

Firm Misconduct and the Structure of Political Spending

by

Christina Marie Paparcuri

A Dissertation Presented in Partial Fulfillment  
of the Requirements for the Degree  
Doctor of Philosophy

Approved October 2021 by the  
Graduate Supervisory Committee:

Jennifer L. Brown, Chair  
George R. Huston  
David G. Kenchington

ARIZONA STATE UNIVERSITY

December 2021

## ABSTRACT

In this study, I predict that involvement in a fraud-related securities class action lawsuit is associated with a change in political activity patterns toward less transparent channels and a reduction in the quality of public political disclosures. Allegations of fraud may impair a firm's reputation and cause the firm to reevaluate the effectiveness of its political strategies. I find evidence that firms involved in a fraud-related securities class action lawsuit are associated with less political action committee (PAC) contributions and more lobbying after the accusation. I find a similar pattern for additional measures of transparency: firms shift from in-house lobbying to contract lobbying, are more likely to spend through their subsidiaries, and increase activity through their subsidiaries in the period after the fraud-related securities class action lawsuit. I also find that firms significantly reduce the level of their voluntary political spending disclosures. Overall, my results provide evidence of a change in real activities and disclosures after an accusation of fraud. While prior research documents that firms generally work to improve their reputations following a fraud, I find evidence that firms reduce the transparency of their corporate political spending and related disclosures.

## ACKNOWLEDGMENTS

I thank my dissertation committee members: Jenny Brown (chair), Ryan Huston, and David Kenchington for their invaluable advice and support. I would also like to thank Badryah Alhusaini, Matthew Baugh, William Buslepp, Nathan Goldman, Charlene Henderson, Steve Kaplan, Christina Lewellen, Summer Liu, Michal Matejka, Christian Paparcuri, Craig Sisneros, Bridget Stomberg, Brian Williams, and workshop participants at Arizona State University, Christopher Newport University, Hong Kong Baptist University, Indiana University, Kent State University, Louisiana State University, North Carolina State University, Oklahoma State University, the University of North Carolina at Wilmington, the University of Texas at El Paso, and Yale University for helpful comments.

## TABLE OF CONTENTS

	Page
LIST OF TABLES .....	v
CHAPTER	
1 INTRODUCTION .....	1
2 LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT .....	7
Fraud and Political Spending .....	7
Political Investment Tactics .....	8
Shift in Structure of Political Spending .....	10
In-house versus Contract Lobbying .....	11
Subsidiary Political Activity .....	12
Voluntary Political Activity Disclosures .....	13
3 RESEARCH METHODS .....	15
Sample and Data .....	15
Models .....	17
Descriptive Statistics .....	22
4 EMPIRICAL RESULTS .....	23
Baseline Political Activity .....	23
PAC versus Lobbying .....	24
In-House Lobbying versus Contract Lobbying .....	25
Subsidiary Political Activity .....	26
Voluntary Political Activity Disclosures .....	27

CHAPTER	Page
5	ADDITIONAL ANALYSES ..... 28
	Propensity Score Match .....28
	Post Citizens United .....29
6	CONCLUSION ..... 30
	REFERENCES .....32
	APPENDIX
A	VARIABLE DEFINITIONS ..... 37

LIST OF TABLES

Table		Page
1.	Sample Selection .....	40
2.	Descriptive Statistics .....	41
3.	Overall Political Activity After SCA Suit .....	42
4.	PAC Contributions and Lobbying Expenditures After SCA Suit.....	43
5.	Lobbyist Structure After SCA Suit .....	44
6.	Subsidiary Political Activity After SCA Suit .....	45
7.	CPA-Zicklin Score After SCA Suit .....	46

## CHAPTER 1

### INTRODUCTION

Capital markets impose penalties on firms that commit fraud (Karpoff, Lee, and Martin 2008), inducing firms to make real decisions to improve stakeholder perception after the revelation of fraud (Gomulya and Boeker 2014; Chakravarthy, deHaan, and Rajgopal 2014). Much like *substantiated* fraud, capital markets also impose a penalty for *accusations* of fraud (Gande and Lewis 2009). For example, accusations of fraud result in CEO turnover (Strahan 1998; Niehaus and Roth 1999) and improvements in corporate governance and investment policy (McTier and Wald 2011). These results suggest that the mere accusation of fraud brings about change at a firm, sometimes regardless of merit (Autore, Hutton, Peterson, and Smith 2014). While most studies focus on firms' efforts to improve their reputation following fraud allegations, my focus relates more to their political activity following these events. Specifically, I explore how firms accused of fraud change their political activity and voluntary disclosure of political spending.

Among other factors, external stakeholder perception of a firm and the firm's reputation are likely determinants of political success (Hillman, Keim, and Schuler 2004). Allegations of fraud may thus harm the effectiveness of a firm's political strategy through impairment of a firm's reputation (Haslem, Hutton, and Smith 2016). Accusation of fraud might cause the firm to reevaluate the effectiveness of its political strategies, meaning the firm may find it necessary to resort to less transparent means of political activity to achieve its political goals. Specifically, in this study I posit that involvement in a fraud-related securities class action lawsuit is associated with firms moving toward less

transparent channels of political activity and a reduction in the quality of public political disclosures.

To examine the first question, I study three shifts in political activity patterns that are indicative of less transparency: (1) shifting from political action committee (PAC) contributions to lobbying expenditures, (2) shifting from in-house lobbying to contract lobbying, and (3) spending more through subsidiary firms. PAC contribution disclosures visibly tie firms and politicians, whereas lobbying reports only include the *agency* that the firm is lobbying (e.g. House, Senate, or Securities Exchange Commission). Thus, firms with impaired reputations may find better success lobbying politicians relative to making direct contributions. Second, relative to contract lobbying, in-house lobbying is more transparent and easily tied to the accused firm. In-house lobbyists represent only their employers whereas contract lobbyists work on behalf of many firms at once. Third, firms have the option to route political donations and employ lobbyists through a subsidiary firm rather than through the parent firm. The subsidiary firm may not necessarily disclose their parent firm to the politician or in their regulatory filings, making this channel an attractive alternative for firms with impaired reputation still seeking to influence public policy. I examine these three available channels of political investments because each channel has different mandatory disclosure requirements.

I also examine whether accused firms reduce the level of their voluntary disclosures of political spending. By decreasing the quality of voluntary disclosure, firms avoid revealing the nature of their political spending practices and policies. Firms active in the political marketplace likely believe their activity enhances firm value and firm performance, thus I expect politically active firms to continue participating in the



political arena, but in a less transparent form, after involvement in a securities class action lawsuit.

To test my research questions, I proxy for accusations of fraud using meritorious securities class action lawsuits alleging Section 10(b)-5 violations because this is the measure that most closely identifies the initial revelation date of the fraud (Karpoff, Koester, Lee, and Martin 2017). I gather data on PAC contributions and lobbying expenditures made by firms between 2001 and 2016 from the Center for Responsive Politics (CRP) and collect voluntary political spending disclosure scores from the Center for Political Accountability (CPA) and Zicklin Center for Business Ethics Research. I add parent and subsidiary political activity together to create a more complete measure of political activity than matching to parent firms alone. I identify a firm as an accused fraud firm using information from the Stanford Securities Class Action Clearinghouse (SCAC) for the years 1996 through 2016. In each of my analyses, I compare politically active firms subject to fraud-related securities class action lawsuits to politically active firms that have not been subject to fraud-related securities class action lawsuits.

Using a staggered difference-in-differences design, I do not find evidence that accused firms are associated with a change in the overall total dollar amount of political activity after the fraud-related securities class action lawsuit. Instead, firms appear to substitute one form of spending (PAC contributions) for another (lobbying expenditures). I find a similar pattern for each measure of transparency – firms shift from in-house lobbying to contract lobbying, are more likely to spend through their subsidiaries, and increase activity through their subsidiaries in the period after the fraud-related securities class action lawsuit. I also find that firms significantly reduce the level of their voluntary

political spending disclosures. Overall, my results provide evidence of a change in real activities and disclosures after an accusation of fraud. While prior research documents that firms generally work to improve their reputations following a fraud (Farber 2005; Gomulya and Boeker 2014; Chakravarthy, deHaan, and Rajgopal 2014), I find evidence that firms reduce the transparency of their corporate political spending and related disclosures.

My study contributes to the literature surrounding the outcomes of accounting fraud. Where most papers find firms take action to improve reputation following fraud (Farber 2005; Gomulya and Boeker 2014; Chakravarthy, deHaan, and Rajgopal 2014), in the corporate political activity setting, I demonstrate that firms alter their spending and disclosures to reduce transparency after an accusation of accounting fraud. My finding that firms reduce disclosure quality of political spending is consistent with Rogers and Van Buskirk (2009), who show a reduction in management forecast quality after involvement in a securities class action lawsuit. Where Rogers and Van Buskirk (2009) document a reduction in *financial* disclosure quality, I document a reduction in quality of *nonfinancial* disclosures in the form of voluntary political spending disclosures.

My study also contributes to the literature around the political implications of accounting fraud. Recently, calls for research have emphasized the need for studies on how politically active entities allocate their funds (deFigueirido and Richter 2015). My study addresses this call by exploring how a firm changes its political strategy to shift disclosure of its political investment to less transparent means. Yu and Yu (2011) show that lobbying activity is associated with longer fraud detection periods. I provide evidence that firms continue and even increase lobbying expenditures after fraud-related

securities class action lawsuits are filed. Correia (2014) finds that firms making long-term political contributions are less likely to be subject to SEC enforcement and demonstrates that firms increase political activity (lobbying) in anticipation of SEC enforcement. I show that firms engage in less transparent corporate political activity *after* fraud-related securities class action lawsuits. In the context of Correia (2014), one interpretation of my results is that firms attempt to stave off SEC scrutiny after a fraud-related securities class action lawsuit through less visible channels of political activity.

Finally, my study contributes to the corporate political activity literature by providing evidence on how reputational concerns influence the way firms choose among political strategies with varying degrees of transparency (Barrick and Brown 2019). While prior literature demonstrates the complementary nature of lobbying and PAC contributions (Hillman et al. 2004; Hill et al. 2013), I document an instance where they act as substitutes.<sup>1</sup> I show that after a fraud-related securities class action lawsuit, firms reduce their overall direct (i.e. PAC) activity while increasing their indirect activity (i.e. lobbying). I also show firms are more likely to invest in lower-visibility channels such as contract lobbying and subsidiary political activity. My paper adds to the discussion on the mandatory disclosure of political spending (see Skaife and Werner 2019; Goh, Liu, and

---

<sup>1</sup> In a concurrent working paper, McDonnell and Werner (2018) find that the ratio of PAC to lobbying expenditures decreases in response to consumer boycotts. Where McDonnell and Werner (2018) look at consumer sentiment toward firms using corporate social responsibility scores and boycotts, I am interested in how firms accused of fraud change their political activity and voluntary disclosure of political spending. My research question is specifically related to firm behavior following accusation of *financial* misconduct which is distinct from accusation of *social* misconduct. Moreover, McDonnell and Werner (2018) do not distinguish whether the effect they find is driven by a change in PAC contributions or a change in lobbying expenditures, whereas I explore a number of channels of corporate political activity and examine changes in disclosure

Tsang 2020), as my results show that firms reduce voluntary political spending disclosures following accusations of fraud.

The remainder of the paper is organized as follows. Section II provides literature review and hypothesis development. Section III details my empirical specifications. Section IV gives main results. Section V presents additional analyses. Finally, Section VI concludes the paper.

## CHAPTER 2

### LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

#### **Fraud and Political Spending**

Involvement in a securities class action lawsuit harms corporate reputation (Haslem et al. 2016). Capital markets impose reputational penalties on firms through negative stock price reactions (Gande and Lewis 2009). The lawsuits also have serious governance consequences to firms, including CEO turnover (Strahan 1998; Niehaus and Roth 1999), increased independence on the board of directors (Ferris, Jandik, and Lawless 2007), and improvements in investment policy (McTier and Wald 2011) as firms work to restore their reputation. These results suggest firms make changes to mitigate and repair the reputational damage of securities class action lawsuits.

Recent research examines the connection between political spending and fraud. Yu and Yu (2011) demonstrate that fraud firms engaged in lobbying are associated with longer fraud detection periods. Correia (2014) studies the role of PAC contributions on SEC enforcement and finds firms that engaged in longer-term political contributions and lobbying faced a lower probability of being involved in SEC litigation and lower penalties when they were involved in such litigation. Politicians may also face risks when they are involved with fraud firms. Mehta and Zhao (2020) show that politicians on SEC oversight committees were more likely to lose reelection efforts when a firm in their district is under SEC investigation, suggesting that voters punish politicians for lack of oversight.

Economics suggests firms are more likely to invest in the political arena when they expect to be successful. Among other factors, the firm's reputation and credibility

are likely determinants of political success and consequently investment (Hillman et al. 2004). Firms with reputational damage may have a harder time gaining access to politicians as the political marketplace is constrained to them (McDonnell and Werner 2016, 2018). However, exactly how firms modify their political activity in response to the reputational damage of securities lawsuits is an open question.

### **Political Investment Tactics**

Firms use a variety of investment tactics to achieve their political goals (Hillman and Hitt 1999), and firms combine these tactics in a complementary manner (Schuler, Rehbein, and Cramer 2002; Hill, Kelly, Lockhart, and Van Ness 2013). The two primary tactics, lobbying and campaign contributions, involve different disclosure requirements and costs to the firm. Lobbying in the United States is subject to mandatory reporting requirements. However, lobbying disclosures only reveal information about the *agency* that the firm is lobbying (e.g. U.S. House of Representatives, U.S. Senate, Securities and Exchange Commission); lobbying disclosures do not tie a particular firm to a particular policymaker. Because the individual politician being lobbied is not disclosed in lobbying reports, lobbying involves relatively less disclosure costs and less transparency than making campaign contributions. Additionally, lobbying money goes directly to contract lobbying firms or salaries of in-house lobbyists rather than to a politician's campaign, distancing any public tie between politicians and the firm. Overall, lobbying is a less visible form of political activity that comes with fewer disclosure costs to firms.

Firms may form PACs to raise funds in support of their preferred candidates. Firms cannot contribute dollars from the corporate treasury to the corporate PAC but can (1) finance and support the administration of the PAC, and (2) solicit PAC contributions

from its employees. Like lobbying, campaign contributions via PACs are subject to mandatory reporting requirements. However, in contrast to lobbying reports, quarterly campaign contribution reports list each candidate the corporate PAC supports, visibly tying the corporation directly to a benefitting politician. Thus, PAC contributions have higher disclosure costs than lobbying expenditures. If politicians are hesitant to publicly associate with an accused firm to protect their own reputations (McDonnell and Werner 2016), PAC contributions may not be a viable strategy for firms to achieve their intended result.

A firm's political investment could change in many ways after firms suffer reputational damage through a securities class action lawsuit. First, firms could try to repair their reputation with policymakers by increasing donations. A possible advantage to increasing donations is lower penalties and longer SEC enforcement initiation periods (Correia 2014). Second, fearing public response to being associated with an accused firm, politicians could begin refusing donations of these firms to safeguard their own reputations (McDonnell and Werner 2016). Third, firms may reduce the transparency of their political activity to continue the same levels of political activity through means less obvious to the public and to politicians. Firms with a reputation impaired by social misconduct do not have certain political strategies readily available to them (McDonnell and Werner 2016), so to achieve its political goals, firm accused of financial misconduct may need to resort to less transparent measures of political activity.

Because of mixed prior literature on whether firms will change their overall political activity around fraud-related securities class action lawsuits, I state my hypothesis in the null:

**H1: There is no change in overall political activity after firms are involved in securities class action lawsuits.**

### **Shift in Structure of Political Spending**

To the extent that returns from political activity depend on relationship building between firms and policymakers, accused firms may continue to invest in political activity even after being involved in shareholder litigation and perhaps invest even more to repair and build this reputation. Alternatively, increased investment may be an attempt by firms to limit enforcement actions and reduce penalties (Correia 2014; Yu and Yu 2011). However, there is a risk to politicians by being associated with an accused firm (Mehta and Zhao 2020). Given firms' beliefs that political activity is a value adding proposition and politicians might not want to be associated with accused firms, politically active accused firms may reduce the transparency of their political activity to achieve their political goals. I study three shifts in the structure of political spending that are indicative of a reduction in transparency: (1) shifting from PAC contributions to lobbying expenditures, (2) shifting from in-house lobbying to contract lobbying, and (3) spending more through subsidiary firms.

One potential strategy for reducing the transparency of political activity is prioritizing lobbying expenditures over contributing to politicians through PACs. By doing this, the firm reduces its direct ties to the benefitting politician. McDonnell and Werner (2018) find that corporate social responsibility scores are associated with a lower ratio of PAC to lobbying expenditures, suggesting that the mix of these activities is dependent on a firm's social reputation. Because disclosures and incentives for both firms



and politicians regarding lobbying expenditures and PAC contributions are different, I separately examine both types of political activity. I expect that firms will increase their lobbying activity as lobbying comes with less disclosure costs to the firm and less risk to the politician. At the same time, I expect firms will decrease their PAC contributions because the disclosure requirements are more stringent and the risk to the politician is higher.

### **In-house versus Contract Lobbying**

Hiring contract lobbyist firms is another way to reduce the transparency of political activity while still achieving the firm's political goals. Lobbying can be done by in-house lobbyists who, as employees of the firm, are visibly related to the firm. Lobbying can also be done by contract lobbyists who represent several clients. Like collective lobbying through trade association representatives, one possible benefit of hiring contract lobbyists is that these lobbyists provide their clients anonymity. Contract lobbyists use their own connections and reputation with politicians to advance their clients' agendas (Bertrand, Bombardini, and Trebbi 2014; Espinosa 2020). Contract lobbying expenses also tend to be more temporary in nature (Apollonio 2005), suggesting a reactionary need rather than engagement in relationship building. Contract lobbyists may not necessarily disclose all clients they are lobbying on behalf of to the targeted politician, relieving any association of politicians to accused firms.

Politicians evaluate the legitimacy of the lobbying entity's employer in determining the trustworthiness of a lobbyist's message. Thus, lobbying entities with a better sociopolitical reputation may be more likely to have their messages heard and accepted as credible (Werner 2015; Jia 2018). Because (1) in-house lobbyists' legitimacy

may be impaired through a fraud-related securities class action lawsuit and (2) contract lobbyists are under no obligation to disclose the clients they are lobbying on behalf of, I expect contract lobbying to increase and in-house lobbying to decrease following the suit.

### **Subsidiary Political Activity**

Unlike well-regulated PAC and lobbying, after *Citizens United v. Federal Election Commission* in 2010, there has been a shift toward less regulated, quasi-anonymous corporate political activity, called “dark money”. This landmark ruling granted corporations the ability to make independent campaign expenditures such as campaign advertisements for the benefit of a candidate. *Citizens United* also allows firms to spend unlimited amount of campaigns by contributing to Super PACs and political nonprofits (i.e. those formed under IRC Section §527). Section 527 exempt organizations are not required to disclose their donors and thus provide an attractive alternative for firms to contribute quasi-anonymously. Super PACs are entities that only make independent expenditures on behalf of candidates (e.g. running a campaign ad in the newspaper). Because the goal of dark money is to obfuscate the source of political giving, papers examining dark money are rare (Oklobdizija 2020). In addition to the types of quasi-anonymous corporate political activity prior literature examines, I consider another tactic – political participation through subsidiaries.

Firms can work to hide the full amount of their political expenses by engaging in political activities through their subsidiaries. Subsidiary political activity can also be considered a form of dark money because subsidiaries may not be as easily traced to the parent firm. Studies incorporating subsidiary political activities typically focus on subsidiaries of multinational firms and how they relate to their host country political

environment (Blumentritt and Nigh 2002; Hillman and Wan 2005; Nell, Puck, and Heidenreich 2015) or use data from countries outside the US (Banerjee and Venaik 2018; Banerjee, Venaik, and Brewer 2019). Engaging in political activity through subsidiaries is available to both domestic firms and multinational firms. The FEC allows US subsidiaries of foreign firms to engage in political activity, so long as the subsidiary is a discrete corporation organized under US laws and having a principal place of business in the US (FEC AO 1978-21), provided that no foreign national is involved in the PAC's operations.<sup>2</sup>

Along with shifting political activity from PAC contributions to lobbying expenditures and shifting from in-house lobbying to contract lobbying, routing political activity through subsidiaries is another way to avoid disclosing the true level of a firm's political activity.<sup>3</sup> As such, I expect subsidiary political activity to increase following revelation of corporate fraud.

**H2: Political activity transparency decreases after firms are involved in securities class action lawsuits.**

**Voluntary Political Activity Disclosures**

In addition to studying changes in political activity, I study changes in voluntary disclosure of political activity. Outside of mandatory regulatory filings, firm political spending disclosures are voluntary. Research shows shareholder activism is a major driver of voluntary political spending disclosures, but implementation of these proposals

---

<sup>2</sup> Some firms disclose this fact in political activity disclosures (Chubb Inc. 2019).

<sup>3</sup> Even if the politician is aware that the subsidiary is affiliated with the accused firm, if the public is unaware of its true tie, accepting funds from an accused firm should carry no reputational risk to the politician.

has a negative impact on stock prices, especially if there are existing agency problems (Baloria, Klassen, and Wiedman 2019). Political disclosure levels are measured in prior research using the CPA-Zicklin Index score (Goh, Liu, and Tsang 2020). The index compiles various measures of voluntary political spending disclosures made by firms in the S&P 500 and assigns each firm an aggregate score based on these measures.<sup>4</sup> Goh, Liu, and Tsang (2020) explore determinants of the CPA-Zicklin score, finding firms with higher corporate social responsibility scores, better governance, more institutional holdings, and higher analyst following are associated with higher levels of political disclosure. They also find that voluntary political spending disclosures act as a moderator to the relationship between firm performance and political activity.

Accused firms may reduce the transparency of their political activity by reducing the level of voluntary political spending disclosures. I expect that after firms are involved in securities litigation, the level of voluntary political spending disclosure will decrease. Specifically, I hypothesize:

**H3: Voluntary political spending disclosures decrease after firms are involved in securities class action lawsuits.**

---

<sup>4</sup> These metrics include public disclosure of PAC contributions, as well as contributions to §527 groups, trade associations, and other-tax exempt organizations, among others. It also includes accountability metrics like naming senior officials that have authority over political activity.

## CHAPTER 3

### RESEARCH METHODS

#### **Sample and Data**

My main tests examine politically active accused firms compared to politically active nonaccused firms during a sample period from 2001 to 2016. My sample begins with all 179,681 observations in Compustat between fiscal years 2001 and 2016. I omit observations that are missing control variables necessary to estimate the regressions. I limit the sample to only firms that have either made a PAC contribution or lobbied at any point during the sample period, leaving me with 20,002 firm-years as a base sample.

To explore my hypotheses, I focus on *accusations* of accounting fraud. I classify accused firms (*ACCUSED FIRM*) as those who are the subject of a securities class action lawsuit at any time between 1996 and 2016, obtained from the Securities Class Action Clearinghouse database (SCAC). I use this measure of fraud because it closest captures the initial public discovery of the fraud (Karpoff et al. 2017). The SCAC database includes lawsuits that were settled, ongoing lawsuits, and lawsuits that have been filed and subsequently dismissed as frivolous. Consistent with prior literature (Dyck et al 2010), I omit lawsuits that have been dismissed.<sup>5</sup> Additionally, I omit lawsuits that are not related to violations of Section 10(b)-5 because lawsuits alleging violations of Section 10(b)-5 are directly related to fraud (Karpoff et al. 2017).<sup>6</sup> After omitting these lawsuits, I

---

<sup>5</sup> I keep nine lawsuits that were filed in 2016 that are ongoing as of August 16, 2020 because these suits have been ongoing for at least 3 years and if they were frivolous, they would have been dropped sooner.

<sup>6</sup> Each lawsuit from the SCAC contains a summary which contains critical information about the suit, including a description of the allegation. To screen for Section 10(b)-5 violations, I create a dictionary of terms to scan the summary variable. These terms include ‘Section 10(b),’ ‘failure to disclose,’ ‘materially false,’ ‘Generally Accepted Accounting Principles,’ and variations of those terms.

have 212 unique suits in the sample period. After reading each case summary, I omit 14 cases that were related to IPO allocation as in Kim and Skinner (2012), leaving me with 198 class action lawsuits in my sample.<sup>7</sup>

I collect political activity data from the Center for Responsive Politics (CRP). The CRP is a nonpartisan, nonprofit research organization, and compiles and provides a complete database of campaign contributions and lobbying expenditures. This database does not include a unique identifier with which to merge the data with financial variables from Compustat, so I use a fuzzy matching algorithm to match firm names. When computing firms' total political activity, I include activity at both the parent level as listed in Compustat and all of the firm's subsidiaries listed in the OSIRIS database.<sup>8</sup> I also use the CRP data to bifurcate lobbying expenditures into in-house lobbying versus contract lobbying. The CRP data includes the name of the lobbying firm, called the registrant. If the registrant name matches the client name, I classify the expenditure as in-house lobbying.<sup>9</sup> Alternatively, if the registrant and the client name do not match, I classify the expenditure as contract lobbying.

I collect political disclosure scores from the Center for Political Accountability and Zicklin Center for Business Ethics Research. Since 2011, these two organizations have jointly released the CPA-Zicklin Index. Firms listed on the index are issued an aggregate score based on 24 items related to their political disclosure and accountability

---

<sup>7</sup> With few exceptions, results are generally robust to dropping suits with settlements less than \$3 million (Dyck et al. 2010). Untabulated statistics show that, of the 189 lawsuits that have reached a settlement as of August 16, 2020, the average settlement amount is \$49.5 million dollars and the median settlement amount is \$13.5 million dollars.

<sup>8</sup> The subsidiaries listed by this database include those on firms' financial statements, company websites, through private correspondence, and other sources.

<sup>9</sup> The CRP standardizes firm names within the dataset, so a fuzzy matching algorithm is not needed to determine whether the registrant is also the client.

policies as discussed in Section 2.6. Because corporate political disclosures are fully voluntary, higher CPA-Zicklin scores represent higher political activity transparency by firms.

## Models

To test my first hypotheses, I regress measures of corporate political activity on securities litigation. I use the following model as in prior research (Hill et al. 2013):

$$POLSPEND_t = \beta_0 + \beta_1(ACCUSED FIRM)_t + \beta_2(POSTACCUSATION)_t + \beta'(CONTROLS)_{t-1} + Industry FE_t + Year FE_t + \varepsilon \quad (1)$$

Because not all class action suits are filed in the same year, I use a staggered difference-in-differences design throughout all of my tests, where *ACCUSED FIRM* takes the value of 1 for firms that have been the subject of a securities class action suit at any time between 1996 and 2016, and 0 otherwise. For accused firms, *POSTACCUSATION* takes the value of 1 for the year of the fraud-related securities class action lawsuit and the two subsequent years and 0 in all other years.<sup>10</sup> For non-accused firms, *POSTACCUSATION* is 0 throughout the entire sample period.

I first examine a firm's total political activity for the year. I study both changes in the likelihood of political activity as well as changes in the amount of political activity. *IND\_POLSPEND* takes the value of 1 if the firm either makes a PAC contribution or lobbies during the year and 0 otherwise. *LOG\_POLSPEND* is defined as the log of the sum of PAC contributions and lobbying expenditures as in Hadani and Schuler (2013) and Skaife and Werner (2019). Observing a positive coefficient on *POSTACCUSATION*

---

<sup>10</sup> Results are generally robust to defining *POSTACCUSATION* as the year of and the year after the fraud-related securities class action lawsuit.

would suggest that firms increase their political activity in the period after the fraud-related securities class action lawsuit, consistent with firms viewing political activity as an asset and needing to invest more to achieve its political goals. Alternatively, a negative coefficient on *POSTACCUSATION* indicates that firms subject to securities litigation are associated with reduced political activity after the fraud. This may be the result of less willingness on the politicians' part to accept funds from an accused firm, or firms expecting their political investment to be less successful and not investing as much in the political process.<sup>11</sup>

In all models, I control for determinants of corporate political activity consistent with Hill et al. (2013). All control variables are lagged to capture the amounts available at the beginning of the year. Firm size (*SIZE*) is measured as the log of total assets and proxies for resources – larger firms with more resources should have greater ability to engage in political activity (Hillman et al. 2004). Market-to-book ratio (*MTB*) is included to proxy for firm growth opportunities, which should be positively associated with political activity. I measure *CASHFLOWS* as operating income before depreciation less interest expense, tax expense, and dividends and include this variable to capture firm slack. Firms with higher levels of slack may engage more in political activity similar to larger firms because they have additional resources to allocate (Hillman et al. 2004). On the other hand, firms with lower levels of slack could engage more as a means to bolster their businesses. I include research & development expenses (*R&D*) to proxy for R&D firms. Finally, *HERFINDAHL* is included to proxy for industry concentration. Higher values of *HERFINDAHL* indicate a more concentrated industry.

---

<sup>11</sup> I cannot observe whether politicians refuse to accept funds from a firm.



Consistent with Hill et al. (2013), I also include controls related to the location of the firm. I control for access to politicians by including the natural log of the number of Electoral College votes of the state that the firm's headquarters is located (*LNVOTES*). As the number of Electoral College votes increases, so does the number of state representatives. I control for the distance between the firm's headquarters and the state capitol (*LNDIST*) because shorter distances increase access to politicians, possibly reducing the need for additional lobbyists. Finally, I include the interaction between *LNVOTES* and *LNDIST* to control for the interdependencies between these variables. In all specifications of all models, I include year and industry dummies measured using two-digit SICs to control for time and industry effects on fraud and political activity. Standard errors are clustered by firm.

To test my second hypothesis, I change the dependent variable to *TRANSPARENCY*, as follows:

$$TRANSPARENCY_t = \beta_0 + \beta_1(ACCUSED FIRM)_t + \beta_2(POSTACCUSATION)_t + \beta'(CONTROLS)_{t-1} + Industry FE_t + Year FE_t + \varepsilon \quad (2)$$

I study three forms of political activity transparency using this model. The first form of political activity transparency I study is reducing direct PAC contributions in favor of lobbying expenditures. I examine lobbying and PAC contributions separately from total activity because these forms of political activity involve different costs to firms and politicians. I use *IND\_LOBBY*, which takes the value of 1 if the firm has lobbying expenditures during the year and 0 otherwise, and *IND\_PAC*, which takes the value of 1 if the firm makes PAC contributions during the year and 0 otherwise. I use *LOG\_LOBBY*, the natural log of reported lobbying expenditures for the year, and *LOG\_PAC*, the natural

log of reported PAC contributions for the year, as *TRANSPARENCY*. When either *PAC* measure is the dependent variable, I expect to find a negative coefficient on *POSTACCUSATION*, indicating that firms reduce their direct PAC contributions in the year the fraud is revealed and the two subsequent years. When either *LOBBY* measure is the dependent variable, I expect to observe a positive coefficient on *POSTACCUSATION*. Observing this pattern of coefficients together suggests that after the securities lawsuit is filed, firms reduce their PAC contributions while increasing lobbying expenditures.

I next bifurcate lobbying expenditures into those conducted in-house versus contracted to a lobbying firm. I measure *TRANSPARENCY* as *INHOUSE* or *CONTRACT*. *IND\_INHOUSE* takes the value of 1 if the firm reports in-house lobbying expenditures during the year and 0 otherwise, while *IND\_CONTRACT* takes the value of 1 if the firm reports contract lobbying expenditures during the year and 0 otherwise. *LOG\_INHOUSE* is measured as the log of the amount of in-house lobbying expenditures of the firm in year *t*, whereas *LOG\_CONTRACT* is defined as the log of the amount of contract lobbying expenditures in year *t*. To be consistent with Hypothesis 2, I expect a negative coefficient on  $\beta_2$  when *TRANSPARENCY* is measured as in-house lobbying expenditures, and a positive coefficient on  $\beta_2$  when *TRANSPARENCY* is measured as contract lobbying expenditures. This pattern of results suggests that firms reduce their in-house lobbying expenditures and increase their contract lobbying expenditures after the fraud-related securities class action lawsuit.

The final form of transparency I examine relates to conducting political activity through a subsidiary firm. I expect that after being involved in securities litigation, accused firms increase their subsidiary political activity. I measure political spending at

the subsidiary level (*LOG\_SUBPOLSPEND*) by taking the log of the sum of subsidiary PAC contributions and subsidiary lobbying. If *LOG\_SUBPOLSPEND* is nonzero, then *IND\_SUBPOLSPEND* takes the value of 1, and 0 otherwise. I expect a positive coefficient on *POSTACCUSATION*, suggesting firms increase political activity through their subsidiaries after the fraud-related securities class action lawsuit.

Because PAC contributions and lobbying have been shown to be complementary (Schuler et al. 2002; Hill et al. 2013; etc), when the dependent variable in Model (2) is *LOBBY*, I include contemporaneous *PAC* as a control variable. Likewise, when the dependent variable in Model (2) is *PAC*, I include contemporaneous *LOBBY* as a control variable.<sup>12</sup> Similarly in Model (2), when the dependent variable is *INHOUSE*, I include contemporaneous *CONTRACT* and vice versa because these are also likely complementary. Finally, when the dependent variable is *SUBPOLSPEND*, I include the parent's contemporaneous political activity (*PARENTPOLSPEND*) as a control variable. Including these variables in the model controls for the alternate form of political activity the firm can undertake during the year.

Finally, I expect firms to reduce the level of their voluntary political spending disclosures after being involved in a securities class action lawsuit. I estimate the following Tobit model:

$$CPAZICKLIN_t = \beta_0 + \beta_1(POSTACCUSATION)_t + \beta'(CONTROLS)_{t-1} + Industry$$

$$FE_t + Year FE_t +$$

$$\varepsilon \tag{3}$$

---

<sup>12</sup> I measure these control variables contemporaneously rather than what a firm had done in the prior year to control for amounts the firm could have spent on another form of political activity.

*CPAZICKLIN* is the voluntary political spending disclosure score provided by the CPA-Zicklin Center. The CPA-Zicklin score has a minimum value of 0 and a maximum value of 100, where higher numbers indicate better disclosure of political spending. This measure does not capture changes in actual *political spending*, but changes in *voluntary disclosure* of that political spending. I expect a negative coefficient on *POSTACCUSATION*, indicating that firms reduce the quality and quantity of their voluntary political spending disclosures after being involved in a securities class action suit.

### **Descriptive Statistics**

Table 2 presents descriptive statistics on the final sample of 20,002 firm-years and are mostly similar to those reported as lobbyists in Hill et al. (2013). My 20,002 firm-years represent 1,776 unique firms that engage in either PAC or lobbying at least once during the sample period. Approximately 30% of the firm-year observations make PAC contributions and 48% of the firm-year observations have lobbying expenditures. Nearly 22% of the firm-year observations engage in in-house lobbying, whereas 45.6% of the firm-year observations engage in contract lobbying. I have 198 securities class action suits in my sample representing 188 firms. The typical firm in my sample is large, averaging \$1.3 billion in assets. Univariate results show that accused firms are larger and more active in the political process. Accused firms are also associated with an overall higher level of voluntary political disclosure than non-accused firms. To mitigate concerns that my results are driven by differences in firm characteristics, I use propensity score matching in Section V of this paper.

CHAPTER 4  
EMPIRICAL RESULTS

**Baseline Political Activity**

Results of a regression of overall political activity on securities litigation are presented in Table 3. In Column (1), political activity is measured using an indicator variable, and the coefficient on *POSTACCUSATION* is positive and marginally significant ( $\beta_2 = 0.128$ ,  $p = 0.099$ ), suggesting firms are more likely to engage in political activity following a fraud-related securities class action lawsuit. However, in Column (2) where political activity is measured as the log of total dollars spent on PAC and lobbying, the coefficient on *POSTACCUSATION* is not significant. Therefore, I do not find consistent support to reject Hypothesis 1.

Control variables follow expectations and are generally consistent with prior literature (Hill et al. 2013). Larger firms and growth firms are more likely to engage in political activity and spend a greater amount on that activity, consistent with firms having more resources being able to invest more heavily in politics. Firms with higher cash flows and more leverage are less likely to be politically active, consistent with the findings in Hill et al. (2013) that suggest the lack of agency problems related to political activity. Industry competition is positively related to political activity, consistent with Pittman (1976).

Inconsistent evidence on the change in overall political activity suggests while overall amounts spent do not change, there could be a shift in structure of political activity. In my next set of tests, I examine different forms of political activity to

determine if firms alter the form of their activity after the fraud-related securities class action lawsuit.

### **PAC versus Lobbying**

Next, I examine political activity transparency after firms have been involved in securities litigation. Table 4 presents results of regressions of PAC contributions on securities litigation. Column (1) tests whether firms are more likely to give PAC contributions using an indicator variable in the year of the fraud-related securities class action lawsuit and the two following years, and Column (2) uses a continuous measure of PAC activity to test the amount of the contribution.<sup>13</sup> Accused firms are no more or less likely than non-accused firms to make PAC contributions, and the amount of the contribution is not significantly different between fraud and non-accused firms. However, following the fraud-related securities class action lawsuit, firms are less likely to make PAC contributions ( $\beta_2 = -0.148$ ,  $p = 0.036$ ) and the amounts they contribute are reduced ( $\beta_2 = -1.345$ ,  $p = 0.044$ ).

Regressions of lobbying expenditures are also presented in Table 4. Column (3) shows results of a Probit regression of the likelihood a firm engages in lobbying on its securities litigation status, and Column (4) shows results of a Tobit regression of the log of the total lobbying on litigation. Like the results on PAC contributions in Columns (1) and (2), the results on lobbying in Columns (3) and (4) show no significant difference between the likelihood of lobbying or amount of lobbying expenditures between firms involved in securities litigation and firms that are not involved in litigation. In Column

---

<sup>13</sup> The sample size is different between Table 4, Columns (1) and (2) because Column (1) is a Probit specification and some two-digit SICs had no variation in firm PAC activity.

(3) and Column (4), respectively, I note a significant association between firms within two years of the fraud-related securities class action lawsuit and the likelihood of lobbying ( $\beta_2 = 0.157$ ,  $p = 0.021$ ) as well as the amount of the lobbying expenditures ( $\beta_2 = 1.462$ ,  $p = 0.011$ ). Taken together with Columns (1) and (2), decreased PAC contributions and increased lobbying expenditures imply a shift in strategy after a firm is involved in a fraud-related securities class action lawsuit and provide support for Hypothesis 2. The results are consistent with accused firms moving to a less transparent form of political activity after the fraud-related securities class action lawsuit, allowing accused firms to continue political investment despite their tainted status.

### **In-House Lobbying versus Contract Lobbying**

In Columns (1) and (2), I regress measures of in-house lobbying on securities litigation, and in Columns (3) and (4) I regress measures of contract lobbying on securities litigation. To be consistent with political activity transparency as in Hypothesis 2, I expect to observe an increase in the likelihood and amount of in-house lobbying because in-house lobbying expenditures are closer tied to the accused firm, and a decrease in the likelihood and amount of contract lobbying because contract lobbyists work on behalf of many firms at once. In Column (1), I find in the year of and two years after being involved in securities litigation, firms are less likely to engage in in-house lobbying ( $\beta_2 = -0.177$ ,  $p = 0.042$ ). Column (2) shows that in the year of the fraud-related securities class action lawsuit and two following years, the amount of in-house lobbying is reduced ( $\beta_2 = -1.561$ ,  $p = 0.067$ ).

Columns (3) and (4) show results for the likelihood and amount of contract lobbying, respectively. In Column (3), I find that firms are more likely to engage in

contract lobbying ( $\beta_2 = 0.205$ ,  $p = 0.006$ ), while Column (4) shows that the amount of contract lobbying is increased ( $\beta_2 = 1.736$ ,  $p = 0.003$ ). With Columns (1) and (2), these results suggest that immediately after the fraud-related securities class action lawsuit, firms reduce or potentially eliminate in-house lobbying while increasing investment in contract lobbying. The pattern of results in Table 5 is further supportive of Hypothesis 2 because in-house lobbying is more transparent to politicians than contract lobbying. This is consistent with Proposition 5a in Jia (2018), suggesting that firms with an impaired sociopolitical reputation are more likely to rely on contract lobbyists.

### **Subsidiary Political Activity**

I look at one final way to reduce the transparency of political activity: giving through subsidiaries. I posit that after being involved in securities litigation, accused firms increase their subsidiary political activity. Table 6 reports results of Probit and Tobit regressions of political activity via subsidiaries. In Column (1), I find evidence that accused firms are more likely to give through their subsidiaries in the two years following the fraud-related securities class action lawsuit versus any other time in the sample period ( $\beta_2 = 0.115$ ,  $p = 0.071$ ). Additionally, in Column (2), I show evidence that accused firms increase giving through their subsidiaries after a fraud-related securities class action lawsuit ( $\beta_2 = 1.361$ ,  $p = 0.070$ ). Giving at the subsidiary level is another way a firm can mask its identity when giving to politicians, thus my results are supportive of Hypothesis 2.

Tables 4 through 6 all show results consistent with Hypothesis 2 – after the fraud, firms are associated with a decrease in political activity transparency. The decrease in political activity transparency I document takes many different forms – firms switch from



PAC contributions to lobbying, switch from in-house lobbying to contract lobbying, and give more through subsidiary firms.

### **Voluntary Political Activity Disclosures**

Table 7 reports results of Model (3), where the dependent variable is the CPA-Zicklin score. Because the score spans from 0-100, I use a Tobit model.<sup>14</sup> The sample period for this test ranges from 2011 through 2016 because the CPA-Zicklin score was first made available in 2011. I find that outside the period of interest, accused firms do not have a significantly different CPA-Zicklin score than non-accused firms. In the two subsequent years as well as the year of the fraud, accused firms are associated with a lower CPA-Zicklin score ( $\beta_2 = -13.020$ ,  $p = 0.017$ ). This implies that firms reduce their voluntary political spending disclosures measured by the CPA-Zicklin score after involvement in a fraud-related securities class action lawsuit. The results in Table 7 are supportive of Hypothesis 3 – after involvement in a fraud-related securities class action lawsuit, firms work to reduce the quality of their political activity disclosures.

---

<sup>14</sup> Results are robust to using OLS rather than a Tobit specification.

## CHAPTER 5

### ADDITIONAL ANALYSES

#### Propensity Score Match

Table 2 shows significant differences between accused firms and non-accused firms. To mitigate concerns that differences between accused firms and non-accused firms are driving my results, I use a propensity-score matched sample. I first calculate the probability that a lawsuit will be filed during the year following Model (2) of Kim and Skinner (2012)<sup>15</sup>:

$$\begin{aligned} Pr(SUED)_t = & \beta_0 + \beta_1(FPS)_t + \beta_2(LNASSETS)_{t-1} + \beta_3(SALESGROWTH)_{t-1} + \\ & \beta_4(RETURN)_t + \beta_5(RETURN SKEWNESS)_t + \\ & \beta_6(RETURN STDDEV)_t + \beta_7(TURNOVER)_t + \varepsilon \end{aligned} \quad (4)$$

2,202 firm-years in my sample do not have available data in CRSP to estimate Model (4), so I estimate this model over all 17,800 firm-years in my sample with available data. For each lawsuit firm-year, I match to a control firm-year that was not sued based on the closest likelihood of being sued during the year.<sup>16</sup> I also match on two digit SIC and firm year to control for time and industry effects. I then use the successfully matched firms as a new, separate sample and rerun models (1), (2), and (3).

Using this matched sample, I continue to find that firms are less likely to make PAC contributions and more likely to have lobbying expenditures around the fraud-related securities class action lawsuit. Similarly, I continue to find that firms reduce their

---

<sup>15</sup> This model has been used in prior literature by Ahmed and Duellman (2013) and Li and Zhang (2014).

<sup>16</sup> Because of this design, it is possible that control firms are matched to more than one treatment firm if the lawsuits happen in different years. It is also possible that accused firms in non-lawsuit years are matched with other accused firms in lawsuit years. In the regression analysis, I assign frequency weights to firms that match more than once.

PAC contributions and increase lobbying after the fraud. I do not find evidence of a change in in-house lobbying after the fraud, but I continue to find support that firms increase the amount of contract lobbying. I also find that accused firms are associated with an increase in the likelihood and amount of subsidiary political activity as well as a decrease in the level of voluntary political spending disclosures relative to non-accused firms in the period after the fraud. Therefore, except for in-house lobbying, my results are robust to the use of a matched sample.

### **Post Citizens United**

In 2010, the Supreme Court decided *Citizens United v. Federal Election Commission* – a case that opened the doors for firms to donate unlimited amounts of money to Super PACs and §527 political groups. To examine whether my findings persist after this shock to corporate political activity, I examine the post-Citizens United period separately in my models. To do this, I split the sample into firm-years post-2010 and rerun Models (1) and (2).<sup>17,18</sup> I find results consistent with my main tests, except for PAC contributions. I find firms are no more or less likely to make PAC contributions and are not associated with a change in PAC contributions around the fraud-related securities class action lawsuit. One interpretation of these results is that after *Citizens United*, firms have additional opportunities to shift contributions to Super PACs rather than the campaign of individual politicians, and thus I do not observe a change in overall PAC spending.

---

<sup>17</sup> Because the CPA-Zicklin score is only available after 2011, the results for this test are identical to the main analysis.

<sup>18</sup> Results are robust to excluding accused firms whose *POSTACCUSATION* period includes 2010.

## CHAPTER 6

### CONCLUSION

In this paper, I explore how firms change the structure and transparency of their political activity after involvement in a fraud-related securities class action lawsuit. My results reveal a shift in the structure of corporate political activity resulting in less transparency. I find a reduction in direct campaign contributions and an increase in lobbying expenditures, suggesting that firms trend toward forms of political activity subject to less disclosure requirements and away from being publicly associated with a politician. The increased lobbying expenditures come in the form of hiring a contract lobby firm rather than sending an in-house lobbyist because typically, contract lobbyists work for more than one client, versus than an in-house lobbying who solely works on behalf of their employer-firm. I also find evidence that firms increase the use of their subsidiaries to conduct political activities after a fraud-related securities class action lawsuit. Finally, I find evidence that firms reduce the level of their voluntary disclosures of political spending and accountability, measured by the CPA-Zicklin score. This pattern of results is consistent with firms, in an effort to continue participation in the political process, shifting towards less transparent means of political activity and lower quality voluntary political spending disclosure.

I find that firms substitute more visible political activity for less visible political activity, and they reduce the quality of their voluntary political spending disclosures. It is possible that (1) firms are altering the structure of their political giving in order to conceal the firm's identity as the donor from the specific politician they are trying to influence or (2) firms are colluding with the politician to conceal information from voters

in order to reduce the political costs of the politician receiving the campaign contribution. In either case, (1) the public is being deprived of information regarding politicians' donors and (2) firms' weaker voluntary political spending disclosures as measured by the CPA-Zicklin Index suggest less information is available to investors and other stakeholders regarding firms' investments in the political process.

My paper adds to the discussion on the mandatory disclosure of political spending (see Skaife and Werner 2019; Goh, Liu, and Tsang 2020). My results show that firms shift the structure of their political activity toward less transparent forms of spending and reduce the level of their disclosures. Disclosure of political spending by firms is fully voluntary. Policy makers could consider standardizing a certain level of political spending disclosure by firms to assist shareholders and politicians in understanding the firm's whole political investment. It is also possible that the politicians themselves are unwittingly accepting accused firms' funds. Clearly defined disclosure requirements to the politician may help ease this potential information asymmetry.

## REFERENCES

- Aggarwal, R. K., Meschke, F., & Wang, T. Y. (2012). Corporate political donations: investment or agency?. published in *Business and Politics*, 14.
- Ahmed, A. S., & Duellman, S. (2013). Managerial overconfidence and accounting conservatism. *Journal of Accounting Research*, 51(1), 1-30.
- Ahmed, A. S., Duellman, S., & Grady, M. (2018). Corporate Lobbying, Political Protection, and Earnings Management. *Political Protection, and Earnings Management* (October 30, 2018).
- Amiram, D., Bozanic, Z., Cox, J. D., Dupont, Q., Karpoff, J. M., & Sloan, R. (2018). Financial reporting fraud and other forms of misconduct: a multidisciplinary review of the literature. *Review of Accounting Studies*, 23(2), 732-783.
- Apollonio, D. E. (2005, November). Predictors of interest group lobbying decisions. In *The Forum* (Vol. 3, No. 3). De Gruyter.
- Arena, M., & Julio, B. (2015). The effects of securities class action litigation on corporate liquidity and investment policy. *Journal of Financial and Quantitative Analysis*, 251-275.
- Autore, D. M., Hutton, I., Peterson, D. R., & Smith, A. H. (2014). The Effect of Securities Litigation on External Financing. *Journal of Corporate Finance*, 27.
- Baloria, V. P., Klassen, K. J., & Wiedman, C. I. (2019). Shareholder activism and voluntary disclosure initiation: The case of political spending. *Contemporary Accounting Research*, 36(2), 904-933.
- Banerjee, S., & Venaik, S. (2018). The effect of corporate political activity on MNC subsidiary legitimacy: An institutional perspective. *Management International Review*, 58(5), 813-844.
- Banerjee, S., Venaik, S., & Brewer, P. (2019). Analysing corporate political activity in MNC subsidiaries through the integration-responsiveness framework. *International Business Review*, 28(5), 101498.
- Barrick, J. A., & Brown, J. L. (2019). Tax-related corporate political activity research: A literature review. *The Journal of the American Taxation Association*, 41(1), 59-89.
- Baysinger, B. D. (1984). Domain maintenance as an objective of business political activity: An expanded typology. *Academy of Management Review*, 9(2), 248-258.

- Bertrand, M., Bombardini, M., & Trebbi, F. (2014). Is it whom you know or what you know? An empirical assessment of the lobbying process. *American Economic Review*, 104(12), 3885-3920.
- Blumentritt, T. P., & Nigh, D. (2002). The integration of subsidiary political activities in multinational corporations. *Journal of International Business Studies*, 33(1), 57-77.
- Bonardi, J. P., Hillman, A. J., & Keim, G. D. (2005). The attractiveness of political markets: Implications for firm strategy. *Academy of Management Review*, 30(2), 397-413.
- Borisov, A., Goldman, E., & Gupta, N. (2016). The corporate value of (corrupt) lobbying. *The Review of Financial Studies*, 29(4), 1039-1071.
- Brogaard, J., Denes, M., & Duchin, R. (2019). Political influence and the renegotiation of government contracts. Available at SSRN 2604805.
- Bromberg, D. (2014). Can vendors buy influence? The relationship between campaign contributions and government contracts. *International Journal of Public Administration*, 37(9), 556-567.
- Brown, J. R., & Huang, J. (2020). All the president's friends: Political access and firm value. *Journal of Financial Economics*.
- Chakravarthy, J., DeHaan, E., & Rajgopal, S. (2014). Reputation repair after a serious restatement. *The Accounting Review*, 89(4), 1329-1363.
- Cheng, C. A., Huang, H. H., Li, Y., & Lobo, G. (2010). Institutional monitoring through shareholder litigation. *Journal of financial economics*, 95(3), 356-383.
- Correia, M. M. (2014). Political connections and SEC enforcement. *Journal of Accounting and Economics*, 57(2-3), 241-262.
- De Figueiredo, J. M., & Richter, B. K. (2014). Advancing the empirical research on lobbying. *Annual review of political science*, 17, 163-185.
- Dyck, A., Morse, A., & Zingales, L. (2010). Who blows the whistle on corporate fraud?. *The journal of finance*, 65(6), 2213-2253.
- Dyregang, S. D., Hoopes, J. L., & Wilde, J. H. (2016). Public pressure and corporate tax behavior. *Journal of Accounting Research*, 54(1), 147-186.
- Espinosa, M. (2020). Labor Boundaries and Skills: The Case of Lobbyists. *Management Science*.

Farber, D. B. (2005). Restoring trust after fraud: Does corporate governance matter?. *The accounting review*, 80(2), 539-561.

Ferris, S. P., Jandik, T., Lawless, R. M., & Makhija, A. (2007). Derivative lawsuits as a corporate governance mechanism: Empirical evidence on board changes surrounding filings. *Journal of Financial and Quantitative Analysis*, 42(1), 143-165.

Flammer, C. (2018). Competing for government procurement contracts: The role of corporate social responsibility. *Strategic Management Journal*, 39(5), 1299-1324.

Gande, A., & Lewis, C. M. (2009). Shareholder-initiated class action lawsuits: Shareholder wealth effects and industry spillovers. *Journal of Financial and Quantitative Analysis*, 823-850.

Godfrey, E. (2018, October 9). Why So Many Democratic Candidates Are Dissing Corporate PACs. Retrieved from <https://www.theatlantic.com/politics/archive/2018/08/why-so-many-democratic-candidates-are-ditching-corporate-pacs/568267/>

Goh, L., Liu, X., & Tsang, A. (2020). Voluntary disclosure of corporate political spending. *Journal of Corporate Finance*, 61, 101403.

Goldman, E., Rocholl, J., & So, J. (2013). Politically connected boards of directors and the allocation of procurement contracts. *Review of Finance*, 17(5), 1617-1648.

Gomulya, D., & Boeker, W. (2014). How firms respond to financial restatement: CEO successors and external reactions. *Academy of Management Journal*, 57(6), 1759-1785.

Hadani, M., & Schuler, D. A. (2013). In search of El Dorado: The elusive financial returns on corporate political investments. *Strategic Management Journal*, 34(2), 165-181.

Haslem, B., Hutton, I., & Smith, A. H. (2017). How much do corporate defendants really lose? A new verdict on the reputation loss induced by corporate litigation. *Financial Management*, 46(2), 323-358.

Hill, M. D., Kelly, G. W., Lockhart, G. B., & Van Ness, R. A. (2013). Determinants and effects of corporate lobbying. *Financial Management*, 42(4), 931-957.

Hillman, A. J., & Hitt, M. A. (1999). Corporate political strategy formulation: A model of approach, participation, and strategy decisions. *Academy of management review*, 24(4), 825-842.

Hillman, A. J., Keim, G. D., & Schuler, D. (2004). Corporate political activity: A review and research agenda. *Journal of Management*, 30(6), 837-857.



- Hillman, A. J., & Wan, W. P. (2005). The determinants of MNE subsidiaries' political strategies: Evidence of institutional duality. *Journal of International Business Studies*, 36(3), 322-340.
- Hutton, I., Jiang, D., & Kumar, A. (2015). Political values, culture, and corporate litigation. *Management Science*, 61(12), 2905-2925.
- Jia, N. (2018). The “make and/or buy” decisions of corporate political lobbying: Integrating the economic efficiency and legitimacy perspectives. *Academy of Management Review*, 43(2), 307-326.
- Karpoff, J. M., Koester, A., Lee, D. S., & Martin, G. S. (2017). Proxies and databases in financial misconduct research. *The Accounting Review*, 92(6), 129-163.
- Karpoff, J. M., Lee, D. S., & Martin, G. S. (2008). The cost to firms of cooking the books. *Journal of financial and quantitative analysis*, 43(3), 581-611.
- Kim, I., & Skinner, D. J. (2012). Measuring securities litigation risk. *Journal of Accounting and Economics*, 53(1-2), 290-310.
- Li, H., No, W. G., & Boritz, J. E. (2016). Are external auditors concerned about cyber incidents? Evidence from audit fees. *Evidence from Audit Fees* (August 1, 2016).
- Li, Y., & Zhang, L. (2015). Short selling pressure, stock price behavior, and management forecast precision: Evidence from a natural experiment. *Journal of Accounting Research*, 53(1), 79-117.
- Lux, S., Crook, T. R., & Woehr, D. J. (2011). Mixing business with politics: A meta-analysis of the antecedents and outcomes of corporate political activity. *Journal of management*, 37(1), 223-247.
- McDonnell, M. H., & Werner, T. (2016). Blacklisted businesses: Social activists' challenges and the disruption of corporate political activity. *Administrative Science Quarterly*, 61(4), 584-620.
- McDonnell, M. H., & Werner, T. (2018). Into the Dark: How Reputation Shapes Corporate Political Activity. Available at SSRN 2882949.
- McTier, B. C., & Wald, J. K. (2011). The causes and consequences of securities class action litigation. *Journal of Corporate Finance*, 17(3), 649-665.
- Mehta, M. N., & Zhao, W. (2020). Politician Careers and SEC enforcement against financial misconduct. *Journal of Accounting and Economics*, 101302.

- Nell, P. C., Puck, J., & Heidenreich, S. (2015). Strictly limited choice or agency? Institutional duality, legitimacy, and subsidiaries' political strategies. *Journal of World Business*, 50(2), 302-311.
- Niehaus, G., & Roth, G. (1999). Insider trading, equity issues, and CEO turnover in firms subject to securities class action. *Financial Management*, 52-72.
- Oklobdzija, Stan, I'll Be Disclosed By Christmas: What 'Pop-Up PACs' Can Teach Us About Disclosure and Dark Money. (December 16, 2019). Available at SSRN: <https://ssrn.com/abstract=3441922> or <http://dx.doi.org/10.2139/ssrn.3441922>
- Pittman, R. (1976). The effects of industry concentration and regulation on contributions in three 1972 US Senate campaigns. *Public Choice*, 27(1), 71-80.
- Rogers, J. L., & Van Buskirk, A. (2009). Shareholder litigation and changes in disclosure behavior. *Journal of Accounting and Economics*, 47(1-2), 136-156.
- Rose, N. L. (1985). The incidence of regulatory rents in the motor carrier industry. *The RAND Journal of Economics*, 299-318.
- Schuler, D. A., Rehbein, K., & Cramer, R. D. (2002). Pursuing strategic advantage through political means: A multivariate approach. *Academy of Management Journal*, 45(4), 659-672.
- Shi, W., Connelly, B. L., & Sanders, W. G. (2016). Buying bad behavior: Tournament incentives and securities class action lawsuits. *Strategic Management Journal*, 37(7), 1354-1378.
- Skaife, H. A., & Werner, T. (2019). Changes in firms' political investment opportunities, managerial accountability, and reputational risk. *Journal of Business Ethics*, 1-25.
- Strahan, P. E. (1998). Securities class actions, corporate governance and managerial agency problems. *Corporate Governance and Managerial Agency Problems* (June 1998).
- Werner, T. (2015). Gaining access by doing good: The effect of sociopolitical reputation on firm participation in public policy making. *Management Science*, 61(8), 1989-2011.
- Yu, F., & Yu, X. (2011). Corporate lobbying and fraud detection. *Journal of Financial and Quantitative Analysis*, 1865-1891.

APPENDIX A  
VARIABLE DEFINITIONS

#### Political Variables

IND_POLSPEND <sub>t</sub>	Takes the value of 1 if the firm either makes a PAC contribution or lobbies during the year; 0 otherwise
LOG_POLSPEND <sub>t</sub>	Log of the sum of total PAC contributions and lobbying expenditures during the year. If missing, then I set this value to 0.
IND_PAC <sub>t</sub>	Takes the value of 1 if the firm makes a PAC contribution during the year; 0 otherwise.
LOG_PAC <sub>t</sub>	Log of total PAC contributions during the year. If missing, then I set this variable to 0.
IND_LOBBY <sub>t</sub>	Takes the value of 1 if the firm lobbies during the year ; 0 otherwise
LOG_LOBBY <sub>t</sub>	Log of total lobbying expenditures during the year. If missing, then I set this variable to 0.
IND_INHOUSE <sub>t</sub>	Takes the value of 1 if the firm files a lobbying report where the client is the same as the registrant; 0 otherwise.
LOG_INHOUSE <sub>t</sub>	Log of total in-house lobbying expenditures for the year. If missing, then I set this variable to 0.
IND_CONTRACT <sub>t</sub>	Takes the value of 1 if the firm files a lobbying report where the client is different than the registrant; 0 otherwise.
LOG_CONTRACT <sub>t</sub>	Log of total contract lobbying expenditures for the year. If missing, then I set this variable to 0.
CPAZICKLIN <sub>t</sub>	Disclosure score as reported by CPA-Zicklin.
IND_SUBPOLSPEND <sub>t</sub>	Takes the value of 1 if the firm makes a PAC contribution or lobbies at the subsidiary level during the year; 0 otherwise.
LOG_SUBPOLSPEND <sub>t</sub>	Log of total subsidiary political activity for the year. If missing, then I set this variable to 0.
IND_PARENTPOLSPEND <sub>t</sub>	Takes the value of 1 if the firm makes a PAC contribution or lobbies at the parent level during the year; 0 otherwise.
LOG_PARENTPOLSPEND <sub>t</sub>	Log of total parent political activity for the year. If missing, then I set this variable to 0.

#### Independent Variables

ACCUSEDFIRM <sub>t</sub>	Takes the value of 1 if the firm has been the subject of a securities class action suit between 1996-2016; 0 otherwise
--------------------------	--

POSTACCUSATION <sub>t</sub>	Takes the value of 1 in the year a securities class action lawsuit is filed and the two subsequent years; 0 otherwise
SIZE <sub>t-1</sub>	Log of total assets (AT)
MTB <sub>t-1</sub>	Market equity (CSHO x PRCC_F) plus total liabilities (LT), scaled by total assets (AT)
R&D <sub>t-1</sub>	R&D expenses (XRD), scaled by sales (SALE)
HERFINDAHL <sub>t-1</sub>	Annual sum of squared market shares for Compustat firms in an industry
CASHFLOWS <sub>t-1</sub>	Operating income before depreciation (OIBDP) less interest (XINT), tax (TXT), and dividends on common stock (DVC) scaled by total assets (AT)
LEVERAGE <sub>t-1</sub>	Long-term (DLTT) and short-term debt (DLC), scaled by total assets (AT)
LNVOTES <sub>t-1</sub>	Log of headquarters state Electoral College votes
LNDIST <sub>t-1</sub>	Log of distance in miles between headquarters and state capitol
PSM Variables	
SUED <sub>t</sub>	Takes the value of 1 if a securities class action lawsuit was filed in the current year, 0 otherwise.
FPS <sub>t</sub>	Takes the value of 1 if the firm is biotech, computer, electronics, or retail industries, which are in the following SIC codes: 2833-2836, 8731-8734, 3570-3577, 7370-7374, 3600-3674, 5200-5961; 0 otherwise
LNASSETS <sub>t-1</sub>	Log of total assets (AT)
SALESGROWTH <sub>t-1</sub>	Sales in year t-1 less sales in year t-2, scaled by assets in year t-2
RETURN <sub>t</sub>	Market-adjusted 12-month stock return calculated using daily values. For firms where SUED=1, the accumulation period ends with the lawsuit class period end month. For firms where SUED = 0, the accumulation period ends with the fiscal year end month.
RETURNSKEWNESS <sub>t</sub>	Skewness of firm's 12-month return calculated using daily values
RETURNSTDDEV <sub>t</sub>	Standard deviation of firm's 12-month return calculated using daily values
TURNOVER <sub>t</sub>	Trading volume over 12-month period calculated using daily values. For firms where SUED=1, the period end is the lawsuit class period end month. For firms where SUED = 0, the fiscal year end month is the period end.

<b>TABLE 1</b>	
<b>Sample Selection</b>	
Compustat Firm-Years between 2001 and 2016	179,681
Less: Firm-years missing control variables	<u>(101,542)</u>
Remaining firm-years	78,139
Less: Firm-years for firms without political activity during the sample period	<u>(58,137)</u>
Base Sample	<u>20,002</u>

**TABLE 2**  
**Descriptive Statistics**

Dependent Variables	Full sample (n=20,002)			Fraud Sample (n=3,208)			Nonfraud Sample (n=16,794)		
	Mean	Median	Std. Dev	Mean	Median	Std. Dev	Mean	Median	Std. Dev
<i>IND_POLSPEND</i>	0.554	1.000	0.497	<b>0.613</b>	1.000	0.487	0.542	1.000	0.498
<i>LOG_POLSPEND</i>	7.187	10.597	6.612	<b>8.296</b>	11.695	6.777	6.975	10.309	6.558
<i>IND_PAC</i>	0.295	0.000	0.456	<b>0.359</b>	0.000	0.480	0.282	0.000	0.450
<i>LOG_PAC</i>	3.668	0.000	5.752	<b>4.608</b>	0.000	6.246	3.488	0.000	5.636
<i>IND_LOBBY</i>	0.479	0.000	0.500	<b>0.535</b>	1.000	0.499	0.469	0.000	0.499
<i>LOG_LOBBY</i>	6.232	0.000	6.619	<b>7.220</b>	10.597	6.878	6.043	0.000	6.551
<i>IND_INHOUSE</i>	0.218	0.000	0.413	<b>0.293</b>	0.000	0.455	0.204	0.000	0.403
<i>LOG_INHOUSE</i>	3.065	0.000	5.847	<b>4.203</b>	0.000	6.587	2.847	0.000	5.669
<i>IND_CONTRACT</i>	0.456	0.000	0.498	<b>0.516</b>	1.000	0.500	0.445	0.000	0.497
<i>LOG_CONTRACT</i>	5.672	0.000	6.264	<b>6.594</b>	9.904	6.479	5.496	0.000	6.207
<i>IND_PARENTPOLSPEND</i>	0.362	0.000	0.481	<b>0.428</b>	0.000	0.495	0.349	0.000	0.477
<i>LOG_PARENTPOLSPEND</i>	4.324	0.000	6.185	<b>5.611</b>	0.000	6.590	4.388	0.000	6.086
<i>IND_SUBPOLSPEND</i>	0.333	0.000	0.471	<b>0.398</b>	0.000	0.490	0.320	0.000	0.467
<i>LOG_SUBPOLSPEND</i>	4.324	0.000	6.230	<b>5.358</b>	0.000	6.719	4.126	0.000	6.112
<i>CPAZICKLIN (n=1,216)</i>	45.583	48.571	31.306	<b>49.632</b>	52.857	30.926	44.268	45.714	31.332
<b>Independent Variables</b>									
<i>ACCUSED FIRM</i>	0.160	0.000	0.367	1.000	1.000	0.000	0.000	0.000	0.000
<i>POSTACCUSATION</i>	0.026	0.000	0.160	0.165	0.000	0.371	0.000	0.000	0.000
<i>SIZE</i>	7.209	7.392	2.175	<b>7.804</b>	7.946	2.209	7.095	7.305	2.149
<i>MTB</i>	2.279	1.522	3.601	2.187	1.584	2.849	2.297	1.513	3.728
<i>R&amp;D</i>	0.326	0.000	2.376	0.360	0.014	2.487	0.320	0.000	2.355
<i>HERFINDAHL</i>	0.064	0.051	0.070	<b>0.069</b>	0.052	0.089	0.063	0.051	0.065
<i>CASHFLOWS</i>	-0.009	0.065	0.511	<b>0.027</b>	0.065	0.276	-0.016	0.065	0.544
<i>LEVERAGE</i>	0.288	0.244	0.366	<b>0.254</b>	0.217	0.280	0.295	0.248	0.380
<i>LNVOTES</i>	2.959	2.833	0.661	<b>3.068</b>	3.045	0.656	2.938	2.833	0.660
<i>LNDIST</i>	4.168	4.528	1.336	<b>4.224</b>	4.499	1.242	4.157	4.528	1.353

**TABLE 3**  
**Overall Political Activity After SCA Suit**

VARIABLES	(1)	(2)
	<i>IND_POLSPEND<sub>t</sub></i>	<i>LOG_POLSPEND<sub>t</sub></i>
<i>ACCUSED FIRM<sub>t</sub></i>	0.025 (0.07)	0.196 (0.52)
<i>POSTACCUSATION<sub>t</sub></i>	0.128* (0.08)	0.873 (0.55)
<i>SIZE<sub>t-1</sub></i>	0.237*** (0.01)	2.241*** (0.10)
<i>MTB<sub>-1</sub></i>	0.017*** (0.00)	0.173*** (0.04)
<i>R&amp;D<sub>t-1</sub></i>	-0.002 (0.01)	-0.019 (0.06)
<i>HERFINDAHL<sub>t-1</sub></i>	1.501*** (0.38)	11.850*** (2.47)
<i>CASHFLOWS<sub>t-1</sub></i>	-0.149*** (0.05)	-1.261*** (0.44)
<i>LEVERAGE<sub>t-1</sub></i>	-0.190*** (0.06)	-1.845*** (0.52)
<i>LNVOTES<sub>t-1</sub></i>	-0.110 (0.16)	-1.247 (1.26)
<i>LNDIST<sub>t-1</sub></i>	0.047 (0.09)	0.191 (0.73)
<i>(LNVOTES X LNDIST)<sub>t-1</sub></i>	-0.000 (0.03)	0.069 (0.26)
Observations	20,002	20,002
Pseudo R2	0.146	0.051
Industry FE	YES	YES
Year FE	YES	YES

This table presents regression results of overall political activity on an indicator variable for the year a firm is involved in securities litigation and the two following years. The dependent measure in Column (1) is an indicator variable if the firm engages in PAC or lobbying during the current year (*IND\_POLSPEND*) and uses a probit specification. The dependent measure in Column (2) is the log of the sum of total PAC contributions and lobbying expenditures in the current year (*LOG\_POLSPEND*) and uses a Tobit specification. Standard errors clustered by firm in parentheses. \*\*\*, \*\*, and \* denote significance at the  $p < 0.01$ ,  $p < 0.05$ , and  $p < 0.1$ , respectively. One-tailed tests were used for variables with a prediction.



VARIABLES	(1)	(2)	(3)	(4)
	<i>IND_PAC<sub>t</sub></i>	<i>LOG_PAC<sub>t</sub></i>	<i>IND_LOBBY<sub>t</sub></i>	<i>LOG_LOBBY<sub>t</sub></i>
<i>ACCUSED FIRM<sub>t</sub></i>	0.062 (0.09)	0.434 (0.87)	-0.024 (0.07)	-0.259 (0.58)
<i>POSTACCUSATION<sub>t</sub></i>	-0.148** (0.08)	-1.345** (0.79)	0.157** (0.08)	1.462** (0.64)
<i>IND_LOBBY<sub>t</sub></i>	0.710*** (0.06)			
<i>LOG_LOBBY<sub>t</sub></i>		0.669*** (0.05)		
<i>IND_PAC<sub>t</sub></i>			0.785*** (0.06)	
<i>LOG_PAC<sub>t</sub></i>				0.591*** (0.04)
<i>SIZE<sub>t-1</sub></i>	0.294*** (0.02)	2.892*** (0.20)	0.161*** (0.01)	1.545*** (0.13)
<i>MTB<sub>-1</sub></i>	0.009 (0.01)	0.068 (0.12)	0.019*** (0.00)	0.189*** (0.04)
<i>R&amp;D<sub>t-1</sub></i>	-0.144* (0.08)	-1.710* (1.03)	0.006 (0.01)	0.044 (0.06)
<i>HERFINDAHL<sub>t-1</sub></i>	0.655 (0.47)	6.760 (4.23)	1.556*** (0.36)	10.743*** (2.83)
<i>CASHFLOWS<sub>t-1</sub></i>	-0.037 (0.18)	0.216 (2.27)	-0.124** (0.05)	-1.019** (0.47)
<i>LEVERAGE<sub>t-1</sub></i>	-0.045 (0.12)	0.132 (1.25)	-0.249*** (0.06)	-2.274*** (0.57)
<i>LNVOTES<sub>t-1</sub></i>	0.054 (0.24)	0.082 (2.45)	-0.246 (0.15)	-2.179 (1.39)
<i>LNDIST<sub>t-1</sub></i>	0.113 (0.14)	0.885 (1.42)	-0.034 (0.09)	-0.305 (0.82)
<i>(LNVOTES X LNDIST)<sub>t-1</sub></i>	-0.040 (0.05)	-0.307 (0.52)	0.033 (0.03)	0.302 (0.29)
Observations	19,904	20,002	20,002	20,002
Pseudo R2	0.279	0.123	0.155	0.058
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

This table presents regression results of PAC contributions and lobbying expenditures on an indicator variable for the year a firm is involved in securities litigation plus the two following years. The dependent measure in Column (1) is an indicator variable that takes the value of 1 if the firm made a PAC contribution in year t (*IND\_PAC*) and uses a probit specification, and the dependent measure in Column (2) is the log of total PAC contributions made in year t (*LOG\_PAC*) and uses a Tobit specification. The dependent measure in Column (3) is an indicator variable that takes the value of 1 if the firm made a PAC contribution in year t (*IND\_LOBBY*) and uses a probit specification, and the dependent measure in Column (4) is the log of total lobbying expenditures made in year t (*LOG\_LOBBY*) and uses a Tobit specification. Standard errors clustered by firm in parentheses. \*\*\*, \*\*, and \* denote significance at the p<0.01, p<0.05, and p<0.1, respectively. One-tailed tests were used for variables with a prediction.

**TABLE 5**  
**Lobbyist Structure After SCA Suit**

VARIABLES	(1)	(2)	(3)	(4)
	<i>IND_INHOUSE<sub>t</sub></i>	<i>LOG_INHOUSE<sub>t</sub></i>	<i>IND_CONTRACT<sub>t</sub></i>	<i>LOG_CONTRACT<sub>t</sub></i>
<i>ACCUSED FIRM<sub>t</sub></i>	0.023 (0.09)	-0.108 (0.90)	-0.013 (0.06)	-0.248 (0.50)
<i>POSTACCUSATION<sub>t</sub></i>	-0.177** (0.10)	-1.561* (1.04)	0.205*** (0.08)	1.736*** (0.63)
<i>IND_CONTRACT<sub>t</sub></i>	1.396*** (0.07)			
<i>LOG_CONTRACT<sub>t</sub></i>		1.453*** (0.07)		
<i>IND_INHOUSE<sub>t</sub></i>			1.515*** (0.07)	
<i>LOG_INHOUSE<sub>t</sub></i>				0.801*** (0.03)
<i>SIZE<sub>t-1</sub></i>	0.398*** (0.03)	3.966*** (0.23)	0.094*** (0.01)	0.793*** (0.11)
<i>MTB<sub>t-1</sub></i>	0.024** (0.01)	0.244** (0.12)	0.015*** (0.00)	0.136*** (0.04)
<i>R&amp;D<sub>t-1</sub></i>	0.007 (0.01)	0.060 (0.12)	0.003 (0.01)	0.025 (0.06)
<i>HERFINDAHL<sub>t-1</sub></i>	0.670 (0.53)	5.196 (5.61)	1.631*** (0.40)	10.519*** (2.72)
<i>CASHFLOWS<sub>t-1</sub></i>	-0.119 (0.11)	-0.612 (1.39)	-0.054 (0.04)	-0.290 (0.42)
<i>LEVERAGE<sub>t-1</sub></i>	-0.542*** (0.15)	-4.960*** (1.60)	-0.145*** (0.05)	-1.233*** (0.47)
<i>LNVOTES<sub>t-1</sub></i>	-0.400* (0.23)	-5.078** (2.44)	-0.143 (0.14)	-1.184 (1.22)
<i>LNDIST<sub>t-1</sub></i>	-0.174 (0.13)	-2.150 (1.39)	0.009 (0.08)	0.145 (0.71)
<i>(LNVOTES X LNDIST)<sub>t-1</sub></i>	0.075 (0.05)	0.930* (0.51)	0.013 (0.03)	0.094 (0.26)
Observations	19,741	20,002	20,002	20,002
Pseudo R2	0.089	0.191	0.136	0.071
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

This table presents regression results of different forms of lobbying expenditures on an indicator variable for the year a firm is involved in securities litigation plus the two following years. The dependent measure in Column (1) is an indicator variable that takes the value of 1 if the firm had in-house lobbying expenditures in year t (*IND\_INHOUSE*) and uses a probit specification, and the dependent measure in Column (2) is the log of total in-house lobbying expenditures made in year t (*LOG\_INHOUSE*) and uses a Tobit specification. The dependent measure in Column (3) is an indicator variable that takes the value of 1 if the firm had contract lobbying expenditures in year t (*IND\_CONTRACT*) and uses a probit specification, and the dependent measure in Column (4) is the log of total in-house lobbying expenditures made in year t (*LOG\_CONTRACT*) and uses a Tobit specification. Standard errors clustered by firm in parentheses. \*\*\*, \*\*, and \* denote significance at the p<0.01, p<0.05, and p<0.1, respectively. One-tailed tests were used for variables with a prediction.

**TABLE 6**  
**Subsidiary Political Activity After SCA Suit**

VARIABLES	(1)	(2)
	<i>IND_SUBPOLSPEND<sub>t</sub></i>	<i>LOG_SUBPOLSPEND<sub>t</sub></i>
<i>ACCUSED FIRM<sub>t</sub></i>	0.044 (0.07)	0.527 (0.91)
<i>POSTACCUSATION<sub>t</sub></i>	0.115* (0.08)	1.361* (0.92)
<i>IND_PARENTPOLSPEND<sub>t</sub></i>	-0.070 (0.05)	
<i>LOG_PARENTPOLSPEND<sub>t</sub></i>		-0.051 (0.06)
<i>SIZE<sub>t-1</sub></i>	0.186*** (0.02)	2.549*** (0.19)
<i>MTB<sub>-1</sub></i>	0.010* (0.01)	0.148** (0.07)
<i>R&amp;D<sub>t-1</sub></i>	-0.007 (0.01)	-0.107 (0.10)
<i>HERFINDAHL<sub>t-1</sub></i>	1.424*** (0.42)	16.606*** (4.24)
<i>CASHFLOWS<sub>t-1</sub></i>	-0.113** (0.05)	-1.434** (0.64)
<i>LEVERAGE<sub>t-1</sub></i>	-0.169** (0.07)	-2.347** (0.92)
<i>LNVOTES<sub>t-1</sub></i>	-0.319** (0.16)	-4.074* (2.11)
<i>LNDIST<sub>t-1</sub></i>	-0.100 (0.10)	-1.398 (1.25)
<i>(LNVOTES X LNDIST)<sub>t-1</sub></i>	0.053 (0.03)	0.704 (0.44)
Observations	20,002	20,002
Pseudo R2	0.097	0.039
Industry FE	YES	YES
Year FE	YES	YES

This table presents regression results of subsidiary political activity on an indicator variable for the year a firm is involved in securities litigation and the two following years. The dependent measure in Column (1) is an indicator variable that takes the value of 1 if the firm made a PAC contribution or lobbied in year t (*IND\_SUBPOLSPEND*) and uses a probit specification, and the dependent measure in Column (2) is the log of total PAC contributions and lobbying expenditures made in year t (*LOG\_SUBPOLSPEND*) and uses a Tobit specification. Standard errors clustered by firm in parentheses. \*\*\*, \*\*, and \* denote significance at the p<0.01, p<0.05, and p<0.1, respectively. One-tailed tests were used for variables with a prediction.

<b>TABLE 7</b>	
<b>CPA-Zicklin Score After SCA Suit</b>	
VARIABLES	(1) <i>CPAZICKLIN</i>
<i>ACCUSED FIRM<sub>t</sub></i>	2.549 (3.58)
<i>POSTACCUSATION<sub>t</sub></i>	-13.020** (6.12)
<i>SIZE<sub>t-1</sub></i>	16.790*** (1.71)
<i>MTB<sub>-1</sub></i>	0.480 (1.42)
<i>R&amp;D<sub>t-1</sub></i>	-1.021 (19.36)
<i>HERFINDAHL<sub>t-1</sub></i>	6.814 (27.12)
<i>CASHFLOWS<sub>t-1</sub></i>	4.620 (19.40)
<i>LEVERAGE<sub>t-1</sub></i>	4.530 (11.01)
<i>LNVOTES<sub>t-1</sub></i>	11.958 (11.85)
<i>LNDIST<sub>t-1</sub></i>	3.273 (6.96)
<i>(LNVOTES X LNDIST)<sub>t-1</sub></i>	-1.711 (2.56)
Observations	1,216
Pseudo R2	0.053
Industry FE	YES
Year FE	YES

This table presents regression results of the CPA-Zicklin score on an indicator variable for the year a firm is involved in securities litigation plus the two following years. The dependent measure is the CPA-Zicklin score, from 0-100, and uses a Tobit specification. Standard errors clustered by firm in parentheses. \*\*\*, \*\*, and \* denote significance at the  $p < 0.01$ ,  $p < 0.05$ , and  $p < 0.1$ , respectively. One-tailed tests were used for variables with a prediction.