients, they do not have to report the names of donors (Baloria et al., 2019). Therefore, corporations can have unlimited political spending without effectively disclosing anything. This was evidenced via a 2021 report by the CPA, which reported 259 companies from the S&P 500 (51.8%) disclosed their contributions to candidates, parties, and committees, whereas only 152 companies (30%) disclosed their contributions to trade associations, and only 147 companies (29%) disclosed their contributions to other-tax exempt organizations (CPA, 2021). Accordingly, in this analysis, we pay particular attention to these categories when investigating whether inside debt enhances CPD. Arguably, hiding such risky information could attract close scrutiny by interested stakeholders, which might lead to reputational damage, so CEOs with more inside debt would pay greater attention to disclosing such risky information.

We re-estimate our regression by replacing *CPDisc* with a measure of *Dark money disclosure*. This measure focuses on the highest-scoring components in the disclosure category (i.e., components 4 and 5), which capture (i) payments to trade associations (component 4) and (ii) payments to other tax-exempt organizations, such as 501(c)(4)s (component 5). Specifically, *Dark money disclosure* refers to a composite disclosure index capturing the extent to which a firm publicly discloses such payments. The index is computed as $((\text{component 4} + \text{component 5}) / 12 (\text{maximum score})) \times 100$, which is then expressed as a percentage ranging from 0 % (poor dark money spending disclosure) to 100 % (full dark money spending disclosure). Interestingly, as shown in Panel B Column 1 of Table 2.0-10, our results remain robust and consistent with our main findings in Table 2.0-4. This suggests that inside debt holdings are an effective mechanism to enhance disclosure, particularly in addressing issues such as dark money expenditure. Similarly, for the other two categories, policy and oversight, we choose the highest component in each category for policy component 10, *Detailed policy*, and for oversight component 22, *Detailed report*. Panel B Columns 2 and 3 of Table 2.0-

10 show a positive and significant relation between CEO inside debt and these components. In short, these results lend support to our main findings.

2.7.2 *Sample selection bias*

One caveat of our findings is that they might be subject to sample selection bias. Because we use S&P 500 firms with available data from the Corporate Political Accountability and Disclosure Index, created by the CPA-Zicklin Center. To address this issue, we apply the Heckman selection model to a broader dataset that includes additional observations not covered by the CPA-Zicklin Center. Our expanded sample consists of 27,181 firm-year observations from *Compustat* for the period 2012 to 2021, along with the original 2,790 observations. The Heckman model employs a two-equation approach: a selection equation, which identifies factors influencing a firm's inclusion in the S&P 500 index, and a regression equation, which estimates the relationship between CEO inside debt holdings and CPD levels while correcting for potential selection bias.

In the selection equation, we identify variables influencing the likelihood of a firm's inclusion in the S&P 500 index, particularly market capitalization, market liquidity (via Amihud's illiquidity ratio), year-end share price, and financial viability (Li et al., 2017). The regression equation assesses the relationship between CEO inside debt holdings and CPD levels, adjusting for selection bias. We find qualitatively similar results (see Panel C of Table 2.0-10), our estimation results confirm a significantly positive relationship between inside debt holdings and CPD levels, even after correcting for potential selection bias.

2.7.3 *Additional controls and alternative model specifications*

To further address the concern that CPD levels might serve as a proxy for unobservable firm characteristics influencing disclosure, we incorporate additional potential determinants of CPD, such as *board size, board independence, CEO duality, and the logarithm of firm age,*

into our analysis. Due to substantial missing data for these variables, they are not included in our primary model. However, their inclusion in supplementary analyses helps mitigate concerns about omitted variable bias and reinforces the robustness of our findings. We also test the robustness of our findings to alternative model specifications, including replacing the year fixed effects with election dummy and president change dummy.

Table 2.0-10: *CEO inside debt, and different types of corporate political disclosure*

Panel A: The three sub-indices of corporate political disclosure			
<i>Dep. Var.</i>	<i>P Disclosure</i>	<i>P Policy</i>	<i>P Oversight</i>
	(1)	(2)	(3)
CEO D/E	11.982*** (5.78)	5.306*** (3.39)	9.579*** (5.10)
Constant	-13.604* (-1.81)	2.722 (0.40)	-24.625*** (-3.34)
Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R ²	0.22	0.27	0.25
Observations	2790	2790	2790

Panel B: The sensitive components in each of the three indices of CPD			
<i>Dep. Var.</i>	<i>Dark money disclosure</i>	<i>Detailed policy</i>	<i>Detailed report</i>
	(1)	(2)	(3)
CEO D/E	10.292*** (4.17)	0.324*** (3.37)	0.484*** (5.49)
Constant	-9.926 (-1.17)	1.290*** (2.83)	-0.894*** (-2.71)
Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R ²	0.19	0.25	0.23
Observations	2790	2790	2790

Panel C: Additional controls, and alternative model specification		
<i>Dep. Var.</i>	<i>Additional controls</i>	<i>Alternative specifications</i>
	(1)	(2)
CEO D/E	6.664*** (3.63)	8.924*** (4.94)
Constant	-76.953*** (-6.81)	-11.474* (-1.67)
Controls	Yes	Yes
FE	Year	Election year
FE	Industry	Industry
Adjusted R ²	0.29	0.23
Observations	2397	2790

Notes: Panel A reports the results of regression estimating the relationship between CEO inside debt (*CEO D/E*) and the three sub-indices of CPD. Panel B reports the regression estimating the relationship between the CEO inside debt and the sensitive components in each of the three sub-indices of CPD. Panel C reports the results of alternative model specification. Control variables are similar to Table 2.0-4, but their coefficient estimates are not reported for brevity. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

2.7.4 Other proxies for CEOs' inside debt

As a further robustness check, we repeat our main analysis using two alternative measures of CEO inside debt. Our first alternative measure is the CEO's debt-to-equity ratio to firm's debt-to-equity ratio (*CEO-firm D/E*). This metric stems from Edmans and Liu (2011), whose theoretical perspective was that when a CEO's own debt-to-equity ratio is equal to the firm's debt-to-equity ratio, there are no incentives for CEOs to reallocate their wealth between debt and equity. Conversely, when a CEO's own debt-to-equity is greater than the firm's debt-to-equity, CEOs will be incentivized have more conservative policies, with less risky decisions, to be able to protect his or her interests because they are aligned more with debtholders'.

Our second alternative measure is an indicator variable equal to 1 if the CEO to firm debt-to-equity ratio exceeds 1 and 0 otherwise (*CEO-firm D/E > 1*) (Cassell et al., 2012). We report the findings of this analysis in Table 2.0-11, which shows that the estimated coefficient on both alternative measures of CEO inside debt (*CEO-firm D/E*, *CEO-firm D/E > 1*) are significant and positive with political spending disclosure (*CPD*). For instance, for our sample, a one standard deviation in the CEO to firm debt-to-equity ratio (*CEO-firm D/E*) increases *CPD* by 4%. Overall, the results in Table 2.0-11 support that CEO inside debt acts as a mechanism to enhance *CPD*.

Table 2.0-11: *Alternative measures for CEO inside debt*

<i>Dep. Var.</i>	<i>Corporate political disclosure (CPD)</i>	
	(1)	(2)
CEO-firm D/E	4.899*** (5.86)	
CEO-firm D/E >1		5.200*** (4.08)
Constant	-14.354** (-2.06)	-10.609 (-1.53)
Controls	Yes	Yes
Year FE	Yes	Yes
Industry FE	Yes	Yes
Adjusted R ²	0.25	0.24
Observations	2744	2744

Notes: This table presents the regression results of corporate political disclosure (*CPDisc*) on alternative measures for CEO inside debt and other control variables. *CEO-firm D/E* is measured by natural log of one plus the ratio of CEO debt-to-equity to a firm's debt-to-equity; where firm's debt-to-equity ratio is the ratio of total debt scaled by market value of equity. *CEO-firm D/E >1* is a dummy variable equal to one if the CEO debt-to-equity to a firm's debt-to-equity greater than one, and zero otherwise. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

2.8 Summary and conclusion

While existing studies have investigated the consequences of CPD (e.g., Werner, 2017, DeBoskey et al., 2021, Goh et al., 2020, Almaghrabi & Tsalavoutas, 2022), they have paid less attention to the managerial incentives resulting from pay structure. Therefore, we shed light on the role of inside debt holdings in motivating CEOs to enhance CPD.

Using a sample of S&P 500 firms between 2012 and 2021, consistent with optimal contracting view, our results suggest that inside debt holdings encourage CEOs to promote greater CPD, more precisely, disclosure of corporate dark money expenditures. To further support our main argument, we conduct a mediation analysis and find that CPD plays a mediating role in the relationship between inside debt and default risk. We also document that CPD facilitates more favorable debt contracting terms. Collectively, these results are consistent with the view that CEOs with substantial inside debt holdings strategically employ CPD to enhance firm stability and reduce agency-related frictions. We dig deeper and focus our analysis on specific contexts

under which the reported results are more likely to emerge. In essence, the cross-sectional analysis shows that the impact of inside debt holdings on CPD is more pronounced in firms with greater financial constraints. We also find that this effect is amplified when firms are headquartered in more corrupt states. Moreover, when examining CEO political ideology, we find that Democratic CEOs with high inside debt holdings are more transparent with respect to political spending than their Republican counterparts.

Our findings have important policy implications, particularly for boards of directors, compensation committees and investors. In essence, a company's board of directors, particularly the compensation committees, should reevaluate executive compensation design and strategically include inside debt in CEO's pay packages. By doing so, the boards can promote transparency which in turn, can lessen the monitoring burden on the board, as CEOs become more intrinsically motivated to provide more information, particularly in less regulated areas such as CPD. Similarly, investors may perceive the absence of inside debt in CEOs compensation as a cause of concern, as it could trigger CEOs to prioritize shorter-term prospects, potentially leading to the concealment of political spending information and reduced disclosure. Investors, especially institutional investors, may also engage with firms' board of directors to advocate for the inclusion of inside debt in CEO's pay package as a strategic tool to enhance the overall information environment.

Our results from examining a sample of S&P 500 firms between 2012 and 2021 are in line with the theoretical arguments of Edmans and Liu (2011), suggesting that debt-like compensation acts as incentive for CEOs to aim for greater CPD, more precisely disclosure of corporate dark money expenditure. In the cross-section, we find the impact of debt-based compensation on CPD is more pronounced for firms facing a higher probability of falling into bankruptcy or liquidation. We also find that the influence of inside debt on CPD is amplified when firms are headquartered in more corrupted districts. Moreover, focusing on CEO political ideology, we

find that Democratic CEOs with high inside debt compensation are more transparent with respect to political spending than Republican CEOs.

However, this study is not without limitations. It focuses only on one type of executive compensation; future research could usefully investigate the effects of other CEO incentives on CPD. In addition, our study focuses on the level of disclosure rather than its quality, reflecting the relatively recent emergence of political disclosure as a corporate practice. A further limitation is that our sample consists only of S&P 500 firms, making us cautious in generalizing our results across all firms. Therefore, we suggest broader investigation of the driving factors that enhance CPD.

Chapter 3 Beyond the CEO: Tournament incentives and corporate political disclosure²⁶

Abstract

This study examines the impact of tournament incentives, measured by pay disparities among firms' senior executives on corporate political disclosure (CPD). Our findings indicate that a 1% standard deviation increase in the pay gap is associated with an 8% rise in CPD levels. Cross-sectional analysis reveals that corporate lobbying activity weakens this relationship, while uncontrollable risks, such as proximity to political power strengthen it. Our results remain robust after employing various proxies and conducting a wide range of endogeneity tests. Overall, these findings highlight the importance of tournament incentives in shaping CPD.

Keywords: CEO pay gap, Tournament incentives, non-CEO executives', corporate political activity and disclosure.

²⁶ This chapter has received a revise and resubmit decision from the *Journal of Accounting Literature*.

3.1 Introduction

This study investigates the effect of promotion-based incentives for non-CEO executives in the top management team (TMT) on corporate political disclosure (CPD). Existing literature primarily focuses on the role of CEOs and CFOs incentives in corporate reporting decisions (e.g., Armstrong et al., 2013; Wruck & Wu, 2021). However, the decisions are rarely made by a single executive and indeed they are shared by TMT (Denis et al., 2012). While these non-CEO executives have the authority to shape a firm's decisions (Harrison & Malhotra, 2024), the motivations of these executives are also crucial in determining the nature and extent of their influence. In this study, we focus on promotion-based incentives that could have profound effects on the strategic choices that non-CEO executives advocate for and the risk profiles that they are willing to accept.

Theoretically, Lazear and Rosen (1981) posit that the pay disparities between the CEO and non-CEO executives stimulate competition, inducing them to exert greater effort to increase their chances of being promoted (next CEO), ultimately increasing shareholders' and firm value. Consistent with positive effort view, prior evidence find that a large CEO pay gap is associated with a lower likelihood of financial restatements and an increased likelihood of issuing both management earnings and supplementary forecasts (Zhang et al., 2018; Cheng et al., 2024). However, other studies highlight the dark side of the tournament competition, in particular when promotion incentives become sufficiently strong, executives may pursue actions that improve their relative standing even if they are costly to the firms to increase their chances of winning the tournament. The evidence shows that tournament incentives lead to less conservative financial reports, more real earnings management, aggressive corporate tax strategies and increased likelihood of shareholders initiating a securities class action lawsuit against the company (Haß et al., 2015; Shi et al., 2016; Kubick & Masli, 2016; Park, 2017;

Gad et al., 2023). These inconsistent conclusions raise the question of whether pay disparities effectively enhance the firm's reporting environment.

Notably, although tournament incentives have been widely studied, most evidence comes from highly regulated reporting settings. In these settings, accounting standards, external auditors, and investors can constrain managerial discretion, making it difficult to isolate the incremental effect of tournament incentives and potentially contributing to mixed findings. That is, there is limited evidence on whether tournament incentives can substitute for strict regulation and reporting standards. Therefore, in this study, we focus on CPD, a setting where the regulatory framework governing political spending disclosure is relatively less stringent and there is an absence of a comprehensive, unified reporting framework for firms to disclose their political expenditures to investors (Goh et al., 2020).

The inherent characteristics of corporate political activities (CPA) grant managers considerable authority to oversee political activities (Dahan et al., 2013) and subsequently manage related disclosures. Unlike other financial reporting decisions, there is no dedicated committee that regulates and oversees such spending or ensures consistent disclosure (Ali et al., 2023). While the disclosure of corporate lobbying expenditures is scattered among different sources, there is no requirement to disclose other, less visible channels, such as contributions to tax-exempt non-profit organizations, and super political action committees (Baloria et al., 2019).²⁷ The absence of a formal oversight committee, combined with the dominant control exercised by corporate executives, can significantly exaggerate agency costs. For instance, executives can pursue political strategies that provide little or no benefit to shareholders (Aggarwal et al., 2012; Coates, 2012; Hadani & Schuler, 2013).

²⁷ In 2020, spending on tax-exempt non-profit organizations in the US exceeded \$1 billion.

We exploit this inherited flexibility in political disclosure settings and investigate whether promotion-based incentives for non-CEO executives function as an internal governance mechanism that raises the level of CPD. On one hand, promotion-based incentives for non-CEO executives induce them to care more about CPD for several reasons. First, we posit that undisclosed political activities can negatively impact the likelihood of managerial promotion. Prior evidence indicates that the accidental disclosure of covert political ties triggers negative investor reactions (Minefee et al., 2021), which can adversely affect non-CEO executives' promotion opportunities. The revelation of undisclosed political activities can damage firms' reputation potentially resulting in a CEO and/or top senior executives' dismissal.²⁸ A termination could serve as a defensive strategy in response to shareholders' wealth losses (Zhang et al., 2018). These career concerns are particularly salient for non-CEO executives because their external labour-market opportunities are closely tied to firm performance and reputation (Fama, 1980; Cheng et al., 2016). Accordingly, executives competing in promotion tournaments have strong incentives to influence disclosure choices in ways that mitigate these reputational and career risks.

Second, promotion-based incentives may constrain CEO opportunistic behaviour related to political spending disclosure. A strand of studies contends that CPA is an outcome of CEOs' opportunistic behaviour (e.g., Dahan et al., 2013; Hadani & Schuler, 2013). A large CEO pay gap intensify internal tournaments, increase the pool of credible internal successors, and strengthen board monitoring of the incumbent CEO (Schwarz & Severinov, 2010; Masulis & Mobbs, 2011). This effect is strengthened because CEOs typically needs non-CEO executives'

²⁸ Anecdotal evidence is consistent with this channel. In October 2020, FirstEnergy's board terminated CEO Charles Jones and two other senior executives following an internal review related to ongoing government investigations into the firm's political activities for \$60 million bribery scandal. Due to weak oversight, the Ohio's FirstEnergy Corp. was charged in a scheme of secret payoffs to public officials, seeking a bailout from state legislators (FirstEnergy Corp, 2020).

cooperation and their information to design and implement CPA; non-CEO executives are better positioned to interpret policy issues and evaluate political strategies (Wilts, 2006; Lu et al., 2016).²⁹ In addition, from the CEOs perspective, the CEOs who have won the prior tournament have strong incentives to continue striving rather than resting on their laurels (Henderson & Fredrickson, 2001). Consistent with this view, they are more likely to take actions that reaffirm their abilities to directors and investors (Cheng et al., 2024). These incentives are further strengthened in firms with internal tournaments, where incumbent CEOs must continuously demonstrate competence and judgment to the board to retain their position and continue prevailing in internal competition.

As opposed to the previous argument, insights from social identity theory (e.g., Tajfel & Turner, 1979; Turner & Reynolds, 2011) suggests that large CEO pay gaps may weaken shared identity and trust among senior executives by emphasizing status differences, thereby fragmenting executive interests and weakening internal governance. As a result, promotion-based incentives may fail to motivate non-CEO executives to enhance CPD. In nutshell, the question of whether promotion-based incentives enhance CPD is ex-ante far from clear, so, our study provides direct empirical evidence addressing this conjecture.

Using a sample of S&P 500 firms from 2012 to 2021. We find that firms with large pay disparity between CEO and non-CEO executives are associated with greater political disclosure. This finding suggests that promotion-based incentives act as an effective internal governance mechanism in promoting CPD. In cross sectional analyses, we explore how the relationship between tournament incentives and political disclosures is affected by changes in the perceived probability of promotion. Accordingly, if tournament incentives are positively

²⁹ In support of this, AT&T, a leading company in CPD practices (CPA, 2022), outlined in its political engagement report that “*These political engagement priorities are identified by the company’s senior executive vice president of external and legislative affairs*” (AT&T, 2022)

related to CPD, this association should be weaker when a succession contest is less likely to occur. Consistent with this prediction, we find that the association weakens in firm-years following the appointment of a new CEO. Conversely, the association should be stronger when CEO turnover is more likely; consistent with this view, we find that the positive tournament incentive-CPD nexus is more pronounced in firms with longer CEO tenure. Finally, the association between tournament incentives and CPD is expected to vary with succession expectations, *weakens* when external CEO appointments are anticipated and *strengthens* when internal succession is expected. Our results support this pattern.

Moreover, we advance our argument contingent upon two more factors. First, we contend that the influence of promotion-based incentives on the CPD level is contingent upon corporate lobbying activity. Interestingly, we find that the intensity of corporate lobbying weakens the positive association between tournament incentives and CPD. Secondly, we find, in the presence of external uncontrollable risk such as proximity to political power, non-CEO executives' have more incentives to enhance CPD level. Finally, our results could suffer from endogeneity issues. To effectively overcome this problem, and address potential endogeneity concerns, we employ different methods, including instrumental variable estimation, GMM, the propensity score matched approach, entropy balancing, and Oster test.

Our paper contributes to the existing literature in several ways. First, despite shareholders' growing demands for greater political disclosure, to our knowledge, no prior study has investigated non-CEO executives' incentives to induce firms' CPD. This study fills this gap by providing evidence on the relationship between promotion-based incentives and the disclosure of political spending. This responds to calls for investigating managerial incentives toward CPA and related disclosures (Dahan et al., 2013; Hadani & Schuler, 2013; Katic & Hillman, 2023). Unlike prior studies that predominantly examine the impact of tournament incentives on reporting quality in highly regulated settings (e.g., Haß et al., 2015; Park, 2017; Gad et al.,

2023) In contrast, CPD is a setting where disclosure practices are relatively less standardized and political spending can occur through multiple channels, giving managers greater discretion over what to disclose and how to frame it. By focusing on CPD, we provide evidence on whether tournament incentives operate as an internal governance mechanism that encourages disclosure when external reporting discipline is weaker.

Second, we contribute to the literature on the determinants of corporate political reporting by identifying an executive-incentive channel that complements established drivers such as institutional ownership and board characteristics (Ali et al. 2022; 2023), gender diversity (Deboskey et al., 2018b), and shareholder activism (Baloria et al., 2019). By shifting attention from CEO-level incentives to those of second-tier executives, we advance understanding of how the TMT influences corporate disclosure incentives. Finally, we provide evidence on mechanisms consistent with tournament theory by examining how corporate lobbying and local policy risk affect the nexus between tournament incentives and CPD. These findings suggest that investors and policymakers should consider internal incentive design and the labor-contracting mechanisms when evaluating corporate political disclosure.

The remainder of the paper is organized as follows. The next section presents the underlying theory and hypothesis. The following sections outline the research design and data sources, and report and discuss the empirical findings, while the final section concludes the study.

3.2 Literature review and hypothesis development

3.2.1 Literature on corporate political disclosure

The premise that corporate political spending always benefits shareholders is not obvious, as it includes both beneficial and detrimental spending. The findings on the extent to which

corporate political spending benefits shareholders are mixed.³⁰ Moreover, the scale of such spending has significantly increased, with firms engaging in political activities through direct lobbying, PACs, 527 organizations, and state-level expenditures, collectively termed “Observable spending”- as well as through trade associations and Super PACs, categorized as “Unobservable spending” (Baloria et al., 2019). These various channels of corporate political engagements pose notable challenges. First, entities receiving corporate funds face no limits on the amounts they can receive, allowing firms to allocate substantial funds to political activities. This was further amplified by the 2010 Supreme Court decision in *Citizens United v. Federal Election Commission*, which permitted unlimited spending on political advertising. Consequently, corporate political spending influence in US politics has surged, with federal lobbying expenditures reaching a record \$3.53 billion in 2020, and total election cycle expenditures hitting \$14.4 billion (Lyon, 2023).

Second, while observable spending channels must disclose donor names and amounts, unobservable channels have no such legal obligations. Some firms use intermediaries to engage indirectly in politics, contributing to the phenomenon of "dark money", which accounted for 7% of total election spending in 2020 (Lyon, 2023). This lack of disclosure requirements also extends to state-level spending, where some firms incur expenditures to influence state legislators, and not all states mandate the disclosure of such information (Baloria et al., 2019).

Third, despite the disclosure requirements for observable spending, the information remains fragmented and unclear. Disclosures are scattered across multiple filings with different

³⁰ Some studies (e.g., Cooper et al., 2010; Chen et al., 2015; Werner, 2017) emphasize the investment-centric perspective of political engagement, where firms allocate resources to lobbying and employ Political Action Committees (PACs) to influence politicians and secure favourable public policies. However, some studies view political spending as indicative of agency problems, suggesting that it may serve managers’ personal interests rather than the firm’s interest (e.g., Aggarwal et al., 2012; Coates, 2012; Hadani & Schuler, 2013; Cao et al., 2018).

agencies, including the Federal Election Commission (FEC), the Internal Revenue Service, and various state-level offices (Goh et al., 2020). This fragmentation requires significant effort from users to gather and interpret data, making it difficult to form a comprehensive picture of a company's political activities. The lack of cohesive disclosure weakens investors' ability to assess the risks associated with corporate political strategies that may threaten shareholder value.

Therefore, as a response to high investor demand and the lack of a unified set of disclosure requirements, some companies have begun voluntarily disclosing their political spending information on their website/ or through some separate reports. This voluntary disclosure enables companies to (1) organize data from mandatory filings in a manner that is accessible to investors, (2) provide information on political spending that is not legally mandated to be disclosed, and (3) disclose much information about their policies, their internal control mechanisms governing political contributions, or their board oversight committees charged with approving such expenditures. This approach allows companies to communicate their political spending strategies and oversight mechanisms to shareholders. Evidence indicates that a higher level of CPD is associated with higher financial performance, lower cost of debt and equity capital (Goh et al., 2020; DeBoskey et al., 2021; Adrian et al., 2022; Almaghrabi & Tsalavoutas, 2022).

3.2.2 Related theoretical and empirical evidence

Prior studies emphasize the role of CEOs and CFOs' incentives in shaping firms' disclosure decisions (e.g., Armstrong et al., 2013; Wruck & Wu, 2021), while giving less attention to the incentives of non-CEO executives (Busenbark et al., 2016; Mekhaimer et al., 2022). However, organizational decisions, including disclosure decisions, are unlikely to be determined solely by a single executive (Zhang, 2019). Instead, top executives' responsibilities are frequently shared or distributed among multiple executives, demonstrating that different directors bring

unique strengths and insights that are essential for steering complex organizational challenges (Finkelstein, 1992; Denis et al., 2012; Cheng et al., 2016). Consistent with this view, Graham et al. (2015) document that only 15% of surveyed CEOs and CFOs view the CEO as the sole decision-maker, indicating that key corporate decisions are commonly delegated to other non-CEO executives.

To understand the potential effects of non-CEO executives' incentives on corporate political disclosures, we rely and build on two streams of the literature: the internal governance and the tournament incentives literature. The internal governance literature further highlights the importance of non-CEO executives' incentives. Acharya et al. (2011) theoretically model the relationship between the incentives of CEOs and non-CEO executives. In their model, the non-CEO executives' incentives act as a form of "*bottom-up*" internal governance that discipline CEO actions and align managerial actions with the firm's long-term interests. Specifically, a strand of studies (e.g., Cheng et al., 2016; Mekhaimer et al., 2022; Brick et al., 2024) provide evidence that non-CEO executives have both the incentives and the ability to influence the CEO decision making and to exert monitoring on the CEO. Importantly, existing research also show non-CEO executives play a key role in firm's disclosures (Ma et al., 2020; Kalelkar et al., 2024). However, while the authority granted to these executives enables them to shape a firm's decisions (Harrison & Malhotra, 2024), the motivations of these executives are also crucial. Therefore, we complement this theoretical angle with promotion-based incentives that could have profound effects on the strategic choices that non-executives advocate for and the risk profiles they are willing to accept.

Tournament theory literature³¹ propose two competing arguments for how tournament incentives may impact non-CEOs executives' behaviour towards corporate disclosures. On the one hand, from the career concern perspective, one of the career objectives of many senior executives is to become the next CEO. Therefore, pay dispersion between CEOs and non-CEO executives has a positive effect in terms of promoting competition. The probability of being promoted serves as a catalyst that inspires non-CEO executives to expend greater efforts to boost their output (to be the next CEO). On the other hand, other scholars provide evidence for dark side of the competition. Goel and Thakor (2008) theoretically examines how the probability of promotion shapes managerial attributes; they argue that presence of tournament incentives induces managers to undertake risky projects to increase their outcome and in turn increases the chance of being selected as next CEO. Indeed, prior accounting studies support both arguments. For instance, while Haß et al. (2015), Kubick and Masli (2016), and Gad et al. (2023) suggest that tournament incentives are associated with higher levels of fraud, greater tax aggressiveness, and lower accounting conservatism. In contrast, Cheng et al. (2024) suggest that internal tournament incentive is associated with enhanced management forecasts.

While prior accounting literature is informative, the extent to which internal tournaments discipline CEOs' financial reporting choices remains considerably unclear. One explanation for the inconclusive evidence in prior studies is their focus on financial reporting decisions characterized by limited discretion, arising either from stringent accounting standards and regulatory oversight (e.g., fraud and tax avoidance) or from the ability to verify such decisions ex post (e.g., management forecasts). In contrast, considerably less attention has been given to

³¹ The tournament theory, developed by Lazear and Rosen (1981) and further expanded by Rosen (1986), suggests that promotion-based incentives are more efficient than performance-based schemes. Performance-based schemes are associated with high monitoring costs and are best suited for risk-neutral workers (Lazear & Rosen, 1981). In contrast, a relative rank-order tournament motivates a large pool of employees competing for promotion, rather than focusing on a single individual (Connelly et al., 2014).

voluntary CPD that are largely discretionary, subject to limited external enforcement and less inherently verifiable post-publication (Dahan et al., 2013; Goh et al., 2020; Ali et al., 2023). Consequently, they provide directors with substantially greater opportunity in selecting, framing and presenting political information. That is, we focus on CPD and thereby provide evidence on whether internal tournament act as a substitute for external regulatory oversight.

3.2.3 *Hypothesis development*

Prior research argues that top senior executives collectively shape organizational strategy (Finkelstein, 1992) and play a central role in determining firms' commitments to specific political activities (Ozer, 2010). That is, while CEOs hold formal authority over strategic decisions, real authority may reside with non-CEO executives due to their informational advantages (Aghion & Tirole, 1997). Furthermore, non-CEO executives' decisions are a driving force behind firms' financial reporting decisions (e.g., Gad et al., 2023; Cheng et al., 2024). Extending this line of research to corporate political settings, Ozer (2010) argues that firms' participation in the political process depends critically on the involvement of non-CEO executives. Griffin and Dunn (2004) further show that non-CEO executives often dominate the allocation of corporate funds across competing CPAs. This influence reflects their comparative advantage in understanding public policy issues, assessing their implications for corporate interests, and selecting suitable political strategies (Wilts, 2006; Lu et al., 2016). Through their enhanced access to CPAs, non-CEO executives acquire superior information about firms' political activities. However, without appropriate incentives, the potential for authoritative decision-making may not translate into effective or beneficial actions for the firm. Therefore, we examine whether promotion-based incentives are related to managers' decisions to disclose or conceal CPA. Below, we discuss why promotion-based incentives may induce non-CEO executives to care more about CPD.

First, while Werner (2017) highlights the advantages of independent political expenditures over traditional tactics (such as corporate PACs)³², the lack of CPD exacerbates informational asymmetry and heightens shareholders' concern about the consequences of political spending (Baloria et al., 2019; Skaife & Werner, 2020). Furthermore, covert political activities may have adverse implications especially if accidentally disclosed by external forces (i.e., media) rather than voluntarily disclosed by the management itself. For instance, Minefee et al. (2021) assert that the shareholders reacted negatively towards the accidental disclosure of firms' covert political ties. Since the outcomes of firms' political engagement are not guaranteed (Hadani et al., 2017), and such hidden political activities face more attack from social activists (McDonnell et al., 2015). Therefore, evaluators could react harshly to such violations (McDonnell & King, 2018) and the shareholders could perceive this engagement as a signal of exacerbated firm risk. As a remedy, firms may terminate the CEO and/or other top executives, which could negatively affect the likelihood of managerial promotion. A termination could serve as a defensive strategy in response to shareholders' wealth losses (Zhang et al., 2018).

These career concerns are especially salient for non-CEO executives. As Cheng et al. (2016) argue, non-CEO executives face substantial labor market risk. The potential loss of income when searching for a comparable job in the future is higher for non-CEO executives, and their outside opportunities are closely tied to the firm's performance and reputation (Fama, 1980). That is, while the CEO holds the formal decision authority over firms' disclosures, the non-CEO executives can shape CPA choices through their information advantage. Indeed, CEOs

³² In contrast to other traditional ways, independent political expenditures have the advantage of being financed directly from corporate treasury without any restrictions on contributions. These expenditures support politicians who, in turn, can provide firms with revenue growth opportunities and exert influence over government regulations (Hillman et al., 2004). Therefore, shareholders may perceive IPEs as an effective political tactic and a competitive advantage for their firms, since they allow firms to utilize unlimited resources, making it challenging for other policy demanders to imitate them (Hillman & Hitt, 1999).

typically needs non-CEO executives' cooperation and their information to design and implement CPA; non-CEO executives are better positioned to interpret policy issues and evaluate political strategies (Wilts, 2006; Lu et al., 2016). As a result, non-CEO executives engaging in tournaments for promotion are likely to exert greater efforts to influence the CEO's decision to disclose corporate political strategies, and policies as to create a future for them. As such, to a certain extent, the shareholders could perceive this political engagement as a signal of valuable political capital and thus increase the probability of internal promotion for the second-tier executives. Taken together, promotion incentives and this operational influence create internal pressures that discourage covert CPA and supports greater political disclosure.

Second, promotion-based incentives constrain CEO opportunistic behaviour related to covert CPA. A strand of studies contends that CPA is an outcome of CEOs' opportunistic behaviour which is detrimental to shareholders' value (Aggarwal et al., 2012; Dahan et al., 2013; Hadani & Schuler, 2013). Large CEO pay gap intensify tournament incentives, inducing non-CEO executive to work hard and invest in firm-specific human capital, which subsequently builds a large pool of competent internal candidates for the CEO position (Schwarz & Severinov, 2010). The presence of such competent internal candidates represents a good substitute for the current CEO and increasing the bargaining power of the current board (Masulis & Mobbs, 2011). Moreover, from the CEOs perspective, CEOs who have won the prior tournament have strong incentives to continue striving rather than resting on their laurels (Henderson & Fredrickson 2001). They are therefore more likely to take actions that reaffirm their abilities to directors and investors (Cheng et al., 2024) and reducing their incentives for opportunistic behaviour. As discussed above, opaque political spending increases investor uncertainty about firms' political activities and thereby increase firm-specific risk borne by the CEOs. Given these adverse consequences, CEOs have incentives to mitigate these risks by increasing the disclosure of political spending. These incentives are further strengthened in firms with internal

tournaments, where incumbent CEOs must continuously affirm their competence and judgment to the board of directors in order to retain their position and continue prevailing in internal competitions.

As opposed to the previous argument, social identity theory (e.g., Tajfel & Turner, 1979; Turner & Reynolds, 2011) posits that individuals incorporate their organisational roles into their self-concept, fostering a collective mindset oriented toward shared organisational goals. Within the TMT, this shared identity promotes cooperative behaviour, mutual accountability, and collective stewardship of firm strategy, including corporate reporting decisions. However, large pay gaps between CEOs and non-CEO executives may undermine this shared identity by accentuating status differences within the TMT.

This expectation follows from self-categorisation theory's principle of comparative fit (Turner et al., 1987), which states that differences shift executives' self-categorisation away from a collective TMT identity toward rank-based identities. The principle of comparative fit specifies the mechanism as follows: when pay gaps are small, non-CEO executives orient toward inclusive social identities that capture what CEOs and non-CEO executives share (i.e., members of the same team). As pay gaps increase, non-CEO executives orient toward more divisive categorisations that reflect hierarchical differences, such as CEOs versus non-CEOs executives (Peters et al., 2022). When pay gaps become cognitively salient, they signal social distance between the CEO and other senior executives, generating feelings of relative deprivation and distributive injustice among non-CEO executives (Cowherd & Levine, 1992). These conditions actively incentivise sabotage behaviour and reduced cooperative effort among competing executives (Harbring & Irlenbusch, 2011). In this sense, non-CEO executives become less committed to organisational goals and team cooperation (Deutsch, 1985), undermining the collective stewardship that effective disclosure requires (Shaw et al., 2002).

These mechanisms carry direct implications for internal governance quality. Pay dispersion within the TMT undermines the behavioural integration necessary for coordinated strategic action (Henderson & Fredrickson, 2001), while the psychological disillusionment arising from perceived inequity fosters cynicism and diminishes executives' motivation to perform effective management controls (Andersson & Bateman, 1997). As non-CEO executives withdraw from monitoring responsibilities, peer-level oversight that constrains opportunistic CEO behaviour weakens, and shared commitment to governance quality deteriorates (Peters et al., 2024). This, in turn, leads non-CEOs executives exert less monitoring on the CEO, as they may not feel a strong obligation to uphold high reporting standards, thereby fostering a culture of mistrust that undermines internal governance mechanisms for CPD. Therefore, the absence of harmony due to the tournament competition may lead to the failure to maintain a good corporate political strategy and less likely to motivate non-CEO executives to care about political disclosures. To reflect these competing perspectives, we propose the following non-directional hypothesis:

H1: There is a significant relationship between CEO pay gap and the level of corporate political disclosure.

3.3 Sample and variables construction

3.3.1 Sample selection and variable construction

We include all S&P 500 firms with CPA-Zicklin Center data over ten years from 2012 to 2021.³³ To build our sample, we collect data from various sources: political disclosure data were downloaded from the CPA-Zicklin Center website; data for executives were collected

³³ Based on the information disclosed by the companies in their website content and reports, the CPA-Zicklin Center captures political spending disclosure for firms and creates an index to measure the level of political spending transparency. The reason for starting our sample from 2012 is that the CPA-Zicklin Center reported its first index in 2011 for companies in the S&P 100, then started to expand its index to include S&P 200 firms in 2012 and 300 firms in 2013 and 2014. In 2015, the index was extended to include all S&P 500 firms. The data is publicly available on their website www.politicalaccountability.net/cpa-zicklin-index/. The data was accessed on 01/04/2022.

from the *ExecuComp* database and then merged with political disclosure data; financial and accounting data were collected from *Compustat*, and finally, political spending data were collected from the FEC website, the Center for Responsive Politics (CRP), and the National Institute on Money in State Politics.

The initial sample consists of 617 firms, yielding 4021 firm-year observations with political spending disclosure data. After merging datasets and eliminating firm-year observations with missing variables, we further exclude non-US incorporated firms.³⁴ Our final sample was 557 firms with 3503 firm-year observations. Table 3.0-1 outlines the sample selection process (Panel A), year distribution and industry categorization using the SIC code (Panel B); the sample is evenly distributed throughout the sampling period and not limited to particular industries.

³⁴ Under the Federal Election Campaign Act (FECA) of 1974, non-US incorporated are not allowed to make political contributions to influence US politics (Federal Election Commission, 2018, p.33)

Table 3.0-1: Sample selection and distribution

Panel A: Sample selection

	Firm	Firm-year
S&P 500 with political spending disclosure data	618	4,021
Less: Missing observations after matching with Execucomp data		(265)
Less: Missing firms specific variables		(54)
Less: Incorporated outside the US		(199)
Final sample	557	3503

Panel B: Sample composition by industry and year

Industry	Year										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Construction	0	0	0	5	5	5	5	5	5	5	35
Finance, RE	34	35	51	76	79	85	92	87	92	90	721
Manufacturing	56	57	93	149	152	156	156	165	166	175	1325
Mining	15	15	15	25	25	23	19	18	16	17	188
Public	2	2	2	2	2	1	2	2	2	2	19
Retail	12	12	21	32	32	32	26	28	27	25	247
Services	8	8	21	46	47	50	52	53	54	56	395
Transportation	27	27	35	59	60	60	57	53	57	57	492
Wholesale	3	3	6	11	10	9	9	9	10	11	81
Total	157	159	244	405	412	421	418	420	429	438	3503

Notes: This table presents the sample selection procedure (Panel A) and distribution by industry and year using (Two-Digit SIC Code) (Panel B).

3.3.2 *Empirical model and variables measurement*

To investigate whether promotion-based incentives influence the CPD level, we estimate the following empirical model.

$$\begin{aligned}
 CPD_{it} = & \beta_0 + \beta_1 CEO Pay Gap_{it} + \sum Controls_{it} + Industry FE_{it} \\
 & + Year FE_{it}
 \end{aligned}
 \tag{1}$$

The dependent variable in this study is the level of CPD (*CPDisc*). We measure *CPDisc* using the CPA-Zicklin Index, a widely used measure developed through a joint initiative of the Center for Political Accountability and the Carol and Lawrence Zicklin Center for Business Ethics Research at the Wharton School of the University of Pennsylvania (Baloria et al., 2019; Goh et al., 2020; Almaghrabi & Tsalavoutas 2022). The index is constructed by systematically reviewing publicly available information and documents published on firms' websites and

assigning numerical scores based on a predetermined set of disclosure criteria. When publicly available information is insufficient, the Center supplements this review by contacting firms directly. The development process also includes several features that support the measure's reliability and content validity: more than 40 percent of sampled firms provided comments during the process, 60 experts from the corporate, NGO, academic, and institutional investor communities reviewed the framework, and approximately half of the firms in the sample responded to the Center's rating assessments (Goh et al. 2020). In addition, an independent audit of the 2022 CPA-Zicklin Index evaluated the integrity and credibility of firms' voluntary CPD (Hanna & Laufer, 2024). Taken together, these features support the use of the CPA-Zicklin Index as a detailed and systematically developed measure of CPD.

The CPD index for each firm is based on a total of 24 items classified into three major dimensions: (1) disclosure (*P_Disclosure*), (2) policy (*P_Policy*), and (3) oversight of political spending (*P_Oversight*). The disclosure sub-index (from 1 to 9) captures whether the firms disclose political contributions to political candidates, parties, committees, tax-exempt '527 groups' and other such organizations, as well as trade or government associations. The policy sub-index (from 10 to 16) captures whether the firms disclose their policies used in governing political spending from corporate funds and the conditions needed to be met for the recipients. Finally, the Oversight sub-index (from 17 to 24) considers information about board committees responsible for reviewing and approving any political spending and ensuring that internal procedures are consistent with firms' political spending policies and whether firms release a report for such spending. Each item is assigned a numerical score by the CPA-Zicklin Center according to its scoring framework, with item-level maximum scores ranging from 2 to 6 points. The maximum scores are 36 points for the disclosure dimension, 18 points for the policy dimension, and 18 points for the oversight dimension, yielding a total possible score of 72 points. We derive *CPDisc* as the sum of the item-level scores across all 24 indicators, such that

higher values indicate more extensive political spending disclosure and stronger governance over political spending.

We obtain the CEOs and non-CEO executives compensation data from *ExecuComp*. Following prior studies (e.g., Kale et al., 2009; Kini & Williams, 2012), we measure promotion-based tournament incentives (*CEO Pay Gap*) as the natural logarithm of the difference between a CEO's total compensation package (*ExecuComp item TDC1*) and the median of all other non-CEO executives total compensation.³⁵ To enhance the accuracy of the tournament measure, we eliminate firm year observations with less than four executives (Cheng et al., 2024) and, since negative pay gap is unlikely to be a good proxy for tournament incentive (Kini & Williams, 2012), we exclude firm year observations with negative pay gap. One could argue that the use of the median for non-CEO executives' pay could overestimate tournament incentives in case if one or two non-CEO executives have significantly higher pay which increases the chances of getting promoted than the remaining non-CEO executives, so we use two other proxies in the robustness check section.

We include three sets of control variables. At the CEO level, we control for CEO compensation incentives (*CEO Delta* and *CEO Vega*) (Kini & Williams, 2012), CEO characteristics (*CEO Gender*, *CEO Duality*, and *CEO Age*) (Ali et al., 2023) and *CEO power* (Ridge et al., 2015). At the firm level, we control for determinants of CPD, such as political spending (*Spending Intensity*) (Almaghrabi & Tsalavoutas, 2022), Industry concentration (*HHI*) (Goh et al., 2020), firm profitability (*ROA*), *Leverage*, *Firm Size*, market to book ratio (*MB*). We further control for firm risk (*Volatility*) (Gad et al., 2023), and Institutional ownership (*Inst Own*) as a proxy

³⁵ ExecuComp reports total compensation (*TDC1*) using the old format (pre-FAS 123R) for fiscal years 1992–2005 and the new format (post-FAS 123R) from fiscal year 2007 onward, following the FASB's issuance of FAS 123R on December 12, 2004 (Coles et al., 2014). Because our sample begins in 2012, all observations are drawn from the post-FAS 123R reporting format; consequently, our analyses are not subject to inconsistencies in ExecuComp total compensation measures.

for monitoring and governance (Goh et al., 2020). Finally, we control for state ideology (*State Ideology*) to capture variation in disclosure incentives associated with the political environment. In order to control for industry-specific effects and year effects, we include both year fixed effects and industry fixed effects, based on the two-digit SIC code. We also winsorize all continuous variables at the 1st and 99th percentiles to remove the effect of outliers. Also, as recommended by Peterson (2009), we use the heteroskedasticity robust standard errors, clustered by firm level³⁶. A list of variables and their definitions is provided in Appendix D.

3.3.3 Summary statistics

Table 3.0-2 shows the summary statistics for our key variables. The mean value for *CPD* is 45.79% indicates, on average, a limited degree of disclosure regarding firm's political activities. Also, there is a considerable variation for CPD across companies within our sample, ranging between 9.72% and 77.78% for the first and third quartiles, respectively. With regards to the three categories of political disclosure, *P_Policy* category has the highest score with a mean value 59 %, however, *P_Disclosure* and *P_Oversight* categories are slightly lower with average scores 41.28% and 42%, respectively. It appears that firms tend to disclose more information about the political spending policies rather than the disclosure of the actual political contributions and the oversight mechanisms that govern the entire political spending process. The high score for *P_Policy* compared to the low scores for *P_Disclosure* and *P_Oversight* provides a signal for a weak implementation for such policies over corporate political funds (i.e., symbolic application of policies).

³⁶ We do not employ firm fixed effects as the variations in corporate political disclosures are very small within a firm across years (Ali et al., 2023; Almaghrabi & Tsalavoutas 2022), which means that adding firm fixed effects would remove the cross-sectional variations of interest (Wooldridge, 2016, p.461).

The mean (median) value of *CEO Pay Gap* is \$US9625.27million (\$US7968.53million). Compared to the prior studies (Kale et al., 2009; Kini & Williams, 2012), these figures reflect a substantial increase in the pay gap between CEOs and non-CEO TMT executives over the recent years (2012-2021). The substantial disparity in compensation between CEOs and non-CEO executives creates a strong incentive for non-CEO senior executive leaders to win the promotion as the promotion is associated with a significant increase in pay. Regarding firm characteristics and the other control variables, the descriptive statistics are consistent with the prior studies (e.g., Ali et al., 2023).

Table 3.0-2: Descriptive statistics

Variables	N	Mean	SD	25th	Median	75th
<i>CPD</i>	3503	45.79	33.62	9.72	48.61	77.78
<i>P_Disclosure</i>	3503	41.28	36.30	5.56	36.11	77.78
<i>P_Policy</i>	3503	59.02	33.29	27.78	72.22	88.89
<i>P_Oversight</i>	3503	42.01	35.90	0.00	44.44	77.78
<i>CEO Pay in dollars</i>	3503	9625.27	12314.40	5517.51	7968.53	10998.57
<i>CEO Pay Gap</i>	3503	8.92	0.67	8.62	8.98	9.31
<i>CEO Delta</i>	3503	6.35	1.52	5.43	6.42	7.33
<i>CEO Vega</i>	3503	3.56	3.21	0.00	5.22	6.55
<i>CEO Gender</i>	3503	0.05	0.22	0.00	0.00	0.00
<i>CEO Duality</i>	3503	0.52	0.50	0.00	1.00	1.00
<i>CEO Age</i>	3503	57.70	5.68	54.00	58.00	61.00
<i>CEO Power</i>	3503	1.67	5.52	0.11	0.28	0.71
<i>Spending Intensity</i>	3503	2.13	3.48	0.06	0.68	2.52
<i>Industry Concentration</i>	3503	0.20	0.17	0.10	0.14	0.22
<i>ROA</i>	3503	0.06	0.07	0.02	0.05	0.09
<i>Leverage</i>	3503	0.46	1.28	0.13	0.25	0.51
<i>Firm Size</i>	3503	1.98	0.82	1.00	2.00	3.00
<i>MB</i>	3503	4.54	13.15	1.75	3.05	5.76
<i>Inst Own</i>	3503	0.79	0.17	0.73	0.82	0.90
<i>Volatility</i>	3503	0.26	0.11	0.18	0.23	0.30
<i>State Ideology</i>	3503	0.43	0.49	0.00	0.00	1.00

Note: This table shows the summary statistics of the variables used in the baseline analysis. All continuous variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix D.

Table 3.0-3 presents the correlation matrix for all variables. As expected, the correlation coefficient between *CPD* and its components *P_Disclosure*, *P_Policy*, and *P_Oversight* is relatively high. Focusing on our main variable of interest *CPD*, the correlation between *CPD* and *CEO Pay Gap* is positive and statistically significant ($\rho = 0.215$; at $p < 0.01$). This preliminary finding suggests a positive association between CEO pay gap and CPD level.

Table 3.0-3: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) CPD	1.000										
(2) P_Disclosure	0.967***	1.000									
(3) P_Policy	0.919***	0.814***	1.000								
(4) P_Oversight	0.939***	0.844***	0.873***	1.000							
(5) CEO Pay Gap	0.215***	0.188***	0.239***	0.206***	1.000						
(6) CEO Delta	0.031*	0.024	0.039**	0.032*	0.208***	1.000					
(7) CEO Vega	0.041**	0.040**	0.044***	0.030*	0.155***	0.559***	1.000				
(8) CEO Gender	0.060***	0.044***	0.075***	0.066***	0.044***	-0.068***	-0.065***	1.000			
(9) CEO Duality	0.139***	0.130***	0.125***	0.142***	0.127***	0.182***	0.138***	-0.007	1.000		
(10) CEO Age	0.016	0.017	0.015	0.014	0.090***	0.249***	0.001	-0.039**	0.135***	1.000	
(11) CEO Power	-0.028*	-0.029*	-0.026	-0.021	-0.056***	0.379***	0.013	-0.030*	-0.099***	0.081***	1.000
(12) Spending Intensity	0.325***	0.285***	0.322***	0.341***	0.175***	0.108***	0.026	0.095***	0.169***	0.011	0.092***
(13) HHI	-0.021	-0.026	0.001	-0.029*	0.036**	0.105***	0.123***	0.029*	-0.013	0.022	0.004
(14) Firm Size	0.302***	0.273***	0.317***	0.285***	0.209***	0.212***	0.160***	0.047***	0.125***	0.066***	0.074***
(15) ROA	-0.063***	-0.047***	-0.082***	-0.065***	0.022	0.146***	0.134***	0.029*	0.000	-0.029*	-0.008
(16) Leverage	0.080***	0.075***	0.070***	0.082***	-0.049***	-0.030*	-0.067***	0.001	-0.030*	-0.006	-0.009
(17) MB	0.018	0.035**	-0.003	0.000	0.033**	0.004	0.019	0.026	-0.005	-0.024	-0.012
(18) Inst Own	-0.104***	-0.084***	-0.123***	-0.104***	-0.044***	-0.063***	-0.014	-0.026	-0.090***	0.003	-0.056***
(19) Volatility	-0.054***	-0.046***	-0.056***	-0.054***	-0.007	-0.088***	-0.116***	-0.009	-0.156***	0.002	0.055***
(20) State ideology	-0.034**	-0.058***	0.029*	-0.034**	-0.027*	-0.073***	-0.028*	-0.047***	0.038**	0.009	0.013
Variables	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)		
(12) Spending Intensity	1.000										
(13) HHI	0.130***	1.000									
(14) Firm Size	0.357***	0.192***	1.000								
(15) ROA	-0.036**	0.100***	0.093***	1.000							
(16) Leverage	0.041**	-0.038**	0.003	-0.202***	1.000						
(17) MB	0.031*	0.037**	0.014	0.156***	-0.064***	1.000					
(18) Inst Own	-0.227***	-0.068***	-0.227***	0.018	-0.012	-0.004	1.000				
(19) Volatility	-0.150***	-0.020	-0.146***	-0.218***	0.125***	-0.015	0.092***	1.000			
(20) State ideology	-0.006	0.063***	0.010	-0.141***	0.003	-0.052***	-0.064***	0.071***	1.000		

Notes: This table presents a matrix of Pearson correlation coefficient pairs between key variables of interest. The symbols ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively (two-tailed test). All variables are defined in Appendix D.

3.4 Main results

Table 3.0-4 reports the baseline results. The dependent variable in all models is the corporate political disclosure index (CPD), while our main variable of interest is *CEO Pay Gap*. To isolate the effect associated with other compensation variables, Column 1 presents a parsimonious specification that includes *CEO Pay Gap* as the only compensation variable and excludes fixed effects. Column 2 augments this model by including year and industry fixed effects. Column 3 presents our preferred specification, which includes the full set of control variables in addition to year and industry fixed effects. In line with tournament theory, the coefficients of *CEO Pay Gap* is positive and statistically significant across specifications. In Columns 2 and 3, the estimated coefficients are significantly positive (5.401 and 5.509, respectively) and statistically significant at 1%, demonstrating that large pay gap act an internal governance mechanism that incentivize non-CEOs executive to enhance CPD. In terms of economic magnitude, a 1% increase in total pay gap is associated with 8% increase in the CPD level. This finding corroborates with Cheng et al. (2024) findings' that a large pay gap between CEO and other senior leaders reduces information asymmetry and enhance the quality of political disclosures. This empirical evidence also supports the theoretical proposition derived from tournament theory that promotion-based incentives reduce the agency problem by motivating non-CEO executives to exert greater efforts to reduce the political information asymmetry and subsequently enhance CPD level.

Regarding the control variables, our findings align with the prior studies. We find that *CEO Duality, and Spending Intensity* are positively associated with *CPD*. In contrast, we find little support for the claim that the presence of institutional investors fosters greater CPD (Goh et al., 2020). Also, higher CPD levels are associated with lower levels of industry concentration (*HHI*). This suggests that firms in very competitive industries exhibit more political disclosure.

Table 3.0-4: Tournament incentives and corporate political disclosure

<i>Dep Var</i>	<i>Corporate political disclosure (CPD)</i>		
	(1)	(2)	(3)
CEO Pay Gap	10.288***	5.401***	5.509***
	(6.91)	(3.86)	(3.94)
CEO Delta			-1.286 (-1.47)
CEO Vega			0.588 (1.44)
CEO Gender		1.146 (0.25)	1.216 (0.26)
CEO Duality		4.204* (1.88)	4.453** (1.99)
CEO Age		-0.139 (-0.79)	-0.073 (-0.40)
CEO Power		-0.138 (-0.81)	-0.018 (-0.09)
Spending Intensity		2.380*** (6.79)	2.415*** (6.97)
HHI		-12.640** (-2.14)	-12.488** (-2.11)
ROA		1.101 (0.07)	3.248 (0.19)
Leverage		0.082*** (3.82)	0.085*** (3.83)
Firm Size		7.627*** (4.32)	7.499*** (4.27)
MB		0.057 (1.13)	0.055 (1.09)
Inst Own		-4.358 (-0.73)	-4.845 (-0.82)
Volatility		-20.094** (-2.42)	-19.705** (-2.39)
State Ideology		-4.488* (-1.83)	-4.668* (-1.91)
Year FE	No	Yes	Yes
Industry FE	No	Yes	Yes
Observations	3503	3503	3503
Adj. R^2	0.09	0.23	0.23

Notes: This table presents the results of the effect of tournament incentives on the level of CPD. Columns (1–3) report the results of estimating this effect using different sets of control variables. Year and industry fixed effects (FE) are included in all columns. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm. ***, **, and * denote significance at the 1 %, 5 %, and 10 % levels, respectively. All variables are defined in Appendix D.

3.5 Addressing Endogeneity issues

Our baseline regression results support that promotion-based incentives induce non-CEO executives' efforts to enhance CPD, however our results might be biased by endogeneity problems such as reverse causality, selection bias problems, and omitted variable bias (i.e., unobservable firm heterogeneity). In this section we use different methods to address the endogeneity problems.

3.5.1 Instrumental Variable (IV) approach

To mitigate the reverse causality concern, we employ an IV approach. Prior studies suggests that executives prefer to work within the same geographical area (Knyazeva et al., 2013), and they tend to switch between similar size firms in the same industry (Murphy,1999). Thus, following Hasan et al. (2020), we use the total number of non-CEOs executives from companies located in the same ZIP area, same size quartile, and same industry as our instrument (*Local Non-CEOs*) for tournament incentives. The central tenet underlying the relevance of the *Local Non-CEOs* as instrument, as noted by Kale et al. (2009) is that an excess supply of non-CEO executives intensifies the internal competition, and increase the bargaining power of firms, which in turn lead to a larger pay gap. Thus, we expect *Local Non-CEOs* to be positively correlated to *CEO Pay Gap*. However, the supply of external non-CEOs executives compared to internal non-CEOs executives is less likely to affect reporting decisions (Gad et al., 2023). Overall, we expect this instrumental variable satisfies both the relevance and exclusion conditions.

Column 1 and 2 of Table 3.0-5 reveals the results for 2SLS regression analysis. In the first stage regression as presented in Column 1 of Table 3.0-5, we find that the coefficients on *Local Non-CEOs* variables are significant and consistent with our expectations. Also, *F-statistic* is above the suggested critical values. Additionally, the Cragg-Donald Wald *F-statistic* is 20.27, which reveals that our instruments are not weak. Column 2 of Table 3.0-5 presents our results

from second stage regression, which include the predicted value of *CEO Pay Gap* as independent variable. The relationship between *CEO Pay Gap* and *CPD* remains positive and significant³⁷. This evidence lend support that tournament incentives encourage non-CEO executives to enhance CPD.

3.5.2 *Dynamic generalized method of moments (GMM)*

In the addition to IV approach to address endogeneity, we estimate the relation between promotion-based incentives and CPD level using a dynamic GMM panel estimator developed by Arellano and Bond (1991). The dynamic GMM estimator is based mainly on eliminating any potential bias that may arise from time-invariant unobserved heterogeneity, and on reducing the necessity to use external instruments (Wintoki et al., 2012). In our GMM estimation, we use the same control variables in the primary model along with year and industry fixed effects.³⁸ Column 3 of Table 3.0-5 report the results. The GMM results corroborate our OLS and 2SLS results and confirm that *CEO Pay Gap* are positively associated with *CPD* levels. Also, the *P-value* of *ARI* and *AR2* asserts the absence of first order and second-order serial correlations, and the *Hansen test* results assure the instruments' validity.

³⁷ As in Hasan et al. (2020) and other studies (e.g., Mkrтчyan et al., 2023, Li & Wang, 2023), we report a greater coefficient on instrumented *CEO Pay Gap* than in our baseline results. Jiang (2017) offers two potential explanations for this frequently observed phenomenon. First, the two-stage least squares coefficient may capture a local average treatment effect that exceeds the population average treatment effect. Second, the instruments may be weak. Given that the *Cragg-Donald Wald F-statistic* is 20.27, which is above the Stock-Yogo weak ID test critical value of 16.38. Therefore, we ascertain that our instruments are not weak and meet the exclusion criteria, suggesting that they are more likely capturing a local average treatment effect rather than being weak.

³⁸ We employ “xtabond2” Stata code to run two the two-step GMM estimation. The lag length is three to eight years.

Table 3.0-5: Addressing endogeneity: IV and GMM

<i>Dep. Var</i>	IV	IV	GMM
	first stage	second stage	
	<i>CEO Pay Gap</i>	<i>CPD</i>	<i>CPD</i>
	(1)	(2)	(3)
CEO Pay Gap		50.176**	10.224*
		(2.32)	(1.65)
Local non-CEOs	0.014*** (3.06)		
CEO Delta	0.084*** (3.49)	-5.021** (-2.29)	-1.442 (-0.62)
CEO Vega	0.009 (1.00)	0.200 (0.33)	-0.037 (-0.03)
CEO Gender	0.134** (2.50)	-4.828 (-0.77)	-3.349 (-0.71)
CEO Duality	0.064 (1.46)	1.686 (0.53)	-2.438 (-0.36)
CEO Age	0.005 (1.32)	-0.279 (-1.10)	0.047 (0.10)
CEO Power	-0.017** (-2.44)	0.728 (1.41)	1.571* (1.73)
Spending Intensity	0.027*** (5.42)	1.125 (1.55)	0.059 (0.15)
HHI	-0.188 (-1.49)	-1.931 (-0.22)	-4.753 (-0.13)
ROA	-0.429 (-1.20)	19.866 (0.89)	40.444 (0.89)
Leverage	-0.000 (-0.86)	0.097*** (2.83)	0.043 (0.65)
Firm Size	0.096*** (3.63)	2.956 (0.97)	-0.501 (-0.09)
MB	0.000 (0.56)	0.027 (0.38)	0.007 (0.04)
Inst Own	0.064 (0.59)	-7.599 (-0.96)	7.440 (0.64)
Volatility	0.033 (0.19)	-21.875* (-1.83)	-0.492 (-0.02)
State Ideology	-0.019 (-0.46)	-3.343 (-1.12)	-4.827 (-0.20)
Constant	7.970*** (28.97)	-390.874** (-2.23)	-74.181 (-0.70)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	3503	3503	2892
Adj. R ²			-
F Test of excluded instruments	9.39***		
P-value	(0.002)		
Cragg-Donald Wald <i>F</i> statistic	-	19.71	--
No. of Instruments			106

Lagging of instruments	3-8 years
AR1 (p-value)	0.000
AR2 (p-value)	0.459
Sargan (p-value)	0.684
Hansen-J (p-value)	0.646

Notes: This table presents the results of endogeneity tests. Columns (1)– (2) report the two-stage least squares instrumental variable (IV) regressions of corporate political disclosure (CPD) on CEO Pay Gap and other control variables. Column (3) report the two-step system GMM results of corporate political disclosure (CPD) on CEO Pay Gap and other control variables. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm level. The symbols ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

3.5.3 Propensity score (PS) matching approach.

The self-selection problem is one of the common pitfalls that could enhance endogeneity (Roberts & Whited, 2013). The objective of PS matching sample is to account for the fact that the choice of firms with large pay gap (high tournament incentives) to enhance corporate political disclosures is not random but can be a function a firm's observable characteristics. Following Chowdhury and Rahman (2023), the propensity score matched is implemented as follows. Firstly, using the full sample, we apply logit model to predict the likelihood of selecting a firm has high tournament incentives and we include all control variables as in Equation (1) as covariates. Secondly, based on the propensity scores estimated from the first stage model, we match each treatment firm to a control firm, using the nearest neighbour method with a calliper of 0.01. We also employ matching without replacement, to prevent matching observations with high propensity scores more than one time (Shipman et al., 2017). The matching procedure ends with a sample of 2222 firm-year observations. Also, after the matching procedures, we run some diagnostic tests to ensure the reliability of the matching process.

The diagnostic tests presented Table C.2 in the Appendix indicates that the matches are effective in narrowing the differences in observable firm characteristics between treatment and control groups (no significant differences). Moreover, Column 1 of Table 3.0-6 shows that *CEO Pay Gap* as a proxy for non-CEOs incentives is significantly associated with CPD (Coefficient = 5.040; $p < 0.01$). Thus, estimates of the matched sample lend support to our main findings, and provide evidence for there being no endogeneity.

3.5.4 Entropy balancing (EB) approach

As another matching approach, we also employ EB technique. EB is considered one of the most widely matching techniques that are used recently in the literature (McMullin & Schonberger, 2022). EB is a matching technique that reweights sample observations to ensure

covariate balance based on distributional properties (e.g., mean, median and skewness) by adjusting the weights assigned to each observation and achieve balance between the treatment and control groups (Chapman et al., 2019). EB design provides advantages over PS matching, primarily by ensuring that high-order moments of covariates distributions are nearly the same across treated and control groups, also restricting researcher involvement in terms of PS model specifications, such as the choice between matching with or without replacement, or the selection of caliper distance (Mcmullin & Schonberger, 2022). In addition, using EB preserves the sample size, which subsequently increases the testing power of the model (Canil et al., 2019). As a result, this method guarantees that the estimated coefficient is no longer affected by the differences between covariates among the two groups.

Panel A of Table C.3 in the Appendix reports the proof of convergence after entropy balancing among the treatment and control groups. Furthermore, Column 2 of Table 3.0-6 shows the regression results using entropy balancing. A positive significant coefficient on *CEO Pay Gap* in the entropy balanced sample is consistent with our main finding.

Table 3.0-6: Addressing endogeneity: PSM and EB

<i>Dep. Var.</i>	PSM	Entropy
	<i>CPD</i>	
	(1)	(2)
High CEO Pay Gap	5.040^{***} (2.62)	5.079^{***} (3.27)
Controls	Yes	Yes
Year FE	Yes	Yes
Industry FE	Yes	Yes
Observations	2222	3503
Adj. R ²	0.20	0.22

Notes: This table presents the results of the Propensity Score Matching (PSM) and entropy balancing. We consider *High CEO Pay Gap* a dummy variable that takes a value of one if *CEO Pay Gap* is higher than sample median and zero otherwise. All models include a constant. The control variables are not reported for brevity. The diagnostic statistics of matched samples for PSM and Entropy balancing are given in the Appendix. Year and industry fixed effects (FE) are included in the regression. T-statistics are included in the parentheses and are adjusted for heteroscedastic robust standard errors clustered by firm level. The symbols ^{***}, ^{**}, and ^{*} denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

3.5.5 Omitted variable concern

The relationship between *CEO Pay Gap* and *CPD* level may be affected by unobservable omitted variables that are not fully captured by the fixed effects in our baseline specification. To alleviate such concerns, we extend our regression with additional controls capturing plausible omitted determinants of *CPD*. First, the literature suggests that firm’s governance and board monitoring, in particular, shape political spending disclosures (Ali et al., 2023). Accordingly, beyond the governance proxies included in our main specification, we modify our regression model to include the following set of additional controls capturing the efficacy of both internal and external governance mechanisms, including Entrenchment index (*E-Index*), Board size (*Board Size*), Board Independence (*Board Indep*), Board co-option (*Board co-option*), and Board busyness (*Board busyness*). Because data on these variables are missing for a substantial portion of the sample, we do not include them in the primary specification.³⁹

³⁹ After merging with Boardex and ISS dataset, missing data on the additional governance controls reduces the sample by approximately 30% (i.e., from 3503 to 2462 firm-year observations).

However, their inclusion in supplementary analyses helps mitigate concerns about omitted variable bias and reinforces the robustness of our findings.

In Column 1 of Table 3.0-7, the coefficient of *CEO Pay Gap* remains significant and positive, which suggests that the effect of *CEO Pay Gap* is not driven by board characteristics. The additional governance controls are generally consistent with their expected relations: the estimated coefficients on *Board co-option* and the *E-Index* are negative (though not statistically significant), whereas *Board Indep*, *Board Size*, and *Board busyness* are positively associated with CPD level. Second, we include additional potential determinants of CPD, such as the number of analysts' recommendations (*Analyst*), firm age (*Firm Age*), and firm reputation score (*MA score*) (Goh et al., 2020). We use firm reputation scores based on America's Most Admired Companies list (Cao et al., 2024). The results in Column 2 of Table 3.0-7 support our main findings.

Finally, we implement the Oster (2019) test to directly evaluate the impact of unobservables factors on the relationship between *CEO Pay Gap* and CPD level. Following prior studies (e.g., Call et al., 2018), the test measures the increase in R^2 from additional controls and uses this information to overcome the omitted variable bias. The intuition is that, if unobservables are confounding the main relationship, a hypothetical regression with both observable and unobservable variables should yield a weaker coefficient estimate for the main effect (β_{min}) and a higher R^2 (R_{max}^2) than the baseline regression (Altonji et al., 2005). Following Oster's guidance, we adopt the most conservative assumption by setting $\beta_{min} = 0$. We also set $R_{max}^2 = 1.3R^2$ for the regression model that includes observable control variables. Using the specified parameters and the observed changes in both the coefficient of interest and R^2 between specifications with and without controls, we compute the Oster "delta (δ)", which quantifies the relative importance between unobservables and observables. A δ greater than 1.00

suggests a robust main effect because it indicates that, for unobservables to fully explain away the main effect, they need to be as important as the observable controls.

In Table 3.0-8, we report estimated δ to evaluate the importance of unobservables in explaining the relationship between *CEO Pay Gap* and *CPD* level. In Column 1, the regression includes controls in the baseline regression with year and industry fixed effects. In Column 2, we add the eight additional controls in Table 3.0-7 to the baseline regression. Across the two columns, δ is estimated to be greater than 1.00. For instance, in Column 1, δ is estimated to be 2.14, suggesting that unobservables need to be 2.14 times as important as the baseline controls in Equation (1) to render a null effect. Overall, the evidence in this omitted variable bias diagnostic test suggests that our results do not suffer from endogeneity due to omitted variable bias.

Table 3.0-7: Controlling potentially omitted factors

<i>Dep. Var.</i>	<i>Corporate Political Disclosure (CPDisc)</i>	
	(1)	(2)
CEO Pay Gap	6.069***	4.355***
	(3.54)	(2.65)
E-index	-2.546	
	(-1.25)	
Board Indep	21.323	
	(1.45)	
Board Size	15.983***	
	(2.96)	
Board Busyness	7.956***	
	(2.75)	
Board co-option	-2.450	
	(-0.59)	
Analyst		0.533***
		(2.81)
Firm Age		-5.850
		(-0.90)
MA score		0.969**
		(2.06)
Constant	-52.879*	39.171
	(-1.87)	(1.16)
Controls	Yes	Yes
Year FE	Yes	Yes
Industry FE	Yes	Yes
Observations	2462	2207
Adj. R^2	0.26	0.24

Notes: This table reports the regressions that test whether the baseline finding is robust to adding additional control variables. In Column (1), the additional controls attempt to capture board governance characteristics. In Column (2), the regressions attempt to account for factors that can drive political disclosure. Control variables are similar to Table 3.0-4, but their coefficient estimates are not reported for brevity. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

Table 3.0-8: Evaluating omitted variable bias using Oster’s (2019) approach

Model	β without controls (β_u)	β with controls (β_c)	R^2 without controls (R_u^2)	R^2 with controls (R_c^2)	R_{max}^2	δ ($\delta > 1$ indicates robust results)
Column (3) of Table 3.0-4	10.503	5.509	0.043	0.242	0.315	2.14
Column (3) of Table 3.0-4 and additional controls in Table 3.0-7	10.503	4.684	0.043	0.294	0.382	1.30

Notes: This table reports the results of tests that evaluate the robustness of the relationship between CEO pay gap and CPD to unobservable omitted variables. We compute the δ statistic by assuming that the inclusion of unobservables would produce a zero main effect and a maximum R^2 of 1.3 times the regression without unobservables. δ is the ratio of selection on unobserved variables to selection on observed variables that matches a zero main effect and R_{max}^2 . If $\delta > 1$, it indicates that the unobservables need to be at least as important as the included controls to push the effect of CEO pay gap to zero. Thus, a δ greater than one is regarded as evidence that the omitted variable bias is unlikely to explain away the main effect

3.6 Cross-sectional analysis

3.6.1 *The effect of promotion probability*

The tournament theory suggests that non-CEO executives are motivated by probability of promotion to CEO position, which, in turn, induces them to exert greater efforts to increase the likelihood of winning the tournament. To the extent that *CEO pay gap* reflects tournament incentives, we expect the effect of the *CEO pay gap* on *CPD* levels differ across settings that *strengthen* or *weaken* non-CEO executives perceived probability of promotion. In this section, following Kale et al. (2009), we examine three scenarios in which tournament participants are likely to perceive shifts in their probability of promotion and, consequently, adjust their behaviour in ways that affect the corporate political disclosures.

In the first scenario, the appointment of a new CEO (*New CEO*) signals that the current intra-firm tournament is over; therefore, tournament incentives should be *weaker* for firms with newly appointed CEOs. In this sense, we expect the effect of tournament incentives is *reduced* as the firm just had a new CEO. The second scenario considers a setting in which the tournament effect of *CEO pay gap* would have a *stronger* effect on CPD, particularly as the firm is closer to a potential CEO turnover. Specifically, we examine the effect of CEO tenure (*CEO Tenure*) on tournament incentives and CPD nexus. As CEO tenure increases, the probability of CEO turnover rises, which should increase non-CEO executives perceived probability of promotion (Gad et al., 2023). Accordingly, we expect that the relationship between tournament incentives and CPD is *stronger* when CEO tenure is longer. In our third scenario, we examine whether the positive association between tournament incentives and CPD depends on senior executives' ex ante expectations about the tournament outcome. When non-CEO executives anticipate that the board are likely to appoint outsider CEO (outside the firm), their perceived likelihood of promotion declines, weakening their tournament incentives. Conversely, when the appointed CEO is an insider (one of the non-CEO executives), the

perceived probability of promotion increase, and tournament incentives should strengthen. Accordingly, we expect that the tournament incentives - CPD nexus is *attenuated* when an *outside CEO* is expected and *amplified* when an inside CEO is expected. To test this, following Shen and Zhang (2018), *Appointing Insider* (*Appointing Outsider*) is an indicator that equals one, showing whether an insider (outsider) will be appointed to the CEO position in year $t + 1$ or year $t + 2$ and is zero otherwise.

Panel A Table 3.0-9 present our results. Column (1) of Panel A shows that while the estimated coefficient on *CEO Pay Gap* remains positive and significant. The interaction term *CEO Pay Gap x New CEO* is negative and statistically significant ($\rho = -3.824$; at $p < 0.10$), consistent with tournament incentives being weaker in firm-years following a CEO appointment. Column 2 presents the second scenario, and results are consistent with our prediction. Finally, Columns 3 and 4 report the results of the third scenario. While the main effect of *CEO Pay Gap* remains positive and significant, the interaction with *Appointing Insider* is positive and significant ($\rho = 4.202$; at $p < 0.05$), whereas the interaction with *Appointing Outsider* is negative and not statistically significant. Overall, these findings are consistent with the premise that probability of internal promotion acts as a catalyst for tournament incentives (Kale et al., 2009).

3.6.2 *The effect of corporate lobbying activity*

Corporate lobbying is the common form of observable CPA but has been less explored especially in relation to managerial incentives and corporate political disclosures. The choice to engage in lobbying activities is made by firm's senior executives and it determines the degree of firms' involvement in political activities and influence the allocation of corporate resources to each political activity (Ozer, 2010; Griffin & Dunn, 2004). We assert that the impact of tournament incentives on CPD level could be affected by the intensity of corporate lobbying. Arguably, tournaments incentives could induce senior executives to undertake risky projects

to increase their chances of promotion (Goel & Thakor, 2008; Kini & Williams, 2012; Haß et al., 2015), including tax aggressiveness, and increasing the likelihood of cheating on investors (e.g., Kubick & Masli, 2016; Shi et al., 2016). Therefore, non-CEO executives who strive for promotion may use corporate lobbying as a strategic risk-management tool to manage uncertainties that may arise from tournament outcomes and in this case are inclined to intensify firms' lobbying efforts to hedge their firms and secure government officials' assistance in case of failure.⁴⁰

Based on this argument, we postulate that, to some degree, non-CEO executives can use corporate lobbying as a “substitute” for, not just as a “complement” to, CPD. In other words, when senior executives allocate greater resources toward corporate political lobbying, their incentives to disclose more information about their political activities diminishes, as they seek to avoid public scrutiny regarding the intensity of their lobbying efforts. Consistent with this view, Faccio (2006, 2010) contends that politically connected firms are less inclined to be concerned about public attention. Moreover, exacting disclosure requirements discourage politicians from accepting political donations because their names could appear in company reports or website content, which could eventually affect a firm's political ties (Jia et al., 2023). Therefore, we expect the corporate lobbying intensity to weaken the positive association between tournament incentives and CPD levels. To test this, we introduce an interaction between *CEO Pay Gap* and *Lobbying Intensity*. Where *Lobbying Intensity* is measured as log of federal corporate lobbying spending during the year.

⁴⁰ Lobbying activities hedge against potential risks such as government intervention and minimize disapproval of firm actions from the government (Abdurakhmonov et al., 2022). In addition, lobbying enables firms make riskier investment decisions and in case of failure, they can receive preferential treatment (Yu & Yu, 2011; Lambert, 2019).

Panel B Table 3.0-9 present our results. Column 1 of Panel B shows that the estimate coefficient on the interaction term for *CEO Pay Gap x Lobbying Intensity* are negative and statistically significant at 1%. This result indicates that corporate lobbying intensity weakens the positive impact of tournament incentives on CPD and diminishes senior leaders' incentives to disclose more information about their political activities. This finding is consistent with the view that senior executives may use corporate lobbying as a substitute for CPD to avoid attracting any potential public scrutiny with regarding lobbying intensity.

3.6.3 *The effect of proximity to political power*

Based on tournament theory, tournament outcome is a function of main inputs which are contestants' level of efforts, and random components (such as "luck" or noise") (Connelly et al., 2014). Lazear and Gibbs (2017) refer to the luck component as an "uncontrollable risk"⁴¹; they argue that it could take many forms such as local events, or global issues. We posit that political alignment with the President constitutes as an "uncontrollable risk" that represents randomness component within the framework of the tournament theory.

In the US, while the location of a company's headquarters remains relatively fixed over time, the political landscape of a state may go through significant changes due to biennial elections. These changes can shift firms' positions on the U.S. political map and change their proximity to political power (e.g., the President), and thus exposing the firm to different levels of policy risk.⁴² Kim et al. (2012) create political alignment index (hereafter, PAI) that tracks the

⁴¹ The authors provided an illustrative example for the effect of uncontrollable risk on the tournament outcome. "Suppose you are playing a tennis match. On some days the wind is very calm but on other days is very strong. When the wind is calm, you have greater control over your shots. When the wind is very strong, you have less control. This means that the outcome is less likely to be determined by which contestant played better and more likely to be determined by good or bad luck".

⁴² In other words, Aabo et al. (2020) draw on Will Rogers' quote which states, "this country has come to feel the same when Congress is in session as when the baby gets hold of a hammer." In this analogy, "the president has the most power "largest hammer" and the politicians down the line have ever-smaller hammers with state senators and representatives having the smallest hammers. When political alignment exists across all levels with the

magnitude political connectedness between states' politician and ruling federal party. Specifically, the PAI index is constructed as follows:

$$\begin{aligned}
 PAI = & \left(\frac{1}{4}\right) * Senators + \left(\frac{1}{4}\right) * Representatives + \left(\frac{1}{4}\right) * Governor \\
 & + \left(\frac{1}{4}\right) * \left[\left(\frac{1}{2}\right) * State senators + \left(\frac{1}{2}\right) \right. \\
 & \left. * State representatives \right]
 \end{aligned} \tag{2}$$

where *Senators* equals the percentage of two members of the Senate in Washington, D.C. who are part of the Presidential party in Washington, D.C., *Representatives* equals the percentage of the house representatives in Washington, D.C. who are part of the Presidential party, *Governor* is an indicator that equals one if the Governor and President are in the same party, and zero otherwise, *State senators* = an indicator that equals one if the fraction of state's members that belong to the President's party is >50% and zero otherwise, and *State representatives* = an indicator that equals one if the percent of state's representatives in the house that belongs to the President's party is >50%, and zero otherwise.

Kim et al. (2012) suggest that greater alignment of local politicians with the presidential party expose firms to both greater opportunities and more risk. On one hand, these firms may benefit from indirect connections via proximity to political power, which reduce partisan conflict among federal lawmakers and thus reducing the likelihood of gridlock, or shutdown. This alignment has a detrimental effect on information environment, which in turn leads to more lenient enforcement of disclosure rules, allowing for greater opaqueness⁴³. On the other hand,

president, the president and the politicians hammer in tandem and all blows from the president will be amplified. However, if politicians are not in alignment with the president, the president's efforts face obstacles, as these politicians follow their own agendas. Thus, we assert that political alignment with the president intensifies exposure to policy uncertainty”.

⁴³ For instance, Gross et al. (2016) find that firms headquartered in states that closely aligned with ruling party (high PAI), managers are more inclined to engage in earnings management and opportunistically smooth income.

despite firms headquartered in states with a high PAI derive substantial benefits from direct political connectedness, this proximity to political power concurrently heightens their exposure to policy risk, compared to firms in states with a low PAI. In other words, the winner party imposes a one-sided political regime which in turn introduces new items on the political agenda (Kim et al., 2012) and a broader array of policy initiatives, resulting in more radical policy changes (Colak et al., 2021).

In such cases, the intensity of the resulting legislative interventions injects uncertainty to the market, because it presents markets with a less familiar framework, making it harder for investors to assess the nature and impact of a government's future policies on market participants (Baker et al., 2016). Consistent with this explanation, Huang Magerakis et al. (2023) demonstrate that firms in states with strong presidential alignment tend to hold more cash as a precaution to hedge against local policy uncertainty. Relatedly, Bradley et al. (2016) assert that firms located in states that become more politically aligned with the president party could use other strategies to manage policy risk which in turn minimize cost of debt. The high levels of information uncertainty in these states (i.e., uncontrollable risk) increases the information asymmetry among investors, which may intensify the tournament incentives for non-CEO executives to use voluntary disclosures as a remedy to mitigate the adverse effects of such uncertainty and help shareholders to better understand the firm strategy (Nagar et al., 2019). As a result, in such scenarios, non-CEOs executives may leverage CPD as a strategic tool to send positive signals to the market, which in turn could increase the likelihood of being promoted as the next CEOs.

Panel B Table 3.0-9 present our results. Column 2 of Panel B shows the effect the political alignment index on the association between tournament incentives and CPD level. The coefficient on the interaction terms for *CEO Pay Gap x High PAI* are positive and statistically

significant. This finding is consistent with the view that random components such as state political alignment could positively increase effort level to enhance CPD.

Table 3.0-9: Cross sectional analysis

Panel A: The effect of promotion probability				
<i>Dep Var</i>	<i>Corporate political disclosure (CPD)</i>			
	(1)	(2)	(3)	(4)
CEO Pay Gap	6.938***	3.401*	4.907***	5.651***
	(4.39)	(1.86)	(3.32)	(4.00)
New CEO	4.596***			
	(2.88)			
CEO pay Gap x New CEO	-3.824*			
	(-1.84)			
CEO Tenure		-0.289		
		(-1.11)		
CEO pay Gap x CEO Tenure		0.308*		
		(1.68)		
Appointing Insider			0.950	
			(0.51)	
CEO pay Gap x Appointing Insider			4.202**	
			(2.05)	
Appointing Outsider				9.158**
				(2.30)
CEO pay Gap x Appointing Outsider				-4.323
				(-0.93)
Controls	Yes	Yes	Yes	Yes
Year & Industry FE	Yes	Yes	Yes	Yes
Observations	3503	3041	3503	3503
Adj. R^2	0.24	0.24	0.24	0.24
Panel B: The effect of corporate lobbying and proximity to political power				
<i>Dep Var</i>	<i>Corporate political disclosure (CPD)</i>			
	(1)	(2)		
CEO Pay Gap	5.109***	4.647***		
	(3.70)	(2.96)		
Lobbying Intensity	1.289*			
	(1.73)			
CEO Pay Gap x Lobbying Intensity	-1.248***			
	(-3.13)			
High PAI				
CEO Pay Gap x High PAI			3.352*	
			(1.73)	
Controls	Yes	Yes	Yes	Yes
Year & Industry FE	Yes	Yes	Yes	Yes
Observations	3503	3485	3485	3485
Adj. R^2	0.23	0.24	0.24	0.24

Notes: This table presents the regression in which the dependent variable is corporate political disclosure (*CPDisc*). *New CEO* is an indicator variable that equals 1 if the CEO's tenure is less than 3 years, and zero otherwise (Gad et al., 2023). *CEO Tenure* is the number of years CEO has been in his/her current role. *Appointing Insider (Outsider)* is an indicator variable assumes a value of one if an inside (outside) CEO will be appointed in the subsequent three years, and zero otherwise. *Lobbying Intensity* is natural log of Federal lobbying spending during the year. *High PAI* is an indicator variable that equals 1 if a firm has a PAI value in the top quartile of the distribution and zero otherwise. Control variables are similar to Table 3.0-4, but their

coefficient estimates are not reported for brevity. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

3.7 Alternative explanations

3.7.1 CEO entrenchment

The large pay gap between the CEO and other top executives may reflect the incumbent CEO's ability to influence the compensation-setting process and extract higher pay (i.e., CEO entrenchment) (Chen et al., 2013). Because weak corporate governance is associated with agency problems and CEO entrenchment, our baseline results could be driven by CEO entrenchment rather than tournament incentives. To alleviate this concern, we follow the two-stage approach in Chen et al. (2013), and Li and Wang (2023), to isolate the component of the CEO pay gap that is related to CEO entrenchment. In the first stage, we regress *CEO Pay Gap* on a range of governance variables, including the *E-Index*, *Board Size*, *Board Independence*, *Compensation Committee Size*, *Compensation Committee Independence*, *Audit Committee Size*, *Audit Committee Independence*, *Institutional Ownership*, and *CEO Ownership*. We interpret the fitted value from this model (*Predicted_Pay_Entrenchment*) as the portion of the pay gap attributable to governance-related entrenchment. The residual (*Residual_Pay_Entrenchment*) captures the remaining variation in the CEO pay gap that is not explained by these entrenchment-related governance characteristics and is therefore more likely to reflect tournament-based incentives. In the second stage, we re-estimate our baseline model after replacing *CEO Pay Gap* with *Residual_Pay_Entrenchment*. In the results presented in Panel A of Table 3.0-10, we find that *Residual_Pay_Entrenchment* is positive and significant, which indicates that the association between pay dispersion and CPD is not attributable to CEO entrenchment.

Table 3.0-10: *Alternative explanations and robustness checks*

Panel A: Alternative explanations- CEO entrenchment				
<i>Dep Var</i>	<i>Corporate political disclosure (CPD)</i>			
	(1)	(2)	(3)	
Predicted Pay Entrenchment (<i>Entrenchment Component</i>)	26.045*** (3.45)		26.983*** (3.57)	
Residual Pay Entrenchment (<i>Tournament Component</i>)		3.684** (2.24)	4.040** (2.55)	
Controls	Yes	Yes	Yes	
Year & Industry FE	Yes	Yes	Yes	
Observations	2744	2744	2744	
Adj. R^2	0.24	0.23	0.25	
Panel B: Alternative explanations- CEO quality and industry tournaments				
<i>Dep Var</i>	<i>Corporate political disclosure (CPD)</i>			
	(1)	(2)	(3)	(4)
Predicted Pay Quality (<i>CEO quality Component</i>)	10.845 (0.93)		11.148 (0.98)	
Residual Pay Quality (<i>Tournament Component</i>)		5.483*** (3.85)	5.497*** (3.84)	
CEO Pay Gap				6.500*** (3.88)
CEO Industry Gap				-0.142 (-0.53)
Controls	Yes	Yes	Yes	Yes
Year & Industry FE	Yes	Yes	Yes	Yes
Observations	3425	3425	3425	2804
Adj. R^2	0.23	0.23	0.23	0.25
Panel C: The three sub-indices of corporate political disclosure				
<i>Dep Var</i>	<i>P Disclosure</i>	<i>P Policy</i>	<i>P Oversight</i>	
	(1)	(2)	(3)	
CEO Pay Gap	4.718*** (3.26)	6.868*** (4.74)	5.765*** (3.95)	
Controls	Yes	Yes	Yes	
Year & Industry FE	Yes	Yes	Yes	
Observations	3503	3503	3504	
Adj. R^2	0.19	0.25	0.24	
Panel D: Alternative measures for tournament incentives				
<i>Dep Var</i>	<i>Corporate political disclosure (CPD)</i>			
	(1)	(2)		
CEO Pay Gap Mean	5.172*** (3.76)			
CEO Pay Gap Max		3.101*** (2.67)		
Controls	Yes	Yes		
Year & Industry FE	Yes	Yes		
Observations	3503	3485		
Adj. R^2	0.23	0.24		

Notes: This table presents regression results of the effect of CEO entrenchment, CEO quality, the three sub-indices of CPD, and alternative measures for tournament-based incentives. Panel A reports the regression of *CEO Pay Gap* on a range of governance variables, including the *E-Index*, *Board Size*, *Board Independence*, *Compensation Committee Size*, *Compensation Committee Independence*, *Audit Committee Size*, *Audit Committee Independence*, *Institutional Ownership*, and *CEO Ownership*. *Predicted pay entrenchment* is the portion of the pay gap attributable to governance-related entrenchment. Residual pay entrenchment is the difference between the actual and the predicted pay entrenchment. Panel B reports the regression results of CEO quality. Predicted pay quality is a proxy for CEO quality, which is estimated as a function of *CEO duality*, *CEO Tenure*, *CEO Age*, *CEO Generalist Index*. Residual pay quality is the difference between the actual and the predicted pay quality. Panel C reports the regression estimating the relationship between the *CEO Pay Gap* and the sensitive components in each of the three sub-indices of CPD. Control variables are similar to Table 3.0-4, but their coefficient estimates are not reported for brevity. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

3.7.1 *CEO quality*

The main proxy for tournament incentives is the difference between the CEO compensation and non-CEOs compensation. Arguably, the large pay gap between the CEO and second tier of the executives could be a result of CEO superior ability. Since the managerial talent is priced in the labor market (Graham et al., 2012), thus the excess compensation is due to managerial talent. In this sense, the outcome of our study might be attributable to high quality CEOs rather than the tournament incentives for the non-CEOs executives. Following Colak et al. (2021) and Li and Wang (2023), we employ two stage regression approach to isolate the effect of high-quality CEOs. In the first step, we regress tournament incentive proxy on a series of variables that is proxy for high quality CEOs including *CEO duality*, *CEO Tenure*, *CEO Age*, *CEO Generalist Index*. Given the premise that CEO pay gap capture the effect of both high-quality CEOs and tournament-based incentives, therefore, the predicted pay gap (*Predicted_CEO_Quality*) serves as a manifestation to CEO quality, whereas the residual pay gap (*Residual_CEO_Quality*) capture information not related to CEO quality and more likely related to tournament-based incentives. The results in Panel B of Table 3.0-10 supports our main findings. Thus, our baseline results are not driven by CEO quality.

3.7.2 *Control for industry tournament*

One could argue that the positive impact of intra-firm tournament incentives on enhancing CPD is not primarily driven by senior managers incentives but rather stems from CEO tournament incentives. Coles et al. (2018) argue that industry tournament incentives, which measured by the pay gap between the CEOs of the focal firm and the highest CEOs in the same industry, induce CEOs to increase the firm value however, the dark side of these incentives is associated with increase in CEO risk preferences. Consistent with this notion, Huang et al. (2022) argue that stronger industry tournament competition encourages CEOs to manipulate earnings.

Likewise, Kubick et al. (2021) document that firms whose CEOs face stronger industry tournament competition are more likely to expose their firms to greater stock price crash risk, suggesting that CEOs tend to withhold firm-specific negative information to avoid bad reputation. Also, CEO industry tournament incentives induce CEOs to adopt aggressive reporting decisions in order to increase the likelihood of winning the tournament (Gad et al., 2023). Based on the previous findings, the potential effects of industry tournament could encompass an influence on the corporate political spending disclosures.

To address this concern, we re-estimate our main model while controlling for CEO industry tournament incentives using the two proxies adopted by Coles et al. (2018). The results in Columns 1 and 2 of Table 3.0-10 show that both CEO industry tournament incentives proxies have no significant effect on CPD levels in the presence of intra-firm tournament incentives. Our results support Zhong et al. (2021), which shows the differential effect of internal and external tournament incentives on corporate outcomes.

3.8 Robustness checks

3.8.1 CPD index components

The CPA-Zicklin score for CPD comprises three categories: disclosure ($P_Disclosure$), policy (P_Policy), and oversight ($P_Oversight$). The first category comprises nine items, and the information for the first two items must be disclosed in FEC and Senate Office filings (Goh et al. 2020). Therefore, one could argue that our previous findings might be driven by mandatory instead of voluntary components. As a remedy, and to ensure robustness of the findings, we repeat our regression by replacing the main dependent variable ($CPDisc$) with the three individual categories ($P_Disclosure$, P_Policy , $P_Oversight$). The results in Panel B of Table 3.0-10 are consistent with our main analysis.

3.8.2 *Alternative measure for tournament incentives*

Motivated by Kini and Williams (2012), we also use two other proxies that capture tournament incentives. First, instead of focusing on the median of the non-CEO executive's compensation, we use the difference between CEO pay and the mean of the non-CEO executives' compensation (*CEO Pay Gap Mean*). Secondly, we use the difference between CEO pay and compensation of the highest paid non-CEO executive (*CEO Pay Gap Max*). Panel C of Table 3.0-10 reports the results. Supporting our main findings, we find a significant positive association between both tournament proxies and CPD level.

3.9 Summary and conclusion

The substantial corporate involvement in political activities increases the demand from the public, especially shareholders, for more CPD. Although prior studies examine factors associated with political disclosure, relatively little attention has been paid to the governance mechanisms embedded in managerial incentive contracts that may shape firms' political disclosure choices. Accordingly, using the setting of corporate political disclosure, we investigate whether and how tournament-based incentives influence the level of CPD.

There are two opposing arguments. On the one hand, Lazear and Rosen (1981) contend that rank-order tournaments induce non-CEO executives to exert greater effort to increase the likelihood of promotion. These efforts can be translated into internal governance mechanisms that constrain both CEO and non-CEO executives to enhance CPD. Alternatively, insights from social identity theory (Tajfel & Turner, 1979; Turner & Reynolds, 2011) suggest that individuals incorporate their organizational roles into their sense of self, fostering a collective mindset that prioritizes organization goals. An executive pay disparity can potentially undermine this shared identity and may inhibit non-CEO executives from encouraging transparent disclosure.

Using a sample of S&P 500 firms between 2012 and 2021, and in line with the theoretical arguments of Lazear and Rosen (1981), our results suggest that large pay gap acts as an internal governance mechanism for non-CEO executives for greater CPD, more specifically the disclosure of corporate dark money expenditures. Cross-sectional analyses show that the relation between tournament incentives and CPD varies with executives perceived promotion prospects. Specifically, the association weakens when CEO succession is less likely and strengthens when internal succession is expected, consistent with tournament-based incentives shaping disclosure behavior. We also find the intensity of corporate lobbying weakens the positive association between promotion-based incentives and CPD levels. In addition, we find in the presence of external uncontrollable risk, such as proximity to political power, non-CEO executives' leaders have greater incentives to enhance CPD levels.

Our findings offer important practical and policy implication. Existing research (e.g., Baloria et al., 2019; Goh et al., 2020) indicates that political disclosure is fragmented and has prompted concerns from various stakeholders about the lack of a unified set of disclosure requirements and the insufficiency of disclosed information. Rather than advocating compensation tournaments as a general remedy, we should interpret our evidence with more cautious. Rank-based incentives within the TMT may constitute one mechanism that is associated with higher CPD, potentially by aligning executives' career concerns with stakeholders' demand for disclosure. At the same time, prior research highlights important costs of tournament compensation, including higher risk-taking incentives (Kini and Williams, 2012), a greater likelihood of misconduct or fraud (Haß et al., 2015), and lower financial reporting quality (Park, 2017; Gad et al., 2023). Accordingly, any governance implications should be viewed in light of these trade-offs. For practitioners and investors, our results suggest that the structure of executive pay may be informative for understanding firms' incentives toward political

disclosure, but it should be evaluated alongside the broader benefits and potential drawbacks of rank-based compensation arrangements.

While we believe that our study provides robust evidence on the role of CEO pay gap in enhancing political disclosure, it is important to acknowledge that this study is subject to some limitations. While our study provides new insights on compensation, our focus on tournament incentive could potentially overlook other important aspects of executive incentives. Future research could investigate the effect of other compensation schemes for senior executives on CPD. In addition, our sample only consists of US S&P 500 firms, which might limit generalizability of our findings to other geographic regions with different regulatory and corporate governance environments. Future research could investigate the applicability of our findings in diverse international contexts, thereby providing a more comprehensive understanding of the impact of tournament incentives on non-CEO executive leadership. This broader examination could offer valuable insights into how these incentives influence leadership behaviors and organizational outcomes across different regulatory and cultural environments.

Chapter 4 Does accounting conservatism discipline voluntary disclosure? Evidence from corporate political disclosure

Abstract

This paper investigates the impact of conditional conservatism on CPD level using data from S&P 500 companies. Consistent with the political cost hypothesis, the findings indicate that firms exhibiting higher levels of conditional conservatism are less likely to disclose political activities. These findings are robust across various proxies and endogeneity tests. Cross-sectional analysis reveals that the negative association is stronger in politically hedged firms and in firms headquartered in more politically corrupt states. This relationship is also more pronounced when firms face greater pressure from equity investors. Overall, these findings underscore the role of conservative financial reporting as a strategic substitute for political disclosure.

4.1 Introduction

This study examines whether conditional conservatism in financial reporting affects corporate political disclosure (CPD). In recent years, prior literature has paid considerable attention to CPD. This literature finds that CPD significantly affects shareholders' reactions (Werner, 2017; Baloria et al., 2019; Prabhat & Primo, 2019; Minefee et al., 2021), cost of equity (Adrian et al., 2022), and cost of debt (DeBoskey et al., 2021; Almaghrabi & Tsalavoutas, 2022). However, relatively less is known about how characteristics of a firms' accounting reporting system affect the CPD level. As an accounting principle, accounting conservatism⁴⁴ is a financial reporting stance which mitigates agency costs and reduces information asymmetry (Basu, 1997; Watts, 2003a, 2003b), which in turn can affect a firm's political disclosure level. In this paper, we address this question by investigating whether and, if so, how conditional accounting conservatism influences corporate political spending disclosures.

Theoretically, prior studies (e.g., Dye, 1983; Gigler & Hemmer, 2001; Beyer & Dye, 2021) posit that conservative reporting and voluntary disclosure may function as "substitute channels" through which managers communicate information to shareholders. However, empirical studies provide mixed evidence on whether accounting conservatism substitutes for or complements voluntary disclosure. Consistent with substitute view, prior research highlights a potential cost of conservatism. By accelerating the recognition of bad news and enhancing the credibility of reported earnings (LaFond & Watts, 2008), conservatism reduces information asymmetry. As a result, managers' incentives to rely on voluntary disclosures are diminished. The evidence shows that conditional conservatism leads to fewer management forecasts, and

⁴⁴ There are two forms of accounting conservatism: (1) conditional conservatism, and (2) unconditional conservatism. Conditional conservatism serves as a mechanism for conveying new information from management to investors in each reporting period (Basu, 2005), while unconditional conservatism imparts minimal incremental information. In light of our focus on the information value of CPD on investors, the core of our analysis focuses on conditional conservatism.

CSR disclosures (Hui et al., 2009; Cho et al., 2020). In contrast, other studies highlight that conservatism may discipline managerial disclosure and enhance its credibility (Augusta & Tennessee, 2020; García Osma et al., 2022). Because it is influenced primarily by demand for conservatism by firm stakeholders such as debtholders, shareholders, and auditors, rather than by managers' choices. These inconsistent conclusions raise the question of whether accounting conservatism effectively enhance the firm's reporting environment.

Notably, existing research focuses on highly regulated disclosure settings that could trigger high litigation costs. For instance, Hopkins et al. (2015) suggest that management forecasts, being ex-post verifiable, offer plaintiffs a basis to claim the dissemination of misleading statements and subsequently initiate litigation. In such context, conservatism makes it harder for managers to enhance earnings forecasts to reduce the risk of litigation. In contrast, in this study, we focus on CPD, a unique setting characterized by low regulatory oversight and high managerial discretion. CPD is voluntary, fragmented across multiple sources, and often incomplete even in mandatory filings (Beets & Beets, 2019; Goh et al., 2020). Unlike other disclosures which governed by unified reporting framework. Moreover, CPD is inherently opaque and politically sensitive. The uncertainty surrounding political activities, especially covert ones, raises reputational and regulatory concerns (Minefee et al., 2021; Jia et al., 2023). The 2010 Supreme Court decision, which removed limitations on independent corporate political expenditures which easing disclosure requirements, has heightened concerns about the opacity of corporate political contributions. These issues have been magnified in the post-Capitol Hill attack political climate. A report by the Centre for Political Accountability (CPA) revealed that top public corporations had made significant donations to organizations implicated in the chaos (CPA, 2022). This pervasive lack of disclosure has fueled substantial demand from shareholders for greater disclosure (Baloria et al., 2019). For instance, in a survey conducted three months before Election Day by the Zicklin Center for Governance and

Business Ethics at the Wharton School and the CPA, reveals a strong support among shareholders for implementing a formal code of conduct for corporate political spending disclosure (CPA, 2024).⁴⁵ Taken together, CPD represents a low-enforcement, high-discretion disclosure environment, offering experimental setting for examining how conditional conservatism influences voluntary disclosure decisions.

There are two competing arguments related to conditional conservatism and political disclosures. Drawing on the political cost hypothesis, firms adopt conditional conservatism to reduce exposure to political and regulatory scrutiny by appearing less profitable and less visible to policymakers (Watts & Zimmerman, 1978). If conservatism is used to manage political costs, firms may also be reluctant to publicly disclose their political spending, as such disclosure can itself generate political and reputational costs by drawing attention to firms' attempts to influence policy. Prior evidence suggests that disclosed political ties can expose firms to reputational spillovers and public backlash, particularly when politicians become involved in scandals, incentivizing firms to rely on covert political activity instead (Knill et al., 2024; Guedhami et al., 2025). Therefore, firms with more conservative reporting may strategically limit voluntary political disclosure to avoid additional political costs. Furthermore, from an agency perspective, conditional conservatism constrains managerial discretion by requiring timely loss recognition and higher verification standards for gains, thereby limiting managers' ability to pursue self-serving or unverifiable activities (Watts, 2003a; LaFond & Watts, 2008). Political contributions or lobbying expenses are immediately expensed (recognized as losses), while any potential benefits (e.g., favorable regulation or future contracts) are speculative and cannot be recognized until realized. This asymmetric treatment

⁴⁵ The survey indicates that 87% of the respondents believe that publicly traded companies should be required to establish such a code, and 79% expressed greater confidence in investing in corporations that adopt or adhere to these guidelines.

means political spending will tend to reduce reported earnings with no offsetting “good news” recognition, which may discourage managers from highlighting such expenditures through voluntary disclosure.

However, an alternative view suggests that conservatism and political disclosure may be complementary, both can improve the information environment and reduce information asymmetry faced by investors and creditors (Ruch & Taylor, 2015; DeBoskey et al., 2021). Under this view, conservative firms may increase political disclosure to enhance transparency and credibility. The two opposing arguments discussed suggest that the question of whether and, if so, how conditional accounting conservatism influences CPD is ex-ante far from clear.

To test these competing views, we use a sample of S&P 500 firms from 2012 to 2021 to examine whether conditional conservatism is associated with political disclosure policies and practices. Consistent with political cost hypothesis, we find a negative association between conditional conservatism and political disclosure. This evidence aligns with Watts’s (2003a) theoretical argument that conservative reporting is used to mitigate future political costs. Next, we conduct cross-sectional tests to identify settings in which this relation is intensified. First, we find that the relationship is stronger in politically hedged firms, consistent with the notion that managers of conservative firms engage in balanced political activities across Republican and Democratic candidates to preserve political influence without increasing public scrutiny (Christensen et al., 2022). Second, the relationship is also more pronounced in politically corrupt states. This finding suggests that firms in politically corrupt regions adopt more conservative reporting practices to deflect attention and reduce regulatory scrutiny (Xie et al., 2025). In addition, we show that equity investor pressure significantly shapes the relation between conservatism and political disclosure. Finally, given that conditional conservatism reporting and CPD may be endogenous, we employ different methods, including entropy

balancing, instrumental variable estimation, and the propensity score matched approach, to address potential endogeneity concerns.

This study makes several contributions to the existing literature. First, despite growing shareholder demand for greater political disclosure, to our knowledge no prior study examines the role of conditional conservatism in shaping CPD. We fill this gap by providing the first evidence on how conditional conservatism affects political spending disclosure.

While the relationship between accounting conservatism and voluntary disclosures has been previously explored with mixed findings (e.g., Hui et al., 2009; Cho et al., 2020; Augusta & Tennessee, 2020; García Osma et al., 2022; Ater et al., 2024), the specific impact of conservatism on riskier types of disclosures, such as CPD, remains largely unexplored. This study fills this gap by examining how conservatism influences managers' decisions to disclose politically sensitive information, thereby extending our understanding of the broader implications of conservative reporting practices. By documenting a negative association between conditional conservatism and political disclosure, our findings suggest that conservative financial reporting may serve as a substitute for voluntary political disclosure. Second, we identify key mechanisms and boundary conditions that shape this relation. Specifically, the negative association between conditional conservatism and CPD is stronger among politically hedged firms and firms headquartered in more politically corrupt states. We further show that equity investor pressure plays an important role in conditioning this relationship. Together, these findings highlight how the effects of conservative reporting on political disclosure depend on institutional context and external monitoring. The remainder of this paper is organized as follows. Section 2 presents the literature review and hypothesis development. Section 3 outlines the research methodology. Sections 4 and 5 present our empirical findings. Section 6 presents further analysis. Section 7 presents the robustness checks. Section 8 concludes the study.

4.2 Literature review and hypothesis development

4.2.1 *Literature on conditional conservatism*

Theoretically, prior studies (e.g., Dye, 1983; Gigler & Hemmer, 2001) suggest that conservative reporting and voluntary disclosure decisions could act as “substitute channels” for communication with shareholders. Based on the stewardship perspective, shareholders offer contracts to motivate managers to disclose private information. However, when the financial reporting becomes more conservative, the risk-sharing benefits decrease, which subsequently diminishes managers’ incentives to disclose such information. Gietzmann and Trombetta (2003) also theoretically show that an optimal disclosure strategy varies among firms, with some benefiting from the disclosure of their conservative accounting policies, while others, facing high costs associated with conservatism, and therefore rely more on voluntary disclosures. Langberg and Sivaramakrishnan (2008) propose that conservative reporting may result in less precise but more frequent voluntary disclosures.

However, the empirical evidence postulates two competing arguments on the consequences of conservative reporting practices on the managerial incentives for voluntary disclosures. One argument proposes that accounting conservatism accelerates the recognition of bad news in earnings, and enhances the credibility of reported earnings, which significantly reduce information asymmetry (Lafond & Watts, 2008). Since both conservatism and voluntary disclosures can mitigate information asymmetry (Healy & Palepu, 2001). Therefore, under conservative reporting settings, the managers’ incentives to use voluntary disclosures to address information asymmetry decreases. In this sense, some studies find that accounting conservatism reduces the probability of issuing earnings forecasts (Hui et al., 2009), and the frequency of issuing CSR disclosures (Cho et al., 2020). In contrast, other studies highlight the confirmatory role of conservative reporting over voluntary disclosures, suggesting that conditional conservatism and voluntary disclosures may serve as complements (García Osma

et al., 2022). The rationale of such findings is that conditional conservatism employs a disciplining role over managers' voluntary disclosures. Consistent with this, Augusta & Tennessee (2020) document that conditional conservatism limits managerial opportunism by deterring managers from adopting an overly optimistic tone in the management's discussion and analysis section to ensure the alignment with the firm's current performance. These inconsistent findings raise the question of whether accounting conservatism effectively enhance the firm's reporting environment.

4.2.2 *Literature on corporate political spending disclosure*

Arguably, CPD represents one of the most complex and sensitive disclosure decisions for firms engaging in political activity. Corporate political spending typically falls into two categories: (1) "observable" spending, which is publicly disclosed, such as direct lobbying, contributions to corporate Political Action Committees (PACs), 527 organizations, and state-level expenditures, and (2) "unobservable" spending, which remains undisclosed and occurs through intermediaries like trade associations and Super PACs (Baloria et al., 2019). Observable spending is subject to narrow disclosure requirements under existing campaign finance laws. Specifically, the Federal Election Campaign Act mandates the reporting of corporate PAC contributions and expenditures, while the Lobbying Disclosure Act requires firms to report their lobbying expenditures and activities. However, these disclosures are not integrated into companies' securities filings. Moreover, state-level political spending is governed by separate disclosure regimes; in many states, requirements are considerably less stringent than those at the federal level. As a result, information about corporate political activity is fragmented across multiple agencies and platforms, including the Federal Election Commission (FEC), the Internal Revenue Service (IRS), and various state offices (Goh et al., 2020), which subsequently induces investors to exert additional effort to collect and consolidate this information to form a complete view of a firm's political engagement.

In contrast, disclosure of unobservable political spending remains largely opaque. Notably, most corporate political spending over the last four US election cycles (2007-2020) has flowed through unobservable channels (Guedhami et al., 2025). Indeed, most firms avoid directly engage in political activities because they would have to reveal their identity. Instead, they typically contribute indirectly, by giving money to political parties, trade associations, or Super PACs. These recipients, commonly referred to as “dark money groups”, are not legally required to disclose their donors or the amounts they receive. This lack of transparency was further amplified after the *Citizens United* (2010) decision, which lifted restrictions on corporate independent political expenditures. In practice, this ruling enabled firms to allocate substantial funds to political campaigns and lobbying efforts at both the federal and state levels without stringent disclosure (Coates, 2012; Baloria et al., 2019).

Demand for disclosures on political spending issues has increased dramatically. This demand from market participants led some firms to voluntarily disclose political expenditure information on their websites or in annual reports, but the nature and extent of those disclosures vary substantially. For example, AT&T in 2025 provides a semi-annual report “political engagement report” that identifies its contributions to state political candidates, political parties, and PACs.⁴⁶ In contrast, major firms such as Berkshire Hathaway and Tesla provide no disclosures about their political spending.⁴⁷

Theoretical models of voluntary disclosure posit that greater disclosure reduces information asymmetry, improves the firm’s information environment, and lowers the cost of capital (Diamond & Verrecchia, 1991; Healy & Palepu, 2001; Graham et al., 2005). In the context of CPD, however, the underlying mechanism differs. The advocates of CPD argue that higher

⁴⁶ <https://sustainability.att.com/ViewFile?fileGuid=9ec73f9b-144f-4237-b725-578cb44f18f8>

⁴⁷ <https://www.ft.com/content/4613bad1-27a0-4a23-87f6-a364350258c7>

level of disclosure enables investors to distinguish between politically strategic firms and those using political channels for opportunistic purposes (Bebchuk et al., 2019). Consistent with this view, recent studies show that CPD reduces asymmetry between managers and investors by strengthening investors' confidence (Adrian et al., 2022), lowering borrowing costs (DeBoskey et al., 2021; Almaghrabi & Tsalavoutas, 2022) and attracting more institutional ownership (Goh et al., 2020). CPD also communicates how firms take the advantage of political connections to secure government contracts, shape regulatory outcomes, and facilitate mergers and acquisitions (Werner, 2017).

Despite the potential benefits of CPD, emerging evidence shows that higher levels of CPD may also expose firms to political backlash costs and reputational concerns. A firm's political activity may be inconsistent with its shareholders' personal political views and therefore their reactions towards political disclosures are not guaranteed. For example, Prabhat and Primo (2019) argue that more political disclosures can facilitate targeting by hostile groups and therefore increase firms' exposure to adverse regulatory actions. Similarly, Baloria et al. (2019) find a negative stock price reaction to the implementation of proposals demanding CPD. Moreover, even if in cases of accidental disclosure of firms' covert political ties, the shareholders respond negatively towards such disclosures (Minefee et al., 2021). Overall, prior research highlights that CPD generates both informational benefits, and potential political costs, leading to heterogeneous investor responses. This heterogeneity is particularly salient given the discretionary nature of CPD, the absence of a regulatory framework, and the heightened agency concerns surrounding corporate political activity. Therefore, in such a context, internal reporting incentives are likely to exert a significant influence on firms' disclosure behavior. This study examines conditional accounting conservatism as a key internal reporting attribute that shapes managerial decisions regarding political disclosure.

4.2.3 Hypothesis development

We examine whether the degree of conditional conservatism influences managers' decision to disclose political spending. Conditional conservatism may disincentivise voluntary CPD through two distinct but complementary mechanisms. First, from a political cost perspective, conservative firms are predisposed to minimise public visibility of activities that may attract regulatory scrutiny or reputational damage (Watts & Zimmerman, 1978; Watts, 2003a).⁴⁸ Baloria (2022) notes that firms adopt conservatism to address demands arising from potential political scrutiny. If the underlying premise for conservative reporting is to reduce political costs, then it follows that these firms would also be cautious about publicizing their own political activities. CPD could itself create political costs as it shines a light on the firm's attempts to influence policy or elections, which might invite criticism, reputational damage, or increased regulatory oversight. Importantly, some studies (e.g., Knill et al., 2024; Preuss & Wielhouwer, 2024) suggest that corporate donors may suffer reputational damage when they are connected to politicians that become embroiled in scandals (reputational spillover effect)⁴⁹. In this sense, if conservative firms fear reputational damage, they might avoid disclosing contributions and instead channel support through less transparent means. Guedhami et al. (2025) suggest that firms use covert political donations to avoid reputational damage. Voluntarily revealing contributions to controversial candidates can alienate portions of the customer base and shareholders.⁵⁰ Thus, managers in conservative firms may be reluctant to

⁴⁸ As Watts and Zimmerman (1978, p. 115) state, '*To counter these potential government intrusions, corporations employ a number of devices .. By avoiding the attention that "high" profits draw . . . , management can reduce the likelihood of adverse political actions and, thereby, reduce its expected costs (including the legal costs the firm would incur opposing political actions.*'

⁴⁹ Consistent with concerns over reputational costs, recent anecdotal evidence suggests a decline in executive engagement in high-profile political activity. For example, in the period leading up to the 2024 U.S. presidential election, a substantial fraction of large-firm CEOs (51 out of 100 top CEOs) has refrained from making any publicly disclosed political contributions to candidates, political action committees, or issue-advocacy groups. (Yahoo, 2024).

⁵⁰ For instance, a firm may donate to certain political party/candidate, and the activists may disagree with such spending. Therefore, such disclosures may create "brand damage" coupled with unwanted attention from activists, which in turn incur legal penalties (Atkins, 2013; Hiatt & Park, 2013). McDonnell et al. (2015) find that more

disclose such information. By keeping political contributions behind the scenes, they reduce the chance of political costs or public relations fallout.

Second, from an agency perspective, conservatism imposes timely loss recognition on political expenditures, which are immediately expensed with no offsetting recognition of their speculative future benefits such as favourable regulation or preferential government contracts. This asymmetric treatment reduces reported earnings and raises the personal cost to managers of engaging in, and drawing attention to political spending through voluntary disclosure (Watts, 2003a; Lafond & Watts, 2008). Managers who anticipate that political expenditures will immediately and visibly reduce reported earnings have a reduced incentive to voluntarily disclose those activities, since disclosure would only invite further scrutiny from shareholders and other stakeholders (Francis et al., 2013; Black et al., 2018). In this sense, conservative accounting disciplines political spending not only by making it financially costly, but also by deterring the voluntary disclosure that would render it visible.

Taken together, these two mechanisms suggest that conservatism and CPD operate as substitutes rather than complements in the information environment. Conservative reporting already signals financial prudence and governance discipline to outside investors, reducing the marginal informational benefit of voluntary political disclosure. This substitution logic is consistent with prior evidence that voluntary disclosure and conservative reporting serve overlapping functions in reducing information asymmetry (Healy & Palepu, 2001; Verrecchia, 2001), such that firms with stronger conservative reporting practices have less need and less incentive to supplement their disclosures with voluntary CPD. Managers in conservative firms

transparency exposes companies to a higher frequency of activist challenges and a higher likelihood of conceding to activities demands. In addition, Copland (2013) argues that if the SEC mandate firms to disclose such information, it could be used as evidence for their political involvement, potentially leading to regulatory penalties against connected firms.

face heightened earnings scrutiny, stronger reputational sensitivity, and reduced discretion over unmonitored political engagement, conditions that discourage rather than encourage voluntary political disclosure. This leads to our first hypothesis:

H1a: Conditional conservatism is negatively associated with political disclosures.

Several counter-arguments provide tension to this hypothesis. It is also possible that conservatism and CPD serve as complementary mechanisms to mitigate agency costs, suggesting a positive relationship between them. Generally, there is some consensus in the existing literature that accounting conservatism acts as a financial reporting stance that improve the information environment and thus alleviates the information asymmetry between firm insiders and outsiders (Watts, 2003a, 2003b; García Lara et al., 2014; Mora & Walker, 2015; Ruch & Taylor, 2015). However, prior studies highlight that CPD plays a significant role in reducing information asymmetry, which in turn facilitates access to equity and debt financing (DeBoskey et al., 2021; Adrian et al., 2022; Almaghrabi & Tsalavoutas, 2022). Since conservative reporting emphasis on improving the efficiency of the debt contracting process by alleviating conflicts between shareholders and creditors. This, in turn, reduces the cost of debt and equity (Ahmed et al., 2002; Zhang, 2008; García Lara et al., 2011; Beatty et al., 2012; Francis et al., 2013). As a result, conservative firms may increase their political disclosures to reduce the information asymmetry and offer more transparent, reliable information regarding their political expenditures. We alternatively propose a positive association between conservatism and CPD, leading to our competing hypothesis:

H1b: Conditional conservatism is positively associated with political disclosures.

4.3 Sample and variables construction

4.3.1 *Sample selection and variable construction*

We include all S&P 500 firms with CPA-Zicklin Center data over ten years from 2012 to 2021.⁵¹ The CPA initially build the disclosure index that capture several aspects for firms' political spending disclosure and then tested the content validity of the index. To build our sample, we collect data from various sources: (1) Political disclosure data were downloaded from the CPA-Zicklin Center website; (2) Firm level political spending data were collected from the FEC website, the Center for Responsive Politics (CRP), and the National Institute on Money in State Politics; (3) Stock return data from the Centre for Research for Security Prices (CRSP) and financial data from Compustat.

The initial sample consists of 617 firms, with 4021 firm-year observations that have political spending disclosure information. After pairing and eliminating firm-year observations with missing variables. Our final sample was 371 firms with 2263 firm-year observations. Table 4.0-1 outlines the sample selection process (Panel A), year distribution and industry categorization using the SIC code (Panel B); the sample is evenly distributed throughout the sampling period and not limited to particular industries.

⁵¹ Based on the information disclosed by the companies in their website content and reports, the CPA-Zicklin Center captures political spending disclosure for firms and creates an index to measure the level of political spending disclosure. The reason for starting our sample from 2012 is that the CPA-Zicklin Center reported its first PT index in 2011 for companies in the S&P 100, then started to expand its index to include S&P 200 firms in 2012 and 300 firms in 2013 and 2014. In 2015, the index was extended to include all S&P 500 firms. The data is publicly available on their website www.politicalaccountability.net/cpa-zicklin-index/. The data was accessed on 01/04/2022.

Table 4.0-1: *Sample selection and distribution*

Panel A: Sample selection

	Firm	Firm-year
SandP 500 with political spending disclosure data	618	4,021
Less: Missing observations after matching with conservatism data		(952)
Less: Missing observations after matching with Boardex data		(374)
Less: Missing firms specific variables		(372)
Less: Observations related to financial firms (SIC 60 -69)		(60)
Final sample	371	2263

Panel B: Sample composition by industry and year

Industry	Year										Total
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Agriculture	0	0	0	0	0	0	0	0	0	1	1
Construction	0	0	0	4	4	4	4	4	3	3	26
Manufacturing	48	48	73	117	117	121	128	133	131	147	1063
Mining	10	10	14	20	20	19	18	18	15	15	159
Public	1	1	1	1	1	1	1	1	1	1	10
Retail trade	11	11	18	29	30	27	23	23	20	18	210
Services	7	7	17	34	32	38	44	48	49	51	327
Transportation	22	22	27	47	48	46	45	45	49	49	400
Wholesale	2	2	5	8	8	8	8	9	8	9	67
Total	101	101	155	260	260	264	271	281	276	294	2263

Notes: This table presents the sample selection procedure (Panel A) and distribution by industry and year using (Two-Digit SIC Code) (Panel B).

4.3.2 *Empirical model and variables measurement*

To investigate whether conditional conservatism influence the CPD level, we estimate the following empirical model.

$$\begin{aligned}
 CPDisc_{i,t} = & \beta_0 + \beta_1 CondCons_{i,t} + \gamma Controls_{i,t} + Industry FE \\
 & + Year FE + \varepsilon_{i,t}
 \end{aligned}
 \tag{1}$$

The dependent variable in this study is the level of CPD (*CPDisc*). We measure *CPDisc* using the CPA-Zicklin Index, a widely used measure developed through a joint initiative of the Center for Political Accountability and the Carol and Lawrence Zicklin Center for Business Ethics Research at the Wharton School of the University of Pennsylvania (Baloria et al., 2019; Goh et al., 2020; Almaghrabi & Tsalavoutas 2022). The index is constructed by systematically

reviewing publicly available information and documents published on firms' websites and assigning numerical scores based on a predetermined set of disclosure criteria. When publicly available information is insufficient, the Center supplements this review by contacting firms directly. The development process also includes several features that support the measure's reliability and content validity: more than 40 percent of sampled firms provided comments during the process, 60 experts from the corporate, NGO, academic, and institutional investor communities reviewed the framework, and approximately half of the firms in the sample responded to the Center's rating assessments (Goh et al. 2020). In addition, an independent audit of the 2022 CPA-Zicklin Index evaluated the integrity and credibility of firms' voluntary CPD (Hanna & Laufer, 2024). Taken together, these features support the use of the CPA-Zicklin Index as a detailed and systematically developed measure of CPD.

The CPD index for each firm is based on a total of 24 items classified into three major dimensions: (1) disclosure (*P_Disclosure*), (2) policy (*P_Policy*), and (3) oversight of political spending (*P_Oversight*). The disclosure sub-index (from 1 to 9) captures whether the firms disclose political contributions to political candidates, parties, committees, tax-exempt '527 groups' and other such organizations, as well as trade or government associations. The policy sub-index (from 10 to 16) captures whether the firms disclose their policies used in governing political spending from corporate funds and the conditions needed to be met for the recipients. Finally, the Oversight sub-index (from 17 to 24) considers information about board committees responsible for reviewing and approving any political spending and ensuring that internal procedures are consistent with firms' political spending policies and whether firms release a report for such spending. Each item is assigned a numerical score by the CPA-Zicklin Center according to its scoring framework, with item-level maximum scores ranging from 2 to 6 points. The maximum scores are 36 points for the disclosure dimension, 18 points for the policy dimension, and 18 points for the oversight dimension, yielding a total possible score of 72

points. We derive *CPDisc* as the sum of the item-level scores across all 24 indicators, such that higher values indicate more extensive political spending disclosure and stronger governance over political spending.

Our purpose is to examine the effect of conditional conservatism on the CPD level. There is no consensus in the accounting literature on a single accepted measure of conditional conservatism. Each proxy has inherent limitations, as different proxies capture different attributes (e.g., Badia et al., 2021). Our measure of conditional conservatism follows the firm-year conservatism score developed by Khan and Watts (2009). This score is derived from the annual cross-sectional implementation of the Basu (1997) asymmetric timeliness model, specified as follows:

$$Earn_j = \beta_0 + \beta_1 Neg_j + \beta_2 Ret_j + \beta_3 Ret_j * Neg_j + \varepsilon \quad (2)$$

Khan and Watts (2009) adjusted the model to obtain a firm-level conservatism by estimating the timeliness of earnings to good news (*G_score*) and the incremental timeliness of bad news to good news (*C_score*). By adding both, we obtain total timeliness of loss recognition (*G_score* + *C_score*).

$$G_score = \beta_2 = \mu_1 + \mu_2 Size_j + \mu_3 MTB_j + \mu_4 Leverage_j \quad (3)$$

$$C_score = \beta_3 = \lambda_1 + \lambda_2 Size_j + \lambda_3 MTB_j + \lambda_4 Leverage_j \quad (4)$$

The estimators of μ_i and λ_i are constant across firms but vary across time. Since they are estimated from annual cross-sectional regressions from (2). By substituting β_2 and β_3 into (2). The *G_score* and *C_score* varies across firms through cross-sectional variations in firm characteristics (*Size*, *MTB*, and *Leverage*). Therefore, the annual cross-sectional model is as follows:

$$\begin{aligned}
Earn_j = & \beta_0 + \beta_1 Neg_j + Ret_j (\mu_1 + \mu_2 Size_j + \mu_3 MTB_j + \mu_4 Leverage_j) \\
& + Ret_j * Neg_j (\lambda_1 + \lambda_2 Size_j + \lambda_3 MTB_j + \lambda_4 Leverage_j) \\
& + (\delta_1 Size_j + \delta_2 MTB_j + \delta_3 Leverage_j + \delta_4 Neg_j Size_j \\
& + \delta_5 Neg_j MTB_j + \delta_6 Neg_j Leverage_j) + \varepsilon_i
\end{aligned} \tag{5}$$

Where $Earn_j$ is net income before extraordinary items, scaled by lagged market value of equity; Ret_j is the annual stock return of the firm cumulated by 12-month stock returns from CRSP that ends three months after the fiscal year end. Neg_j is a dummy variable that equals to one when Ret is negative and zero otherwise. $Size_j$ is the log of the market value of equity; MTB_i is the market to book ratio; and $Leverage_i$ equals to short term plus long term debt scaled by market value of equity. We drop firms with negative or missing values for total assets or book value of equity, and with stock prices less than \$1. We delete firms with missing data for any of the variables used in the estimation. We also winsorize all continuous variables at the 1st and 99th percentiles to remove the effect of outliers. Following prior studies (e.g., García Lara et al., 2016, 2020), we take the three-year average (*years t, t-1, and t-2*) to better capture firms' commitment to conservative reporting. We denote this measure as *CondCons*.⁵²

We control for a range of firm-and CEO-level characteristics that are identified in prior literature as potential determinants of CPD. At the firm level, we account for political spending intensity (*Spending intensity*) (Almaghrabi & Tsalavoutas, 2022), and Industry concentration (*HHI*) (Goh et al., 2020). Following Khan and Watts (2009), we include size (*Firm size*), leverage (*Leverage*) and book to market ratio (*BM*) to mitigate mechanical correlations

⁵² Due to substantial data loss associated with alternative proxies, our main analysis relies on the Khan and Watts (2009) measure (*CondCons*). However, we conduct robustness checks using alternative measures developed by Givoly and Hayn (2000), Callen et al. (2010), and Badia et al. (2021). We also follow García Lara et al. (2020) and use annual decile rankings of *CondCons* to mitigate measurement error. The results remain consistent across all specifications. To assess the construct validity of our conditional conservatism measures, we examine whether the empirical characteristics of conditional conservatism in our sample align with theoretical predictions. This analysis is presented in the descriptive section (Section 4.3.3).

between conditional conservatism and CPD. We also control for firm age (*Firm age*), audit quality (*Audit*), risk disclosure (*Risk Disclosure*), and reporting quality (*Log (No. of Words)*). At the CEO level, we control for duality (*CEO Duality*), and tenure (*CEO Tenure*). Finally, we control for institutional ownership (*Inst Own*) as a governance characteristic and state ideology (*State Ideology*) as state political environments may shape disclosure practices (Goh et al., 2020). In order to control for industry- specific effects and year effects, we include both year fixed effects and industry fixed effects, based on the two-digit SIC code. We also winsorize all continuous variables at the 1st and 99th percentiles to remove the effect of outliers. Also, as recommended by Peterson (2009), we use the heteroskedasticity robust standard errors, clustered by firm level⁵³. A list of variables and their definitions is provided in Appendix D.

4.3.3 Summary statistics

Table 4.0-2 shows the descriptive statistics for our sample. First, we need to assess the construct validity of our conditional conservatism measures. We investigate whether the empirical characteristics of conditional conservatism for our sample align with the theoretical predictions of conservatism. We start our analysis by categorizing sample firms into deciles for each year. Next, we calculate the mean of various conservatism-related characteristics for each decile and assess whether these means display a monotonic trend as we progress across the deciles. As expected, Panel A of Table 4.0-2 shows a monotonic decrease in the decile averages of return on assets (*ROA*) and firm size (*Size*), as conservatism increases from the lowest to the highest deciles. In contrast, Book to market ratio (*BM*), leverage (*Leverage*), and the bid-ask spread (*BAS*) show an upward trend with increasing conservatism deciles. In addition, the rank correlation between the deciles and the deciles of individual conservatism proxies (*CondCons*,

⁵³ We do not employ firm fixed effects as the variations in corporate political disclosures are very small within a firm across years (Ali et al., 2023; Almaghrabi & Tsalavoutas, 2022), which means that adding firm fixed effects would remove the cross-sectional variations of interest (Wooldridge, 2016, p.461).

CondCons_SKW, *CondCons_CR*) is nearly perfect. All of these results confirm the validity of our conservatism measures.

Panel B shows the summary statistics for our sample. The mean value for *CPDisc* is 45.46% indicates, on average, a limited degree of transparency regarding firm's political activities. Also, there is a considerable variation for CPD across companies within our sample, ranging between 10% and 76.39% for the first and third quartiles, respectively. With regard to the three categories of political disclosure, *P_Policy* category has the highest score with a mean value 59.5 %, however, *P_Disclosure* and *P_Oversight* categories are slightly lower with average scores 41%. It appears that firms tend to disclose more information about the political spending policies rather than the disclosure of the actual political contributions and the oversight mechanisms that govern the entire political spending process. The high score for *P_Policy* compared to the low scores for *P_Disclosure* and *P_Oversight* provides a signal for a weak implementation for such policies over corporate political funds (i.e., symbolic application of policies). The summary statistics of other variables are consistent with the prior studies (e.g., Almaghrabi & Tsalavoutas, 2022).

Table 4.0-2: Descriptive statistics

Panel A: Means values of selected firms' characteristics across conservatism deciles

CondCons deciles	CondCons	CondCons_SKW	CondCons_CR	ROA	BM	Size	Leverage	BAS
1	-0.206	-3.462	0.275	0.185	0.132	11.051	0.153	0.22
2	-0.171	-0.767	0.299	0.149	0.199	10.873	0.18	0.229
3	-0.139	-0.284	0.318	0.135	0.243	10.664	0.226	0.237
4	-0.113	-0.643	0.342	0.135	0.248	10.351	0.21	0.237
5	-0.092	0.039	0.35	0.123	0.318	10.11	0.252	0.252
6	-0.073	0.471	0.392	0.116	0.309	9.917	0.277	0.274
7	-0.06	0.437	0.425	0.106	0.367	9.762	0.4	0.268
8	-0.054	0.923	0.532	0.102	0.382	9.761	0.394	0.261
9	-0.037	0.311	0.659	0.075	0.445	9.613	0.529	0.299
10	-0.05	0.141	1.426	0.062	0.565	9.537	0.602	0.344
Rank correlation								
Predicted sign	(+)	(+)	(+)	(-)	(+)	(-)	(+)	(+)

Panel B: Descriptive statistics

Variables	N	Mean	SD	25th	Median	75th
<i>CPDisc</i>	2263	45.458	32.868	9.722	48.611	76.389
<i>P_Disclosure</i>	2263	40.962	35.579	5.556	36.111	75.000
<i>P_Policy</i>	2263	59.492	32.654	27.778	72.222	88.889
<i>P_Oversight</i>	2263	40.905	35.215	0.000	44.444	72.222
<i>CondCons</i>	2263	-0.100	0.108	-0.172	-0.098	-0.018
<i>CondCons_CR</i>	1915	0.497	0.409	0.279	0.379	0.539
<i>CondCons_SKW</i>	2244	-0.173	6.754	-1.203	-0.158	1.065
<i>CondCons_Deciles</i>	1899	5.482	2.854	3.000	5.000	8.000
<i>Spending intensity</i>	2263	2.271	3.716	0.060	0.616	2.541
<i>Lobbying Intensity</i>	2263	1.879	3.149	0.025	0.490	2.050
<i>PAC intensity</i>	2263	0.120	0.216	0.000	0.027	0.138
<i>Org 527 intensity</i>	2263	0.028	0.125	0.000	0.000	0.000
<i>State-level intensity</i>	2263	0.334	2.427	0.000	0.000	0.099
<i>HHI</i>	2263	0.088	0.070	0.048	0.072	0.092
<i>BM</i>	2263	0.327	0.237	0.150	0.271	0.449
<i>Firm size</i>	2263	3.381	1.200	2.495	3.319	4.234
<i>Leverage</i>	2263	0.613	0.169	0.500	0.625	0.733
<i>ROA</i>	2263	0.070	0.069	0.032	0.065	0.105
<i>Firm age</i>	2263	3.696	0.534	3.296	3.850	4.190
<i>Audit</i>	2263	0.489	0.500	0.000	0.000	1.000
<i>Risk Disclosure</i>	2263	60.714	37.357	34.304	51.932	77.527
<i>Log (Words)</i>	2263	11.070	0.456	10.762	11.026	11.318
<i>CEO Duality</i>	2263	0.468	0.499	0.000	0.000	1.000
<i>CEO Tenure</i>	2263	1.441	0.725	0.916	1.482	1.988
<i>Inst Own</i>	2263	0.797	0.126	0.724	0.818	0.888
<i>State Ideology</i>	2263	0.467	0.499	0.000	0.000	1.000

Notes: This table shows the summary statistics of the variables used in the baseline analysis. All continuous variables are winsorized at the 1st and 99th percentiles. All variables are defined in Appendix D.

Table 4.0-3 presents the correlation matrix for all variables. As expected, the correlation coefficient between *CPDisc* and its components *P_Disclosure*, *P_Policy*, and *P_Oversight* is relatively high. Focusing on our main variable of interest *CPDisc*, the correlation between *CPDisc* and *CondCons* is negative and statistically significant ($\rho = -0.20$; at $p < 0.01$). This preliminary finding suggests negative association between conservatism and corporate political disclosure level.

Table 4.0-3: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) CPDisc	1.00										
(2) P_Disclosure	0.97***	1.00									
(3) P_Policy	0.92***	0.82***	1.00								
(4) P_oversight	0.93***	0.83***	0.87***	1.00							
(5) CondCons	-0.20***	-0.20***	-0.15***	-0.20***	1.00						
(6) Spending Intensity	0.32***	0.27***	0.32***	0.34***	-0.18***	1.00					
(7) HHI	-0.06***	-0.06***	-0.05**	-0.07***	-0.02	0.06***	1.00				
(8) BM	0.05**	0.02	0.07***	0.06***	0.28***	0.07***	-0.10***	1.00			
(9) Firm size	0.22***	0.19***	0.24***	0.23***	-0.20***	0.37***	0.08***	-0.11***	1.00		
(10) Leverage	0.24***	0.20***	0.25***	0.25***	-0.07***	0.16***	0.05**	-0.21***	0.29***	1.00	
(11) ROA	-0.07***	-0.04**	-0.11***	-0.08***	-0.22***	-0.04*	0.08***	-0.47***	0.10***	-0.23***	1.00
(12) Firm age	0.28***	0.26***	0.28***	0.25***	-0.03*	0.17***	0.02	0.13***	0.24***	0.22***	-0.08***
(13) Audit	0.15***	0.14***	0.14***	0.17***	-0.09***	0.05**	0.08***	0.00	0.14***	0.06***	0.06***
(14) Risk Disclosure	0.07***	0.08***	0.07***	0.05**	0.00	0.10***	0.04**	0.10***	-0.07***	0.03	-0.12***
(15) Log (words)	0.21***	0.18***	0.21***	0.20***	0.02	0.23***	-0.08***	0.28***	-0.05**	0.14***	-0.28***
(16) CEO Duality	0.13***	0.12***	0.12***	0.11***	-0.04*	0.19***	0.05**	-0.01	0.10***	0.04*	-0.03
(17) CEO Tenure	-0.06***	-0.04**	-0.07***	-0.07***	-0.03	0.02	0.00	-0.10***	-0.02	-0.08***	0.08***
(18) Inst Own	-0.27***	-0.24***	-0.28***	-0.26***	0.15***	-0.41***	-0.02	-0.04**	-0.32***	-0.12***	-0.03*
(19) State ideology	-0.01	-0.04*	0.05**	0.00	0.11***	0.01	-0.04**	0.27***	-0.02	0.03*	-0.16***

Variables	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
(12) Firm age	1.00							
(13) Audit	0.39***	1.00						
(14) Risk Disclosure	0.09***	0.06***	1.00					
(15) Log (No. of words)	0.07***	-0.08***	0.14***	1.00				
(16) CEO Duality	0.23***	0.09***	0.04*	0.04*	1.00			
(17) CEO Tenure	-0.08***	-0.06***	0.07***	-0.03*	0.20***	1.00		
(18) Inst Own	-0.25***	-0.14***	-0.01	-0.10***	-0.14***	0.03*	1.00	
(19) State ideology	0.14***	0.02	0.03	0.06***	0.03	-0.13***	-0.08***	1.00

Notes: This table presents a matrix of Pearson correlation coefficient pairs between key variables of interest. ***, **, and * denote significance at 1%, 5%, and 10% levels, respectively (two-tailed test). All variables are defined in Appendix D.

4.4 Main results

Table 4.0-4 presents the results of the regression analysis of whether firms' level of conservative reporting is associated with CPD. The dependent variable in all models is the corporate political disclosure (*CPDisc*), while our main variable of interest is conservatism (*CondCons*). To avert the effect associated with other control variables, Column 2 presents the regression results for the model that includes only *CondCons* as the only independent variable, however Column 3 includes all control variables. The estimated coefficients for *CondCons* are significantly negative (-1.397 and -0.968, respectively) and statistically significant at 1%, indicating that the disciplining role of conservatism lowers CPD. In terms of economic significance, moving from the first to the third quartile in *CondCons* (a change of five deciles), leads to a decrease in *CPDisc* of - 5.81%.

This evidence corroborates *H1a* and suggests that conditional accounting conservatism functions as a substitute for more salient form of disclosure, such as CPD. By accelerating the recognition of unfavorable outcomes, conservative reporting heightens managers' sensitivity to downside exposure and weakens the risk-sharing arrangement between managers and shareholders (Gigler & Hemmer, 2001; Gietzmann & Trombetta, 2003). As managerial exposure to adverse outcomes increases, managers become more reluctant to voluntarily disclose information related to CPA, particularly when such disclosure may amplify reputational spillovers. Consequently, higher levels of accounting conservatism are associated with lower levels of voluntary political disclosure.

In terms of control variables, our findings are consistent with the prior studies that examine the determinants of CPD. For instance, higher CPD levels are associated with lower levels of industry concentration (*HHI*). This suggests that firms in very competitive industries exhibit more political disclosure. Consistent with Goh et al. (2020), we also find that firms located in Republican states have lower levels of *CPDisc*.

Table 4.0-4: Conditional conservatism and corporate political disclosure

<i>Dep Var</i>	<i>Corporate Political Disclosure (CPDisc)</i>		
	(1)	(2)	(3)
<i>CondCons</i>	-0.619***	-1.397***	-0.968***
	(-7.41)	(-8.09)	(-4.67)
Spending intensity			0.014***
			(3.79)
HHI			-0.493***
			(-2.84)
BM			0.106*
			(1.76)
Firm size			0.008
			(0.58)
Leverage			0.341***
			(4.08)
ROA			-0.001
			(-0.01)
Firm age			0.075***
			(2.87)
Audit			0.028
			(1.07)
Risk Disclosure			0.000
			(0.69)
Log (Words)			0.083***
			(3.09)
CEO Duality			0.030
			(1.25)
CEO Tenure			-0.014
			(-1.08)
Inst Own			-0.133
			(-1.16)
State Ideology			-0.054**
			(-1.98)
Constant	0.393***	0.315***	-0.992***
	(23.80)	(15.25)	(-3.12)
Year-FE	No	Yes	Yes
Industry-FE	No	Yes	Yes
Adj. R-squared	0.041	0.156	0.295
Observations	2,263	2,263	2,263

Notes: This table displays the results of the effect of conditional conservatism level on CPD using ordinary least square (OLS) regressions. Column (1) includes *CondCons* as the only independent variable with no control variables. Column (2) includes all control variables. Year and industry fixed effects (FE) are included in all columns. T-statistics are in parentheses. The standard errors are adjusted for heteroskedasticity and clustered at the firm level. The symbols ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

4.5 Endogeneity concerns

Our baseline regression results support the view that conservative reporting results in a reduction of CPD levels, however the results might be biased by endogeneity problems such as reverse causality, selection bias problems, and omitted variable bias (i.e., unobservable firm heterogeneity). In this section, we use different methods to address the endogeneity problems.

4.5.1 *Entropy balancing*

It is worth noting that firms with higher and lower levels of conservatism differ significantly in certain firm-level characteristics, which may confound our analysis. To mitigate these concerns, we employ the entropy-balancing method. This approach reweights control group observations to ensure that firm-and CEO-level characteristics are comparable across the high- and low-conservatism groups. Specifically, entropy balancing corrects for both random and systematic differences in variable distributions between the treatment and control groups (Hainmueller, 2012). We partition our sample at the median value of conditional conservatism (*CondCons*). Table C.4 in the Appendix shows that there are no significant differences in control variables after entropy balancing the variables among the two groups. Column 1 of Table 4.0-5 shows the regression results using entropy balancing, suggesting that firms with high conditional conservatism promote less CPD. This suggests that the negative association between conditional conservatism and CPD levels is not driven by unobservable factors.

4.5.2 *Instrumental Variable (IV) approach*

To mitigate the reverse causality concern, we employ an IV approach. There is a lack of instrumental variables in the literature that would affect the conservative reporting level and would not affect CPD. However, following Jiraporn and Lee (2018), we use the value of conditional conservatism in the first sample year as our first instrumental variable (*FirstyearCons*). The main premise here is that the conservatism level in the initial year could not be resulted from political disclosures in any of the subsequent years. In addition, we

hypothesize that industry-level conservatism influences a firm's conditional conservatism (Anagnostopoulou et al., 2025). Thus, we construct (*IndusCons*) as the three-year average conditional conservatism of all other firms in same Fama-French 48 industry-year, excluding the focal firm. Consistent with prior evidence that firms within an industry exhibit significant commonality in financial reporting practices (Allee et al., 2021), we expect firm-level conservatism to be positively associated with industry-level conservatism, reflecting peer effects in accounting choices (Roychowdhury et al., 2019). It is unlikely that the industry-level conditional conservatism influences corporate political disclosures through channels other than firm-level conditional conservatism. Accordingly, the essential requirements of the instrument are satisfied. Overall, we expect this instrumental variable to meet both the relevance and exclusion conditions.

Column 2 and 3 of Table 4.0-5 reports the results of the 2SLS regression analysis. Column 2 presents the first stage regression results, and we find the coefficients on *FirstConsv* variable are significant and consistent with our expectations. The second-stage estimation, reported in Column 3, shows that the coefficient on the instrumented value of *CondCons* remains negative and significant, indicating that conditional conservatism continues to exert a significant negative effect on CPD. Importantly, the *Cragg-Donald Wald F-statistic* for excluded instruments produces an F-statistic of 59.28, higher than the Stock and Yogo (2005) critical value rejecting the null of weak instruments. The *Sargan-Hansen statistic* overidentification test produces a *J-statistic* of 1.975, which is statistically insignificant with a *p-value* of 0.156. This result suggests that our instruments satisfy the exclusion restriction. Overall, this evidence lends support that our main findings.

Table 4.0-5: Endogeneity issues

	Entropy Balancing	IV First stage CondCons	IV second stage CPDisc
<i>Dep. Var</i>	(1)	(2)	(3)
CondCons	-0.839*** (-3.93)		-1.658*** (-2.99)
FirstyearCons		0.283*** (10.34)	
IndusCons		0.085 (1.45)	
Spending intensity	0.018*** (4.26)	-0.003*** (-3.95)	0.011** (2.53)
HHI	-0.428** (-2.04)	0.092** (2.43)	-0.493** (-2.20)
BM	0.081 (1.26)	0.093*** (8.74)	0.183** (2.13)
Firm size	0.003 (0.18)	-0.012*** (-4.66)	-0.005 (-0.29)
Leverage	0.327*** (3.71)	0.016 (0.94)	0.370*** (4.25)
ROA	-0.170 (-0.79)	-0.178*** (-5.35)	-0.149 (-0.70)
Firm age	0.081*** (2.88)	0.001 (0.14)	0.077*** (2.92)
Audit	0.029 (1.00)	-0.004 (-0.92)	0.028 (1.10)
Risk Disc	0.000 (0.54)	0.000 (0.39)	0.000 (0.81)
Log (Words)	0.101*** (3.75)	-0.012*** (-2.83)	0.062** (2.26)
CEO Duality	0.013 (0.51)	-0.003 (-0.69)	0.034 (1.44)
CEO Tenure	-0.013 (-0.98)	0.000 (0.14)	-0.013 (-1.03)
Inst Own	-0.178 (-1.59)	0.058*** (2.95)	-0.068 (-0.52)
State Ideology	-0.036 (-1.26)	0.001 (0.19)	-0.054** (-1.97)
Constant	-1.126*** (-3.39)	0.049 (0.90)	-1.130*** (-3.50)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Observations	2,263	2,190	2,190
Adj. R-squared	0.29		0.284
F Test of excluded instruments		59.28***	
P-value		(0.000)	
Cragg-Donald Wald <i>F</i> statistic		-	255.26
Sargan-Hansen statistic			1.975

Notes: This table illustrates the regression results of corporate political disclosure (*CPDisc*) on conditional conservatism and other control variables after employing entropy balance method, and two-stage least squares instrumental variable (IV) regressions. For entropy balancing, the observations are weighed to equate means for covariates between firms with high conservatism and firms with low conservatism. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

4.5.3 Propensity score matched sample (PSM)

It is possible that our baseline results are influenced by potential selection bias arising from differences between firms with high conservative reporting, and firms with low conservative reporting. This issue may bias our baseline estimated regression coefficients; therefore, we employ the PSM method to be able to tackle this issue of selection bias (Rosenbaum & Rubin, 1983). We partition the sample into two groups based on conditional conservatism. Firm-years with *CondCons* above the sample median are classified as the treatment group (“high conservatism”), while those below the median are classified as the control group (“low conservatism”). For the first step of the PSM, we estimate a logistic regression of the *High Condcons* (i.e., an indicator variable that equals 1 for treatment firms and 0 for control firms) on all control variables used in the main model. Using the estimated coefficients from the logistic model, we compute the propensity scores for all firms in our sample. We then match each observation in the treatment group with one in the control group, using the nearest neighbour method with a calliper of 0.01. We employ matching without replacement, to prevent matching observations with high propensity scores more than one time (Shipman et al., 2017). We obtain a matched sample of 680 firm-year observations (i.e., 340 pairs of high and low conservatism observations).

First, we validate the balancing property of the PSM procedure. Panel A and B of Table 4.0-6 show no statistically significant differences in attributes between the treatment and control groups. This indicates that the covariates are balanced between the two groups, which supports the reliability of the matching process. In the second step of the PSM, we re-estimate our

baseline regression using the matched sample. Panel B of Table 4.0-6 shows that *CondCons* remains significantly associated with CPD (Coefficient = -1.079; $p < 0.01$). Thus, estimates of the matched sample lend support to our main findings, and provide evidence that endogeneity is unlikely to drive the results.

Table 4.0-6: Propensity score matching

Panel A: Pre-match propensity score regressions and post-match diagnostic regressions

<i>Dep Var</i>	<i>High Condcons</i>	
	(1)	(2)
	<i>Pre-match sample</i>	<i>Post-match sample</i>
Spending intensity	-0.090*** (-6.39)	0.001 (0.06)
HHI	1.713*** (2.99)	0.116 (0.15)
BM	2.357*** (11.06)	-0.090 (-0.31)
Firm size	-0.311*** (-7.34)	-0.042 (-0.71)
Leverage	1.339*** (5.00)	0.146 (0.40)
ROA	-2.287*** (-3.46)	0.045 (0.05)
Firm age	0.101 (1.23)	0.049 (0.45)
Audit	-0.025 (-0.31)	-0.079 (-0.71)
Risk Disclosure	-0.000 (-0.24)	0.000 (0.28)
Log (No. of Words)	-0.333*** (-3.59)	0.027 (0.20)
CEO Duality	-0.143* (-1.85)	-0.015 (-0.15)
CEO Tenure	-0.009 (-0.18)	0.010 (0.14)
Inst Owner	3.059*** (8.73)	-0.033 (-0.07)
State Ideology	0.032 (0.41)	-0.041 (-0.40)
Constant	0.434 -0.38	-0.513 (-0.31)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Pseudo R^2	0.497	0.008
Observations	2262	680

Panel B: Post Match OLS Regression

<i>Dep. Var.</i>	<u>CPDisc</u> (1)
<i>CondCons</i>	-1.079*** (-4.73)
Controls	Yes
Year FE	Yes
Industry FE	Yes
Adjusted R^2	0.340
Observations	680

Notes: This table illustrates the regression results of corporate political disclosure (CPDisc) on conditional conservatism and other control variables after employing Propensity Score Matching (PSM) technique. We split our sample between high conservatism (treatment) firms and low conservatism (control) groups. We then obtain comparable firm pairs with similar characters according to the following procedures. We first estimate a logit model in which we use the dummy of *High Condcons* as the dependent variable. We then match each observation in the treatment group with one in the control group, using the nearest neighbour method with a calliper of 0.01 with no replacement. Panel A reports pre-match propensity score regressions and post-match diagnostic regressions. Panel B provides regression results using the matched sample. Year and industry fixed effects (FE) are included in the regression. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

4.5.4 Omitted variable concern

The relationship between conditional conservatism and CPD level may be affected by unobservable omitted variables that are not fully captured by the fixed effects in our baseline models. To alleviate such concerns, we extend our regression with additional controls capturing plausible omitted determinants of CPD. First, prior studies (e.g., Wruck & Wu, 2021) suggest that equity-based compensation can influence CEOs' incentives to voluntarily disclose information. The theoretical predictions regarding CEO delta and voluntary disclosures are ambiguous. On one hand, higher CEO delta may increase managers' incentives to withhold unfavorable information or engage in opportunistic reporting if such actions can temporarily boost the firm's stock price and, consequently, the value of their equity holdings. On the other hand, because delta also magnifies a risk-averse CEO's exposure to equity risk, it may discourage misreporting or other practices that impair disclosure quality and increase stock price volatility. Given these competing arguments, the relationship between CEO delta and CPD level is unpredictable. Additionally, prior studies (e.g., DeBoskey et al., 2021) note that

the number of analysts issuing recommendations influences disclosure quality, so we control for the number of analysts' recommendations (*Analyst*). The results in Column (1) of Table 4.0-7 show that the negative association remains after controlling for other CEO incentives and number of analysts.

Second, we include additional potential determinants of CPD, such as board size (*board size*), and independence (*board independence*). Because data on these variables are missing for a substantial portion of the sample, we do not include them in the primary specification. However, their inclusion in supplementary analyses helps mitigate concerns about omitted variable bias and reinforces the robustness of our findings. In Column 2 of Table 4.0-7, the coefficient of *CondCons* remains significant and negative in this test, which suggests that the effect of *CondCons* is not driven by board characteristics.

Finally, we implement the Oster (2019) test to directly evaluate the impact of unobservable factors on the relationship between *CondCons* and *CPDisc* level. Following prior studies (e.g., Call et al., 2018), the test measures the increase in R^2 from additional controls and uses this information to overcome the omitted variable bias. The intuition is that, if unobservable are confounding the main relationship, a hypothetical regression with both observable and unobservable variables should yield a weaker coefficient estimate for the main effect (β_{min}) and a higher R^2 (R^2_{max}) than the baseline regression (Altonji et al., 2005). Following Oster's guidance, we adopt the most conservative assumption by setting $\beta_{min} = 0$. We also set $R^2_{max} = 1.3R^2$ for the regression model that includes observable control variables. Using the specified parameters and the observed changes in both the coefficient of interest and R^2 between specifications with and without controls, we compute the Oster "delta (δ)", which quantifies the relative importance between unobservables and observables. A δ greater than 1.00 suggests a robust main effect because it indicates that, for unobservables to fully explain away the main

effect, they need to be as important as the observable controls. In Table 4.0-8, we report estimated δ to evaluate the importance of unobservables in explaining the relationship between *CondCons* and *CPDisc* level. In Column 1, the regression includes controls in the baseline regression with year and industry fixed effects. In Column 2, we add the additional controls in Table 4.0-7 to the baseline regression. Across the two columns, δ is estimated to be greater than 1.00. For instance, in Column 1, δ is estimated to be 1.495, suggesting that unobservables need to be 1.495 times as important as the baseline controls in Equation (1) to render a null effect. Overall, the evidence in this omitted variable bias diagnostic test suggests that our results do not suffer from endogeneity due to omitted variable bias.

Table 4.0-7: Controlling potentially omitted factors

<i>Dep. Var.</i>	<i>Corporate Political Disclosure (CPDisc)</i>	
	(1)	(2)
<i>CondCons</i>	-0.926*** (-4.24)	-0.891*** (-4.22)
CEO delta	-0.020** (-2.29)	
CEO vega	0.009* (1.89)	
CEO age	-0.001 (-0.77)	
CEO gender	-0.021 (-0.40)	
Analyst	0.004* (1.90)	
Board Indep		0.137 (1.11)
E-index		-0.022 (-1.05)
Board size		0.152*** (2.84)
Board Busyness		0.057* (1.96)
Board co-option		-0.006 (-0.14)
Controls	Yes	Yes
Year FE	Yes	Yes
Industry FE	Yes	Yes
Adj. R-squared	0.30	0.32
Observations	2134	1925

Notes: This table reports the regressions that test whether the baseline finding is robust to adding additional

control variables. In Column (1), the additional controls attempt to capture CEO incentives and other determinants for CPD. In Column (2), the regressions attempt to capture board governance characteristics. Control variables are similar to Table 4.0-4, but their coefficient estimates are not reported for brevity. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm and year. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

Table 4.0-8: Evaluating omitted variable bias using Oster's (2019) approach

Model	β without controls (β_u)	β with controls (β_c)	R^2 without controls (R_u^2)	R^2 with controls (R_c^2)	R_{max}^2	δ ($\delta > 1$ indicates robust results)
Column (3) of Table 4.0-4	-0.619	-0.968	0.041	0.305	0.397	1.495
Column (3) of Table 4.0-4 and additional controls in Table 4.0-7	-0.619	-0.858	0.041	0.348	0.451	1.115

Notes: This table reports the results of tests that evaluate the robustness of the relationship between *CondCons* and *CPDis* to unobservable omitted variables. We compute the δ statistic by assuming that the inclusion of unobservables would produce a zero main effect and a maximum R^2 of 1.3 times the regression without unobservables. δ is the ratio of selection on unobserved variables to selection on observed variables that matches a zero main effect and R_{max}^2 . If $\delta > 1$, it indicates that the unobservables need to be at least as important as the included controls to push the effect of conditional conservatism to zero. Thus, a δ greater than one is regarded as evidence that the omitted variable bias is unlikely to explain away the main effect

4.6 Cross-sectional analysis

This section delves into the mechanisms underlying the relationship between conditional conservatism and the CPD level.

4.6.1 *Political hedging*

Our findings are consistent with the argument that conditional conservatism disincentivizes CPD reporting. One possible explanation is that managers of conservative firms prefer to engage in political activities that preserve political influence or allocate limited resources toward more favorable investment opportunities without increasing public scrutiny.⁵⁴ In other words, conservative firms are expected to disclose less about their political activity since such transparency can heighten scrutiny from investors and regulators, while relying more on a hedging strategy to mitigate policy uncertainty without incurring the reputational risks that public disclosure can trigger. This suggests that conservative firms might benefit from access to sensitive information about possible policy changes and political events. Therefore, we posit that the effect of conservatism on political disclosure is stronger for politically hedged firms compared to non-hedged firms.

To address this possible explanation, we test the “*political hedging*”, which refers to the mechanism where firms maintain political connections with members of both major parties (i.e., Democratic and Republican) in Congress to diversify exposure to partisan shocks. By maintaining cross-party political ties, firms enhance their capacity to anticipate, adapt to, and

⁵⁴ Conservative reporting firms have two options. The first option is to abstain entirely from engaging in undisclosed political activities; however, this approach is theoretically flawed and impractical, as it would lead to the forfeiture of the substantial benefits associated with indirect political engagements (Werner, 2017; Jia et al., 2023). Alternatively, managers for conservative firms may choose to engage in political activities and at the same time hedge the two political parties to maintain access to political information. By reducing the visibility of firms’ political activities, covert CPA lowers the chances that opposition groups will detect and counteract their efforts, which could deliberate achieving their desired policy outcomes.

potentially influence policy developments, regardless of which party holds power (Christensen et al., 2022). Furthermore, political hedging is an effective strategy for mitigating firm risk relative to non-hedging firms in terms of information advantage and political influence (Christensen et al., 2022). In our context, conservative firms substitute transparency with hedging, preserving access while minimising visibility. This logic aligns with classic political-cost arguments, Watts (1977) and Watts and Zimmerman (1978) which contend that accounting conservatism helps firms avoid attention to economic rents and therefore reduces the likelihood of regulation. Accordingly, conservative firms are expected to disclose *less* about their political activity and relying *more* on a hedging strategy to mitigate the political costs that public disclosure can trigger.

To measure firms political hedging, following prior studies (e.g., Cooper et al., 2010; Christensen et al., 2017, 2022), we construct this measure using all contributions to candidates made over rolling six-year windows ($t-5$ to t)⁵⁵. We measure political hedging as the degree to which firm's political connections are balanced across party lines. Specifically, we define *PolHedging* as follows:

$$PolHedging = 1 - \frac{|REP - DEM|}{REP + DEM} \quad (7)$$

where *REP* (*DEM*) represents the number of Republican (Democrat) candidates receiving political contributions from the firm. By construction, this measure of political hedging can vary from zero to one. It equals 0 when a firm donates exclusively to one party (i.e., fully unhedged) and 1 when contributions are split evenly across both parties (i.e., fully hedged).

Firms that make no contributions within the rolling window are also treated as unhedged; they

⁵⁵ As a robustness check, we re-compute the measure over a three-year rolling window ($t-2$ to t). The results are reported in Column 2 of Table 4.0-9.

lack the balanced information and influence associated with hedged firms, so their hedging value is set to 0.

Columns 1 and 2 of Table 4.0-9 report the moderating effect of political hedging on the association between conditional conservatism and CPD. Consistent with our proposition, the interaction terms *CondCons * PolHedging5y* and *CondCons * PolHedging3y* are negative and statistically significant (coefficients = -0.457 and -0.429 ; $p < 0.05$). These results suggest that the negative relation between conservatism and political disclosure becomes stronger for firms that hedge more. This pattern is consistent with the view that conservative firms suppress political disclosure and, instead, expand political hedging.

4.6.2 *State corruption*

We further examine whether the relationship between conditional conservatism and corporate CPD varies with the level of political corruption in a firm's operating environment. Building on Shleifer and Vishny's (1993) "grabbing hand" theory, government officials in highly corrupt states use their power to seize firm resources and extract rents. According to Smith's (2016) shielding hypothesis, firms operating in corrupted states tend to hold less cash (to be less vulnerable to bribes) and to rely more heavily on leverage to minimize expropriation by rent-seeking officials. Recent evidence from Chang et al. (2025) and Xie et al. (2025) supports the political cost hypothesis, showing that firms in politically corrupt regions adopt more conservative reporting practices to deflect attention and reduce regulatory scrutiny. They suggest that firms located in areas with higher levels of political corruption tend to 'distort' their reported earnings downward in their financial reports to avoid expropriation. Extending this logic, we argue that in politically corrupted states, conservative firms are more reluctant to enhance political disclosures. Disclosing political spending may expose firms to greater

expropriation risks, as corrupt officials can exploit such disclosures to justify increased rent extraction.

To investigate our conjecture, we follow Smith (2016) and use the annual number of corruption conviction cases reported for each state as a proxy for political corruption. We extract the number of those convictions in each state and match that to the states in which our sample firms are headquartered. Column 3 of Table 4.0-9 shows the effect of political corruption on the nexus between *CondCons* and *CPDisc*. We find that coefficient estimates of *CondCons* * *State corruption* is significant and negative (Coefficient = -0.135, $p < 0.05$). This finding suggests that the negative association between conservatism and CPD is stronger in more politically corrupt environments, supporting the “grabbing hand” theory and highlighting the role of financial conservatism as a shielding mechanism under elevated corruption risk.

Table 4.0-9: Cross sectional analysis

Dep Var	<i>Corporate political disclosure (CPDisc)</i>		
	(1)	(2)	(3)
CondCons	-0.784*** (-3.48)	-0.754*** (-3.29)	-0.499* (-1.82)
CondCons * PolHedging5y	-0.457** (-2.43)		
CondCons * PolHedging3y		-0.429** (-2.26)	
CondCons * State corruption			-0.135** (-1.99)
PolHedging5y	0.152*** (3.93)		
PolHedging3y		0.158*** (4.14)	
State corruption			0.014 (1.11)
Constant	-0.815** (-2.49)	-0.404 (-1.24)	-0.960*** (-3.07)
Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R ²	0.326	0.338	0.314
Observations	2,263	2,263	2,209

This table presents the regression in which the dependent variable is the corporate political disclosure (*CPDisc*). Control variables are similar to Table 4.0-4, but their coefficient estimates are not reported for brevity. Year and industry fixed effects (FE) are included in all models. T-statistics (in parentheses) are based on robust standard errors that are adjusted for heteroskedasticity and clustered by firm***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

4.6.3 *Equity investors pressure*

Another potential explanation for the negative relation between conditional conservatism and corporate political disclosure is pressure from equity investors. Conditional conservatism supports both debt and equity contracting by facilitating monitoring and reducing contracting frictions between firms and capital providers (Ruch & Taylor, 2015; Anagnostopoulou et al., 2021). In contrast, political spending disclosure may introduce additional political and regulatory frictions. Although disclosure is generally valued, shareholder proposals advocating greater political disclosure receive mixed support from institutional investors (Baloria et al., 2019; Fisch & Robertson, 2025). Moreover, some institutional investors may view discrete political engagement as value-enhancing. For example, Denes and Scanlon (2025) document

that firms engaging in opaque political spending obtain greater federal procurement contracts, benefiting shareholders while relying on limited disclosure. Accordingly, as institutional investor influence increases, firms may be pressured to prioritize conservative financial reporting practices over expanded political disclosure.

Following Anagnostopoulou et al. (2021), we employ a portfolio-based approach to examine the role of equity investor monitoring. Specifically, we construct annually rebalanced 5×5 double-sorted portfolios based on (a) our baseline measure of conditional conservatism, *CondCons* and (b) proxies for the strength of equity investor monitoring. We capture monitoring intensity using institutional ownership concentration, blockholder ownership, and the Herfindahl–Hirschman Index of ownership concentration. Higher values of these measures indicate stronger monitoring by equity investors.

Table 4.0-10 reports mean values of political disclosures ($CPDisc_{i,t}$) for annually rebalanced 5×5 double-sorted portfolios based on conditional conservatism and the strength of equity investor pressure. Monitoring intensity is measured using institutional ownership (Panel A), institutional blockholder ownership (Panel B), and the Herfindahl-Hirschman Index of ownership concentration (Panel C). For each panel, entitled H_0 : equal means, we report portfolio differences and t-statistic values under the null hypothesis that the means of the indicated portfolios are equal.

We can observe from Table 4.0-10, Panels A, B, and C that higher levels and greater concentration of institutional ownership are associated with significantly lower levels of CPD. Moreover, this negative association becomes more pronounced among firms exhibiting higher degrees of conditional conservatism. Taken together, the evidence suggests that stronger equity investor pressure is linked to reduced political disclosure, particularly for firms that report more conservatively.

Table 4.0-10: Equity investors pressure

Panel A: Institutional ownership

Levels of $CPDisc_{i,t}$	Portfolios of $Inst Own_{i,t}$					H ₀ : equal means Portfolios 5 and 1	
		1-Lowest	2	3	4		5-Highest
Portfolios of $CondCons_{i,t}$	1-Lowest	0.975^a	0.951	0.922	0.819	0.720	-0.259* (-2.29)
	2	0.876	0.906	0.941	0.802	0.516	-0.360*** (-4.37)
	3	0.881	0.834	0.877	0.853	0.713	-0.174* (-2.11)
	4	0.840	0.684	0.790	0.836	0.831	-0.009 (-0.12)
	5-Highest	0.768	0.675	0.806	0.767	0.847^b	0.078**(2.77)
H ₀ : equal means Portfolios 5 and 1		-0.206*** (-5.82)	-0.276*** (-3.28)	-0.116* (-2.06)	-0.052 (-1.32)	0.137 (1.27)	H ₀ : equal means Portfolios b and a -0.128*** (-3.31)

Panel B: Institutional block holder ownership

Levels of $CPDisc_{i,t}$	Portfolios of $Inst Block_{i,t}$					H ₀ : equal means Portfolios 5 and 1	
		1-Lowest	2	3	4		5-Highest
Portfolios of $CondCons_{i,t}$	1-Lowest	0.954^a	0.900	0.892	0.947	0.715	-0.243*** (-3.85)
	2	0.899	0.917	0.890	0.874	0.824	-0.075 (-1.63)
	3	0.822	0.851	0.852	0.881	0.873	0.062** (2.36)
	4	0.578	0.848	0.850	0.821	0.873	0.295*** (5.33)
	5-Highest	0.788	0.664	0.766	0.806	0.870^b	0.082*** (3.40)
H ₀ : equal means Portfolios 5 and 1		-0.166*** (-6.32)	-0.236*** (-3.63)	-0.126*** (-4.03)	-0.137* (-2.16)	0.175** (2.98)	H ₀ : equal means Portfolios b and a -0.084*** (-3.25)

Panel C: Institutional ownership - Herfindahl-Hirschman index

Levels of $CPDisc_{i,t}$	Portfolios of $Inst HHI_{i,t}$					H ₀ : equal means Portfolios 5 and 1	
		1-Lowest	2	3	4		5-Highest
Portfolios of $CondCons_{i,t}$	1-Lowest	0.954	0.924	0.884	0.932	0.868	-0.086(-1.63)
	2	0.909	0.912	0.862	0.869	0.801	-0.108** (-2.37)
	3	0.777	0.807	0.865	0.896	0.815	0.039 (0.86)
	4	0.452	0.847	0.785	0.902	0.851	0.398*** (3.61)
	5-Highest	0.511	0.645	0.785	0.811	0.849	0.338*** (3.90)
H ₀ : equal means Portfolios 5 and 1		-0.444*** (-5.02)	-0.279*** (-6.35)	-0.098 (-1.63)	-0.121** (-2.34)	-0.019 (0.40)	H ₀ : equal means Portfolios b and a -0.105*** (-3.83)

4.7 Robustness checks

4.7.1 Sub-period regressions

As a robustness check, we re-estimate our baseline model for alternative subperiods, with results reported in Table 4.0-11. We first estimate the model using data from 2012–2014 (column i) and then apply an expanding-window approach by sequentially adding one year until the full 2012–2021 sample is included. The results remain consistent with our main findings.

Table 4.0-11: Sub-period regressions

<i>Dep. Var.</i>	<i>Corporate political disclosure (CPDisc)</i>							
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
Sub-periods	2012-2014	2012-2015	2012-2016	2012-2017	2012-2018	2012-2019	2012-2020	2012-2021
<i>CondCons</i>	-0.523 (-0.94)	-1.058** (-2.32)	-1.406*** (-3.49)	-1.412*** (-4.55)	-1.348*** (-5.20)	-1.173*** (-5.10)	-1.001*** (-4.67)	-0.968*** (-4.67)
Spending intensity	0.012*** (2.64)	0.012*** (2.94)	0.011*** (3.13)	0.012*** (3.25)	0.012*** (3.48)	0.013*** (3.72)	0.014*** (3.91)	0.014*** (3.79)
HHI	-0.560** (-1.99)	-0.592*** (-2.77)	-0.603*** (-3.18)	-0.538*** (-2.98)	-0.496*** (-2.72)	-0.503*** (-2.67)	-0.513*** (-2.75)	-0.493*** (-2.84)
BM	-0.252** (-2.01)	-0.087 (-0.90)	0.003 (0.03)	0.018 (0.23)	0.031 (0.46)	0.042 (0.65)	0.063 (1.01)	0.106* (1.76)
Firm size	-0.001 (-0.07)	0.010 (0.57)	0.007 (0.44)	0.002 (0.09)	-0.001 (-0.07)	-0.001 (-0.04)	0.003 (0.20)	0.008 (0.58)
Leverage	0.178 (1.07)	0.254** (2.06)	0.300*** (2.70)	0.330*** (3.22)	0.350*** (3.60)	0.367*** (3.98)	0.354*** (4.01)	0.341*** (4.08)
ROA	0.319 (0.69)	0.054 (0.15)	0.118 (0.39)	0.041 (0.16)	-0.027 (-0.12)	-0.030 (-0.14)	-0.028 (-0.14)	-0.001 (-0.01)
Firm age	0.154*** (3.32)	0.114*** (3.13)	0.083** (2.49)	0.081*** (2.69)	0.080*** (2.85)	0.076*** (2.80)	0.077*** (2.89)	0.075*** (2.87)
Constant	-0.757 (-1.34)	-1.001** (-2.15)	-1.066*** (-2.61)	-1.106*** (-2.86)	-1.109*** (-3.07)	-1.015*** (-2.93)	-0.991*** (-2.97)	-0.992*** (-3.12)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.234	0.269	0.294	0.299	0.308	0.309	0.296	0.295
Observations	357	617	877	1,141	1,412	1,693	1,969	2,263

4.7.2 CPD index components

The CPA-Zicklin score for CPD comprises three categories: disclosure (*P_Disclosure*), policy (*P_Policy*), and oversight (*P_Oversight*). The first category comprises nine items, and the information for the first two items must be disclosed in FEC and Senate Office filings (Goh et al. 2020). Therefore, one could argue that our previous findings might be driven by mandatory instead of voluntary components. As a remedy, and to ensure robustness of the findings, we repeat our regression by replacing the main dependent variable (*CPDisc*) with the three individual categories (*P_Disclosure*, *P_Policy*, *P_Oversight*). The results in Panel A of Table 4.0-12 are consistent with our main analysis.

As a further robustness test, we focus our analysis on disclosure of payments to trade associations and other tax-exempt organizations made as “*dark money*” or unobservable expenditures. While these organizations must report their receipts and disbursements, including their recipients, to the IRS, they do not have to report the names of donors (Baloria et al. 2019). Therefore, corporations can have unlimited political spending without effectively disclosing anything. We re-estimate our regression by replacing *CPDisc* with a measure of *Dark money disclosure*. This measure focuses on the highest-scoring components in the disclosure category (i.e., components 4 and 5), which capture (i) payments to trade associations (component 4) and (ii) payments to other tax-exempt organizations, such as 501(c)(4)s (component 5). Specifically, *Dark money disclosure* refers to a composite disclosure index capturing the extent to which a firm publicly discloses such payments. The index is computed as $((\text{component 4} + \text{component 5}) / 12 (\text{maximum score})) \times 100$, which is then expressed as a percentage ranging from 0 % (poor dark money spending disclosure) to 100 % (full dark money spending disclosure). Interestingly, as shown in Panel B Column 1 of Table 4.0-12, our results remain robust and consistent with our main findings in Table 4.0-4. Similarly, for the other two

categories, policy and oversight, we choose the highest component in each category for policy component 10, *Detailed policy*, and for oversight component 22, *Detailed report*. Panel B Columns 2 and 3 of Table 4.0-12 show a negative and significant relation between conditional conservatism and these components. In short, these results lend support to our main findings.

Table 4.0-12: Conditional conservatism, and different types of CPD

Panel A: The three sub-indices of corporate political disclosure			
<i>Dep. Var.</i>	<i>P Disclosure</i>	<i>P Policy</i>	<i>P Oversight</i>
	(1)	(2)	(3)
CondCons	-1.028*** (-4.42)	-0.752*** (-3.61)	-1.061*** (-4.85)
Constant	-1.083*** (-3.07)	-0.806** (-2.55)	-0.995*** (-2.90)
Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R ²	0.248	0.294	0.296
Observations	2,263	2,263	2,263
Panel B: The sensitive components in each of the three indices of CPD			
<i>Dep. Var.</i>	<i>Dark money disclosure</i>	<i>Detailed policy</i>	<i>Detailed report</i>
	(1)	(2)	(3)
CondCons	-1.023*** (-3.97)	-3.939*** (-2.87)	-4.725*** (-4.79)
Constant	-1.335*** (-3.23)	-4.077** (-2.04)	-3.955*** (-2.69)
Controls	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Adjusted R ²	0.187	0.249	0.253
Observations	2,263	2,263	2,263

4.7.3 *Alternative measures of conditional conservatism*

First, following García Lara et al. (2020), we use an aggregate measure of conditional conservatism based on three firm-year proxies: (1) Khan and Watts's (2009) measure based on the Basu (1997) model, (2) Givoly and Hayn (2000) measure that captures the skewness of earnings (*CondCons_SKW*), and (3) Callen et al. (2010) measure based on the Vuolteenaho (2002) returns decomposition model (*CondCons_CR*). All the measures are provided in the appendix. As proposed by García Lara et al. (2020), we take the average of the three standardized conservatism proxies. To reduce measurement error and nonlinearity concerns, we take the annual deciles of this average. We denote this measure as *CondConsThree*.

Second, Badia et al. (2021) proposed several adjustments to the Basu (1997) earnings-based model to control for criticisms leveled against the Basu model by Patatoukas and Thomas (2011, 2016) and others. These adjustments include (1) using unexpected earnings and unexpected returns, (2) including firm fixed effects to capture any remaining persistent portion of expected earnings and expected returns, and (3) controlling for return variance and the *MTB* ratio. The baseline result about the negative association between conditional conservatism and *CPDisc* remains robust to these adjustments to the Basu specification. We report the findings of this analysis in Table 4.0-13, which shows that the estimated coefficient on both alternative measures of conditional conservatism (*CondConsThree*, *CondConsBadia*) is significant and negative with political spending disclosure (*CPDisc*). Overall, the results in Table 4.0-13 support that conditional conservatism reduces CPD level.

Table 4.0-13: *Alternative measures for conditional conservatism*

<i>Dep. Var.</i>	<i>Corporate political disclosure (CPDisc)</i>	
	(1)	(2)
<i>CondConsThree</i>	-0.019*** (-4.12)	
<i>CondConsBadia</i>		-0.013** (-2.26)
Constant	-0.814** (-2.47)	-0.932*** (-2.61)
Other controls	Yes	Yes
Year FE	Yes	Yes
Industry FE	Yes	Yes
Adjusted R ²	0.298	0.275
Observations	1,899	1,782

4.8 Summary and conclusion

In this paper, we examine the impact of conditional conservatism on CPD level. The growing body of literature highlights the increasing demand for CPD among stakeholders, particularly in the aftermath of the Supreme Court’s 2010 decision, which significantly relaxed restrictions on corporate political contributions. This shift in regulatory landscape has been linked to a series of adverse events, such as the 2021 attack on the U.S. Capitol.

Prior research offers competing views on whether conservative reporting substitutes for or complements voluntary disclosure. We contribute to this debate by examining this tension in the context of CPD, a setting characterised by high discretion and political sensitivity. We predict two competing hypotheses regarding the relation between conditional conservatism and CPD.

From the political cost perspective, conservative firms are predisposed to minimise public visibility of activities that may attract regulatory scrutiny or reputational damage. Since CPD directly exposes a firm's attempts to influence policy or elections, conservative firms, already motivated to appear politically cautious, have an additional incentive to limit such disclosure. Moreover, from the agency perspective, conservatism imposes timely loss recognition on

political expenditures, which are immediately expensed with no offsetting recognition of their speculative benefits. This asymmetric treatment reduces reported earnings, raises the personal cost to managers of engaging in political spending, and deters managers from voluntarily drawing attention to these activities through disclosure. Together, these two mechanisms, heightened reputational sensitivity and the adverse earnings consequences of political spending under conservative reporting, jointly discourage voluntary CPD. In contrast, an alternative view suggests that conservatism and political disclosure may be complementary mechanisms that jointly improve the information environment. Consistent with the substitution view, we find that firms with more conservative financial reporting practices are less likely to enhance CPD, suggesting that accounting conservatism and voluntary political disclosure operate as alternative rather than complementary communication channels.

This study is subject to some limitations. Our study focuses on one type of financial reporting characteristic; future research could usefully investigate the effect of other reporting characteristics on CPD. In addition, our study focuses on the level of disclosure rather than the quality of disclosure, due to its recent emergence. A further limitation is that our sample only consists of S&P 500 firms, making us cautious in generalizing our results across all firms. Therefore, we call to investigate more widely the driving factors that enhance CPD.

Chapter 5 Conclusion

5.1 Thesis Summary

This chapter concludes the thesis by presenting a summary of the key findings from the three studies on voluntary CPD. In all these papers, CPD is proxied by the CPA-Zicklin Index, which reflects disclosure practices reported in firms' annual filings or on company websites. Each paper investigates a non-directional hypothesis and adopts a consistent empirical strategy, baseline OLS regressions with industry and year fixed effects, complemented by cross-sectional analyses and a battery of robustness checks. To mitigate concerns about endogeneity, each study includes additional identification tests. A detailed discussion on specific tests conducted is provided in the corresponding sections of Chapter 2, 3 and 4.

5.1.1 *Summary of Study One*

Study one examines whether inside debt holdings, which capture the CEO's incentive to preserve firm value and avoid default, affect the extent of CPD. Drawing on agency theory, this study posits that CEOs with substantial inside debt are more motivated to mitigate firm risk and thus more likely to increase political disclosure. To test our hypothesis regarding the effect of CEO inside debt holdings, we regress the CEO inside debt on the CPD level. We find a positive association between CEO inside debt and CPD level. This relationship remains robust after excluding firms with zero inside debt, suggesting that inside debt provides a compelling incentive for enhancing disclosure.

To further support our theoretical premise that CEOs with substantial inside debt holdings strategically use CPD to safeguard these holdings, we conduct path analysis. Specifically, we find that the increased CPD level, driven by CEOs with higher level of inside debt, leads to a higher distance to default. These findings corroborate our theoretical argument that CPD may

serve as a risk management tool for CEOs with significant inside debt. We also conduct a series of endogeneity tests to validate the robustness of this relationship.

Beyond our main analysis, we conduct a set of cross-sectional analysis to explore key mechanisms and boundary conditions that affect the strength of this relationship. The results show that the impact of inside debt holdings on CPD is more pronounced in firms with greater financial constraints. We also find that this effect is amplified when firms are headquartered in states with higher levels of corruption. Additionally, consistent with upper echelons theory, we find that CEO political ideology plays a moderating role. We find that Democratic CEOs with high inside debt holdings are more transparent with respect to political disclosures than their Republican counterparts. Finally, we find evidence that CEO inside debt has a more substantial effect on CPD than CFO inside debt does.

5.1.2 Summary of Study Two

Study two investigates the role of promotion-based incentives for non-CEO executives in shaping voluntary CPD. Promotion-based tournament incentives measured as the difference between a CEO's total compensation and the median of all other non-CEO executives' total compensation. This compensation gap captures the strength of career concerns among second-tier executives competing for internal promotion, particularly the opportunity to become the next CEO. In our main regression analysis, we find that firms with a larger pay gap between the CEO and non-CEO executives are associated with greater political disclosure. Specifically, a 1% standard deviation increase in the pay gap is associated with an 8% rise in corporate political disclosure levels. This finding suggests that promotion-based incentives act as an effective internal governance mechanism that encourages greater political disclosure. To reinforce the validity of the results, we implement several endogeneity diagnostics.

Additionally, we conduct a set of robustness checks to address concerns related to CEO entrenchment or weak corporate governance structure.

Cross sectional analyses show how the relationship between tournament incentives and political disclosures is moderated by changes in the perceived probability of promotion. we find that the association weakens in firm-years following the appointment of a new CEO and is more pronounced in firms with longer serving CEOs. Additionally, the association between tournament incentives and CPD varies with succession expectations, it weakens when external CEO appointments are anticipated and strengthens when internal succession is expected. Moreover, we extend our analysis by examining two additional moderating factors. First, we find that the intensity of corporate lobbying weakens the positive association between tournament incentives and CPD. Second, we find, in the presence of external uncontrollable risk such as proximity to political power, non-CEO executives' have more incentives to enhance political disclosure.

5.1.3 Summary of Study Three

Study three investigates the role of conditional conservatism on CPD level. Conditional conservatism is measured using various proxies, including those developed by Khan and Watts (2009), Callen et al. (2010), and Badia et al. (2021). In our main regression analysis, we find a negative association between conditional conservatism and political disclosure. In terms of economic significance, moving from the first to the third quartile in conditional conservatism (a change of five deciles), leads to a decrease in political disclosure of - 5.81%. This evidence aligns with Watts's (2003a) theoretical argument that conservative reporting is used to mitigate future political costs. Next, we conduct cross-sectional tests to identify settings in which this relation is intensified. First, we find that the relationship is stronger in politically hedged firms, consistent with the notion that managers of conservative firms engage in balanced political

activities across Republican and Democratic candidates to preserve political influence without increasing public scrutiny (Christensen et al., 2022). Second, the relationship is also more pronounced in politically corrupt states. In addition, we show that equity investor pressure significantly shapes the relation between conservatism and political disclosure. Finally, given that conditional conservatism reporting and CPD may be endogenous, we employ instrumental variable estimation to address potential endogeneity concerns.

5.2 Thesis Contributions

This thesis contributes to the literature on CPD, executive incentives, and financial reporting by offering novel evidence across three distinct but interconnected studies. The contributions are threefold.

First, the thesis advances understanding of how CEO compensation structures, specifically inside debt holdings, affect political disclosure. Theoretically, it provides a significant contribution to agency theory by examining the two competing views on the role of inside debt in executive compensation: the optimal contracting perspective and the managerial power perspective. However, recognizing that agency theory alone may not fully capture the behavioral implications of executive contracts, this study also integrates upper echelons theory to contextualize the role of CEO characteristics, such as political ideology, in shaping disclosure preferences. The findings lend support to the optimal contracting view, suggesting that inside debt serves as an effective governance mechanism by aligning managerial incentives with the long-term interests of both shareholders and debtholders (Cassell et al., 2012; Sundaram & Yermack, 2007), while also reducing the propensity for risky behavior, particularly under the threat of bankruptcy (Edmans & Liu, 2011).

Empirically, the first study fills an important gap in the literature in the existing literature focusing on CEO incentive contract and voluntary disclosure practices. The empirical evidence of this work confirms that inside debt holdings induce CEOs to increase political disclosure.

We also explore key mechanisms and boundary conditions that affect the strength of this relationship. Importantly, the relationship is amplified in firms subject to high financial constraints and operating in politically corrupt environments. Additionally, the study adds a novel insight to upper echelons literature by showing that CEO political ideology moderates this relationship, with stronger effects observed among Democratic-leaning executives.

Second, this thesis advances the internal governance and tournament literature by investigating how promotion-based incentives for non-CEO executives influence voluntary CPD. While prior research primarily emphasizes the role of CEOs in shaping disclosure outcomes (e.g., Armstrong et al., 2013; Wruck & Wu, 2021), this study contributes by shifting the attention to the broader top management team, highlighting the strategic influence of non-CEO executives. Theoretically, this study extends our understanding of internal governance by linking promotion-based tournament incentives to disclosure behavior in relatively unregulated settings. Based on tournament theory, prior studies predominantly examine the impact of tournament incentives on reporting quality in established settings (e.g., Gad et al., 2023; Haß et al., 2015; Park, 2017; Shi et al., 2016), our study makes a significant theoretical contribution by shifting the analytical focus from environments with high regulated to those with lower emphasis on legal risks. This shift enables us to investigate whether pay disparities align with the principles of tournament theory or social identity theory.

Additionally, drawing on tournament theory, tournament outcome is a function of main inputs which are contestants' level of efforts, and random components (such as "luck" or noise") (Connelly et al., 2014). We further integrate the political alignment with the President as an "uncontrollable risk" that represents randomness component within the framework of the tournament theory.

Empirically, in line with tournament theory, it demonstrates that greater pay dispersion within the TMT is associated with higher levels of political disclosure, suggesting that internal career incentives can promote political disclosure. This aligns with the core principles of tournament theory, which posits that substantial pay differences can motivate individuals to compete for top positions. Cross-sectional analyses show that this relationship is sensitive to succession expectations, weakening when external CEO appointments are anticipated and strengthening with internal succession prospects. The study also identifies boundary conditions such as lobbying intensity, acting as a substitute for disclosure, and external political risk, which further motivates non-CEO executives to increase CPD level.

Finally, this thesis contributes to the research on accounting conservatism by examining its implications for voluntary disclosure in politically sensitive domains. Accounting theory suggests that conservatism fulfils an important role in reducing information asymmetry between insiders and outsiders (Watts, 2003a). While some studies argue that conservatism and voluntary disclosure may act as complementary mechanisms that reinforce transparency (García Osma et al., 2022), others suggest a substitution effect, where conservative reporting reduces the frequency and specificity of voluntary disclosures, such as earnings forecasts and CSR disclosures (e.g., Hui et al., 2009; Cho et al., 2020). This thesis extends this debate by investigating whether conditional conservatism disciplines or suppresses CPD. It provides evidence that firms engaging in more conservative financial reporting are less likely to disclose political spending, consistent with the political cost hypothesis. This suggests that in politically sensitive settings, firms may strategically rely on conservative reporting to manage external scrutiny while limiting discretionary disclosures. The study also identifies contextual moderators that shape this relationship, including the firm's use of internal political hedging strategies, exposure to state-level corruption, and external pressure from institutional investors. These insights provide a more nuanced understanding of how internal reporting attributes

interact with political risk and disclosure incentives, offering new theoretical and empirical perspectives on the trade-offs between credibility and transparency in voluntary reporting.

5.3 Thesis Implications

This thesis offers several important implications for policymakers, regulators, practitioners, and investors by offering insights into the determinants of voluntary CPD. The first study highlights implications particularly relevant for boards of directors, compensation committees, and investors. In essence, a company's board of directors, particularly the compensation committees, should reevaluate executive compensation design and strategically include inside debt in CEO's pay packages. By doing so, the boards can promote transparency which in turn, can lessen the monitoring burden on the board, as CEOs become more intrinsically motivated to provide more information, particularly in less regulated areas such as CPD. Similarly, investors may perceive the absence of inside debt in CEOs compensation as a cause of concern, as it could trigger CEOs to prioritize shorter-term prospects, potentially leading to the concealment of political spending information and reduced disclosure. Investors may also engage with firms' board of directors to advocate for the inclusion of inside debt in CEO's pay package as a strategic tool to enhance the overall information environment.

The second study offers important implications for corporate compensation policy and for monitoring by both internal and external stakeholders. It suggests that executive compensation oversight should extend beyond CEO total pay to include internal pay dispersion within the TMT. The findings suggests that rank-based incentives, such as promotion-based pay gaps within TMT, can positively influence voluntary CPD by aligning executives' career motivations with transparency expectations. However, such incentives are not without cost. Prior research has shown that tournament-style compensation can increase the likelihood of misconduct and excessive risk-taking. Therefore, when designing a compensation structure,

the corporate board needs to carefully consider the distribution of pay besides the advantages and potential downsides of CEO pay gap.

The third study highlights implications particularly relevant for regulators, users, and preparers. While prior research highlights the beneficial role of conditional conservatism on the information environment (e.g., LaFond & Watts, 2008; Lara et al., 2011; Kim et al., 2013; Lara et al., 2014; D'Augusta et al., 2016; Kim & Zhang, 2016), our findings uncover a countervailing effect, that conservatism may suppress voluntary CPD. This suggests that, in politically sensitive domains, conservatism could allow managers to withhold relevant information from stakeholders. From a policy perspective, our evidence supports recent calls for more standardized and mandatory political disclosure frameworks. Regulators may need to reconsider the assumption that conservative reporting universally enhances transparency, especially in discretionary areas like CPD. Our findings also reinforce the role of institutional investors as informal monitors who can pressure firms toward greater political disclosure. Thus, policymakers might consider mechanisms that empower investor engagement, such as disclosure votes or enhanced shareholder rights, as tools to counterbalance the opacity created by conservative accounting. Together, these insights help inform future regulatory debates on how to design disclosure systems that promote both financial conservatism and voluntary disclosures.

5.4 Thesis Limitations and Suggestions for Future Research

This thesis has several limitations. First, we recognize that disclosure and incentive contract choices are potentially endogenous corporate policies. Although the analysis employs a range of empirical strategies, including instrumental variable (IV) estimation, generalized method of moments (GMM), propensity score matching (PSM), entropy balancing (EB), and the Oster (2019) test to mitigate endogeneity, the issue cannot be fully ruled out. Consequently, the findings should be interpreted with appropriate caution. Future research should seek a

exogenous variation to untangle causality. One approach is to exploit regulatory or policy shocks that affect disclosure or incentives. For example, Prabhat and Primo (2019) examine a U.K. law mandating political-spending disclosure and shareholder approval, using it as a natural experiment to assess causal effects on firm risk and value. Building on this approach, future research could employ similar regulatory interventions to better disentangle causality between disclosure and incentive contract choices. Second, the measure of corporate political disclosure employed in this study, the CPA-Zicklin Index, has important limitations. Although the index, developed by the Zicklin Center for Business Ethics Research at the Wharton School, University of Pennsylvania, has been widely used in recent literature (e.g., Baloria et al., 2019; Ali et al., 2023), it is based on firms' voluntary disclosures and public policy statements. As such, it may not fully capture the breadth of a firm's political engagement. Certain types of contributions, such as those to 501(c)(4) organizations or via trade associations, often leave no external public record and are not independently verifiable (Hanna & Laufer, 2024). This reliance on self-disclosed information raises the possibility of underreporting of actual political activity. Future research should seek alternative data sources and measures to capture these hidden political activities. One promising direction is to use investigative or leaked data (Guedhami et al., 2025). Third, the CPA-Zicklin Index primarily covers S&P 500 companies, restricting its applicability to smaller firms, private firms, and non-U.S. firms, and thereby constraining the generalizability of the results. Future research may examine U.S. mid-cap and small-cap firms outside the Russell 1000. Their political spending disclosure practices might differ due to resource constraints or lower public scrutiny. Researchers could collect data on smaller firms' political contributions (e.g. via state-level campaign finance databases or by scraping company websites for any disclosed policies) to see if transparency associations found in large firms hold in the broader population. By moving beyond the S&P 500 focus, future research can test the robustness of prior results and provide a more comprehensive

understanding of how disclosure, political spending, and corporate outcomes interrelate across different sizes of firms and global regulatory environments.

Appendix A: CPD measure

<i>CPD Index- Disclosure</i>		Max Score
1	Does the company publicly disclose corporate contributions to political candidates, parties and committees, including recipient names and amounts given?	4
2	Does the company publicly disclose payments to 527 groups, such as governors' associations and super PACs, including recipient names and amounts given?	4
3	Does the company publicly disclose independent political expenditures made in direct support of or opposition to a campaign, including recipient names and amounts given?	4
4	Does the company publicly disclose payments to trade associations that the recipient organization may use for political purposes?	6
5	Does the company publicly disclose payments to other tax-exempt organizations, such as 501(c)(4)s, that the recipient may use for political purposes?	6
6	Does the company publicly disclose a list of the amounts and recipients of payments made by trade associations or other tax-exempt organizations of which the company is either a member or donor?	2
7	Does the company publicly disclose payments made to influence the outcome of ballot measures, including recipient names and amounts given?	4
8	Does the company publicly disclose the company's senior managers (by position/title of the individuals involved) who have final authority over the company's political spending decisions?	2
9	Does the company publicly disclose an archive of each political expenditure report, including all direct and indirect contributions, for each year since the company began disclosing the information (or at least for the past five years)?	4
	Maximum score	36
<i>CPD Index -Policy</i>		
10	Does the company disclose a detailed policy governing its political expenditures from corporate funds?	6
11	Does the company have a publicly available policy permitting political contributions only through voluntary employee-funded PAC contributions?	2
12	Does the company have a publicly available policy stating that all of its contributions will promote the interests of the company and will be made without regard for the private political preferences of executives?	2
13	Does the company publicly describe the types of entities considered to be proper recipients of the company's political spending?	2
14	Does the company publicly describe its public policy positions that become the basis for its spending decisions with corporate funds?	2
15	Does the company have a public policy requiring senior managers to oversee and have final authority over all the company's political spending?	2
16	Does the company have a publicly available policy that the board of directors regularly oversees the company's corporate political activity?	2
	Maximum score	18
<i>CPD Index-Oversight</i>		
17	Does the company have a specified board committee that reviews the company's policy on political expenditures?	2
18	Does the company have a specified board committee that reviews the company's political expenditures made with corporate funds?	2

19	Does the company have a specified board committee that reviews the company's payments to trade associations and other tax-exempt organizations that may be used for political purposes?	2
20	Does the company have a specified board committee that approves political expenditures from corporate funds?	2
21	Does the company have a specified board committee, composed entirely of outside directors, that oversees its political activity?	2
22	Does the company post on its website a detailed report of its political spending with corporate funds semi-annually?	4
23	Does the company make available a dedicated political disclosure web page found through search or accessible within three mouse-clicks from homepage?	2
24	Does the company disclose an internal process for or an affirmative statement on ensuring compliance with its political spending policy?	2
	<i>Maximum score</i>	<i>18</i>
	<i>Total score</i>	<i>72</i>

Appendix B: CEOs inside debt calculation

$$CEO\ D/E = Debt_{CEO} / Equity_{CEO}$$

The value of inside debt is the sum of the present value of defined-benefit pensions (PENSION_VALUE_TOT) and total balances of non-qualified deferred compensations (DEFER_BALANCE_TOT), both from ExecuComp. The value of inside equity is sum of stock and stock option holdings. The value of stock holding equal to number of shares owned by CEO multiplied by stock price (SHROWN_EXCL_OPTS * PRCCF). For CEOs option holding, we used Black Scholes model to value stock options as described below.

$$Option\ value = [Se^{-dt} N(Z) - Xe^{-rt} N(Z - \sigma T^{(1/2)})]$$

Where,

$$Z = [\ln(S/X) + T(r - d + \sigma^2 / 2)] / \sigma T^{(1/2)}$$

N = Cumulative probability function for the normal distribution

S = Price of the underlying stock at a fiscal year-end

X = Exercise price of the stock option

σ = expected stock-return volatility over the life of the option

r = natural logarithm of risk-free interest rate

T = time to maturity of the option in years.

d = Natural logarithm of expected dividend yield over the life of the stock option.

A CEO's options portfolio includes three types of options; there are three types of options. (1) newly granted options in the current year, (2) options granted in the previous year that currently exercisable (vested) options and (3) options granted in the previous year but unexercisable (unvested) options. Firstly, we compute the value for the newly granted options. Secondly, for previously granted options, we used the same inputs, except we need to estimate average exercise price (X) and time to maturity (T). Following (Core & Guay 2002; Cassell et al., 2012; He, 2015) , we calculate average exercise price ($PRCC_F - \frac{OPT_UNEX_UNEXER_EST_VAL}{OPT_UNEX_UNEXER_NUM}$) for unvested options and employing same method for vested options. The time to maturity (T) of vested options is assumed to be 4 years less than the average maturity of the new grants. In case no options granted this year, the maturity is set at 6 years The time to maturity of unvested

options is set at 1 less than the average maturity of the new grants. In case no options granted this year, the maturity is set at 9 years. Finally, the value of CEO option holdings is equal to the sum of the value of newly granted CEO options, the value of vested CEO options, and the value of unvested CEO options.

Appendix C: Supplementary Analysis

Table C.1: Proof of convergence for entropy balancing

Panel A: Before entropy balancing

Variables	Treatment			Control		
	Mean	Variance	Skewness	Mean	Variance	Skewness
CEO delta	6.060	1.683	-0.377	6.760	2.633	0.235
CEO vega	3.382	10.110	-0.047	3.551	10.020	-0.133
CEO age	57.980	24.020	0.106	57.540	48.210	0.457
CEO tenure	5.996	26.900	1.593	7.458	58.460	1.966
CEO gender	0.049	0.046	4.199	0.052	0.050	4.014
Spending Intensity	12	26.340	-1.672	10.150	36	-0.966
Analyst	21.980	49.070	0.404	23.460	77.790	0.565
HHI	0.208	0.034	2.484	0.197	0.027	2.963
ROA	0.053	0.004	-0.003	0.075	0.006	0.233
Leverage	0.685	0.031	0.013	0.625	0.048	0.179
Firm Size	3.258	1.790	-0.258	3.017	2.033	-0.176
Capex	0.038	0.001	1.490	0.034	0.001	1.866
BM	0.436	0.145	4.313	0.323	0.089	1.615

Panel B: After entropy balancing

Variables	Treatment			Control		
	Mean	Variance	Skewness	Mean	Variance	Skewness
CEO delta	6.060	1.683	-0.377	6.060	2.501	0.071
CEO vega	3.382	10.110	-0.047	3.382	9.603	-0.068
CEO age	57.980	24.020	0.106	57.980	48.930	0.895
CEO tenure	5.996	26.900	1.593	5.996	53.960	2.804
CEO gender	0.049	0.046	4.199	0.049	0.046	4.199
Spending Intensity	12	26.340	-1.672	12	20.860	-1.923
Analyst	21.980	49.070	0.404	21.980	60.660	0.453
HHI	0.208	0.034	2.484	0.208	0.034	2.686
ROA	0.053	0.004	-0.003	0.053	0.005	0.043
Leverage	0.685	0.031	0.013	0.685	0.043	0.011
Firm Size	3.258	1.790	-0.258	3.257	1.922	-0.287
Capex	0.038	0.001	1.490	0.038	0.002	1.663
BM	0.436	0.145	4.313	0.436	0.167	1.537

Notes: This table presents the proof of convergence of mean for the association between CEO inside debt and CPD with an entropy balanced sample. Panel A (Panel B) shows the mean, variance, and skewness of control variables for the treatment and control groups before (after) balancing. We achieve convergence in mean (same mean on both sides).

Table C.2: Diagnostic tests for PSM

<i>Dep Var</i>	<i>High CEO Pay Gap</i>	
	(1)	(2)
	<i>Pre-match sample</i>	<i>Post-match sample</i>
CEO Delta	0.166*** (4.20)	0.021 (0.49)
CEO Vega	0.006 (0.36)	-0.007 (-0.42)
CEO Gender	0.01 (1.40)	-0.003 (-0.35)
CEO Duality	0.145 (1.06)	0.038 (0.23)
CEO Age	0.091 (1.09)	0.004 (0.04)
CEO Power	-0.020* (-1.83)	0.002 (0.21)
Spending Intensity	0.074*** (5.23)	0.002 (0.14)
HHI	-0.562** (-2.35)	-0.046 (-0.17)
ROA	-0.843 (-1.30)	0.029 (0.04)
Leverage	-0.001 (-1.43)	-0.000 (-0.23)
Firm Size	0.312*** (5.42)	-0.023 (-0.36)
MB	0.002 (1.08)	0.000 (0.15)
Inst Own	-0.029 (-0.13)	0.098 (0.43)
Volatility	0.258 (0.80)	0.136 (0.39)
State Ideology	-0.117 (-1.40)	-0.001 (-0.01)
Constant	-2.126*** (-3.40)	0.165 (0.28)
Year FE	Yes	Yes
Industry FE	Yes	Yes
Pseudo R^2	0.135	0.003
Observations	3503	2222

Notes: This table demonstrates the results of the pre- and post-matched samples using the propensity score matching technique. Specifically, Columns (1) and (2) show regression estimates from the pre- and post-match sample. We consider High CEO Pay Gap a dummy variable that takes a value of one if CEO Pay Gap is higher than sample median and zero otherwise. Year and industry fixed effects (FE) are included in the regression. The z-values are included in the parentheses and are adjusted for heteroscedasticity robust standard errors clustered by firm level. The symbols ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. All variables are defined in Appendix D.

Table C.3: Proof of convergence for entropy balancing

Panel A: Before entropy balancing

Variables	Treatment			Control		
	Mean	Variance	Skewness	Mean	Variance	Skewness
CEO Delta	6.674	2.080	-0.307	6.035	2.329	0.054
CEO Vega	3.973	11.010	-0.294	3.148	9.213	0.002
CEO Age	58.250	30.090	0.181	57.150	33.770	0.297
CEO Gender	0.058	0.055	3.773	0.046	0.044	4.351
CEO Duality	0.574	0.245	-0.300	0.467	0.249	0.134
CEO Power	1.797	31.920	5.127	1.542	28.900	5.722
Spending Intensity	2.832	15.590	2.048	1.420	7.630	3.451
HHI	0.203	0.031	2.753	0.191	0.030	2.709
ROA	0.062	0.004	0.146	0.059	0.004	0.156
Leverage	38.480	2096	3.267	43.030	2653	3.060
Firm Size	2.179	0.649	-0.335	1.788	0.612	0.390
MB	5.089	177.200	-0.052	3.982	168.300	-0.795
Inst Own	0.781	0.030	-2.570	0.802	0.028	-2.344
Volatility	0.258	0.013	1.431	0.256	0.012	1.481
State Ideology	0.401	0.240	0.403	0.456	0.248	0.175

Panel B: Before entropy balancing

Variables	Treatment			Control		
	Mean	Variance	Skewness	Mean	Variance	Skewness
CEO Delta	6.674	2.080	-0.307	6.674	1.981	0.160
CEO Vega	3.973	11.010	-0.294	3.973	9.241	-0.449
CEO Age	58.250	30.090	0.181	58.250	34.350	0.321
CEO Gender	0.058	0.055	3.773	0.058	0.055	3.773
CEO Duality	0.574	0.245	-0.300	0.574	0.245	-0.300
CEO Power	1.797	31.920	5.127	1.797	29.380	5.240
Spending Intensity	2.832	15.590	2.048	2.832	20.190	2.006
HHI	0.203	0.031	2.753	0.203	0.028	2.571
ROA	0.062	0.004	0.146	0.062	0.004	-0.028
Leverage	38.480	2096	3.267	38.480	2118	3.147
Firm Size	2.179	0.649	-0.335	2.179	0.636	-0.332
MB	5.089	177.200	-0.052	5.089	203.100	0.248
Inst Own	0.781	0.030	-2.570	0.781	0.028	-2.317
Volatility	0.258	0.013	1.431	0.258	0.014	1.532
State Ideology	0.401	0.240	0.403	0.401	0.240	0.403

Notes: This table presents the proof of convergence of mean for the association between CEO Pay Gap and CPD with an entropy balanced sample. Panel A (Panel B) shows the mean, variance, and skewness of control variables for the treatment and control groups before (after) balancing. We achieve convergence in mean (same mean on both sides).

Table C.4: Proof of convergence for entropy balancing

Panel A: Before entropy balancing

Variable	Treatment			Control		
	Mean	Variance	Skewness	Mean	Variance	Skewness
Spending Intensity	1.731	9.789	2.879	2.728	16.78	1.927
HHI	0.089	0.005	2.546	0.089	0.005	2.899
BM	0.374	0.057	1.142	0.28	0.052	1.317
Firm Size	3.187	1.381	0.176	3.538	1.459	0.155
Leverage	0.612	0.027	-0.336	0.62	0.03	-0.336
ROA	0.058	0.004	-0.522	0.08	0.005	0.103
Firm Age	3.67	0.277	-0.646	3.709	0.289	-0.704
Audit	0.451	0.248	0.199	0.518	0.25	-0.072
Risk Disclosure	60.86	1324	1.455	61.74	1613	1.635
Log (Words)	11.07	0.205	0.673	11.08	0.211	0.604
CEO Duality	0.441	0.247	0.238	0.494	0.25	0.024
CEO Tenure	1.43	0.541	-0.078	1.47	0.515	-0.019
Inst Own	0.819	0.016	-1.068	0.781	0.015	-0.885
State Ideology	0.494	0.25	0.022	0.425	0.245	0.303

Panel B: Before entropy balancing

Variable	Treatment			Control		
	Mean	Variance	Skewness	Mean	Variance	Skewness
Spending Intensity	1.731	9.789	2.879	1.734	8.812	2.741
HHI	0.089	0.005	2.546	0.089	0.005	2.946
BM	0.374	0.057	1.142	0.374	0.081	0.947
Firm Size	3.187	1.381	0.176	3.187	1.384	0.137
Leverage	0.612	0.027	-0.336	0.612	0.027	-0.17
ROA	0.058	0.004	-0.522	0.058	0.005	-0.29
Firm Age	3.67	0.277	-0.646	3.671	0.297	-0.622
Audit	0.451	0.248	0.199	0.451	0.248	0.199
Risk Disclosure	60.86	1324	1.455	60.86	1554	1.709
Log (Words)	11.07	0.205	0.673	11.07	0.188	0.563
CEO Duality	0.441	0.247	0.238	0.441	0.247	0.237
CEO Tenure	1.43	0.541	-0.078	1.43	0.489	-0.005
Inst Own	0.819	0.016	-1.068	0.819	0.011	-0.85
State Ideology	0.494	0.25	0.022	0.494	0.25	0.023

Notes: This table presents the proof of convergence of mean for the association between Conditional conservatism and CPD with an entropy balanced sample. Panel A (Panel B) shows the mean, variance, and skewness of control variables for the treatment and control groups before (after) balancing. We achieve convergence in mean (same mean on both sides).

Appendix D: Variable definitions

Paper One- Variable definitions

<i>Variables</i>	<i>Measurement</i>	<i>Data source</i>
Panel A: Main Outcome Variable		
<i>CPDisc</i>	A firm's level political spending disclosure percentage measured by the sum of the numerical scores for all indicators obtained by CPA- Zicklin PSD Index scaled by the total score of the index 74 (72) in 2012 (2013-2021).	<i>CPA Website</i>
<i>P_Disclosure</i>	A firm's total political spending disclosure score for the disclosure component, measured by the sum of the numerical scores for the disclosure component scaled by the maximum score for such component, which is 36.	<i>CPA Website</i>
<i>P_Policy</i>	A firm's total political spending disclosure score for the policy component, measured by the sum of the numerical scores for the policy component scaled by the maximum score for such component, which is 18.	<i>CPA Website</i>
<i>P_Oversight</i>	A firm's total political spending disclosure score for the oversight component, measured by the sum of the numerical scores for the oversight component scaled by the maximum score for such component, which is 18 (20) in 2012 (2013-2021).	<i>CPA Website</i>
Panel B: Compensation variables		
<i>CEO D/E (CFOD/E)</i>	The natural log of one plus the ratio of (CEO debt / CEO equity), where CEO (CFO) debt equals to the sum of the present value of defined-benefit pensions and total balances of non-qualified deferred compensations divided by the sum of accumulated stocks and accumulated stock options (i.e., stock options is calculated using BS model)	<i>Execucomp and Compustat</i>
<i>CEO-firm D/E</i>	The natural log of one plus the ratio of CEO debt-to-equity to a firm's debt-to-equity; where firm's debt-to-equity ratio is the ratio of total debt scaled by market value of equity	<i>Execucomp and Compustat</i>
<i>CEO-firm D/E > 1</i>	An indicator variable equal to 1 if the CEO debt-to-equity to a firm's debt-to-equity greater than one, and 0 otherwise.	<i>Execucomp and Compustat</i>
<i>CEO delta (CFO delta)</i>	The natural log of one plus delta. Following Core and Guay (2002), Delta is the total change in dollar value for CEO wealth for a change of 1 % in the stock price.	<i>Execucomp and Compustat</i>
<i>CEO vega (CFO vega)</i>	The natural log of one plus vega. Following Core and Guay (2002), Vega is the total change in CEO wealth for a change of 0.01% in stock price volatility.	<i>Execucomp and Compustat</i>
Panel C: CEO characteristics		
<i>CEO age (CFO age)</i>	Age of CEO as of year t.	<i>Execucomp</i>
<i>CEO tenure (CFO tenure)</i>	The number of years CEO has been in his/her current role.	<i>Execucomp</i>
<i>CEO gender (CFO gender)</i>	An indicator variable equal to 1 if CEOs is female, and 0 otherwise	<i>Execucomp</i>
<i>CEO duality</i>	An indicator variable equal to 1 if the CEO is also the chair of the board, 0 otherwise.	<i>Boardex</i>
Panel D: Firm fundamentals		
<i>Lobbying spending</i>	The natural log of Federal lobbying spending during the year	<i>CRP</i>
<i>PACs Spending</i>	The natural log Federal PAC spending by the firm during the year	<i>FEC</i>

<i>Org 527 Spending</i>	The natural log Expenditures on 527 political committees during the year	<i>CRP</i>
<i>State level spending</i>	The natural log of Sum of expenditures by firms on state candidates, political parties, and ballot measure committees during the year.	<i>National Institute on Money in State Politics</i>
<i>Spending intensity</i>	The natural log of the sum of four observable political spending (lobbying spending, PACs spending, 527 Spending and state level spending).	
<i>Analyst</i>	The number of analysts gives recommendations for the firm	<i>Bloomberg</i>
<i>HHI</i>	The Herfindahl-Hirschman Index (HHI), calculated as the aggregated value of the square of the market share of each firm based on the FandF 48 industry classification. The higher the HHI index indicates a lower competition within the industry	<i>Compustat</i>
<i>ROA</i>	The net income divided by average total assets.	<i>Compustat</i>
<i>Leverage</i>	The total liabilities divided by total assets.	<i>Compustat</i>
<i>Firm size</i>	The natural log of number of employees.	<i>Compustat</i>
<i>Capex</i>	The capital expenditures divided by lagged total assets.	<i>Compustat</i>
<i>BM</i>	The book value of equity divided by market value of equity.	<i>Compustat</i>
<i>Board size</i>	The number of directors on the board.	<i>Boardex</i>
<i>Board independence</i>	The proportion of independent directors to the total number of directors in a given year.	<i>Boardex</i>
<i>Log (Age)</i>	The natural logarithm of the number of years since the firm first appeared on the Compustat.	<i>Compustat</i>
<i>KZ index</i>	$= -1.002*(OIBDP/AT) - 39.368*(DV/AT) - 1.315*(CHE/AT) + 3.139*leverage + 0.283*Tobin Q$	<i>Compustat</i>
<i>High KZ index</i>	An indicator variable takes the value of 1 if the firm is in the upper quartile of the distribution of the KZ index, and 0 otherwise	
<i>State corruption</i>	Annual number of corruption convictions from the Department of Justice Public Integrity Section divided by the population in the state and then multiplying by 100,000.	
<i>RepIndexTen</i>	An index is computed as the total donations to the Republican Party minus the total donations to the Democratic Party, divided by the total donations to both parties over the CEO's entire tenure. This index ranges from -1 (indicating a strong Democrat) to 1 (indicating a strong Republican).	<i>FEC website</i>
<i>Election Year</i>	An indicator variable which equals 1 for the Presidential election years, and 0 otherwise.	
<i>President change</i>	An indicator variable which equals 1 during the first two-years of a new President, and 0 otherwise.	

Panel E: Path Analysis Variables

<i>Distance-to-default (DistToDef)</i>	The market-based credit risk measure which is based on Merton's model (1974) provided by Bloomberg.	<i>Bloomberg</i>
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Panel F: Endogeneity Variables

<i>Wage Tax Rate</i>	The maximum state income tax rates (<i>STAX</i>) are calculated using TAXISM model (https://users.nber.org/~taxsim/state-rates/ .)
<i>Marginal Tax Rate</i>	An indicator variable equal to one if the firm has operating loss carry-forwards in any of the previous three years, and zero otherwise

Mortgage Subsidy

The maximum mortgage subsidy rate in the state where the firm is headquartered are calculated using TAXISM model (<https://users.nber.org/~taxsim/state-rates/>.)

Paper Two -Variable definitions

<i>Variables</i>	<i>Measurement</i>	<i>Data source</i>
Panel A: Main outcome variable		
<i>CPD</i>	A firm's level political spending disclosure percentage measured by the sum of the numerical scores for all indicators obtained by CPA- Zicklin PSD Index scaled by the total score of the index 74 (72) in 2012 (2013-2021).	<i>CPA Website</i>
<i>P_Disclosure</i>	A firm's total political spending disclosure score for the disclosure component, measured by the sum of the numerical scores for the disclosure component scaled by the maximum score for such component, which is 36.	<i>CPA Website</i>
<i>P_Policy</i>	A firm's total political spending disclosure score for the policy component, measured by the sum of the numerical scores for the policy component scaled by the maximum score for such component, which is 18.	<i>CPA Website</i>
<i>P_Oversight</i>	A firm's total political spending disclosure score for the oversight component, measured by the sum of the numerical scores for the oversight component scaled by the maximum score for such component, which is 18 (20) in 2012 (2013-2021).	<i>CPA Website</i>
Panel B: Compensation variables		
<i>CEO Pay Gap</i>	Natural logarithm of the difference between a CEO's total compensation package (ExecuComp item TDC1) and the median of all other VPs total compensation	<i>Execucomp</i>
<i>CEO Delta</i>	Natural log of one plus delta. Following Core and Guay (2002), CEO delta is the change in CEO wealth given a \$1 increase in stock price	<i>Execucomp and Compustat</i>
<i>CEO Vega</i>	Natural log of one plus vega. Following Core and Guay (2002), CEO vega is the change in CEO wealth given a 0.01 increase in stock return volatility.	<i>Execucomp and Compustat</i>
Panel C: CEO characteristics		
<i>CEO Gender</i>	An indicator variable that equals 1 if CEOs is female, otherwise 0	<i>Execucomp</i>
<i>CEO Duality</i>	An indicator variable that equals 1 if the CEO is also the chairman of the board, and 0 otherwise	<i>Execucomp</i>
<i>CEO Age</i>	Age of CEO as of year t.	<i>Execucomp</i>
<i>CEO Power</i>	The aggregate distance between the CEO and each non-CEOs in terms of ownership, computed as the square root of the average squared difference between the CEO's ownership and the ownership of each executive, divided by 1000, where ownership includes all shares owned, excluding options (Ridge et al., 2015).	<i>Execucomp</i>
<i>New CEO</i>	An indicator variable that equals 1 if the CEO's tenure is less than 3 years (Gad et al., 2023).	<i>Execucomp</i>
<i>CEO Tenure</i>	The number of years CEO has been in his/her current role.	<i>Execucomp</i>
<i>Appointing Insider (Outsider)</i>	An indicator variable assumes a value of one if an inside (outside) CEO will be appointed in the subsequent three years, and zero otherwise.	<i>Boardex</i>
Panel D: Firm fundamentals		
<i>Lobbying spending</i>	Natural log of Federal lobbying spending during the year	<i>CRP</i>
<i>PACs Spending</i>	Natural log Federal PAC spending by the firm during the year	<i>FEC</i>
<i>Org 527 Spending</i>	Natural log Expenditures on 527 political committees during the year	<i>CRP</i>
<i>State level spending</i>	Natural log of Sum of expenditures by firms on state candidates, political parties, and ballot measure committees during the year	<i>National Institute on</i>

		<i>Money in State Politics</i>
<i>Spending intensity</i>	Natural log of the sum of four observable political spending (lobbying spending, PACs spending, 527 Spending and state level spending) (Unsal et al., 2016)	
<i>HHI</i>	The Herfindahl-Hirschman Index (HHI), calculated as the aggregated value of the square of the market share of each firm based on the FandF 48 industry classification. The higher the HHI index indicates a lower competition within the industry (Berger & Hann, 2007)	<i>Compustat</i>
<i>ROA</i>	Measured by Net Income divided by average total assets	<i>Compustat</i>
<i>Leverage</i>	Measured by total liabilities (<i>LT</i>) divided by total assets (<i>AT</i>).	<i>Compustat</i>
<i>Firm size</i>	Measured by the natural log of number of employees	<i>Compustat</i>
<i>Firm size rank</i>	Percentile rank of Firm Size.	<i>Compustat</i>
<i>MB</i>	Market value of equity divided by the book value of equity.	<i>Compustat</i>
<i>Inst Own</i>	The total number of shares held by institutional investors (<i>SHARES</i>), scaled by the shares outstanding (<i>SHROUT2</i>), both measured at the end of year.	<i>Institutional (13f) Holdings database</i>
<i>Volatility</i>	The volatility of the firm's stock return over the previous 12 month.	<i>CRSP</i>
<i>State Ideology</i>	A dummy variable that takes the value of one, if the firm is located in a state where the majority voted Republican in the 2016 presidential election, and zero if the state majority voted Democratic.	Dave Leip's Atlas of US presidential election)
<i>Local non-CEOs</i>	Natural log of one plus the sum of the total number of non-CEO executives in firms headquartered in the same ZIP code area, same size quartile, and same industry.	<i>Execucomp</i>
<i>E-index</i>	The entrenchment index constructed using six antitakeover provisions, as in Bebchuk et al. (2009).	<i>ISS</i>
<i>Board Size</i>	Natural log of the number of independent directors serving on the board in the current year.	<i>Boardex</i>
<i>Board Independence</i>	The proportion of independent directors to the total number of directors in a given year.	<i>Boardex</i>
<i>Board Busyness</i>	The average number of other outside boards of directors served on by directors of the focal firm during the current fiscal year. We collect data on outside directorships from BoardEx.	<i>Boardex</i>
<i>Board co-option</i>	The percentage of total co-opted directors is scaled by the total number of directors (Coles et al., 2014).	<i>From website of Lalitha Naveen</i>
<i>Analyst</i>	The number of analysts gives recommendations for the firm.	<i>Bloomberg</i>
<i>Firm Age</i>	The natural logarithm of the number of years since the firm first appeared on the Compustat.	<i>Compustat</i>
<i>Reputation (MA score)</i>	The company's score from the "America's Most Admired Companies" List (MA List) in the year (where a higher score means a better reputation) and set to zero for companies not on the MA List in the year.	<i>Fortune's Magazine's</i>
<i>Residual Pay Entrenchment</i>	Regression residuals from regressing <i>CEO Pay Gap</i> on <i>E-Index</i> , <i>Board Size</i> , <i>Board Independence</i> , <i>Compensation Committee Size</i> , <i>Compensation Committee Independence</i> , <i>Audit Committee Size</i> , <i>Audit Committee Independence</i> , <i>Institutional Ownership</i> , and <i>CEO Ownership</i> . <i>E-Index</i> is the entrenchment index, constructed using six antitakeover provisions, as in Bebchuk et al. (2009). <i>Board (Compensation Committee/Audit Committee) Size</i> is the number of directors on the board (Compensation Committee/Audit Committee).	

Independence is the proportion of independent directors on the board (compensation committee/audit committee). *Institutional Ownership* is the proportion of shares outstanding held by institutional investors. *CEO Ownership* is the proportion of shares outstanding held by the CEO.

<i>Residual Pay CEO Quality</i>	Regression residuals from regressing <i>CEO Pay Gap</i> on <i>CEO Ability Index</i> , <i>CEO Duality</i> , <i>CEO Tenure</i> , and <i>CEO Age</i> . CEO Ability Index is the Generalist Index which is the first factor of applying principal component analysis to five proxies of general managerial ability: Number of positions, Number of firms, Number of industries, CEO experience, Conglomerate experience (Custodio et al., 2013). CEO Duality is a dummy variable that equals one if the CEO is also the Chairman of the board. CEO tenure is the natural logarithm of the number of years that the CEO holds the position, plus one. CEO Age is the natural logarithm of the CEO's age.	
<i>Political alignment index (PAI)</i>	The political alignment index constructed by Kim et al., (2012) at the state level. Refer to the main text for detailed information on the construction of this index.	
<i>PAI dummy (High PAI)</i>	An indicator variable that equals 1 if a firm has a PAI value in the top quartile of the distribution and zero otherwise.	
<i>CEO Industry gap</i>	The difference between the highest CEO total compensation in the industry and the CEO's total compensation.	<i>Execucomp</i>

Paper Three- Variable definitions

<i>Variables</i>	<i>Measurement</i>	<i>Data source</i>
Panel A: Main outcome variable		
<i>CPDisc</i>	A firm's level political spending disclosure percentage measured by the sum of the numerical scores for all indicators obtained by CPA-Zicklin PSD Index scaled by the total score of the index 74 (72) in 2012 (2013-2021).	<i>CPA Website</i>
<i>P_Disclosure</i>	A firm's total political spending disclosure score for the disclosure component, measured by the sum of the numerical scores for the disclosure component scaled by the maximum score for such component, which is 36.	<i>CPA Website</i>
<i>P_Policy</i>	A firm's total political spending disclosure score for the policy component, measured by the sum of the numerical scores for the policy component scaled by the maximum score for such component, which is 18.	<i>CPA Website</i>
<i>P_Oversight</i>	A firm's total political spending disclosure score for the oversight component, measured by the sum of the numerical scores for the oversight component scaled by the maximum score for such component, which is 18 (20) in 2012 (2013-2021).	<i>CPA Website</i>
Panel B: Main independent variable		
<i>CondCons</i>	Measure by the three-year average of timeliness loss recognition ($G_Score + C_Score$). G_Score is the timeliness of earnings to good news, and C_Score is the incremental timeliness of earnings to bad news as developed by Khan and Watts (2009).	<i>Compustat & CRSP</i>
<i>CondCons_CR</i>	The three-year average of the conservatism ratio as developed by Callen et al. (2010).	<i>Compustat & CRSP</i>
<i>CondCons_SKW</i>	The negative of the ratio of the skewness of net income to the skewness of cash flow from operations.	<i>Compustat</i>
<i>CondConsThree</i>	Previous-year summary measure of conditional conservatism obtained as the decile ranks of the average of the following three standardized proxies for conservatism (<i>CondCons</i> , <i>CondCons_CR</i> , and <i>CondCons_SKW</i>).	<i>Compustat</i>
<i>CondConsBadia</i>	Measure of conditional conservatism – the bias-adjusted measurement of conditional conservatism defined by Badia (2021).	<i>Compustat & CRSP</i>
Panel C: Firm fundamentals		
<i>Lobbying spending</i>	Natural log of Federal lobbying spending during the year	<i>CRP</i>
<i>PACs Spending</i>	Natural log Federal PAC spending by the firm during the year	<i>FEC</i>
<i>Org 527 Spending</i>	Natural log Expenditures on 527 political committees during the year	<i>CRP</i>
<i>State level spending</i>	Natural log of Sum of expenditures by firms on state candidates, political parties, and ballot measure committees during the year	<i>National Institute on Money in State Politics</i>
<i>Spending intensity</i>	Natural log of the sum of four observable political spending (lobbying spending, PACs spending, 527 Spending and state level spending) (Unsal et al., 2016)	
<i>HHI</i>	The Herfindahl-Hirschman Index (HHI), calculated as the aggregated value of the square of the market share of each firm based on the F&F 48 industry classification. The higher the HHI index indicates a lower competition within the industry	<i>Compustat</i>
<i>BM</i>	The book value of equity divided by market value of equity.	<i>Compustat</i>

<i>Firm size</i>	The natural log of number of employees.	<i>Compustat</i>
<i>Leverage</i>	Measured by total liabilities (LT) divided by total assets (AT).	<i>Compustat</i>
<i>ROA</i>	Measured by net Income divided by average total assets	<i>Compustat</i>
<i>Firm age</i>	The natural logarithm of the number of years since the firm first appeared on the Compustat	<i>Compustat</i>
<i>Audit</i>	An indicator variable that equals one if the firm has a Top 8 auditor and auditor tenure is above the sample mean and zero otherwise (Lara et al., 2020).	<i>Compustat</i>
<i>Risk Disclosure</i>	The number of times a firm mentions a synonym of risk or uncertainty in their conference calls, divided by the length of the transcript of the conference call obtained from	<i>Source: Hassan et al., 2019</i>
<i>Log (Words)</i>	The natural logarithm of the 10-K total number of words.	<i>Loughran and McDonald website</i>
<i>CEO Duality</i>	An indicator variable equal to 1 if the CEO is also the chair of the board, 0 otherwise.	<i>Boardex</i>
<i>CEO Tenure</i>	The number of years CEO has been in his/her current role.	<i>Execucomp</i>
<i>Inst Own</i>	The total number of shares held by institutional investors (<i>SHARES</i>), scaled by the shares outstanding (<i>SHROUT2</i>), both measured at the end of year.	<i>Institutional (13f) Holdings database</i>
<i>State Ideology</i>	A dummy variable that takes the value of one, if the firm is located in a state where the majority voted Republican in the 2016 presidential election, and zero if the state majority voted Democratic (Source: Dave Leip's Atlas of US presidential election)	<i>Hand collected</i>
<i>BAS</i>	The average of the daily spreads for that firm-year scaled by the midpoint of the spread	<i>CRSP</i>
<i>PolHedging</i>	Measured as $1 - \frac{ \text{REP} - \text{DEM} }{\text{REP} + \text{DEM}}$, where REP (DEM) represents the total number of Republican (Democrat) candidates who receive political contributions from the firm (Christensen et al., 2022). We construct this measure using all contributions to candidates made over rolling six-year windows (<i>PolHedging5y</i>), and over three -year rolling window (<i>PolHedging3y</i>).	<i>FEC</i>
<i>State corruption</i>	Annual number of corruption convictions from the Department of Justice Public Integrity Section divided by the population in the state and then multiplying by 100,000.	

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