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Corporate Political Spending Information Disclosure Regime: Economic Consequences and Future Development

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A thesis submitted in fulfilment of the requirements for the degree of

Doctor of Philosophy in Commercial Law

The University of Auckland

2016
Abstract

This thesis seeks a better understanding of corporate participation in political processes and its role as well as potential in promoting corporate performance and reshaping political environment from the perspective of potential legislative interference – disclosure-based regulation on corporate political spending that requires this topic-specific information. Through theoretical and empirical explorations across disciplines, this thesis aims at forming a systematic anatomy of corporate political spending, bringing together facts and further rationales in an orderly arrangement. These results are intended to provide legislatures with more grounds for regulating corporate political participation. At the same time, the thesis is intended to raise awareness of deficiencies in corporate governance guidelines on political participation and expenditures. Accordingly, these findings shed light on objectives and corresponding instruments of future disclosure-based policy through a focus on corporate political spending and the formulation of guidelines for corporate governance of political participation and disclosure.

To achieve these objectives, the thesis begins by illustrating the upsurge of corporate political spending and the regulatory gaps in both public policy and corporate governance level. In addition, questions on the basis of this information concerning corporate political spending are addressed to provide the fundamental background. Based on the initial expository investigation, this thesis further investigates current practices of public policies on corporate public participations and disclosure, as well as existing corporate governance managerial guidelines on political spending and voluntary disclosure. Deepening the examination of rationales for corporate political participation and voluntary disclosure of this information, a theoretical analysis has been conducted to further unveil the mechanism of corporate political behaviour. It is followed by an empirical examination of responses from participants of entity markets to information on the possible passage of mandatory regulation on corporate political spending, as well as information regarding the political connection itself, on individual country cases.

The thesis, therefore, contributes substantively to policy debate on the introduction of transparency into corporate political expenditures, a debate which will help shape future policymaking about the interaction between private and public sectors. The outcome of this research will, among other studies, add theoretical and empirical support for rulemaking decisions on corporate political participation.
For Wenhui Qiao and Zhihui Feng
Acknowledgment

First and foremost I express my sincere gratitude to my supervisors Professor Susan Watson and Professor David Mayes, for their continuous support over recent years. They have guided me in the research and writing of this thesis with their great patience, motivation, and immense knowledge. I do appreciate all the opportunities they have offered me or have encouraged me to peruse. A heartfelt “thank you very much” to both of them.

Moreover, I want to thank so many people have helped me with this thesis. Thanks to Prof Randall Thomas and Prof Margaret Blair for invaluable comments in the beginning stage of this thesis. I also would like to thank Mr. Russell Greenwood and Mr. Philip Cook, who have kindly provided me with generous help with proofreading.

I gratefully acknowledge the funding sources that made my Ph.D. work possible. The China Scholarship Council has funded me for my four years study of this Ph.D., providing me with not just financial support, but also with kind guidance from Educational Counsellors. My special thanks go to Counsellor Yanchu Hu and Counsellor Dongbo Fang for their kind help all the time. My research was also supported by the University of Auckland Ph.D. research fund in 2014, which assisted me with research and internship with the United Nations Economic and Social Commission for Asia and the Pacific.

My time at Auckland was made enjoyable in large part due to the many friends who became part of my life. I am grateful for the time spent with friends, Cheryl Yang, Philip Cook, Connie Lu, Victoria Plekhanova, Ruilin Zhu, Smita Paul, Ying Huang and for many other people and memories. As for my stay in Bangkok, I have met so many amazing people. I want to thank Rémi Lang for being the great mentor at work and teaching me everything on ICT4D since the beginning with great patience. I also want to thank Tarnkamon Chantarawat for looking after me and showing me lots of the world beyond the office.

Last but not the least, I would like to thank my parents for never tiring of encouraging and supporting me in all my pursuits. Without their long-lasting support, I cannot imagine how I could have pursued my passion with so much freedom. The greatest thank you is owed to my supportive, encouraging and loving boyfriend Omid, who has always given me reasons to cheer. I want to thank him for encouraging me to do my best all the time and being the reason for it.

Thank you all for being in this part of my life.
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### Acronyms

<table>
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<th>Abbreviations</th>
<th>Description</th>
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<tbody>
<tr>
<td>CCP</td>
<td>China Communist Party</td>
</tr>
<tr>
<td>CPPCC</td>
<td>Chinese People’s Political Consultative Conference</td>
</tr>
<tr>
<td>CPS</td>
<td>Corporate political spending</td>
</tr>
<tr>
<td>CPA</td>
<td>Corporate political activities</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate social responsibility</td>
</tr>
<tr>
<td>FEC</td>
<td>Federal Election Commission of the United States</td>
</tr>
<tr>
<td>NPC</td>
<td>National People’s Congress of People’s Republic of China</td>
</tr>
<tr>
<td>PAC</td>
<td>Political action committee</td>
</tr>
<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on equity</td>
</tr>
<tr>
<td>ROI</td>
<td>Return on investment</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission of the United States</td>
</tr>
<tr>
<td>SOE</td>
<td>State-owned enterprises</td>
</tr>
<tr>
<td>SSF</td>
<td>Separate segregated fund</td>
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Corporate political spending and its disclosure: What it is and why it matters

Part of the concern in the debate on the growing amount of campaign expenditure worldwide is that “the cost of democracy”\(^1\) will keep increasing. Alexander Heard in his book *The Cost of Democracy* contends that problems with campaign finances emerged from the 1960s in the United States “because it costs money to conduct free elections”.\(^2\) The cost of democracy has become a widely accepted term that has been used in discussions about campaign finance in various contexts.\(^3\) During the continuing debate, not just the cost, but also the very nature of democracy has been questioned due to the role played by large companies and key industries in elections, and the influence of sizeable donations on policymaking processes.

Corporate political spending has become a concern not just for corporations and stakeholders, but also for the democratic system itself. Within the democratic system, public meetings and discussions are required with the aim of fully informing electors for them to make choices. However, this extensive publicity is costly. In quite a few cases, the state will cover all the costs and exclude the possibility of receiving any contributions from other sources, including the private sector. When funds can be raised from individuals, it is likely that much of the money will come from the rich or organisations, such as trade unions, business associations and corporations all of whom would expect to benefit from the election of politicians with views similar to their interests. Particularly, after the well-known US case, *Citizen United v Federal Election Commission*, making independent political expenditures as a right for legal persons has been extended from non-profit corporations to for-profit corporations based on the judicial ruling that the First Amendment also applies to legal persons.\(^4\)

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2 Ibid, at 14.
3 For example, see Alex Cukierman and Allan H Meltzer “A positive theory of discretionary policy, the cost of democratic government and the benefits of a constitution” 1986 24 Economic Inquiry, at 386, the “cost of democracy” was defined as “the loss of social welfare caused by the government’s pre-election activity and the public’s imperfect information”. Later, in the book by Bradley and Ewing, they uses the same term “the cost of democracy” to chart the evolution of party funding problems in the United Kingdom, see Anthony Wilfred Bradley and Keith D Ewing *Constitutional and administrative law* (Pearson Education, 2007), at 1.
With regard to the legal foundation, corporate and other large contributions or lobbying activities with strong financial support have raised the hazard of distorting democracy. To respond to this increased risk, some form of regulation has been required. It is common practice for countries to adopt laws and regulation from the perspective of the public sector to regulate campaign finance and lobbying spending. However, except in the UK, firms in most countries are not obliged to disclose information on corporate political spending and participation, or required to get shareholders’ consent to conduct such activities.\(^5\)

Stakeholders, such as shareholders, request the information because they hold stakes in corporate performance, as corporate political participation has become an important factor in performance, in their opinion. At the same time, shareholders may also have various opinions on methods and results of corporate political participation. Furthermore, electors are also watching the information on corporate political spending, as it is possible that this considerable amount of funds might jeopardise electoral equity. These concerns lead to a twofold discussion. First, it is possible that those who own the company (or part of it) may have differing views about the political participation. For them to act on their views, they need to know details on the actions and spending, which leads to the need for disclosure. Second, electors also have the concern that business with large financial power is able to corrupt equality in political processes. To ensure the integrity of their political rights, there is also a demand for disclosure from corporations on their political contributions.

A corporate political spending information disclosure regime is one of the widely argued legislative issues nowadays, a fact which has been recognised in this thesis. Improvement of transparency and regulation of corporate money in politics are critical for better corporate governance and political equality based on fundamental theoretical justification and contemporary practical implications.

Therefore, an attempt to track corporate money in politics through disclosure as discussed above has been made in this thesis. The recent series of legal changes is used as a setting to study potential feedback effects of corporate political spending disclosure on corporation behaviour. Specifically, this thesis analyses how mandatory disclosure interacts with voluntary reporting and corporate political behaviour at the firm level. Based on reframing the nature of corporate political spending as an implicit contract between the government and corporations, this study looks into optimal conditions in this implicit contract. The company’s political

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\(^5\) Companies Act 2006 (UK) c 7 §366.
activities are redefined to recognise potential obstacles as well as consequences of the legislative procedure of this mandatory disclosure. Based on reframing the theoretical analysis of corporate political spending, a concrete set of problems surrounding the optimal disclosure policy is discussed in the following chapters, with the aim of balancing efficiency and sustainability in the bilateral relation between government and business. This theoretical analysis is expected to enhance understanding of the mechanism of government-business relationships and corresponding disclosure policies. Given the diversity of institutional environments and variations of business-government relations, the next chapter also takes a detailed look into supervisory disclosures of corporate political spending in countries with various political systems as different case scenarios.

To anatomize corporate money and its role in political processes, Chapter One inquires into the basis of corporate political participation and corresponding expenditure. This initial expository investigation is followed by Chapter Two, introducing current laws, regulations and corporate governance guidelines ruling corporate political participation and related financial support, which provide a comprehensive review of current operative rule frameworks for corporate political spending. To deepen the understanding of the operation of corporate political participation and its mechanisms, this thesis also surveys literature across disciplines in Chapter Three, from the law through finance and economics to politics. Based on the literature review and further reflection, further discussion is conducted to look into the nature of corporate political participation, which has been reframed as actions building an implicit contract between the corporation and political parties in this thesis. This redefined concept helps to recognise potential obstacles as well as consequences of the legislative procedure of this mandatory disclosure on corporate political spending. With this redefined concept and discussion on a concrete set of problems surrounding the optimal disclosure policy, Chapter Four has adopted event study as the empirical method with which to examine responses of participants in entity markets towards potential legislative change on governance of corporate political participation and its information disclosure. To further the influence of institutional environments and business-government relations, the thesis includes the US and China as two case scenarios to show similarities and dissimilarities in the market reactions separately, in Chapter Four and Chapter Five. To complete the discussion, Chapter Six focuses on ethical concerns caused by corporate funds in policymaking processes. Together with previous discussions, the chapter develops and lists guidelines for corporate directors towards better practice in the process of corporate political participation.
1.1 Introduction to the research question

Money in politics always looks contentious to outsiders. Corporate political spending has been controversial since its very beginning as it shows corporations are attempting to shape government policy in ways favourable to the firm, by asking/being given patronage, which may be interpreted as quid pro quo. Therefore, it is common in practice to adopt various sets of regulations to oversee political finance and prevent malfeasance in office. Countries use at least some form of regulation, such as regulation of public funding, private donation bans and limits, expenditure prohibitions and limits and reporting systems to manage the size and potential influence of private funding.

Among all the regulatory measures, a sound set of disclosure arrangements is the most direct way to improve transparency and further accountability of democratic environments. The increase in corporate governance scandals and financial crises on a global scale has made more rigid disclosure requirements more important. Continuous information regarding the political activities of corporations is required. This on-going and increasing demand for developing a way of conducting corporate political activities with more transparency is well recognised by the public. Although opinion on corporate disclosure has basically reached a consensus that it is an important means of keeping their internal and external stakeholders, as well as other market participants and the general public well informed about the corporation. 

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7 For example, the Sarbanes-Oxley Act, introduced in July 2002 following the massive bankruptcies of Worldcom and Enron, which is also known as the “Public Company Accounting Reform and Investor Protection Act”/“Corporate and Auditing Accountability and Responsibility Act”, aims at improving the accuracy of financial information and the independence of the outside auditors as well as the oversight role of boards of directors. See Sarbanes-Oxley Act 15 USC 7201.


9 This opinion is supported by evidence from numerous sources, and discussion of several reasons why information disclosure can increase public listed firm’s value have resulted in a consensus. For example, the reduction of information asymmetry between insiders and outsiders of corporations can facilitate firms’ ability to issue securities and hence make the cost of capital lower. See: (1) George Akerlof “The market for lemons: Qualitative uncertainty and the market mechanism” 1970 Quarterly Journal of Economics 84, at 496; (2) Douglas W Diamond and Robert E Verrecchia “Disclosure, liquidity, and the cost of
the enforcement of mandatory disclosure regarding corporate political spending conducted by corporations remains controversial.

The two main questions that arose during debates are whether the payout and the recipients should be mandatorily made public and whether stakeholders, mainly shareholders should be empowered and included in the decision-making processes.\(^\text{10}\) It has been argued that it is in the interests of stakeholders to have access to the information on corporate political spending and to be allowed the right to vote on the decision. This controversy can be traced back to the role of corporate political activities (CPA) that has long been debated by both regulators and academics. On the one hand, financial market uncertainty may increase when disclosed news is unexpectedly negative (for example, when public policy risk turns out to be excessive). On the other hand, potentially adverse effects of the mandatory disclosure may discipline managers to reduce excessive spending or to diminish voluntary reporting. Given the current existence of voluntary disclosure of political expenditure on the corporate side, the priority of this corporate law reform seems to have become unsettled.\(^\text{11}\)

To launch an investigation into the unsettled questions, this chapter sets out the basic concepts and analytical structure as an initial introduction to the relevance of the corporate political spending disclosure regulation. Questions such as “what is corporate political


Outside investors will be less likely to trade the securities if other interested parties have privileged information, therefore the liquidity drops and the cost of capital increases. It is also empirically shown that better information disclosure can lessen the frequency of fraud and insider trading in the secondary share market, as well as under-pricing in the primary share market. Enhanced corporate disclosure is believed to mitigate the problem of agency conflicts between management and outside investors. See: (1) David Easley, Soeren Hvidkjaer and Maureen O’hara “Is information risk a determinant of asset returns?” 2002 The Journal of Finance 57(5), at 2185; (2) John R Graham, Campbell R Harvey and Shiva Rajgopal “The economic implications of corporate financial reporting” 2005 Journal of Accounting and Economics 40(1), at 3; (3) Paul M Healy and Krishna G Palepu “Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature” 2001 Journal of Accounting and Economics, 31(1), at 405; (4) Richard Lambert, Christian Leuz and Robert E Verrecchia “Accounting information, disclosure, and the cost of capital” 2007 Journal of Accounting Research 45(2), at 385; (5) Robert C Merton “A simple model of capital market equilibrium with incomplete information” 1987 The Journal of Finance 42(3), at 483; (6) Stewart C Myers and Nicholas S Majluf “Corporate financing and investment decisions when firms have information that investors do not have” 1984 Journal of financial economics 13(2), at 187; and (7) Kevin Rock “Why new issues are under-priced” 1986 Journal of Financial Economics 15(1-2), at 187.

\(^\text{10}\) For example, the petition requested by Lucian Bebchuk and Robert J. Jackson, Jr., see Lucian Bebchuk “Hindering the SEC from Shining a Light on Political Spending” (2015) Harvard Law School Forum on Corporate Governance and Financial Regulation <blogs.law.harvard.edu/corpgov/tag/rulemaking-petition-on-corporate-political-spending/>.

\(^\text{11}\) Since 2011, securities experts, institutional and individual investors, investor advocates and many Democratic lawmakers joined forces in a broad effort to get the SEC to require public companies to disclose their political spending. In late 2012, the issue was placed on the SEC’s agenda. But nothing happened, and, in May 2013, the newly confirmed SEC chairwoman, Mary Jo White, assured Republican legislators who opposed disclosure that the SEC was not working on a rule. In late 2013, the issue was removed from the agency’s agenda. Ms. White explained that the SEC had to focus on a host of overdue rulemakings required by Congressional legislation passed in earlier years. See Lucian Bebchuck “Fifty-Eight Members of the US House of Representatives Support the Rulemaking Petition for Transparency in Corporate Political Spending” (2015) Harvard Law School Forum on Corporate Governance and Financial Regulation <corpgov.law.harvard.edu/2015/10/26/fifty-eight-members-of-the-us-house-of-representatives-support-the-rulemaking-petition-for-transparency-in-corporate-political-spending/>.
“spending”, and “why its disclosure matters” and “how is it being regulated” are briefly drawn into the picture. In the next chapter, the background is expanded further into how legal systems regulate corporate political spending and disclosures. This introduction gives a more detailed description and analysis of the regulatory status quo of corporate political spending disclosure. With the legal framework set up, the nature and mechanism of the phenomenon are explored in the theoretical framework. Through the lenses of corporate governance, contract theory and information economics, more profound answers to prior questions are provided in Chapter Three. To examine propositions raised in the theoretical analysis, two examples with entirely different political and legal settings are presented, the United States and China. Using the gathered justifications, the thesis conducts a wider discussion on the ethics of corporate political spending.

Overall, this thesis adopts an exploratory approach to seeking the justification and potential significance of disclosure regulations on corporate political expenditure. By combining expository and evaluative approaches, this thesis reflects questions that are crucial to assessing the necessity, feasibility, potential impact and options for solutions of this regulatory petition, as below:

1. Nature of corporate political spending:

What is the fundamental cause of corporate political spending? How do political resources integrate with market resources and bring value to corporations?

2. Costs of disclosures of the implicit contract between corporations and governments:

When firms are having or are attempting to get access to more political resources, what will be the cost and benefit if information on the exchange between corporate resources and political resources are released accordingly?

3. The market reaction to the information:

What are market participants’ reactions to information about corporate political spending?

4. The optimal disclosure and the gap between current regulations provided and legislative changes advocated:

How are the current regulations set up and what is included and what is not? Is such topic-specific disclosure requirement necessary as part of the existing political spending disclosure system?
All the above questions are to be answered in the following sections and chapters. Question 1 has been initially set out in Chapter I and further explored in Chapter II and III, with answers to four fundamental questions – what corporate political spending is, why it is important, how it is being regulated and how this research is of use in tackling the challenges. In Chapter III, question 2 on costs of disclosure on the implicit contact between corporations and governments has been conceptualised in greater details. The theoretical framework has reviewed the conditions of the implicit contracts, its emergence and the nature of the exchange. The analyses have developed three propositions, which deepen the discussion on the implicit contracts, from perspectives of risks of the explicit contract between corporations and the government, corporations’ response towards the risks of the contract and the possible responses towards the information on the contracts. These propositions have also laid the foundation for further empirical analyses that have been examined with two countries’ data, namely the United States of America and the People’s Republic of China, in Chapter IV and V, not as representative but individual case studies on the de facto corporate political participation and its disclosure practices. For better understanding on question 3, the propositions have been converted into more testable hypothesis for the empirical studies, which have also focused on the three perspectives of the propositions for consistency purpose. Question 4 has been discussed in Chapter VI with an evidence-based approach following previous data and analysis.

1.2 What is corporate political spending?

While there is no standardised definition of corporate political expenditure, nor is there much disagreement on the definition either. Corporate political spending, in the wider sense, refers to corporate financial resources allocated to endorse political issues, which covers promoting parties and candidates in elections, supporting policies in referendums or initiatives and further party or organisational activities. Specifically, spending that occurred when a company was 1) making direct campaign contributions, 2) joining and supporting trade associations, 3) lobbying and the hiring of public officials, 4) advertising to move public opinion together with 5) grassroots advocacy promotions and further activities, such as supporting relative research on policy, initiating mass media participation, hosting social functions with officials and so on, can all be categorized as corporate political spending. Taking General Electric, for example, the company spent USD 3,540,000 on lobbying and USD 284,905 on political contributions in the fourth quarter of 2014. The recipients of the donation and the lobbying activities are partly listed in Figure 1.
General Electric Reported Political Spending
Q4 2014, in USD

![Pie chart showingGE political spending distribution]

- Implementation of FAA reauthorization law;
- Transportation/HUD appropriations;
- Private Activity Bonds for Water;
- SRF Program Funding, Water Infrastructure Financing Innovation Act;
- Water Infrastructure Finance and Innovation Act;
- Intellectual Property Rights;
- International IP Protection;
- HR 5233 / S 2267 - Trade Secret Protection;
- Adaptive Engine Technology Development;
- B-1 Bomber Modifications;
- CH-53K Helicopter Program;
- Combat Rescue Helicopter (CRH);
- Comprehensive Subcontracting Program (CSP);
- Defence Appropriations, FY 2015;
- F/A-18 E/F/G Enhanced Engine;
- FY 2014 Omnibus Reprogramming Request;
- Improved Turbine Engine Program (ITEP);
- HR 2728 – protecting States’ rights to promote American Energy Security Act;
- HR 3301 - North American Energy Infrastructure;
- HR 3760 - Expedited Liquefied Natural Gas (LNG) Exports;
- HR 580/ S 192 - Expedited LNG for America Allies Act of 2013;
- HR 6 - LNG Exports; Natural Gas Production; Nuclear Exports; etc.

Figure 1: The composition of GE political spending

In the example shown in the figure above, a company can spend millions of dollars of corporate money to parties/candidates and other politically related issues. It is commonly accepted that participants in politics aim to ensure better allocation of society’s scarce resources to their highest valued uses. Similar to other expenditures, corporate political spending also places expectations on the recipients, (potential) policy makers or lobbyists on certain policy projects. The reason the spending can happen is there is a demand or an existing opening. On the demand side, the political system is costing more due to the combination of market and political competition. On the one hand, although there is no confirmed evidence that participation in the political process increases corporate benefits, some corporations have stressed their obligation as corporate citizens to improve the external conditions which they operate under in order to improve their competitive position. On the other hand, the fiercer competition among political parties/candidates requires more resources to convey their political ideas and vision to the audience. As shown below, this contest also has made political campaign expenditure an expanding trend ever since representative democratic was widely adopted. In all Anglo-Saxon countries, election costs have been surging ever since that adoption. Except for trends shown in Figure 3, New Zealand’s election spending experienced a significant decrease in the 2008 election.

Law change matters. During and after New Zealand 2005 General Election, the issue of an anonymous attack advertising campaign raised the debate surrounding campaign finance. Election rules had specified that the public fund for sitting MPs for their parliamentary work could not be used for electioneering. Yet the report by the Auditor-General identified that most parties had “misused the funding”. In response, the Labour Government was hoping to tackle the problems by introducing regulations on “the third party” through the Election Finance Act 2007. The change in direct spending by party and candidate appears in Figure 3.

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13 At [2] per Heard, at 111.
14 As Allianz declared in their statement with regard to political engagement, “As a company headquartered in Germany, Allianz has a significant role to play as a German corporate citizen. We are committed to the country’s vibrant democracy, which has brought prosperity, freedom and justice to the German people for 70 years”, and in many other cases, corporations take political participation as part of their responsibilities as corporate citizens, see “Political Engagement” (2014) Sustainability at Allianz: Corporate citizen <https://www.allianz.com/en/sustainability/sustainability_at_allianz/corporate_citizen/political_engagement.html>.
Figure 2: Election costs in selected economies

Figure 3: New Zealand election expenses by party & candidates, 1996-2014
To meet the growing demand for campaign expenses, it is now common to raise funds from a variety of sources, including both private and public sectors. The general revenue funds are available as an option for political finance in some countries. Meanwhile, funding can also come from the private sector, party members or individual supporters. Organisations that share their political views or which stand to benefit from their activities are also making large political donations. Taking several countries for example (per Figure 4 below), corporation donation has become a significant part of political fundraising.

![Figure 4: Business-Labour-Ideology Split in Political Action Committee & Individual Donations to Candidates, Parties, Super PACs and Outside Spending Groups, US, 2000-2014](source: OpenSecrets.org)

In the context of the corporate system, political spending comes from different sources according to the regulations of the country (or area) in which the company started the business. In some parts of the world, political parties, candidates or associated organisations are allowed to receive direct donations from a corporation. This part of the expenditure is usually reported separately on the financial statement as part of the extended social responsibility. Meanwhile, in some countries, it is forbidden to use corporate funds for direct political contribution. For example, in the United States, the Federal Campaign Finance Law prohibits corporations from

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18 Taking Australia as an example, although there are difference in rules of the federal level and state, yet most states do not limit donations from private sectors, excluding NSW. More information can be found, “Financial disclosure” (2016) Australia Electoral Commission <www.aec.gov.au/parties_and_representatives/financial_disclosure/index.htm>.
using their general treasury funds to “make contributions or expenditures in connection with federal election”, yet there is always a way if there is a will. Corporations may establish Political Action Committees (PACs) or Independent-Expenditure Only Committees (Super PACs) to accomplish that will. A corporate or labour political committee, in US Federal Election Law referred to a “Separate Segregated Fund” (SSF), is established and administered to “collect contributions from a limited class of individuals and uses this money to make contributions and expenditures to influence federal elections”. Regardless of how the expenditure has been achieved, in this thesis corporate political spending refers to financial resources that have been relocated on politics-related issues, which may include but are not limited to:

(1) Costs occurred by direct participation in political processes, including campaign donations for supporting political parties/candidates and further policies they represented, as well as lobbying expenses for certain matters identified as essential to enterprise development.

(2) Costs caused by enriching corporate political impacts in external environments, such as hiring retired public officers, joining and supporting trade associations, advertising or advocating for promoting public opinions and further activities with this purpose.

Corporate political spending is not limited to economies of a particular type regarding the political system or executive structure, as long as the political organisations received financial or non-financial support from corporations requiring potential returns, which then can be counted as corporate political spending as widely defined in this thesis.

1.3 Why does it matter?

The increase in corporate political spending has also elevated concerns over whether it serves its goals. The effects of corporate political spending on improved corporate performance have been examined by numerous studies. For example, literature based on US public listed companies indicates that there is a significant effect of political connections on firms’ value. Boubakri summarises the relevant literature and finds that employment of politicians or politically tied entrepreneurs can improve the firm’s performance and increase vigilance.
against risks.\textsuperscript{24} Niessen and Ruenzi study German corporations and find that those with political connections out-perform their peers in book value and share prices.\textsuperscript{25} In 2006 and 2007, corporations with political ties clearly have higher returns on equity (ROE) and returns on investment (ROI).

However, corporate political participation has not always been an advantage. Liang and Feng, investigating private firms with political connections, find a tendency for those companies’ employment and payroll costs to be much higher than those of their peers, which indicates the possibility that these firms have been given extra tasks, such as increasing jobs and maintaining social stability.\textsuperscript{26} With the uncertainty of the return on expenditure, more shareholders and stakeholders have started questioning the expenditure and requiring more information regarding it.

In practice, some companies are already disclosing political spending voluntarily and making the disclosure regulation part of the inner control process. However, the information on corporate political spending has still been gathered mainly through disclosures made by political parties/candidates or organisations under regulations of election campaign finance, when certain requirements have been made.\textsuperscript{27} Since the existing election financial disclosure regulations are mainly serving the purpose of managing campaign donations though, it is not possible to get political spending information about a particular corporation without the massive and time-consuming effort of going through party/candidate-specific reports.

\textsuperscript{24} At [6] per Boubakri, Cosset and Saffar, at 39.
\textsuperscript{25} See Alexandra Niessen and Stefan Ruenzi “Political connectedness and firm performance: Evidence from Germany” 2010 11 German Economic Review, at 460.
\textsuperscript{26} See Laixin Liang and Yanchao Feng “Political Connection of Private Firm, Number of Employees and Labor Cost” 2010 10 China Industrial Economics, at 127.
\textsuperscript{27} It is the common practice that there are contribution limits from the election administrative bodies. For instance, the US Federal Election Campaign Act places limits on contributions by individuals and groups to candidates, party committees and PACs; individuals can donate to candidate committee a maximum US$2,700 per election, or PAC (SSF and Non-connected) US$5,000 per year, or State/District/Local Party Committee US$10,000 per year, etc. See: Federal Election Campaign Act, title 52, § 30116.
For our purposes though, let us first assume that the cost of collecting information would not be a problem for interested employees, shareholders and potential investors. From the last example of the United States Presidential election, information concerning the expenditure of donations received can be gathered on the FEC website, and meanwhile, the expenditure of corporate donations made can be found both on the FEC website and partly from the voluntary disclosure made by relevant corporations. Figure 5 shows the comparison of information disclosed by both corporations and political parties. The discrepancy between numbers from the two disclosure initiatives reveals two main possibilities. The first is that it is caused by the differences in minimum disclosure requirements separately for political parties and corporations. The second explanation is that it exposes the existence of misrepresentation for corporations to shareholders or political parties to voters.

As the Figure 5 indicates, and as further presented in a report published by Citizens for Responsibility and Ethics in Washington (CREW), “The Myth of Corporate Disclosure Exposed”, there are discrepancies between companies’ reports and the disclosed donations.

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29 The CREW report, released April 2014, compared the contributions disclosed on 8872 tax forms filed by political groups organized under section 527 of the tax code with companies’ self-reported political contributions, and found the discrepancies between the amounts companies voluntarily disclosed contributing and the amounts 527 organizations reported receiving to the IRS totaled more than $3.1 million, more details see “The myth of corporate disclosure exposed” (2015) Citizens for responsibility and ethics in Washington <www.citizensforethics.org/page/-/PDFs/Reports/4_15_2014_Myth_of_Corporate_Disclosure_Exposed_The_Problem_with_Political_Spending_Reports_CREW.pdf?nocdn=1>.
received. Some of the corporations have a clear policy of disclosing political donations. There was a difference between the amounts disclosed by political parties/organisations and those disclosed by corporations; usually, in this case, corporations disclosed less than recipients claimed. In some other cases, companies without any political participation policy or with the clear “no contribution” policy can be found making donations to political parties or candidates. As shown in Figure 5 and the CREW report, obvious discrepancies remain between the amounts corporations reported and what political parties and candidates disclosed. Shareholders who are excluded from the decision-making process and the information dissemination strategy may wonder why those discrepancies occurred.

Different disclosure requirements may have led to the differences between released and actual expenditure, especially the minimum disclosure standards. However, the image of discrepancies has a certain effect on the credibility of corporations and political players. It could even be an opportunity for embezzlement or other forms of corruption. When political competition overlaps business competition, the risk is magnified. A sound regulatory framework is essential for accountability of the system and good governance practice. Corporate-centred political spending disclosure ideally will incentivise the board of directors to carry out their oversight responsibility, and more importantly, be aware of potential risks, reputational as well as over noncompliance with spending and reporting requirements. As for shareholders and other outside stakeholders, this information may also potentially secure them the right to know and the chance to make better investment plans.

For this research, reasons why it matters can be categorised by democracy outside and inside the corporation. First, unrevealed corporate political spending may provoke political inequity and democratic corruption. Whether the effect is true or not, public opinion is that the corporations that have engaged in political spending “receive from the State the special benefits conferred by the corporate structure and present the potential for distorting the political process”. It is surely necessary to promote transparency by compelling some regulation of their political spending to avoid corruption or the appearance of corruption. There is also the risk that corporations can overpower the voices of other citizens who deserve no less constitutional rights or political protection than those with greater financial resources. Second, if political spending is undertaken without stakeholders being aware of it they will then be

30 Ibid.
unable to express their position and will be deprived of the opportunity to vote for/against the spending. Leaving shareholders and other stakeholders out of this decision may undermine fiduciary loyalty. It is obligatory that companies adopt a more dedicated and transparent approach to the management of their political giving.

The importance of political spending disclosure from the corporate side should not be underestimated, and yet how the regulation will increase the risk of corruption remains in question. It is reasonable and necessary to find the answer from the current legislations that regulate this part of political funding sources.

1.4 How it is being handled – Current corporate political spending and regulations

In the International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery, it is advised that:32

Undisclosed political contributions can be a source of abuse. Governments should regulate the conditions under which political contributions can be made. Where payments by enterprises to political parties, political committees or individual politicians are permitted by the applicable legislation, governments should enact legislation which ensures that such payments are publicly recorded by the payers and accounted for by the recipients.

Due to the differences in historical, cultural and legal development paths, countries have various experiences in handling this issue of modern democracy. The United Kingdom, Ireland, the United States, Canada, Australia and New Zealand share some similarities in their established Anglophone democratic systems. Likewise, countries with close geographical locations are easier to compare in terms of their practice in regulating corporate political spending. Taking the structural and institutional factors of political systems into consideration, the most significant challenges to each group with comparable contexts in corporate political spending and disclosure regulations are presented in the following chapters.

It is common practice to regulate finance by assorted methods in countries where financial donations are available as an option and access to participate in the political process. Campaign finance laws normally cover: (1) disclosure of contributions and expenditures with the aim of influencing outcomes of the political process; (2) limits and prohibitions on funds raised from

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certain sources; (3) the public financing of democratic processes, and (4) regulation of expenditures.

Table 1: Levels of regulation on political finance per country, by region

<table>
<thead>
<tr>
<th>Level of regulation in each country</th>
<th>Africa</th>
<th>America</th>
<th>Asia</th>
<th>Eastern, Central and south-eastern Europe and Central Asia</th>
<th>Western Europe</th>
<th>Anglophone</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>22%</td>
<td>11%</td>
<td>55%</td>
<td>0%</td>
<td>38%</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>Medium</td>
<td>53%</td>
<td>28%</td>
<td>5%</td>
<td>28%</td>
<td>33%</td>
<td>33%</td>
<td>38%</td>
</tr>
<tr>
<td>High</td>
<td>24%</td>
<td>61%</td>
<td>40%</td>
<td>72%</td>
<td>29%</td>
<td>50%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: International IDEA political finance database and the handbook.

As for the goal of campaign finance laws, it is the first priority to limit the external impact on the outcomes of political processes from wealthy individuals and special interest groups, especially during political campaigns. The main function of political campaign finance law is to regulate the spending and prevent the abuse of financial funding. As Table 1 and Figure 6 have shown, levels of regulation concerning this matter vary across nations. Due to differences in political systems, economic development and histories among countries, regulations on political finance are presented in distinctly different forms. Despite differences in contexts between countries, the major goal of campaign finance laws is still to keep misuse of public power from happening.

Regulation alone cannot solve the problem. Effective enforcement paves the way towards a solution. With increased political finance regulation, the realisation of objectives requires supporting institutions, such as management bodies and oversight bodies. On a regulatory level, how to lead corporations to conduct political activities with consideration for shareholders and citizens’ interests is the challenge that all countries have been facing.

Figure 6 indicates that public companies are still allowed by law to act as the primary source of private funding of political elections across nations, with the same status equally applied in other political activities. Public companies are allowed by law to participate in political processes by means of financial donations and hiring lobbyists, and they are usually willing to do so. In economies which do not permit direct donations, there can be another way to channel that spending. Due to the complexity of political systems, it becomes difficult to gather information on corporate political spending with the lack of disclosure from either corporations or their intermediaries. Consequently, if a concerned and dedicated shareholder...
wants to gather the information with regard to where the money comes and goes, she/he has to look up all information from the political parties/candidates/organisation side, which may mean a considerable amount of web page browsing and calculation. Moreover, she/he would nevertheless remain unsure whether that would be all the spending the corporation made on her/his behalf, which is supposed to be related to her/his financial interests as well as political standing.

![Graph of To political parties](Source: IDEA Political Finance Database, www.idea.int/political-finance/)

![Graph of To candidates](Note: the numbers indicate how many countries meet various descriptions)

Figure 6: The regulatory status quo across nations on private funding for political election

Source: IDEA Political Finance Database, www.idea.int/political-finance/
Note: the numbers indicate how many countries meet various descriptions
As indicated, the traditional focus of the campaign finance law is to prevent corruption, bribery, and abuse of public power. Political parties, candidates or organisations affiliated with them are required to disclose donations received as well as expenditure. The requirements are set to ensure the democratic system is run in compliance with the ultimate objectives of the society.  

In most countries with a democratic system of government where a head of government is elected, directly or indirectly, campaigns are organised to seek influence on the decision-making process within voters. During these political campaigns, financial disclosure requirements are commonly imposed to guarantee public access to financing data regarding campaigns. In New Zealand, all contributions in excess of disclosure thresholds for various bands must be filed as annual or election period financial disclosure returns with the New Zealand Electoral Commission and be made publicly available. The United Kingdom, Australia, Canada and other constitutional monarchies with a common law legal system root are currently deploying similar reporting systems. Western Europe is similar with some differences. In Germany, a financial statement is requested from each party by the President of the Federal Diet (Bundestag) on an annual basis. Subject to an extensive review conducted by the Federal Audit Office, the reports are published as legislative documents. In France, all candidates’ campaign accounts are audited by an independent administrative authority after the election. Moreover, independent individuals or associations are appointed one year before the election begins to handle campaign accounts, and simplified forms of these are published accordingly. Any candidate/organisation violating the accounting and disclosure requirements will face fiscal and criminal penalties in both France and Germany. In Israel, the State Comptroller’s Office conducts an extensive review of financial records concerning both contributions received and expenditures made during elections and makes it available to the public. In the United States, the Federal Election Campaign Act requires candidate committees, party committees, and PACs to file periodic reports disclosing the money they raise and spend. Candidates must identify, for example, all PACs and party

33 According to Buckley v Valeo, the US Supreme Court emphasized the society’s interest over the limits on free expression caused by the by campaign finance regulations in fighting against the “corruption and the appearance of corruption”, see more details from Buckley v Valeo 424 US1.
34 Electoral Act 1993, s 210C – s 210F.
35 Electoral Act 1918 (Cth) (Commonwealth of Australia), XX.4, and Canada Elections Act (Canada) S.C.2000, c.9, 18.
36 Federal Election Act 1993 (Bundeswahlgesetz, BGW, States of Germany), at 1288.
38 Federal Election Campaign laws (United States of America) §30101.
committees that give them contributions, and they must identify individuals who give them more than USD 200 in an election cycle. Additionally, they must disclose expenditures exceeding USD 200 per election cycle to any individual or vendor.

As different as laws across countries are, the common approach adopted in the campaign finance disclosures is to “disclose when donations exceed the threshold”. It is true that the transparency brought by the regulations is a way to reduce documented cases of corruption and raise the levels of trust and confidence in the political processes. However, this will not be the solution when it comes to the corporate context. First of all, ways of participating in political processes are not limited to campaign donations and lobbying; a law centred on these two activities cannot cover all the political activities of the firm. Second, the time-span of disclosure required by the campaign regulations is set to meet the requirement of elections rather than the demands of markets. Third, the oversight organisation is aiming to serve the goal in the public service domain instead of business context, where the regulations cannot be enforced well as they are in the public domain.

The gesture of making political donations or hiring lobbyists to move political issues is not just about “what is good for the company”. As one of the strategies of a corporation, participation in politics brings more than the increase in the market share and political risks. This fact induces more complexity in evaluating the implementation of the strategy. So far, there is no clear method of measurement to mark the expenses and income regarding corporate political investment.

Difficulties in qualification and quantification are not the only controversy in corporate governance. “The combination of explicit contract, the structural rules of corporate law and the fiduciary principle still leave much to discretion”.\(^{39}\) When the operative decisions go beyond the explicit contract, there is residual power left to be deployed or delegated. When it comes to decision making on corporate political participation, stakeholders may or may not benefit from this political investment, considering that interests of stakeholders related to the firm’s profitability and viability are potentially affected by the results of political participation. Here the question is, whether political spending should fall into stakeholders’ power range or within the directors’ delegated powers. With the acceptance of the reality that a single contract cannot possibly be written that covers every detail, this question is also about the boundaries of

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fiduciary duties and how much the information in the implicit contract should be required to be revealed beyond the corporate directors and managers.

With these questions raised under the scope of corporate governance, the thesis is developed based on these issues and beyond. Before rushing to the conclusion whether or not corporate political spending disclosure should be adopted, questions such as why and how it is needed will be first answered though the fundamental conceptual framework as below.

1.5 Conceptual framework of this thesis

As identified above, corporate political spending disclosure regulations have not yet drawn significant attention in legal and corporate governance research. The research so far has dwelt on the surface of the phenomenon and centres on introducing regulations without in-depth study and examination of the context of the phenomenon. This thesis is based on the existing research and aims to connect the dots and to expand our understanding of the nature as well as the potential effect of corporate political spending disclosures.

In contrast with the prior logic in research regarding corporate political spending disclosure, this thesis does not directly draw the conclusion that mandatory information disclosure is necessary, due to the fact that investors’ interests are involved, but rather follows up on this idea and conceptualises the spending as part of the nexus of contracts. A public company is considered as a single contracting party coordinating different parties, internal stakeholders and external interested parties, via a nexus of contracts which governs the rights and obligations of all contracting parties of the entity.

In 1976, Michael Jensen and William Meckling first developed the concept of the corporation as a nexus of contracts, which had been embraced in the prior new institutional economics by Ronald Coase. Coase suggested that firms exist as more efficient organisations

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40 A committee co-chaired by Lucian Bebchuk, Harvard Law School, and Robert J Jackson, Jr., Columbia Law School, submitted a rulemaking petition to the Securities and Exchange Commission (SEC), requesting that “the Commission develop rules to require public companies to disclose to shareholders the use of corporate resources for political activities.” Letter from Comm. on Disclosure of Corporate Political Spending to Elizabeth M. Murphy, Sec, U.S. Sec. & Exch. Comm’n (2011) [hereinafter Bebchuk Petition], available at <perma.cc/P75P-BAF5>. The other co-authors of the Bebchuk Petition are: Bernard S. Black, Northwestern University Law School; John C. Coffee, Jr., Columbia Law School; James D. Cox, Duke Law School; Ronald J. Gilson, Stanford Law School and Columbia Law School; Jeffrey N. Gordon, Columbia Law School; Henry Hansmann, Yale Law School; Donald C. Langevoort, Georgetown Law School; and Hillary Sale, Washington University in St. Louis School of Law.

41 See Reinier H Kraakman The anatomy of corporate law: a comparative and functional approach (Oxford University Press on Demand, 2009), at 13.


than the market because they endogenize and miniaturise transaction costs. Contracts reduce the cost of bargaining by making it frequent, while also specifying mutually agreed contingencies that might otherwise cause the deal to break down. Others, such as Jensen, Meckling and Myers, have elaborated Coase’s notion that the firm is a “nexus of contracting relationships”. Moreover, from the corporate law and governance perspective, Watson argues that the modern company became an “entity containing a fund with the board given decision-making rights over the fund and shareholders collectively over internal rules and board composition”. This understanding of the corporate law has focused the current research on interactions between corporations with the control power of boards of directors and external stakeholders.

The nature of the firm and the way it connects with other entities in the nexus is a fundamental question of this research. The internal corporate governance certainly is important to the operation of the firm. Shareholders are the ultimate owners of a limited company, yet their ownership does not equate to control of the company in many practical respects. Despite the rising pressure for increased shareholder participation, it is still the fact that management represents shareholders’ interests in daily operations due to its information advantage. Furthermore, although boards of directors are still considered as the centre of decision-making of the corporation, concern has been raised over how much discretion the board can have regarding political participation. Certainly, directors also may be guided by their personal preference when comes to politics, yet in this research, directors are assumed to be the loyal delegation who exercise the executive power in the best interests of the firm.

Moreover, other groups also hold stakes in the performance of the corporation, including but not limited to employees, creditors, suppliers, customers and governments, especially when corporate political participation becomes a potential determinant. It is possible that some of the stakeholders will react to corporate political participation, which will influence corporate performance. For example, due to ethical concerns or the nature of political support, customers may change their purchase decisions if they do not agree with corporate political preference.

44 Ibid, at 390.
Nevertheless, it is quite rare in reality that the degree of disagreement is so influential in directors’ decision-making processes that the director has to change the political participation strategies. Therefore, in the current external linkage between the firm and other entities, the firm normally appear to its outsiders as a whole or as a legal person due to consistency in corporate behaviour.

As shown in Figure 7, the internal decision-making processes of the corporation on management issues, including on corporate political participation, have been kept inside the corporation. During interaction with outsiders, the firm does not present itself with managerial sections, but is identified in a unified way as the corporation.
Based on the above theories and discussion, companies, in essence, are assumed to be an entity with the board of directors as the key decision maker, as shown in Figure 7. Endeavours made by corporate political activities may assist political parties or candidates with better policy advocacy to get elected, or certain policy changes to get implemented. However, no such changes will happen without equally fierce political competition. During the process, not only the strategic formation and implementation but also the decision itself – corporate political
spending amounts and recipients, are unknown outside the corporation. The information locked in the black box is the key to the following chapters.

Among all the bilateral contractual relations, government as one of the external stakeholders is the one with multi-fold influential power in the contractual system, which is also the fundamental reason for the occurrence of corporate political spending.

![Diagram showing the nexus of contract theory]  

**Figure 8: Corporation political activities under the lens of the nexus of contract theory**

As further developed and demonstrated in Figure 8, companies are always in interaction with outside stakeholders, such as creditors, shareholders, suppliers, customers, community and the government. Boards of directors, who represent the interest of firms, have been trying to deploy a wide range of possible strategies to gain an edge for firms in market competition, among which there are also strategies to exploit political resources. Moreover, in the nexus of these bilateral contractual relationships, some of which may be implicit and the power of each
contractor is not distributed evenly. Governments, by their very essence, possess more public influence than other institutions. As the controlling system of a country, a government is normally run by political parties to exercise the executive authority.

Within the nexus of contract, bonded by the contracts both explicit and implicit, contracting parties tend to perform as the contract stipulates, knowing that otherwise they will face penalties for breaking it. Nevertheless, they will still be motivated to advance their interests within the framework of contract by taking full advantage of every chance that is explicitly allowed or implicitly not forbidden in the contract.

If political contributions can be understood as part of the content of the rights and obligations bounded by contracts between corporations and political parties, and hence the government, the occurrence of corporate political activities (CPA) will change the dynamics of the whole nexus. Accordingly, the regulatory disclosure decision possesses a greater potential to cast an extensive influence on the dynamics of the contractual relationships within the nexus.

To re-illustrate this controversial topic, this dubious disclosure is explored in the long-term and dynamics of the nexus of contractual relations. Evaluation of this topic-specific disclosure requirement will be reviewed under the framework of internal and external environmental factors including political, legal, economic, social and technological analyses. In order to identify the roles corporations and Governments play in this implicit contract, political system, legislation status, socio-economic development and technology appliances in the political process are examined. In line with an empirical study showing market responses, this study evaluates the status quo and explores the potential impact of this disclosure regulation on the inner governance of corporations and external governance in the public domain. With the empirical studies in the following chapters on how information regarding corporate political study influences the decision making of investors and voters, more evidence concerning the value of the information will be unveiled.

1.6 Brief summary and perspective

The objective of this chapter is to set out the background of corporate political participation and expenditure, as well as the demand for this topic-specific disclosure requirement. The status quo of the main elements has been disassembled and put within the scope of corporate governance. The relationship between government and business, which lies
behind corporate political spending, has been a long-standing research question, though there are fewer studies investigating the connection as a contractual relationship, and even fewer regarding the contents of the contract between government and business. By considering information disclosed by corporations and political parties/candidates or required by the market, the rights and obligations of the binary parties in this contractual relationship are accessible to be observed, even including the implicit contract and its contents. With the efficient and practical influences that can potentially be applied to corporate political spending, this measure to improve transparency can be another way of preventing both market and Government failure at the same time.

The already existing campaign financial disclosure rules emphasise the transparency of returns and expenditures of the offices/officials. However, as demonstrated above, lack of political spending disclosure from the corporate side leads to increased risk of misconduct – for example, the gap between corporate donations claimed and party claims of what was received can be used as an opportunity either to abuse the power of public office or to abuse fiduciary duties. Regardless of differences in political systems, chances of corruption in public or private sector are not welcomed by the public. Moreover, traditional arguments underlie the implementation of corporate political disclosure regulation, such as the fiduciary duties for shareholders’ interests, or a market failure caused by information asymmetry, added to the justification for demanding the disclosure rules to a certain extent. However, the arguments by “analogy or expressive significance” cannot lead so easily to that conclusion.

Viewing this corporate political spending behaviour through the lens of entity theory, the incentives, conditions and challenges of building this implicit contract between corporations and political parties will be redefined and explicated in the following chapters. The potentially extended impact of this topic-specific disclosure requirement will have more solid grounds with further understanding of current related laws and regulations as well as market participants’ reactions towards the proposed legislative change and the information on corporate political participation.

This discussion of corporate political spending disclosure rules thereby contributes to a better understanding of corporate political assets, as well as how distant it is from corruption. Being aware of the potential problems and having procedures in place when they arise could

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constitute a crucial step in reducing the occurrence of corruption derived from the marriage of power and money. Additionally, taking political factors into consideration has become one of the necessities of everyday corporate operation; the study will also provide business with a clear view in terms of participation in the political process. A better awareness of the mechanisms behind the corporate political activities, the pros and cons of the strategy and the outcome evaluation may lead companies to better decision making.
The Law: Regimes contracting corporate political activities and their disclosure

*Each State Party shall also consider taking appropriate legislative and administrative measures, consistent with the objectives of this Convention and in accordance with the fundamental principles of its domestic law, to enhance transparency in the funding of candidatures for elected public office and, where applicable, the funding of political parties.*

*Article 7 (c) of the United Nation’s Convention against Corruption*

In this chapter, laws and corporate governance rules that regulate funding for political campaigns, expenditure on lobbying and other political processes involving companies will be analysed and summarised across nations. As one of the core activities of parties and candidates, financing has had a notable impact on party structures, party systems and political systems at large. With the participation of corporations, political campaigns have become a tangled and complicated procedure with interactions of interests that have themselves drawn widespread attention. Although the mandatory disclosure regulation of corporate political spending has not arrived at a global consensus, countries with various legal systems are ordinarily deploying campaign finance laws, lobbying acts or other regulations to oversee money in politics, including finance sourced from corporations. A thorough examination of existing regulations related to corporate political regulations from the public regulatory perspective provides valuable insights into the nature of the disclosure regulations over corporate participation in democratic processes and the effects of regulatory methods. In addition, having a comprehensive understanding of the current corporate governance rules and structures provides a clearer picture of how corporate political participation reflected in decision-making and is handled inside the corporation.

Measures requiring balancing the influence of interest groups with the law are not just essential to the equity of political processes, but information on the results of these interactive proceedings also matter to the stakeholders of corporations. The way the information has been required and how it has been disclosed to outsiders is the key to facilitating access to this topic-specific information for external stakeholders who are outside the decision-making processes. In the following part of this chapter, the anatomy of regulations on funds in politics will be
examined element by element. By looking at the corporations constituting the Global Compact 100 Index and the countries in which they are registered, the study surveys and summarises the results from two main perspectives: the external institutional environment and the corporate governance rules on corporate political spending. For the external institutional environment, different regulatory options are described, together with their applicability under the circumstances of corporations. Moreover, for corporate governance rules, the voluntary disclosure policies, or any items from the Code of Ethics currently being adopted by corporations to regulate political spending are also listed and analysed in this chapter.

These regulations and rules, especially in their disclosure perspectives, are also inspiring, and being added to, the growing research – and later on regulatory – interest in the subject of corporate political spending disclosure. In the theoretical dimension, the nature of corporate political participation and the potential impact of the disclosure regimes together comprise the research foundation of the thesis.

2.1 Corporate money in politics

Due to differences in historical, cultural and legal traditions, as well as the various degrees of transition to democracy and democratic consolidation, different countries have their own tactics and experiences in handling issues with regard to money in politics. For instance, as a formal decision-making process by which a population chooses public officials, elections cannot proceed without sufficient financial resources. In this process, it is necessary for political parties and candidates to get access to sufficient funds to promote the awareness of their political ideas and to receive public opinions. To reach the public and attract participation in the political process, political participants require adequate financing to facilitate campaign activities in electoral and democratic systems. Besides, under the governance of elected governments, introduction or amendment of policies and legislations are being made on a daily basis. Working with market intelligence, branches of governments are constantly facing interests expressed by various groups. Expenses may also occur due to the public-private partnership, lobbying activities or other forms of interaction with governments. In the following sections, the two major channels of corporations investing their money in politics – election campaign and lobbying activities – will be introduced separately.
2.1.1 Corporate money in election campaigns

During this particular process of political participation – election campaigns – corporations may also appear as participants. Unlike citizens who can participate in politics through voter registration, actual voting, volunteering and other activities to express their political opinions, corporations, as legal persons, can be seen joining in the process mainly through their financial support for political parties or trade unions who represent their own interests. Figure 9 displays these political processes in which corporations have been participating.\textsuperscript{50} Thus, based on documents provided by corporations themselves, corporations are joining in political conversations by offering financial and other forms of service to express their beliefs in politics.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{political_process_diagram.png}
\caption{The political process and corporations’ participation - election campaign as an example}
\end{figure}

As shown in Figure 9, each election cycle consists of two major phases, campaign and governance. Before the term of one administration ends, the common practice is for candidates

\textsuperscript{50} The political process is developed based on the model from, Otto Eibl and Anna Matušková “Introduction of the election cycle model: the case of the Czech Republic 2006–2007” 2007 9 Central European Political Studies Review (2-3), at 114.
to start the election campaign and convey their political ideologies to the electorate. Up till election day, resources are mobilised and concentrated on delivering political parties or candidates’ political ideas and arguments to reach out to potential voters through various media and methods, including their comments on the previous administration. After the election ends the new administration takes over and begins to fulfil its duty.

Some stages are essential to this process. Political parties compete to win office and hence the chance to put their political ideas into practice. However, whether they have this chance directly depends on decisions of voters. At the beginning of the election, political parties or politicians with different visions propose their respective administrative schemes and representatives are elected or appointed through diverse political systems to exercise power. After the election ends and the new administration is established, political visions proposed during campaign periods will be delivered through different administrative stages, such as government approval, policy/budget approval, policy consultancy, evaluation and adjustments. In this election cycle, it is unavoidable that collective or individual welfare will be changed, including corporate welfare. As entities with the ultimate objective of maximising their profit, corporations are making every possible effort to maintain or create the political environments favourable for the business. From supporting political groups with approving policy opinions to lobbying legislatures to adopt laws, corporations are actively involved in every stage of political processes, as shown in Figure 9.

To participate in the election and governance circle as above, corporations may adopt approaches according to features of each chance of possible adjustment. From the beginning of an election campaign, corporations can launch grassroots activities to express their or their employees’ opinions on public policy issues. For more direct support for a particular candidate of strategic importance, the company will use political contributions, to increase the chances of a candidate’s election. Following the new administration’s inauguration, the company may also urge support for specific legislative changes or public policy introduction through conducting lobbying activities. Besides this, information provided by corporations also will be valuable to policy-making processes through policy evaluation and when the government seeks consultations with market players. Through major methods as described above, corporations aim at the ultimately preferred policy environment with particularly preferred policies.
2.1.2 Corporate money in lobbying activities

The campaign process can be considered as cyclic over elections, yet can also be considered as a series of elections with long-term and continuous influence on policy-making mechanisms and external policy environment. Compared to corporate support for political campaigns, this is a more direct way to seek influence on particular issues of interest. Due to the uncertain time span of the policy change, lobbying activities appear to be more noncyclic than political campaigns. For an advocacy campaign, corporations may face a longer course in achieving the desired policy change. A lobbying campaign may start at any phase of an administration, which may also last longer than one term. The particular process is shown below in Figure 10.

![Figure 10: The political process and corporations’ participation, lobbying as an example](image-url)

As shown above in Figure 10, before the issue or the desired policy change is identified as a trend by stakeholders, the related phenomena must be able to display a repeated pattern – either in the form of an effect on corporate profits or on the rights of stakeholders. When the issue has raised sufficient attention, research on the issue and potential solutions will be
necessary. For corporations, it is crucial to evaluate the situation before conducting any lobbying activity, such as information with regard to the evaluation of the lobbying activity itself and other potential solutions, information concerning the related public body decision makers, the time span of the lobbying process and the existence and opinions of other lobbying groups. Besides, it will also be necessary to gather information on the targeted lawmaker before the lobbying. This could include the standpoint, voting records and other interesting areas of influence of the lawmaker. As shown in Figure 10, the following steps will be lobbying activities, proposing the plan, hearing(s) and vote(s) until the proposed plan becomes policy. Despite the difference in time spans, the optimal timing for corporations to participate in the political process is the time when an advocacy campaign starts to form, leading to the corporations having more control in developing it into desired policy changes. During this process, corporations may deploy the professional lobbyists to get in contact and negotiate with the lawmakers after a policy issue has been identified. In practice, some corporations have been disclosing lobbying spending voluntarily. However, there is currently no corporation providing further information on the outcome of the lobbying activities.

2.1.3 The operative complication of corporate money in politics

Although the long history of the interaction between companies and Governments goes back to the origin of the company,\(^{51}\) this interaction became inherent as the establishment of the business initially required Crown or State consent. Although in modern times corporations can normally be established through legal registration, yet a barrier to entry is highly related to conditions laid down by the law. As a special case, there is also a monopoly right granted by a government to a firm due to the public nature of products and services the firm is providing. Apart from these ties, records of corporate participation in politics can also be found more in political elections and legislative advocacy as described in the above two sections. Moreover, since public policies affect corporate profit increasingly in a governed market, corporations started showing more interest and more investment in political processes.

A good amount of donation or the employment of good lobbyists from the business community is hypothesised to have the stronger impact on the public policy environment. The understanding of exchange nature and potential benefits of corporate political donations as

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\(^{51}\) During the Mercantilism era, chartered corporations were established to promote governmental regulations of a nations’ economy. The progenitors of the modern companies, such as the Dutch East India Company, Hudson’s Bay Company and East India Company of London, were leading colonial ventures under the charter sanctioned by their government. See Kirti N Chaudhuri *The Trading World of Asia and the English East India Company: 1660-1760* (Cambridge University Press, 2006), at 22.
reasons for political inequality or potential outright corruption has brought increasing scrutiny by the public, legislators and scholars. Indeed, the growing influence of business on politics is truly worthy of notice.

The shared concern is that money in politics may work differently from the ideal blueprints of democracy, the rule of law, and other ideologies of individual political systems. Despite the indispensable role of funds in politics, they can also be spent to cast an undue influence on democratic processes. As Section 14 of the New Zealand Bill of Rights Act states: “Everyone has the right to freedom of expression, including the freedom to seek, receive, and impart information and opinions of any kind in any form”.

Surely corporate political spending is part of that expression. For an average voter, it is quite usual to be able to compete with a firm in terms of resources and networks available for expressing his/her political preference during electoral or legislative processes, partly due to limitations of individual capability, and partly because laws and regulations have given individuals lower maximum donation amounts. When that influence overpowers average voters, inequality will occur either because the information flow is heavily biased by the actions of a small group of people who may not be electors, or due to influence leads people to vote disproportionately.

Figure 11: Countries where there is prohibition on corporation’s direct donations to political parties
Source: International Institute for Democratic and Electoral Assistance Political Finance Database, retrieved in May 2015, www.idea.int/political-finance/

52 New Zealand Bill of Rights Act 1990, s 14.
To prevent a large amount of corporate funds casting an excess influence on results of these political processes, countries have adopted regulations and rules to oversee financing of electoral campaigns during political campaigns and lobbying processes. However, there are differences in the way business influences politics due to differences in the political/legal system, political goals and ways in which business can participate in politics under regulations. Due to these differences in the political systems and regulatory arrangements, money in politics works in various ways in different countries. Even among countries that share similar political or legal systems, political finance systems operate variously. As shown in Table 2 and Figure 11, corporate participation in political processes has been offered various forms of access during the election stage across nations.

<table>
<thead>
<tr>
<th>Region</th>
<th>Corporate donations to political parties</th>
<th>Corporate donations to candidates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Allowed</td>
<td>Banned</td>
</tr>
<tr>
<td>Africa</td>
<td>38 (74.5%)</td>
<td>10 (19.6%)</td>
</tr>
<tr>
<td>America</td>
<td>23 (67.6%)</td>
<td>6 (17.6%)</td>
</tr>
<tr>
<td>Asia</td>
<td>26 (70.3%)</td>
<td>11 (29.7%)</td>
</tr>
<tr>
<td>Europe</td>
<td>31 (70.5%)</td>
<td>12 (27.3%)</td>
</tr>
<tr>
<td>Oceania</td>
<td>12 (85.7%)</td>
<td>1 (7.1%)</td>
</tr>
</tbody>
</table>

Source: International Institute for Democratic and Electoral Assistance Political Finance Database, retrieved in May 2015, www.idea.int/political-finance/

It is usually the case that law reformers adopted political regulations on political financing as reactive measures after problematic situations or reformative recommendations offered with a variety of perspectives. This was the case with political finance laws. Taking the United States as an example, the phenomenon of corporations possessing influence in politics and campaigns can be traced back to President Theodore Roosevelt’s time, or even earlier.53

53 In President Roosevelt’s annual address to Congress in 1905, he proposed, “All contributions by corporations to any political committee or for any political purpose should be forbidden by law; directors should not be permitted to use stockholders' money for such purposes; and, moreover, a prohibition of this kind would be, as far as it went, an effective method of stopping the evils aimed at in Corrupt Practices Acts. Not only should both the National and the several State Legislatures forbid any officer of a corporation from using the money of the corporation in or about any election, but they should also forbid such use of money in connection with any legislation save by the employment of counsel in public manner for distinctly legal services.”
In response to President Roosevelt’s presentation for action, the Tillman Act was passed in 1906, which prohibits corporations from making financial contributions to any political election-related activities.\(^5^4\) Then in the 1970s, major laws, such as Campaign Finance Law and Ethics in Government Law were passed and amended to reform political campaigns and restore public faith in the wake of the Watergate scandal.\(^5^5\) To remedy the absence of enforcement by a government-level body from the last reform, the Financial Election Campaign Act established the Federal Election Commission to enforce the law and oversee the funding of elections.\(^5^6\)

Meanwhile, regulations in other countries are quite different. During and after the 2005 New Zealand general election, six political parties were investigated for alleged breaches of election spending rules.\(^5^7\) According to the report by the Auditor General, $1.17 million NZ (approximately 0.74 million US Dollars) was improperly spent. Upon the release of the report, some parties repaid the amount that the report said was spent unlawfully.\(^5^8\) The Labour Government insisted there was no misuse, yet new legislation was introduced to legalise the spending shortly afterwards. The Electoral Finance Act 2007 became the subject of a considerable amount of public debate since it was proposed. The reform included changes on campaign period, registration process, spending limits, and a disclosure requirement for third parties. Although the Act was repealed soon after the National Party took office, the current campaign finance rules have been developed based on the Electoral Finance Act 2007.\(^5^9\)

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\(^{54}\) The Act was signed into law by President Roosevelt in 1907 and the Act was provided as “An Act to prohibit corporations from making money contributions in connection with political elections. Be it enacted, that it shall be unlawful for any national bank, or any corporation organized by authority of any laws of Congress, to make a money contribution in connection with any election to any political office. It shall also be unlawful for any corporation whatever to make a money contribution in connection with any election at which Presidential and Vice-Presidential electors or a Representative in Congress is to be voted for or any election by any State legislature of a United States Senator. Every corporation which shall make any contribution in violation of the foregoing provisions shall be subject to a fine not exceeding five thousand dollars, and every officer or director of any corporation who shall consent to any contribution by the corporation in violation of the foregoing provisions shall be subject to a fine not exceeding one thousand and not less than two hundred and fifty dollars, or by imprisonment for a term of not more than one year, or both such fine and imprisonment in the discretion of the court.” See “The Federal Election Campaign Laws: A Short History” (2010) Federal Election Commission <http://www.fec.gov/info/appfour.htm>.


\(^{56}\) The Federal Election Campaign Act of 1971 2 USC § 431 et seq., and Ethics in Government Act 5 USC.

\(^{57}\) Advertising expenditure incurred by the parliamentary service in the three months before the 2005 general election, full version see “Advertising expenditure incurred by the parliamentary service in the three months before the 2005 general election” (2005) Controller and Auditor-General New Zealand <www.oag.govt.nz/2006/election-spending>.


\(^{59}\) For example, the 2010 legislation also included a modernized definition of “election advertisement” intended to be media neutral, with various exceptions applying. In addition, there are registration requirements for “promoters” who wish to spend more than NZ$12,000 on advertising that encourages a vote for a particular party. Registered promoters are “subject to stricter disclosure requirements to ensure greater transparency of those spending large amounts on election advertising.” Such promoters are able to spend up to NZ$300,000 during the regulated campaign period, which will generally be around three months prior to the election. All election advertising must include a promoter statement that includes the name and address of
Moreover, the United Kingdom, Germany, Australia, Russia and other countries have adjusted the campaign finance rules according to the current changes.

Furthermore, as external conditions change, how corporate political spending operates under the law varies. In studying the legal environments for corporate political expenditures, two main aspects are taken into consideration. First, further research will include structural and institutional factors of the political finance regulations in the political system; for example, differences in electoral systems, or presidential and parliamentarian procedures in terms of suitability and effectiveness. Second, the particular challenges of each country require being reviewed in dynamic contexts when it comes to money in politics. Uneven playing fields, lack of political will to pursue reform and the existence of criminal networks may all constitute the unintended effects on corporate money in politics.

In addition, significant challenges to political finance regulation from the level of openness or authoritarianism are also taken into consideration. Given there were no strict rules as required, the blurring line between the ruling party that is currently in government, governments and the State makes the enforcement serve the regulatory goals differently. For example, funds raised during political elections are aimed to support political parties and candidates to deliver their policy visions and campaign messages to mass voters. Assuming the fund would help with the chance of winning elections, the government of the State would consist of elected parties and candidates with the assistance of campaign funds, and potentially with influence from donors. Moreover, government agencies that are going to oversee the campaign financing are also normally formed and supervised by officials elected through elections. This continuous cyclical arrangement may entirely exclude the chance for independent institutions to enforce the regulations. Campaign finance law and lobbying law are enacted by the legislatures of the country and enforced by the governmental agency that is in charge of the election issues. Therefore, the major consequence brought into political finance is the lack of political motivation to control money in politics, followed by a lack of reforming legislation to suit the context, lack of independent enforcing institutions and enforcing resources.

With a step back and a look at the political systems, the ability of wealthy individuals or group interests to influence politics has brought quite a challenge to the network. The overlap of business interests and policy development goals may prepare the road for an influx of illicit

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the promoter. See Electoral (Finance Reform and Advance Voting) Amendment Act 2010, 204K.
funds into politics. With access to political assets, business leaders have a greater chance of sitting down with politicians. There is no guarantee that these political assets will not be turned into an abuse of state resources when the politicians hold public offices without proper legal constraints.

In the following section, current laws, regulations and corporate governance rules are thoroughly reviewed. From the anti-corruption perspective, the campaign finance law or lobbying disclosure law play the role of curbing campaign donations by disclosing information on donor identification, donation size and purpose/usage of funds to the public. On the other hand, from the corporate governance perspective, current legislation is also shaping corporate political behaviour. Accordingly, this study looks into countries and companies constituting the Global Compact 100 Index as a sample. On studying these companies and countries which are considered as examples in the adoption of good practices in anti-corruption and sustainable development, a comprehensive analysis framework of corporate political spending regulations will be provided as the foundation for this research.

**2.2 Laws regulate corporate money in politics**

As described above, despite the absence of topic-specific regulations on corporate political spending, countries in the sample usually deploy at least some form of the rules on money in politics, including corporate money. The survey of provisions from sample countries reveals that the main regulations overseeing money in politics, including funds from corporations, are embodied in the regulation of political parties and in election acts. The common method is to control funding sources from the political party side, in which manner the access of participation into political processes for all is being managed.

As briefly demonstrated in Figure 12, from the corporations’ side, regulations on corporate political participation activities are mainly from the public domain. Corporations take part in policy-making processes, and hence under the corresponding regulations, when political processes are open to private-sector entities. The two major methods for corporations to express their points of view concerning politics by using financial resources are, first, through making political contributions to political parties or candidates and, secondly, by hiring professional lobbyists or advocating grassroots lobbying activities. Accordingly, corporations may only engage in these activities according to the law in the particular context.
Figure 12: legal environment for corporate political participation in brief

Corporations are regulated by different laws according to the various political activities in which they participate. For election campaigns, constitutions, political party laws and campaign finance laws define the access and possible scope of activities for corporate participation. Regulations cover whether business interest can interact with political parties, as well as how much and from which particular funds financial support can be provided. For lobbying activities, there are also lobbying laws regulating conditions and terms under which corporations can participate, and how disclosures shall be made to the public. As for corporations themselves, they are also bound by corporate laws, which regulate the governance, finance and power of corporations.

In the following part, the commonly used regulatory methods on corporate political participation will be examined and summarised based on the survey examining relevant legislation from “home countries” and corporate governance rules of the GC 100 Index constituents. In this section, with the objective of a better understanding of the laws governing
corporate political behaviour, a further step is taken to study the legal environments of countries from which the Global Compact constituent companies first originated. Moreover, based on the general analysis of the political and legal system of each country, the regulatory mechanisms of corporate political finance – especially the part of the rules offering standards for corporate political participations, are given a comprehensive breakdown.

### 2.2.1 Brief introduction of the institutional environments of sampled countries

Whether and how corporations can participate in political processes have both shaped the law and been governed by the law. What is more, challenges and legal situations in each country, together with the ultimate objectives of the regulations, are the driving forces to reshape political and legal conditions under which corporations operate. Political finance has been regulated to corresponding with the demands of a country’s political goals. The status of politics and the organisation of politics and elections may vary, but the answers to what is the nature of the political parties determine the basic settings of political goals. Considered as private entities, political parties and candidates shall be given due protection from unnecessary outside interference, because of their role as grass-root organisations supporting political ideologies and participation. Therefore, their finance is accordingly considered as the concern of the entities. On the other hand, no matter how governance is arranged as separation of powers, political parties or candidates are much closer to government administration than average outsiders are. Therefore, political parties and candidate campaigns have been regulated almost as much as government bodies, including their interactions with other entities.

As described in the previous section, corporate political activities are regulated according to assorted methods which corporations may adopt. With various emphases on the major regulated targets from different laws and regulations, the regulatory practice may also vary under different jurisdictions. However, according to survey results from the sampled countries, there still are some features in common. First, whether corporations can participate in political processes largely depends on the political system of the country and the structure of political competition. Second, how and to what degree corporations can participate is partly organised and monitored according to laws and regulations on political parties and lobbying acts, through for example, the structure of funding (including public funding) for political parties during election periods. For other channels of participation, corporations may also face regulations and rules specifically. Third, to prevent malfeasance in practice, disclosure regulations or further criminal laws are also deployed to monitor and rectify inappropriate conduct, yet most
countries only require information from the political parties, or lobbied office. Cases are distinguished from one another with their regulations on funding sources among countries of origin for GC100 companies. Two main features, legal origins and political system will be briefly introduced as below, more details can be found in Annex 3.

**Legal origins**

Historical, cultural and legal traditions have formed the macroeconomic environments in which corporations are operating. As pointed out in the series of studies begun by Rafael La Porta, Andrei Shleifer and Florencio Lopez-de-Silanes (LLSV), the influence of legal origins on the laws and regulations has lead to a disparity in procedural formalism, judicial independence, regulation of entry, government ownership of banks/media and business laws.  

The differing nature of legal origins has formed various operational mechanisms in societies. “Common law stands for the strategy of social control that seeks to support private market outcomes, whereas civil law aims to replace such outcomes with state-desired allocations.”

Are the “policy implementing” civil law and the “dispute resolving” common law shaping corporate political participation behaviour?

Despite the differences in corporate decisions and behaviour regarding political participation, surveyed companies from different countries have shown certain similarities when their geographic locations are taken into consideration. Among the GC 100 Index constituents who are found to be participating in political processes, self-disclosed or from other sources, 47 percent (23 out of 49) are from countries with English common law origin. Meanwhile, proportions of companies from countries with German civil law, French civil law and Scandinavian civil law origin are respectively 20 percent, 20 percent and 13 percent. From this distribution, it is challenging to deduce whether the behaviour of corporate political participation is nurtured more by the “policy implementing” tradition or the “disputing resolving” tradition. When looking at companies without definite political participation policy (43 out of 100), 84 percent (36 out of 43) of companies are from countries with civil law origins. As for countries, the legal conditions for corporate campaign donations are demonstrated in

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60 See Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer The economic consequences of legal origins (National Bureau of Economic Research, 2007), at 13.

61 Ibid, at 286.


63 The method is following the LLSV’s category system, at [60] per LLSV, at 16.
Among the eighteen countries surveyed, it seems that more countries have allowed corporations to conduct direct campaign donations across countries with various legal origins.

Figure 13: Legal conditions for corporate donations to political parties in surveyed countries (GC100 constituents) with various legal origins, 2015

Besides, countries where companies are operating also matter. All 49 companies with political participation records have been spending in the United States. Corporations are prohibited from supporting political parties and candidates with their corporate treasury funds during the election in the United States. However, it is the common practice that corporations have affiliated political action committees (PACs) to raise funds from individuals, generally consisting of managers and shareholders. Apart from US companies, branches of multinational enterprises in the US have also set up PACs to endorse political parties or candidates. 64

The validity of legal origins theory on the matter of corporate political participation is challenged by the growth of multinational enterprises in a globalised international society. “When in Rome, do as the Romans do” is a more appropriate description of this case. The legal origin of the home country may have shaped the fundamental philosophy of corporate management. 65 However, as emphasised in their relevant policies, companies owning or controlling the production of goods and services in one or more foreign countries other than their registered countries are operating in compliance with local and applicable laws, rules and regulations. Regardless whether it is due to the competition with other companies in that

64 For example, a France-origin Alcatel-Lucent, S.A. has claimed “Alcatel-Lucent does not directly spend corporate money on political contributions. Our employees in the United States have formed a voluntary political action committee (PAC) through which political contributions were made in 2014 to candidates for federal and state office. The Alcatel-Lucent USA employee PAC operates in accordance with all U.S. federal and state laws and regulations.” See “Anti-corruption compliance program” (2015) Alcatel-Lucent <www.alcatel-lucent.com/sustainability/anti-corruption-compliance-program >.

65 At [9] per Leuz, Nanda and Wysocki, at 521.
country or due to obedience to international law,\textsuperscript{66} laws of “host countries”, together with “home country” laws, bilateral and multilateral treaties, regional regulations or directives and international standards and certifications, are having a salient influence on corporation political participation behaviour. In that way, the “origins” as determinant will be taken into consideration with more contexts.

\textbf{Political Systems}

The law cannot function without political procedures. The political system is the fundamental determining factor for corporate political participation. Laws draw boundaries of legitimate behaviour, and political systems pave the way to make corporate political spending a reality. The Parliamentary or Presidential form of government determines the distribution of political power, and in the meantime, the process of elections. Taking the UK and the US as examples, US citizens can elect members of Congress (the legislature) and the President (the executive) separately with the constitutional separation of powers. While in the parliamentary democracy of UK, the Parliament is elected through general elections every five years.\textsuperscript{67} The government (the executive) will be formed by the party that wins the majority in the parliament except when the second and third largest parties could combine and exclude the largest, but this is not a common case. In that way, companies are facing different “entry barriers” and “steps to goal achievement”. Among countries (GC 100 Index constituent countries) where corporate donations are allowed, 20 out of 23 are parliamentary sovereignties. However, within the five countries where direct corporate donations are prohibited, apart from Canada, the rest are all presidential sovereignties.

As for electoral systems, Figure 14 indicates that corporate campaign donations are allowed or prohibited in countries with various voting systems. Among all the countries, countries with proportional representation take up more than half of the sample, and corporate campaign donations are all allowed in these countries. For countries with binomial, first-past-the-post, majority vote, mixed and segmented voting systems, fewer cases are needed to read the pattern.

\textsuperscript{66} “The salient features of international law are relatively simple: companies operating internationally are subject to bilateral and multilateral treaties ratified by nations involved in global trade, and also are subject to the specific laws of the host countries where they operate”, See James O’Toole and Don Mayer Good Business: Exercising Effective and Ethical Leadership (Routledge, 2013), at 159.

\textsuperscript{67} A general election normally occur five years, unless the two provisions have been triggered, which leads to a four year interval. See General election, UK Parliament (last visited May 2, 2015) <www.parliament.uk/about/how/elections-and-voting/general/>. 
Formal political institutions vary when it comes to the process of electing leaders, the structure of authorities and distributions of power. Deeply rooted in historical, cultural and legal environments, how the political participation or representation is organised has been affected by the philosophy of laws from each country. Under different circumstances, corporations have been nurtured to develop various strategies to maximise their competitive advantages. Despite the fact that there is only one corporation originally from China (China Vanke Co. Ltd.) in the sample, it presents the common practice among Chinese enterprises - no policy or comments on political contributions. From a single-party state, corporations have been participating in political processes by other means apart from making donations to support political campaigns. 68 The above samples show that in countries with parliamentary constitutions, there are usually more preferably legal environments for corporate political donations.

According to Downsian theory, voters exercise control over public policy, at least the broad shape of it.69 However, it is debatable whether corporations can fit the character as an investor, yet patterns of power distribution among branches of government and the degree to

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68 For example, some executives of corporations are widely noticed as members of the National People’s Congress and the National Committee of the People’s Political Consultative Conference, who also join the annual sessions to participate in the political discussion. See Scott Kennedy The business of lobbying in China (Harvard University Press, 2009), at 245.

which the power is separated do offer corporations divergent incentives and ways of access to political decision-making sessions.

Derived from legal and political frameworks as above, the power distribution becomes more discernible in the form of government-business relations. Power exists in each individual and in every relationship. Usually, with consensual power and sometimes by force, power grants the ability to a group to get another group/s to take some form of the desired action.\(^\text{70}\) In one economy, governments come with different degrees of intervention and quality. Therefore, the interactions between government and business have been shaped into different patterns. With interventionist governments, corporations may be left with less negotiation power and space on the policy matter. Regardless of in “home country” or “host country”, companies are more willing to elucidate their attitudes towards political participation. Compared with the Index of Economic Freedom 2015\(^\text{71}\), however, there is no clear relation between the economic freedom level and regulations on corporate political spending. All countries with prohibitions on direct corporate political donations have an index above 60, which indicates the possibility that corporations tend to seek a relationship with governments where there are more interventions on economies.

Furthermore, in the following section, how laws and regulations have been developed under these institutional environments will be more closely examined. Common regulatory practices of regulations on corporate political participation are presented in details, specifically, on two topics, regulatory bodies and regulatory bodies.

\textbf{2.2.2 Common regulatory practices of regulations on corporate political participation: Public law perspective}

Based on the ideologies of each country, different management mechanisms have been deployed in practice. The regulatory rules for corporate political participation, such as the regulatory bodies and statutory rules, have been governing the environments for corporations’ decision-making concerning political issues. This section considers the details of the laws of each country, and examines how corporations are regulated in reality.

\(^{70}\) See David Holmes, Kate Hughes and Roberta Julian \textit{Australian sociology} (Pearson Australia, 2014), at 382.

Regulatory bodies

For election-related regulatory bodies, G. Goodwin-Gill summarised in *Free and Fair Elections: International Law and Practice*, the administrative duties of an election management bodies should be:72

- compilation and update of the voter’s register, or list
- delineation of the constituency and other boundaries
- promotion of civic and voter education
- registration of political parties
- registration of candidates at elections
- organisation of elections
- training of election officials, political parties and candidates
- printing of ballots
- procurement of equipment, and so forth
- monitoring expenditures of candidates
- determining complaints, disputes and challenges.

From the research into the regulatory status of sample countries, it is also the duty of the election authorities to monitor the donations received by political parties and candidates. For instance, Election Commissions from the United States, the United Kingdom and Australia provide information on donors, according to the disclosure requirements from laws. Corporations are also often required to file the donation information with the authorities where corporate donations are allowed.

As for corporate political participation processes, management bodies may take any of several different forms. According to the research into the GC100 Index constituent home countries, management bodies may be election-related/non-election-related, temporary/permanent, judicial/governmental, partisan/partially-partisan/non-partisan, centralised/decentralised, or a mixture of these types. Regardless of the kinds of regulators, the primary responsibilities of the organisation are administration and supervision concerning election and other political processes.

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72 See Guy S Goodwin-Gill *Free and fair elections: International law and practice* (Inter-Parliamentarian Union, 1994), at 52.
Besides, as another major method for corporations to participate in political processes, lobbying activities, professional and informal, have been facing increasing attention and regulation. For example, in the United States, the Secretary of the Senate and the Clerk of the House of Representatives must accordingly undertake administrative and supervisory duties to oversee lobbying actions. 73 Furthermore, the Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014 of the United Kingdom also requires registration and regular reporting to the Office of the Registrar of Consultant Lobbyists. 74 In other cases, election and lobbying activities are under the administration and supervision of the Ministry of Interior or other governmental departments.

The organisation structures of the regulatory bodies do have an impact on the availability of information regarding corporate political activities. Certainly, the establishment of regulatory agencies and the disclosure requirements are fundamentally requested by relevant laws. However, according to the sample, with a permanent regulatory agency, information concerning corporate political donations or lobbying activities is regularly disclosed. On the one hand, an ongoing regulatory body can guarantee the due diligence to devote to the management of the political process. More detailed and newly emerged demands from voters or other participants can be met in a timely fashion with accumulating experience. On the other hand, consistency in policy and supervision is more ensured with a constant regulatory organization. Therefore, the availability of corporate political participation information is closely related to the organizational structure of the election systems.

73 Lobbying Disclosure Act (US) 2 USC 1605.
74 Transparency of Lobbying, Non-Party Campaigning and Trade Union Administration Act 2014 (UK) II c 1.
Ensuring that legislation achieves the expected outcomes often requires monitoring by some public body. The common practice is to introduce an independent third party, such as auditors to evaluate how political parties/candidates are compliant with legislations based on their investigation and information provided. Meanwhile, the focus and scope of supervision as well as public access to audit results and introduction of sanctions in practice are also important determinants to ensure the regulatory goals.  

**Regulatory items**

Although part of the political campaign is publically funded, the vast promotion of their ideologies through mass media may require more financial resources. Facing ever fiercer competition, the demand for funding for political parties and candidates has increased over time. This demand has been attracting donations from various entities, including corporations. By reviewing legislation on the demand side, the opportunities and the actual methods can be exposed to more detailed assessment.

**Duration of official campaign**

Official campaigns last for assorted time spans in the countries surveyed. In the United Kingdom, the “long campaign” of the General Election starts from mid-December of the year prior to the election before Parliament’s dissolution, and about four weeks before the election starts the “short campaign” begins, when tighter restrictions apply. In the United States, the campaigning of candidates running for the President Office officially begins in January of the election year, which is ten months ahead of Election Day. However, candidates usually announce their candidacy position as much as one year ahead, followed by the exploratory committees, fundraising and book writing. In Australia, federal election campaigns normally last approximately six weeks, while, in France, the Presidential campaigns open twenty days before the first ballots. Nevertheless, there is no limitation on the duration of election campaigns in the federal law. The announcement of the date of election normally takes place six months before the election.

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75 For European countries, see Yves-Marie Doublet “Fighting Corruption: Political funding” Group of States against Corruption <www.coe.int/t/dghl/monitoring/greco/general/DOUBLET_EN.pdf>.
Ceiling on campaign expenditure

Among countries surveyed, France and the United Kingdom have imposed expenditure ceilings on the elections. From 2001, there has been a limitation on expenditure of political parties on national campaigns at a general election. Based on how many seats a party contests, the limits for candidates running in 2015 are permitted up to GBP19.5 million, which is equivalent to GBP 30,000 for each constituency. In France, the restriction for candidates for
the first run is EUR16 million, and EUR 21.59 million for the two candidates reaching the second ballot.\textsuperscript{77} However, Australia and Germany do not have such ceilings.\textsuperscript{78}

For most countries surveyed, public funding is an available option for political parties, normally coming with total funding limits or calculated by valid vote numbers within the area. For example, in the United Kingdom:\textsuperscript{79}

that maximum amount is – (a) for a candidate at a parliamentary general election, being an election, (i) in a county constituency, £7,150 together with an additional 7p for every entry in the register of electors and (ii) in a borough constituency, £7,150 together with an additional 5p for every entry in the register of electors; (b) for a candidate at a parliamentary by-election, £100,000.

The demand side regulations serve as a sluice in the political financing. Spending caps on political parties and candidates’ campaigning are a final control over the issue of how many resources can be allocated to the political election and how much influence from other interests can be allowed in the election. However, how much a particular other interest can have in making an impact on the political process depends on the supply side regulations.

Sources of contribution

Countries from the sample all allow contributions from physical persons, apart from China. It is the common practice that upper caps and disclosure requirements apply to these donations. Australia permits unlimited private donations, yet they are subject to disclosure requirements.\textsuperscript{80} In the United Kingdom, registered individuals are limited to making donations more than GBP 200 to political parties and GBP 50 to candidates.\textsuperscript{81} Apart from individuals, electoral campaigns are also open to donations from various domestic entities.

Besides, for other sources of campaign funding, such as foreign donations and anonymous donations, there are also various limitations and disclosure requirements. Moreover,
the contribution may also come in forms of sponsorship, loans, membership fees, to name but a few.

**Contribution amount limit**

Unlimited contributions to candidates and registered political parties are allowed in countries with compliance with various disclosure requirements. In Canada, for example, all contributions of more than CAD $5 must be “included in the public reports of finances of political parties”. 82 In Australia, the “current disclosure threshold amount from 1 July 2015 to 30 June 2016 is more than AUD $13 000”. 83

Income limitations, as one of the important methods of public finance regulations, control how much influence of other participants can be included in the processes.

**Public campaign finance disclosure**

All countries, except Switzerland, 84 have explicit financial disclosure rules requiring political groups to submit financial reports to a particular electoral management body, usually on an annual basis. It is the common practice that these reports may face a review of authority audits and may be made publicly available.

However, not all records can be accessed by the public. There are usually disclosure thresholds applied to donations received by parties and candidates. With a high threshold, information available for average voters mainly concern top donors and potential heavy influencers.

The supervision and implementation of disclosure regulation vary among countries. In some countries, such as Germany and Australia, grave violations of accounting and disclosure requirements may lead to stringent fiscal and criminal penalties. Meanwhile, in some newly transformed democracies, like Indonesia, political parties or candidates must submit a financial  

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84 “Political parties and election candidates are under no obligation to communicate or publish either their regular or their campaign accounts. According to the replies to the questionnaire, publication requirements under the obligations code only apply to the annual accounts of certain companies, particularly public limited companies quoted on the stock exchange. Accounting documents of political parties are therefore never subject to publication in Switzerland”. See Group of State against Corruption “Evaluation Report on Switzerland, Transparency of Party Funding” (2011) Group of States against Corruption < www.coe.int/t/dghl/monitoring/greco/evaluations/round3/GrecoEval3(2011)4_Switzerland_Two_EN.pdf >.
statement regarding public funds. However, whether the party-oriented disclosure can tell the whole story and guarantee due accountability remains in question.

Clearly, as analysed and with more details provided in Annex 3 countries have been offering corporations various legislative environments, which are surely shaping different corporate political participation strategies. It is interesting to point out that, with the more efficient enforcement, corporations can also be found to be politically active when the law bans direct political donations, taking the United States for example. In some other cases, corporations from countries where corporate political donations are allowed, claim that there will be no political donation of any kind. Most companies from the Scandinavian areas fall into this category. In the following section, self-regulation of corporations is given a thorough review to answer the question, to what degree have legislation environments shaped corporate political participation behaviour?

2.2.3 The New Zealand case

In the New Zealand context, for example, donations from corporations are mainly bound by the Constitution Act 1986 and the Electoral Act 1993. Contributions to candidates or political parties are allowed in the following forms as “money or the equivalent of money or goods or services or a combination of the above items”.

Corporations as participants are not denied, nor articulated in statutes, and related regulations. Instead, their identity and role in political processes are accepted with more details in the party’s donation page. Take the New Zealand Labour Party as an example:

Any citizen, voter, organisation or company of New Zealand can donate up to $15,000 per calendar year to Labour without having their details publicly disclosed. These people can donate

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85 Sources and more information see Annex III.
86 Constitution Act 1986 - Part 3 “establishes the House of Representatives, sets the maximum term of Parliament and the maximum time before which Parliament must meet following an election. The Act establishes New Zealand’s constitutional framework of the Head of State, the Executive, the Legislature, and protects High Court judges from political interference. Inquiries about its administration should be made to the relevant institution(s). Electoral Act 1993 - Establishes the electoral agencies, electoral system, election processes (including that for disputing results), how MPs are replaced between elections, registration processes for political parties and logos, enrolment and electoral roll requirements, and provides for the Māori Electoral option, and the Representation Commission”. See Constitution Act 1986 and Electoral Act 1993.
87 Electoral Amendment Act 2009, s 207(2) (b).

53
more than $15,000 per calendar year but their name and amount donated will be publicly disclosed. Donations to political parties are not tax deductible in New Zealand.

According to the Electoral Act 1993 and the Electoral (Administration) Amendment Act 2010, the Election Commission has been established to oversee election-related matters. As Figure 17 shows, the enforcement and administrative structure of campaign finance mainly belongs to the Electoral Commission. All funding and fundraising activities of political parties and candidates are under the charge of the Electoral Commission.

Figure 17: The Tangled Web of Campaign Finance—New Zealand
Source: Electoral Act 1993, Electoral (Administration) Amendment Act 2010

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89 Electoral (Administration) Amendment Act 2010, s 5: “The functions of the Electoral Commission are to - (a) carry the provisions of this Act (except those of Part 5) into effect; (b) carry out duties in relation to parliamentary election programmes that are prescribed by Part 6 of the Broadcasting Act 1989; (c) promote public awareness of electoral matters by means of the conduct of education and information programmes or by other means; (d) consider and report to the Minister or to the House of Representatives on electoral matters referred to the Electoral Commission by the Minister or the House of Representatives; (e) make available information to assist parties, candidates, and others to meet their statutory obligations in respect of electoral matters administered by the Electoral Commission; (f) carry out any other functions or duties conferred on the Electoral Commission by or under any other enactment.”
The expenses and donations should be regularly reported to the Electoral Commission if conditions apply. As a result, all information, after the election year, on donors who have donated over NZD$15,000, or contributors who have contributed over NZD$ 15,000 during the year, and anonymous or overseas donations received of over NZD$1,500 can be found on the Electoral Commission website, which includes information on corporate political spending.

Table 3: Corporate donations that political parties have received in the year 2014

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Corporation/Union</th>
<th>Amount of donations (NZD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACT New Zealand</td>
<td>Gallagher Group Ltd</td>
<td>30,000.00</td>
</tr>
<tr>
<td></td>
<td>J B Gibbs Trust</td>
<td>76,000.00</td>
</tr>
<tr>
<td>Focus NZ</td>
<td>The Rintoul Group</td>
<td>22,455.95</td>
</tr>
<tr>
<td>Green Party of Aotearoa New Zealand</td>
<td>Spoon Ltd</td>
<td>48,295.40</td>
</tr>
<tr>
<td>Internet MANA</td>
<td>M5 Ltd</td>
<td>39,479.50</td>
</tr>
<tr>
<td>Labour Party</td>
<td>EPMU</td>
<td>60,000.00</td>
</tr>
<tr>
<td></td>
<td>NZ Dairy Workers Union</td>
<td>40,000.00</td>
</tr>
<tr>
<td></td>
<td>Service &amp; Food Workers</td>
<td>22,000.00</td>
</tr>
<tr>
<td></td>
<td>Rail &amp; Maritime Transport</td>
<td>20,000.00</td>
</tr>
<tr>
<td></td>
<td>Maritime Union of NZ</td>
<td>20,000.00</td>
</tr>
<tr>
<td>Maori Party</td>
<td>Rorohara Farms Limited</td>
<td>110,000.00</td>
</tr>
<tr>
<td></td>
<td>Cameron Sports Imports Ltd</td>
<td>21,250.00</td>
</tr>
<tr>
<td>New Zealand National Party</td>
<td>Alpha Laboratories (New Zealand) Limited</td>
<td>50,400.00</td>
</tr>
<tr>
<td></td>
<td>Christopher &amp; Banks Private Equity Ltd</td>
<td>60,000.00</td>
</tr>
<tr>
<td></td>
<td>Contue Jinwan Enterprise Group(NZ) Limited</td>
<td>49,220.18</td>
</tr>
<tr>
<td></td>
<td>Harbour 5 Limited</td>
<td>40,000.00</td>
</tr>
<tr>
<td></td>
<td>Resene Paints Limited</td>
<td>25,000.00</td>
</tr>
</tbody>
</table>


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90 For registered political parties’ donations received, “the secretary of each registered political party must file an annual return of party donations with the Electoral Commission by 30 April of the following year for donations received in the last 12 months, for the year ending 31 December. Party donations and contributions to donations of more than $15,000 (including GST) are required to be declared in the party's annual return of donations. A series of donations, or contributions of more than $1,500 to donations, made by one person that adds up to more than $15,000 must also be declared. A return is required even if the party has received nil donations during the calendar year. An auditor's report must accompany the return, including where nil donations are declared. Parties are also required to make an immediate disclosure to the Electoral Commission where a donor gives a party more than $30,000 in a 12-month period. Parties must have systems in place to track aggregated totals by donors for the purposes of the annual donations return, as well as immediate returns of donations exceeding $30,000. All expenses made during general election are released by the Election Commission for public access.” For candidates, “after a general election or by-election all electorate candidates are required to file a return of candidate donations and expenses with the Electoral Commission.” For third parties, “any individual or group who spends, or intends to spend, over $12,300 (including GST) on election advertising during the regulated period for the 2014 General Election must register with the Electoral Commission. All registered promoters who spend $100,000 or more on election advertisements published during the regulated period are required to file a return of election expenses with the Electoral Commission.” See “Part 6: Election Expenses and Donations” (2015) New Zealand Electoral Commission <www.elections.org.nz/candidate-handbook/part-6-election-expenses-and-donations >.
Average investors who may be interested in corporate political spending can find on the Electoral Commission website, that in the year 2014, seventeen corporations donated NZD$ 734,101.03 to political parties, which constitutes 8% of the total parties’ election spending for the year. The donation list is not prohibitively long. Corporations, as listed in Table 3, have been seen to be active in politics-related events. Taking Gallagher Group Ltd for example, after its donations to ACT New Zealand in 2014, it is reported that the firm has donated NZD$ 60,000 to the National Party.\textsuperscript{91} Coincidentally, Gallagher Group Ltd was on the delegation list when the Prime Minister visited the Gulf for sealing a stalled agreement with the Gulf Cooperation Council, and has been listed as one of the top beneficiaries of New Zealand’s Accession to the World Trade Organization Agreement on Government Procurement.\textsuperscript{92}

As pointed out earlier, political traditions and culture vary among countries. The role corporations play in the economies and the relations between governments and corporations can be very different. Accordingly, legislation on corporate political activities focuses on their individual challenges and comes with diverse responses. In this chapter, home countries of constituents of the GC100 are taken as a sample to give a general picture of the status quo of regulations on corporate political activities by examining regulations on corporate political activities in constituent countries. In the following section, corporations’ policies regarding political participation will be more closely examined. Together these policies from two different levels will give a comprehensive picture of the regulatory environment of corporate political activities. Accordingly, the analytical results obtained from the GC100 Index constituents are described in the following sections.

\textbf{2.2.4 The significance of \textit{Citizen United v Federal Election Commission}}

\textit{Citizen United v Federal Election Commission} is a US constitutional law case that focuses on campaign spending and the funding sources. The United State Supreme Court held that corporations, including non-profit, for-profit, labour unions and other associations, are

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{91} Claire Trevett “National Party given $60,000 donation” (2015) New Zealand Herald <m.nzherald.co.nz.nz/news/article.cfm?c_id=1&objectid=11562610>.
\end{itemize}
\end{footnotesize}
supported by the First Amendment right to purchase political advertisements and other independent political expenditures. This judicial decision has reshaped the political paradigm.  

In the case, the lobbying group Citizen United wanted to broadcast a film criticising Hillary Clinton and to advertise the film on television. However, this attempt violated the 2002 Bipartisan Campaign Reform Act, in which corporations and unions are prohibited from “sponsoring any broadcast, cable, or satellite communication that mentioning a running candidate within sixty days of general election or thirty days of a primary election”. Therefore, the United States District Court for the District of Columbia prohibited Citizen United from advertising their film Hillary: The Movie in broadcast or on television. Later on the Supreme Court reversed this ruling result and rewrote relevant provisions of BCRA, as well as Austin v Michigan Chamber of Commerce and McConnell v Federal Election Commission. However, this judicial decision did uphold requirements for public disclosure by BCRA. Moreover, direct contributions from corporations or unions to candidate campaign or political parties are still remaining unchanged in regulation. With the result of this case, corporations now may spend an unlimited amount of corporate treasury funds to advertise for/against candidates or parties during US federal elections. The court has overruled the ban on corporate political spending in twenty-two states and opened new doors for a corporation to influence the political outcome and for directors to engage into an implicit contract for future exchange with potential leaders.

The current system enables publicly traded corporations to find ways to participate and fund political processes without information being disclosed to the public. For example, corporations do not need to disclose any donations to politically active non-profit to SEC. Moreover, when the non-profit funds an political advertisement, the report on corporate donation will only be made to Internal Revenue Service, not to the public. Furthermore, FEC only requires the information on purchasing political advertisement from the non-profit. Therefore, through these steps, corporate money are becoming difficult for outsiders to track.

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94 Bipartisan Campaign Reform Act 2002 (US) §203.
97 Bipartisan Campaign Reform Act 2002 (US) §201 and §311.
99 Internal Revenue Code 1986 (US) 501 (c) (4) and 501 (c) (6).
This change in law has also caused a challenge in corporate governance. Shareholders’ rights and role in this process have been one of the most discussed issues. There are two distinct components to this discussion, (1) whether it is necessary for shareholders to become aware of corporate political spending and (2) then whether they need to be empowered to be included in the decision-making process. To further address challenges raised, it is widely debated whether corporate political spending needs specific corporate governance structure to be managed and supervised, which has also been required to include shareholders into the decision-making processes.

This constitutional case has certainly changed corporate political participation with regard to participating channels. However, by keeping the 1907 Tillman Act it did not deregulate campaign finance regulations fundamentally.\(^\text{100}\) In addition, the availability of other channels, such as separate segregated funds, has been raising concerns by the public and the UK approach has been identified as one of the possible solutions to address this issue.

Although the United Kingdom allows direct political donations from their treasury fund, publicly listed companies are required to disclose its political expenditure to shareholders and ask for their consent. In 2000, an amendment was made to the United Kingdom Companies Act of 1985, which requires directors to include information on the recipient and amount of any donations over £2,000 into their annual report to shareholders.\(^\text{101}\) Later, in 2006, the amendment was extended to cover political advertisements.\(^\text{102}\) Apart from the transparency requirement, the UK Companies Act also requires publicly listed company to have shareholders’ consent on political expenditure over £5,000 before the expenditure is made.\(^\text{103}\) If the consent is not granted, the company cannot spend as proposed on political issues in that period. Directors who have spent on political issues without shareholders’ consent are personally liable to the company, which may lead to a penalty of the amount spent, together with interest and any loss caused by this expenditure.\(^\text{104}\)

However, in the most other countries, there is no such regulation in place. Companies who have been participating in political processes have been adapting to the policy environment and developed their own inside mechanism to deal with issues around political

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100 Tillman Act 1907. It is the first legislation in the US that bans corporation from giving corporate political treasury funds directly to candidates for federal offices.
101 See Political Parties, Elections and Referendum Act §§ 139-140, shed. 19.
102 Companies Act 2006 (US), above n 4, at c. 46.
103 Companies Act 2006 (US), above n 4, at § 378.
104 Companies Act 2006 (US), above n 4, at § 369.
spending. The following is a snapshot of how political spending has been managed inside the company without external regulations among the sampled companies.

2.3 Corporate governance of political spending

From the examination of the GC100 Index constituents’ political participation policy, it can be seen that corporations have been claiming that it is essential for corporations to support and get engaged in public policy making process as a preferable policy environment can be of great help to corporations’ development. Therefore, corporate political participation fulfils the responsibility by supporting political parties, candidates or policies that are consistent with goals of sustainable development. After *Citizen United vs. the Federal Election Commission*, political engagement for corporations is further recognised as falling within the constitutional right of free speech.\(^{105}\)

Moreover, companies with a specific policy regarding political spending tend to present the purpose in a more practical manner. For instance, as Intel Corporation explained in their Policy Accountability Guidelines:\(^{106}\)

> Our policy on corporate contributions is driven by the fact that public policy decisions can have a significant impact on our business. Intel carefully monitors policy issues and engages with policymakers and candidates to educate them about the implications of public policy decisions for our business, stockholders, and stakeholders. Intel provides financial support to candidates who support or advance positions that are consistent with our business objectives, corporate policies, and public policy priorities (such as innovation, intellectual property, broadband, trade policy and market access, legal reform, digital healthcare, environment, logistics, and education) with the ultimate goal of protecting and enhancing long-term stockholder value.

The statement above reveals one of the motivations that serve as the foundation for the political engagement for corporations, the fiduciary duties of corporates towards beneficiaries, in this case, shareholders and other stakeholders. As contracts cannot always be written in sufficient detail, rules of corporate political participation are not included in most of the corporate principles that most interested parties have agreed on. It is mainly an internal decision

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for managerial executives to decide whether, when and how to participate in political processes under the fiduciary principle. The divergence of interests may require adjustments in rules with the reshaping of external circumstances. During this process, negotiations between stakeholders and managerial levels may lead to more elaborate contractual structures. The trend can also be found in the case of corporate political spending. More contractual details, for example, internal political participation rules and disclosure regulations, have been introduced as a solution. In the following section, the current situation of self-regulation for corporate political participations is given a brief demonstration with constituent corporations from the Global Compact 100 Index.

The results from the examination of political participation policies published by corporations are presented in the order of: 1) general status, 2) pattern of governance and 3) disclosure policies and disclosure status. Corporate governance rules of corporations committed to corporate sustainability practices can be given as an example to identify problems and solutions in corporate political governance, which provide a better understanding of the status quo of self-regulation.

2.3.1 General status quo

Among the 100 companies from 28 countries with global impact, seventy-two corporations mentioned political donations in their codes of conduct or separate rules, among which thirty-two companies have quite straightforward rules, that they do not use corporate resources to fund any political committees, parties or candidates and yet fourteen of them can be found with public lobby records. Moreover, twenty-two companies clearly confirm that they are participating in political processes by making political donations. The remaining businesses (forty-six) on the list have not made any explicit proclamation about political participation, yet some of them have mentioned in their codes of conduct that it is the employees’ individual choice to make any political donations, in most of the cases, with prior approval by the relevant department of the company. In contrast, a thorough study of the NZX50 index constituents suggested that none of the constituent companies has publically announced or disclosed any information regarding political participation through political donations, among which sixteen of them have claimed in codes of conduct that the firm will not make any political spending (more details see Annex 1). In percentages, 68 percent of the index constituents do not have any policy regarding political spending.
Figure 18: The status quo of corporate political spending policies, the comparison between NZX50 and GC100, based on data collected in the year 2015

The corporate governance of political spending varies among corporations due to differences in political and legal environments where they come from. It is more likely that corporations will participate in political processes if they originally come from a country where corporate political activities are permitted by law than those corporations that come from countries where corporate political activities are not allowed or lack the tradition.
The countries where corporations with "No" political participation policy registered, GC100 constituents, 2015

Figure 19: Regional distribution of corporations with different political participation policies, based on data collected from GC100 Index constituents, retrieved in 2015.

The structure of corporate governance of political activities is nevertheless quite explicit. It is a reasonably common practice that the activities related to political issues are overseen by boards of directors, with the management process left less clear. Most current corporate political participation policies have listed political donations as one of the major ways to fulfil the goals of political participation. However, only five corporations of twenty-two that have enabling political spending policies are making related voluntary disclosures, due to the lack of management transparency, the managerial decision-making process and the evaluation of the outcomes of the political expenditures.

Furthermore, for corporations where there is no separate policy on political spending, it is a quite common practice that there is one section regarding political donations which can be found in their codes of conduct or business ethics. More often, the section customarily emphasises the regulating of political spending as employees’ individual choices. If there is no clear prohibition on the direct political party and candidate support, employees are often required to conduct the donations as personal gestures, sometimes with the prior approval of
boards of directors, the chief executive officers or their legal teams. For example, as Infosys Ltd. states in their Code of Conduct and Ethics: 107

Political Contributions —

Infosys reserves the right to communicate its position on important issues to the elected representatives and other government officials. It is Infosys' policy to comply with all local, state, federal, foreign and other applicable laws, rules and regulations regarding political contributions. Infosys' funds or assets must not be used as a contribution for a political campaign to political practice under any circumstances without the prior written approval of the Board. For obtaining such approvals, please send your request to …

Among all the companies without a clear attitude towards political spending in their corporate policies, as the last example, compliance with all applicable laws is a key emphasis. The legal environments of countries that corporations originally come from do affect the practice of corporations. As is apparent in the GC100 companies, companies from the United States have shown more enthusiasm for political participation than their peers, where corporate political spending and lobbying activities are more active and larger in scale. Conversely, legislative rules of countries where corporations have branches also have an impact on corporate political participation decisions. For example, Unilever Plc, as one multinational enterprise with headquarters in the UK, claimed they “do not support political parties or fund groups that promote party interests” in their Code of Conduct, yet can be found spending millions of US dollars to contribute and lobby in the United States as the following figure shows. 108

To briefly summarise, most corporations under examination have paid attention to political spending to certain degrees, which leads to differences in actions. Features of corporations who are making various decisions in political participation can be epitomised according to the focus of studies. However, reasons for the decisions can only be found in the policies that have forged them. Corporate political spending does not always follow the company’s policy. Corporations do comply with laws more, due to the consequences of

effective enforcement. Therefore, not just the internal but also the external regulatory environments have been shaping the corporate political participation behaviour.

2.3.2 Political participation policies: Yay or nay?

As mentioned above, the majority of the Global Compact 100 companies (72 percent) have some statements in various forms about political spending on their websites with public access. It is worth noticing that some enterprises in the top revenue band still do not have any declaration concerning political spending, although they are spending a considerable sum of money on political issues. Moreover, almost half the corporations on the list have mentioned political expenditure in a very rough way, which can barely be termed as “policy”. More details regarding the status of political spending policy can be found in Annex II.

The formalities of how political spending policies are available to the public vary largely. For an average investor, it is possible to obtain information regarding corporate political spending from the corporation’s website when it is available, or sentences contained in codes of conduct suggest that it is employees’ personal choices to make political donations, or limited acknowledgments of political participation, or detailed descriptions of purposes of the participation in public policy formulation, or internal decision-making process, or personnel arrangement, or corresponding specific reports on detailed information on procedures during political participation on political spending to stakeholders.

Moreover, how and where the information is available also matters to average investors. All constituent companies have clear directions on their websites for investors, and yet finding the political spending information is another story. Companies with a stand-alone section for political spending make it much easier for stakeholders to look up relevant information than companies using the download-only codes of conduct.

Table 4: Corporations with stand-alone political participation policies among GC100 Index Constituents, 2015

<table>
<thead>
<tr>
<th>Company</th>
<th>Stock market</th>
<th>Stock Ticker</th>
<th>Industry</th>
<th>Political participation policy</th>
<th>Country</th>
<th>Contributions rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allianz SE</td>
<td>DB</td>
<td>ALV</td>
<td>Financials</td>
<td>Corporate Citizen: Political Engagement</td>
<td>Germany</td>
<td>1,614 of 16,889</td>
</tr>
<tr>
<td>Australia &amp; New Zealand Banking Group Ltd.</td>
<td>ASX</td>
<td>ANZ</td>
<td>Financials</td>
<td>Political Donations Policy Summary</td>
<td>Australia</td>
<td>--</td>
</tr>
<tr>
<td>BASF SE</td>
<td>DB</td>
<td>BAS</td>
<td>Materials</td>
<td>Guidelines for lobbying and political communications</td>
<td>Germany</td>
<td>556 of 16,889</td>
</tr>
</tbody>
</table>
Contents of corporate political participation policies also vary. The policy sets up the range of corporate political spending and hence the following political participation behaviour. For example, among companies that are deploying political spending policies and making relative disclosures, political contributions are being given more emphasis than lobbying or other types of political expenditures. The lobbying activities are quite popular among companies that claim compliance with anti-corruption practice and do not make any direct political contribution to political parties, candidates or associated organisations. However, only fourteen of them have mentioned lobbying in their policies.

2.3.3 Method of giving: How do corporations “pay to play”?  

For political contributions, there are mainly two approaches deployed. First, contributions can be made directly from the corporate treasury, which covers activities of collection, disbursement, concentration, investment and funding. It is also the major channel through which corporations are making political spending. Second, in the United States, affiliated funds which are established by corporations are also making donations under the law. It is the law that corporations cannot use their treasury fund to make political donations. In that way, although corporations may not contribute directly to electoral campaigns, they can establish Political Action Committees (PACs), which are separated entities yet affiliated with the firm, to raise voluntary contributions from their employees or other connected individuals and entities to support candidates and parties.109

For lobbying, as with political spending, money comes from the corporate treasury. Since the lobbying acts have not been adopted as widely as campaign finance laws, corporations are

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facing fewer regulations when it comes to hiring lobbyists.\textsuperscript{110} According to the research into GC 100 companies’ practices, only nineteen companies have mentioned lobbying activities at all, including those with clear lobbying policies and those who urge employees to apply for prior approvals. However, forty-five companies have filed with authorities that they have conducted lobbying activities. The current common practice in lobbying regulations require entities hiring lobbyists to disclose their expenditures, lobbyists hired and lobbied issues with authorities, and yet there is no company-specific regulation requiring disclosures on companies’ side.

Apart from the above two major expenditures, there are also many other ways for a corporation to spend on political issues. Trade associations or other non-profit organisations in which corporations are holding memberships are usually rather politically active – therefore the membership fees and other donations may constitute the independent spending, which is spent by other organisations with shared views on political issues.

Tracking methods of corporate giving for political purposes is an efficient way to track the development of rules on corporate political spending, which currently can only be found scattered among public political regulations instead of in company-oriented regulation. However, there are some good examples of self-regulation that offer a comprehensive method of overseeing corporate political activities.

\textbf{2.3.4 Corporate political spending disclosure}

Local legislatures do not normally require all the constituent companies to disclose their political spending. However, reports concerning political spending have been made voluntarily by companies themselves. Moreover, the status of voluntary disclosure is closely related to the corporate policy of political expenditures. For example, when a company declares that the company is not engaging in making political donations of any kind, there is correspondingly no disclosure on corporate political spending to meet the consistency in corporate policy. Vice versa, when the policy is more explicit, or there is a stand-alone policy, disclosures are made available to outsiders in more detailed forms.

Forms of the disclosure are in fact not much diversified among corporations from different sectors or with various revenue tiers. If there is voluntary disclosure, the corporation usually lists all the recipients and information about the item, such as time and amount. The

\textsuperscript{110} Karsten Ronit “Regulating lobbying: A global comparison” 2011 West European Politics 34(5), at 1136.
information comes in a similar form to the information which can be found on the website of public political finance regulatory authorities, yet it comes with company oriented information rather than being a political party- or candidate-oriented.

It is also worth noticing that corporations may apply different reporting thresholds on the political spending reporting. In some other cases, data regarding political donations made by corporations have made it clear that the firm will not make any political contributions. What these methods of the voluntary disclosure have in common are that no full information has been applied to investors.

Among all the information gathered on corporate governance rule on political spending, one particular item is decisive – governance structure on this topic-specific issue. Whether there is a developed strategy on political participation and voluntary disclosure is closely related to whether the firm has adopted an institutional form to manage related activities. In the following section, the governance structure of the sampled companies will receive a closer look.

2.3.5 Corporate governance of political spending

The managerial structures for politically related expenditures remain unclear. It has been suggested in various policies of corporations that officers from different levels, such as boards of directors, or CEOs, or CFOs, or senior management, or public affairs/government relations sections, are in charge of political spending. However, there is less of this to be found in the policy, if there is one, than how the managerial decisions are made and how internal control processes are applied.

In practice, corporations may adopt different governance structures on political participation. As suggested by Healy, under the current corporate structure, corporate political spending can be divided into political management, issue management and advocacy management. Each part of the action falls under the current administration of units with different functions, as shown in Figure 20.\textsuperscript{111}

\textsuperscript{111} Robert Healy \textit{Corporate Political Behavior: Why Corporations Do what They Do in Politics} (Routledge, 2014), at 260.
Figure 20: Corporate external affair structure framework

It is common for corporations to justify their political spending by delivering the corporate citizen speech, yet companies are rarely providing criteria for recipients and issues to support. As advertised in the rationales for political expenditures, corporations participate in the political process to reshape the environment that is shaped by governments’ legitimate regulatory and political interests, and in which they operate. Difficulties arise, however, when an attempt is made to measure the input-output of the decision. Few cases can be found where corporations offer investors and other stakeholders’ full information concerning the selection processes and outcome evaluation.

Not only has little attempt been made to quantify the results of political expenditure, but the managerial control rule or process is also absent from the outsiders’ view. Unlike regulation on campaign finance or lobbying, the corporate political spending regulations are facing more demands for regulatory goals from the corporate level. Despite the fact that investment comes in different styles and portfolio structures, political spending distinguishes itself by avoiding
the appearance of *quid pro quo* and, in some other cases, by complying with the corporate policy that there must be no direct or immediate returns from the political spending.\(^{112}\) Therefore, the regular rules on investment may not apply here. The unspecific category has probably been introducing complications into the managerial methods development.

The other common practice is to include the political engagement as part of corporate social responsibility (CSR) objectives, which are normally less profit-oriented projects, driven by the management concept that corporations should integrate social and environmental concerns into their business operations and interactions with their stakeholders.

### 2.3.6 Rule of thumb: How to evaluate outcomes of corporate political spending

Although corporations have become clearer on the institutional structure of corporate political participation, as entities with the drive to maximise their profits and long-term value, this behaviour still baffles corporate accountants and also outside stakeholders because from their view corporations have been giving out a considerable amount of resources to politics.

As the Hewlett-Packard Development Company states in their political participation policy:\(^{113}\)

> As a leading global IT company, we are in a unique position to influence public policies that can have a positive impact on people and communities worldwide. We share our deep industry knowledge and experience with government agencies and regulators to help shape effective policies in areas such as technology development, taxation, market access, the environment, and intellectual property (IP) rights.

> Our objective is to promote laws and regulations that encourage industry growth and development, foster innovation and create a better future in a socially and environmentally responsible manner. This approach is fundamental to our broader Living Progress strategy.

> Surely the objective “to promote laws and regulations that encourage industry growth and development, foster innovation and create a better future in a socially and environmentally responsible manner” serves the corporation’s development in a long run, yet how much it can


serve the goal is far beyond our capacity to measure, since there is no agreed method for evaluation.

As one of the few corporations with guidelines for political donations, Hewlett-Packard declare that the following assessment factors will be used as guidelines for their political activities:

**Primary considerations:**

- Bi-partisan activity
- Support/leadership (key committees) on HP business priorities
- HP site relationship
- Strong or emerging relationship with HP and/or high-tech industry

**Additional considerations:**

- Moderate candidates favored over partisan extremes
- Ethics/statesmanship
- Promising non-incumbents and diverse candidates

**Extent of support**

- Ability to make a difference in the outcome of the race
- Leadership position and/or support on HP priority issues
- Make a difference in the tech-friendly composition of legislative body.

However, it is still impossible for external stakeholders to tell the “outcome” of the spending. First of all, the ambiguity of corporate political spending objectives can indeed avoid the suspicious look of interests exchanged to a certain degree, yet still keep the nature of this expenditure less clear - more of a donation or more of an investment? In general, there are two main ways that the major objective of corporate political spending can be fulfilled. In one way, providing the political party/candidate with the political ideology that meets the visions of the corporation gets elected, the ideology will be turned into policies and implemented in practice. The corporation has accomplished its noble goals, and at the same time, can benefit from the favourable policy environment together with other similar companies. In another way,

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regardless of the expectation before the political donations, the corporation gets better treatment than its peers, which makes for the exchange of interests or for corruption. However, even with the goal of expecting a return from politicians, corporations will still have the noble cause to cover the true purpose. Second, lack of post hoc evaluation of the reporting system renders the information that corporations are currently disclosing less useful to stakeholders. For an average investor or external stakeholder, or even some managers from other departments, it is not easy to identify each recipient’s political standing together with the chance of him/her making the political visions into reality. A name plus the donation amount is not what the outsiders want to know about the decision-making processes. Moreover, there is also no guarantee that the donations have been made according to the best option for the future of the company, instead of the future of the executives.

It is not just the truth that transparency of corporate political spending is overdue, there needs to be more explanation of reasons why more money has been spent on the representation of stakeholders.

2.4 Brief summary

This chapter has taken the Global Compact 100 Index constituents as a sample and looked into separate countries and companies concerning regulations regarding corporate political spending. It can be concluded that not only is there not a much regulatory evaluation of corporate political spending before legislatures allow the money to flow into the political system, but also corporations do not have enough detailed regulations or evaluation systems to implement before making political donations.

With the initial mapping of corporate financial support in political processes, current regulations on corporate political spending have become more easily identified. Following the map, this chapter has summarised results from the survey of legislations and regulations from chosen samples of jurisdictions. It is found that the major part of the jurisdiction has adopted certain regulations to manage finance-related matters in the political processes, such as laws and rules on campaign finance and lobbying spending. Furthermore, this chapter has provided a clearer general picture by looking into an institutional environment, namely the legal origin, political system, and government-business relation history and status quo, which provide a better understanding of the external environment for legislative changes. For more detailed regulatory practices, this chapter has also comprehensively reviewed regulatory agencies and regulatory items in the current legislations on financial aspects of political processes.
There is less regulation requiring information from corporations on specific information of corporate political spending. To gain a better understanding of how corporate political spending has been managed on a firm level, this chapter also provided results on reviewing corporate governance rules regarding political participation and financial support. From the perspective of corporate policy to corporate managerial structure, this chapter has shown current commonly adopted practices of managing politics related affairs. However, despite the existence of good practices, there is still some room for corporations to progress, in terms of both corporate policy and managerial method on political participation.

Therefore, it is urgent that the rationale behind the behaviour of both corporations and legislatures need understanding for a clearer picture of the direction and method of prospective legislative changes on corporate political participation. In the following chapter, various theories across disciplines will provide their own perspectives on an answer to the question on the nature of corporate political participation, which enables further inquiries into adjustments required for both corporate directors and legislatures to manage this issue with more precise objectives.
Implicit contracts behind the noble causes: Theoretical framework of corporate political spending and its disclosure

To decode corporate political spending and its disclosure regulation, it requires the wisdom in the scholarship of corporate governance, political science, social sciences and legal theories. By reviewing writings on corporate political participation modes from these research perspectives, this chapter intends to provide a more comprehensive appreciation of the interaction between corporations and political organisations and the disclosure of these interactions. Followed by a theoretical model of internal and external implicit contracts, the chapter contributes to the analytical foundations for corporate political spending and the possibility of disclosure-based regulation.

Based on previous analysis, the nature of corporate political spending has been reframed as an action to build implicit contracts between the corporation and political contacts. Here political contacts may be the political parties/candidates that the corporation support, or specialists who have a closer connection to government agencies or officials, such as lobbyists. The implicit contract notion is deployed to explore the incentives encouraging either the corporation to participate in political processes or political parties to include the corporation in public areas and the contractual contents. Unlike other contracts, the “contract” between corporations and political contacts can be formed in various ways, such as endorsements during the electoral campaign and legislative processes, and other cooperation methods. No matter in which way, it is a mutual understanding that political contacts and the corporations are sharing certain objectives and interests. From the corporation side, campaign donations and other political spending have been paid to reach the goals. In return, will the political party give anything in exchange in the future?

To take a closer look at the implicit contract, politicians set out agendas, and companies support them. While politicians are not legally required to honour their promises the expectation is that they will. According to the performance of politicians, options are available for companies to discipline politicians at the next election, such as funding somebody else or
drawing the media’s attention to their deviation at the time. The “contract” is not normally that the firm expects the politicians to do something specific that favours the firm rather than somebody else. This feature draws the fine line between the implicit contractual relations and corruption. Certainly, those making large donations hope they will be remembered, as evidenced by various ‘honours for cash’ claims. However, this is the personal advancement of donors rather than the corruption of political decision-making. As for the lobbying activities, lobbyists try to get the ideas firmly set out before decision makers along with the case against different actions. They hope to persuade by force of argument even if this involves pointing out gains for their constituents. It becomes corrupt if they were to offer favours or bribes in return for this specific support. Again the implicit contract is the expectation that politicians will do the “right thing” if they are “fully informed”. If they favour others, unreasonably in the view of the corporation, it will support someone else in the next election.

As part of the enforcement of this set of implicit contracts, corporations endorse candidates/parties through financial support, with the expectation that the candidates/parties will have a bigger chance of getting elected and fulfil their contractual obligations, if there are any. However, this contract cannot be set out – otherwise, it becomes an exchange between financial support and public power that corrupts public offices. Hence, stakeholders of the corporation do not have access to this information, and the reaction of the market towards the information regarding this contract is also uncertain. To elaborate on the contracting elements and mechanisms of disclosure in these implicit contracts, this chapter starts with exploration in literature – previous studies emphasising the competitive edge earned by this particular corporate strategy are contrasted with a subsequent re-examination of the practical dimensions of disclosure. Followed by the development of a theoretical framework of disclosure on this implicit contract, the corporation’s political activities are redefined in order to recognise potential obstacles as well as potential consequences of the legislative procedure of this mandatory disclosure. To expand this argument, hypotheses have been developed accordingly, as the foundation for empirical studies of this thesis.

3.1 Corporate political spending: Action to build implicit contracts

Any contract serves certain exchanges. In a market governed economy, corporate directors may have to deploy both market and non-market strategies to develop a corporate competitive advantage. When managers lead the corporations into political participation, the ultimate goal usually is a favourable policy environment for the corporation as described in the
To participate in the processes, corporations usually have to pay to have their voice heard. If this is an exchange, what have the corporations paid for?

First of all, in terms of overall policy environment, corporations are facing rules and regulations concerning market entrance qualification, taxation, employment, tariffs and industrial standards, to name but a few. The common case scenario in a democratic system is that, with financial support from corporations, political parties with the policy advocacy that corporations favour have a better chance of winning the election and running the office afterwards.\textsuperscript{115} Moreover, corporations can also express their preference on specific policy through the efforts of lobbying, supporting trade unions and other grassroots advocacy activities.\textsuperscript{116} How much the corporation has invested will affect the choice between the status quo and the proposed policy, \textsuperscript{117} which introduces significant changes for business and individuals covered by that policy. Apart from policy changes, there are also various studies showing that corporations with closer relations with political figures or organisations are inclined to push for partially favourable treatments.\textsuperscript{118}

The implicit contracts have been established based on the initiative from the corporation, completed if the political parties will provide any of the favours as listed above. Unlike corruption, this contract between political contacts and corporations is not leading to an exchange between funding and the public power, but between funding and the future public power.\textsuperscript{119} A candidate for elective office desires the funding from corporations to help them to win office. Meanwhile, corporations are expecting favourable policy changes in return. This “future exchange” does not include any procedure of negotiation, only assumed mutual understanding from both sides. In some cases, the party political side will not even be allowed to know about the contributors under the electoral finance laws. Moreover, there is no precise term of duties and benefits among the contractual parties, and there is also no fixed timeline for the exchange or delivery. In this game, corporations pay for play, yet with no guarantee of what they will gain in the end.

\textsuperscript{115} See literature on correlation between campaign donations and election results, such as James M Snyder Jr “Campaign contributions as investments: The US House of Representatives, 1980-1986” 1990 Journal of Political Economy, at 1195.
\textsuperscript{117} Ibid at 159.
\textsuperscript{118} See Amy J Hillman, Gerald D Keim and Douglas Schuler “Corporate political activity: A review and research agenda” 2004 30 Journal of Management 30(6), at 837.
\textsuperscript{119} According to the theory of contract, corruption may also be considered as one kind of contract, which facilitates the exchange of money and public office power that can bring benefit for individuals.
Therefore, a question needs to be raised and answered, why are some corporations making such great efforts to get involved in political processes as a non-market strategy? Relative to this, sometimes “Government is not the solution to our problems, the government is the problem.” The answer can be found back in the days when there were governments and there were emergent private sectors, and concerns the interaction between the two.

Since Adam Smith, there has been an argument among scholars as well as among regulators on whether market or government is the driving force of an economy. It is difficult to categorise any one economy as a pure Laissez-Faire or pure state directed. As classic economists insist, the Laissez-Faire system is the ideal economic development mode. In reality, the “invisible hand” has not been working all by itself, but together with a very visible hand. Markets do not exist in isolation but are embedded within an ongoing functioning polity.\(^{120}\) In the governed market system, government and policy making institutions set the regulations and laws, while markets set transaction systems with inducement and motivations, and allocate goods and services.\(^{121}\)

As a modern form of profitable entity, corporations emerged in the world with both market mechanisms and government intervention. Governments have been acting in the main role in providing fiscal and momentary policy for economic growth,\(^{122}\) legal framework and operating rules for economic and social activities, including corporate market activities.\(^{123}\) Moreover, governments can deploy various policies to help create new industries or limit the industries’ produce,\(^{124}\) and further change the market structure through tax adjustment or market entering barriers.\(^{125}\) Furthermore, governments can form the legal framework which corporations operate in, and can enforce social values on corporations by laws.\(^{126}\) Under rules and regulations, markets continue to play the major role in facilitating the exchange of goods and services by market signals.

In a system where resources are allocated both by market rules and by government guidance, corporations have to adjust themselves accordingly in response to the variation of

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\(^{120}\) See Jean J Boddewyn “Understanding and advancing the concept of nonmarket’’ 2003 42 Business & Society 42(3), at 297.

\(^{121}\) See Charles E Lindblom and Philip H Bimbaum “Politics and markets: The world’s political-economic systems’’ 1979 Business Horizons 22(5), at 80.

\(^{122}\) See Eric L Lesser Knowledge and social capital: Foundations and applications (Routledge, 2000), at 191.

\(^{123}\) See David P Baron “Legislative organization with informational committees” 2000 American Journal of Political Science 44(3), at 485.

\(^{124}\) See Johnny A Ryan History of the Internet and the Digital Future (Reaktion Books, 2010), at 103.

\(^{125}\) See K. Alexander Economic sanctions: law and public policy (Palgrave Macmillan. 2009), at 87.

\(^{126}\) See D. J. Fiorino The new environmental regulation (MIT Press, 2006), at 189.
market competition and public policies. Therefore, a comprehensive set of strategic management strategies is essential for corporations to earn an edge in market competition. Meanwhile, corporations also face internal governance that constitutes the fundamental conditions for participation in market competition as well as political competition. In the two interacting domains, corporations have unique conditions to attend to. In the following section, the related literature contributes the external political environment for business and corporate strategies and governance practice deployed as responses towards legal and regulatory conditions with anticipation of possible rules or rule changes, with the aim of exploring how the implicit contract between the corporation and their political contact have been developed.

In the following sections, theories have been organised in the order that the external environment of corporations introduces internal response by corporations, which leads to actions to build implicit contract with their political contacts. By looking at the regulatory and institutional condition change, corporate political participation can be seen as adaptive measures to optimise its performance accordingly. Implicit contract with political contacts is one measure taken by corporations. Following this logic, the literature review will start by looking into the external environment change for business.

### 3.1.1 External environment for business: Institutional changes

**Economic of regulation**

The Theory of Government Regulation, also known as Economics of Regulations, has developed based on the external economics and government intervention with Pigouvian tax. Government regulation refers to a series of administrative and supervisory behaviours of regulatory agencies with legitimate and relatively independent status, such as government, targeting regulation of private sectors, mainly enterprises. There are principally two dimensions to regulation, economic and social. Economic regulations indicate control over price, market entry/existing conditions and standards of special industries, and the social regulations usually refer to governmental protection concerning standards or regulations of products and services on issues regarding the environment, labour, and consumers’ welfare.

Theoretical analysis of governmental regulation can employ narrative and empirical methods. In the early stages, studies mostly followed the narrative method, including

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drawbacks regarding reasons and objectives of governmental regulation. Public interest theory formed during this period holds that governmental regulations aim to suppress market defects and to protect the public interest. In the empirical studies, Stigler has proposed “regulatory capture” theory, which holds that regulated businesses with special influence may bribe governmental officials or conduct other rent-seeking activities to “capture” regulators and then participate in sharing monopoly benefits.128

However, normally regulatory capture is a capture through ideas and information rather than straight purchase. Taking the regulation of banks as an example, up until the global financial crisis banks claimed very effectively that there was too much regulation and that the system would be cheaper and more efficient with less of it. They were very successful in getting the academic community behind this, to some extent through financing think tanks and even university research. However, the only “stipulation” was a focus on financial literacy. If people are more financially literate they can take better decisions – if they can take better decisions then there is less need for regulation to control the decision they can take. None of this is corruption but it is clear route to achieving a benefit for the company. In this particular case, because the outcome is also a social benefit, people will be better off if they are well informed enough to make good decisions.

Through the lens of Economics of Regulation, taxation is one of the main regulatory tools for government to correct external cost and other market failure related to corporations in the market, which makes taxation the major link and interaction of interests between government and companies. Moreover, also because of market failures, the market will generate demand for regulation itself as protection for producers. Therefore, the regulatory behaviour is based on the dynamics of supply-demand of the policy, which is also interacting with changes in relative political strengths of government and market participants. However, it has also omitted the fact that “political strength” of players is accumulative along their own growth path and the difference between government and ruling party that is in government.

This theory has uncovered the interactions between government and corporations during the policy-making processes. In the following section, a wider concept – institutional change – will be introduced as another attempt at inquiring into this process.

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**Institutions and institutional change**

In the 1970s, the American economist Douglas North identified the influence of institutional factors during his study of economic growth, an approach that laid the foundation for a new theory of economic history and the theory of institutional change. Participants in institutional economics refer to “the rules of the game”, which are the “humanly devised constraints that structure human interactions”, which are made up of “formal constraints (such as rules, laws, constitutions)”, “informal constraints (such as norms of behaviour, conventions, self-imposed codes of conduct)”, and their “enforcement characteristics”. Furthermore, institutions consist of formal institutions (such as laws and regulations), informal institutions (customs) and their enforcement, which together define the incentive structure of the society. Moreover, North defined the institutional framework as including change – the systematic manner in which institutions are established, modified and replaced. Therefore, the evolution of institutions refers to innovation and breakdown based on the former institutional framework.

The ratio of costs and benefits of that evolution is the prime factor determining the institutional dynamics. Only when the expected benefits outweigh the cost will the change occur, and vice versa. There are two principal paths of institution evolution: internally driven and externally driven changes. The internally driven type is institutional change initiated by a few individuals or groups and advocated, organised and implemented spontaneously under the incentives of the new institution. While externally driven refers to the more powerful groups, usually the government, changing the institution with governmental orders, law and regulations, a process that is also known as imposed institutional change.

Ruttan explored the impact of relative price change of scarce resources, technological advances and enhanced knowledge of demand and supply, as starting points for the study of induced institutional change. He holds the opinion that demand side change is caused by the relative price of components of production, product variation and technological advances related to economic growth; while supply side change is driven by progress in social science, law, business and social service areas. Ruttan’s research emphasises demand and supply of the induced institutional change. The demand of induced institutional change mainly pursues potential revenue, and the supply of change follows the reduction of current cost. Therefore,

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the induced institutional change occurs, no matter whether it is due to the demand or supply side reasons, it ultimately occurs because of the potential external profit.

The impacts of endogenous variables are clearly highlighted by the analysis. The unbalanced but spontaneous development of the system may receive an external force on the path of development. Therefore, institutional change proceeds along with individual rationality and social rationality. First, individuals or private groups initiate the change, while government assists to rearrange or promote the institution. Second, the motivation of induced institutional change is the potential profit opportunity. Finally, the embodiment of institutional arrangement is innovation, including replacing the old institution with the new one, changing the current institutional arrangement or creating new institutional arrangements.

Figure 21: Systems with induced institutional change and imposed institutional change

Compared to introduced institutional change, imposed institutional change can take both gradual and radical forms.\cite{north1990institutions} Radical institutional change is primarily initiated by the government, by using the “top-down” method, to achieve radically massive structural change within a short time. The advantages of imposed institutional change include the rapid pace of reform, low cost of implementation and powerful radical change. Meanwhile, the disadvantages include potentially major damage, lack of a reasonably elastic time lag for rectification, and the high risk of causing social instability. The two main paths of institutional

\cite{north1990institutions} See Douglass C North *Institutions, institutional change and economic performance* (Cambridge university press, 1990), at 36.
change, induced and imposed institutional change, can convert into each other, either in the early stage of the change or after reaching a certain point of the change.

The institutional change theory has emphasised institutional environment as a balanced status of all factors within the system, which will find the new balance if there is any imbalance or external incentive change. This institutional analytical framework has provided a platform for better understanding of dynamics in the system, which adds a wider range of elements in interactions between government and the market to the Theory of Government Regulation. These two streams of analyses on interactions between government and corporations have laid the foundation for further research on the implicit contract between corporations and their political contacts. As economic theories focusing on the macro-level, the legal dimension of the company has been excluded from the centre of the research. To have a further understanding of the internal dimension of a company that is determinant in the responses towards regulations and institutional changes, the following part of the literature review will put the focus on what is inside the company.

3.1.2 Adapting corporate strategies to the changing environment

Facing external changes happening every day, directors of a company are in a key position to make managerial decisions on how the company will react to these changes and keep (or build) their competitive advantage in the market. The following sections will look into the interaction between policy-makers and companies on the corporate governance level as an attempt to understand the internal mechanism of the implicit contract between corporations and their political contacts.

*Degree of dependence on public policy*

The nature of the firm, industry and market structure have been widely acknowledged as constituting a key influence on managerial structures. What the company does best constitutes the core competencies of the company, which is also driving the corporate political behaviour. Salamon and Siegfried in 1977 were among the first to suggest the correlation between firm structure and industry leadership behaviour on public policy.

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133 See Irina Sergeevna Neganova “Managing core competences to create value for customers” 2010 World Review of Entrepreneurship, Management and Sustainable Development, 6(4), at 304.
134 See Lester M Salamon and John J Siegfried “Economic power and political influence: The impact of industry structure on public policy” 1977 71 The American Political Science Review 71(03), at 1026.
It is the products or services the corporation has been providing that consist of the core competence of the corporation. It is the product of the corporation which drives the corporate objectives and corporate political behaviour, which is also what the corporation has contracted to provide their customer with. Firms with products that are highly regulated or more dependent on governments as a revenue source have shown differing attitudes towards political engagement.

The connection between a product, product use, and governmental regulation of the product has been explored in the literature. Without defence in the state legislature, a power utility will not exist. The greater the role of public policy in a firm’s business environment, the more the firm will attempt to influence public policy through political engagement. Hillman et al. have also suggested that firms have a higher motivation to manage that dependency on public policy through corporate political action when they have received a significant portion of their revenues from the government.

Firms that supply regulated commodities may face federal or state level regulatory oversight. For example, food and drug processors can expect long-term government product inspection. The direct or indirect supplementary facets of the products can draw a company into the political realm. Governments and other non-government organisations have heavily intervened in practices of some particular industries, such as pharmaceutical, energy and financial industries, for various reasons.

**Degree of political advantage as a competition method**

Competition in the marketplace has always been one of the main driving forces for corporations to constantly improve products, seek new markets and develop other strategies to further their competitive edge. Through public policy, favours can be gained by one region of the country or certain industries, or even just by one company for special treatment. Due

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137 At [132] per Schuler and Rehbein.
138 At [118] per Hillman, Keim and Schuler.
139 See Violina P Rindova and Charles J Fombrun “Constructing competitive advantage: The role of firm-constituent interactions” 1999 20 Strategic Management Journal 20(8), at 691.
to the role of government in determining the rules of commerce and the structure of markets, firms take access to policymaking processes as one of the most important political goals.\textsuperscript{141}

Yet how the political advantage can be proved as valuable depends on the degree “to which a firm has a greater capability to secure its commercial goals through political means, ..., other firms seeking similar government-backed policy outcomes”.\textsuperscript{142} In Webber’s analysis, the ability of a firm to identify and capitalise on political strength or block other opponents from doing so is the key to a firm’s utilising political assets. In the studies of Kay and Ringland, the political advantage has been specified as architecture, reputation, innovation and strategic assets.\textsuperscript{143}

As Michael Porter suggested, a comprehensive advantage includes position advantage and resource advantage, which means the firm not only has a cost advantage where one firm is a low producer, but also a committed customer base, strong reputation, or brand equity can result in superior value creation.\textsuperscript{144} Among all advantages, the key for converting political advantage into commercial value is through the judgement of managers. Therefore, political leadership is an important qualification for managers to achieve political goals for corporations.

\textit{Political leadership and political culture}

As discussed by various authors, entrepreneurs have been acting as “alert facilitators” who identify optimum political opportunities to solve the problem at hand.\textsuperscript{145} The leadership of entrepreneurs is the decisive factor on whether political engagement will serve the goal of the corporation. Managers are in the central position for defining the situation and devising policy responses designed to resolve the problem by the corporate interest as perceived by owners/shareholders.\textsuperscript{146} With the “capacity to endure risk and the ability to shake out the competition”,\textsuperscript{147} entrepreneurs can influence corporate political participation by influencing: (1) identification of policies that affect the corporation’s operative environment; (2) the degree


\textsuperscript{142} See David J Webber, “Analyzing political feasibility: political scientists1 unique contribution to policy analysis” 1986 14 Policy Studies Journal 14(4), at 545.


\textsuperscript{144} See Michael E Porter “How competitive forces shape strategy” 2007 57 Harvard Business Review, at 133.

\textsuperscript{145} See John Crowley “The political participation of ethnic minorities” 2001 22 International Political Science Review, 22(1), at 99.

\textsuperscript{146} See Robert C Tucker “Personality and political leadership” 1977 92 Political Science Quarterly 92(3), at 383.

\textsuperscript{147} At [110] per Ronit.
to which the corporation is participating in the policy making process with corporate resources, and (3) comprehensive reporting to owners and shareholders regarding political spending.

Therefore, because managers are the initiators and contacts of corporate political participation, their personal capabilities and characteristics also comprise a decisive factor for the fulfilment of corporate political goals.¹⁴⁸

This political savvy is called by Truty “political intelligence, political astuteness, political ability, or political acumen”,¹⁴⁹ which constitute the main skill set for managers navigating the political dynamics. Various researchers have also looked into political skills, with collateral conclusions that “political competence is the processing ability of managers that serves as a converter between political capital and economic capital”.¹⁵⁰ With the heritage from previous executives, the accumulation of legacies of managers has been forming the political culture of the company.

Schein has defined the corporate culture as a “pattern of basic assumptions, invented, discovered or developed by a given group as it learns to cope with the problem of external adaption…a social system based on a central set of beliefs and values”.¹⁵¹ With the firm’s history and core values, the narratives have been shaping the organizational behaviour, including political participation. Dowling has argued:¹⁵²

an organization’s culture plays a pivotal role on translating values into behaviour, affecting a firm’s strategy, structure, and control systems … culture filters information coming into the firm, removing extraneous information.

The culture offers a corporation with a methodology system to follow when there are some managerial problems.¹⁵³ It forms within the firms around how managers respond to

¹⁴⁸ See Fred I Greenstein “The impact of personality on politics: An attempt to clear away underbrush” 1967 61 American Political Science Review 61(03), at 629.
¹⁵⁰ See David Laitin and Ian Lustick “Leadership: A comparative perspective” 1974 28 International Organization 28(01), at 89.
¹⁵¹ See Edgar H Schein Organizational culture and leadership (John Wiley & Sons, 2010), at 6.
certain situations and expectations of other firms on enforcement of rules in an organisation.\textsuperscript{154} The industrial factor has also been recognised as influential on the political culture of the firm.\textsuperscript{155}

Once a patterned orientation has formed, the corporation will participate in the political process with the bundle of attitudes individuals have towards the political system and the role of the organisation in the system.\textsuperscript{156}

As Street proposed in 1994, political culture links micro-politics with macro-politics, which forges a bridge between the behaviour of individuals and systems.\textsuperscript{157} Moreover, it is a culture that drives people’s preferences and hence the political process.\textsuperscript{158} Schuler and Rehbein have identified seven elements from the corporate political culture and how they function in the system.\textsuperscript{159} The three external elements are:

1. Political saliency. The chance of corporate political engagement is positively correlated to the importance of public policy to the firm;
2. External competitiveness. If the commercial advantage of the firm needs governmental assistance to be secured, the more likely it is that the firm is politically active;
3. Political environment. It is the foundation for the firm to have necessary political capital and access to be engaged in political processes.

There are also four internal determinants:

1. Organisation structures. Corporate political behaviour has been influenced by the preference and visions of top executives;
2. Organisational resources. Whether the firm possesses the resources, such as financial resources for management and necessary consultancy, or motivation to participate;

\textsuperscript{155} See Mark S Mizruchi “Similarity of political behavior among large American corporations” 1989 American Journal of Sociology, at 401.
\textsuperscript{156} See Gabriel A Almond and Sidney Verba The Civic Culture: Political Attitudes in Five Western Democracies (Princeton University Press, 1963), at 5.
\textsuperscript{157} See John Street “Culture to Mass Culture” 1994 24 British Journal of Political Science 24(01), at 95.
\textsuperscript{158} See Michael Thompson, Richard Ellis and Aaron Wildavsky Cultural theory (Westview Press, 1990), at 216.
\textsuperscript{159} At [132] per Schuler and Rehbein.
(3) Political experience. The history of participation in political process facilitates the corporation to understand the circumstances and make better decisions regarding which level to get engaged at;

(4) Stakeholder dependence. The degree of stakeholders’ dependence on governmental/political interaction is one of the key elements in decision-making on political participation.

Moreover, all the above elements are not steady, but change over time. The calculation of the benefits and cost has been adjusting according to political involvement and other external factors. A firm’s political culture can change with reaction to an adverse governed market encounter.¹⁶⁰

As Michael Porter defined the competitive advantage as:¹⁶¹

positional advantage and resource advantage, rivalry among firms, threat from new entrants, threat of substitute products or services, bargaining power of suppliers, and bargaining power of buyers constitute the competitive advantage of a firm.

Architecture, reputation, innovation, and strategic assets can further be developed into political advantages.¹⁶²

However, studies have also shown the fulfilment of objectives is not certain with the resources required. There are also possibilities of unintended consequences resulting from:¹⁶³

(1) sloppy legislative or regulatory construction; (2) inconsistent case-by-case interpretation of laws and regulations by courts and administrative agencies; (3) low probabilities assigned by political decision makers to potentially identified unintended consequences; (4) failure to anticipate a range of policy or regulatory interpretations or outcomes.

¹⁶⁰ Ibid.
¹⁶¹ At [144] per Porter.
¹⁶² At [143] per Kay.
The uncertainty of turnout on political assets leads to vagueness in internal contracts with regard to political matters. In the following section, a theoretical model is developed to include this uncertainty in the research.

**Contingent governance**

Aoki has developed Contingent Governance, which identifies the effective method of preventing moral hazard and adverse selection in order to transfer the control of internal stakeholders to creditors during the non-standard status. This contingent governance is a dynamic governance mechanism whereby control of the firm may be distributed differently among different stakeholders with accompanying changes in performance and operative status. The core idea of the theory is the emphasising of readjustment in corporate governance structure according to changes in corporate performance, financial conditions and operating status among different stakeholders when the change affects the stakeholders.

The effective transfer of corporate control is an importance means of achieving contingent governance, including mergers, acquisitions, proxy contests, spilt mergers, bankruptcy and liquidation. Furthermore, the premise of the effective transfer of the control is the enterprise transformation, which can clarify corporate property rights, offering a timely and orderly foundation for contingent governance. Generally, the mode of contingent governance varies with economic systems. However, in a mature market economy, there is a similarity in the realisation of contingent governance, which is that, as business conditions deteriorate, the control will transfer from a management-dominated, shareholder-dominated state towards domination by creditors, workers and other stakeholders.

Corporate incentives and political strategies developed in the above literature have shown the central meaning of contingent governance of corporation in the external environment of the corporation where policies are becoming more relevant to the future of the corporation. Corporations have been developing strategies on political issues, and even forming up particular governance structures for managing public policy related matters. To deliver the result of contingent governance in this matter, an implicit contract is ideally to be formed to secure the expected result. This range of theories supports the further analysis that follows.

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using a fundamental conceptualised system. The external regulation and institutional environment have been incorporated into firms’ internal decision-making processes, which leads to corporations’ internal responses being reflected in corresponding external actions, in the form of corporate political participation.

3.1.3 Nexus of contracts: Implicit contract between corporations and their political contacts

As presented in Chapter One, the nexus of contract theory has been proposed to describe connections formed between a corporation and its external stakeholders. As an extension of contingent governance of the corporation in response to an external policy environment, corporate political participation has built connections between the corporation and its contact in politics.

Figure 22: Implicit contract between the corporation and its political contacts in the nexus of contract
As demonstrated in the above figure, the company in the nexus of stakeholders have to make managerial decisions taking into account interactions among stakeholders.\textsuperscript{165} Since the beginning of the theory on stakeholders, definitions of stakeholders and accordingly the ranges of stakeholders vary among researchers. Mainly stakeholders have been identified as groups who hold stakes in procedural and substantive aspects of corporate activities.\textsuperscript{166} However, regardless of differences in narratives, the main components of stakeholders can be identified as groups from the market and nonmarket. From the market in which the company is operating, shareholders, employees, creditors, suppliers, wholesalers, customers and even competitors are main parties holding stakes. Meanwhile, the influence shed by the corporations may also cover local communities, governments at all levels, social activist groups, media, the general public and business support groups.

Blair has pointed out that some stakeholders matter more than others, depending on the specific matter and priority of the corporation.\textsuperscript{167} When focusing on corporate political participation, political parties and government bodies have become one of the dominant stakeholders in the process. To be more specific, different channels of political participation built various types of connections with their political contacts. For campaign contributions, corporations support political parties or candidates who are running for public offices for their advocated policies, or simply easier access to future government officials. In that case, the implicit contract will be built between corporations and political parties or politicians. Moreover, as for lobbying activity, corporations seek a way to express their opinions on preferred policies and change current legislations accordingly to the present administration through building connections through legislative advocacy. These activities include conducting lobbying activities by hiring professional lobbyists, forming associations and coalitions with specific interests, and supporting other grassroots organisations which are promoting certain causes. Through these methods, corporations aim to develop the connection with current legislatures and administrations. As shown in the previous figure, which is a developed version based on the nexus of contract concept map in Chapter One, these various political activities will develop distinctive connections with political contacts from diverse groups who are related to political powers. Therefore, implicit contracts will vary, depending on how political contacts

\begin{itemize}
\item \textsuperscript{166} Ibid.
\item \textsuperscript{167} Margaret M See Blair, “For whom should corporations be run? An economic rationale for stakeholder management” 1998 31 Long Range Planning 31(2), at 195.
\end{itemize}
with which corporations are building connections are close to the centre of the administration. In the following section, this study will further advance the analysis by trying to further understand incentives and other factors in the mechanism of the implicit contract through a theoretical model.

3.2 Implicit contracts between corporations and their political contact

As described in the previous literature review, the nexus of contracts theory holds that what matters to a corporation is the set of contracts that the corporation has developed with its stakeholders. In that sense, the nexus of contracts are described in the following notion:

\[
Firm = f (contracts)
\]

(Equation 1)

Within the firm, owners or stockholders establish contracts with their employees, creditors, customers, suppliers, retailers/wholesalers, or even competitors to receive a satisfactory return on investments. In trade for the time and services offered to the firm, employees are expecting fair pay for work, stable employment and a safe, comfortable environment; customers want fair exchange for value and quality for dollars spent; suppliers need to be paid timely for supplies delivered; retailers/wholesalers can receive quality goods in a timely fashion at reasonable cost; creditors will receive payment or loans, and competitors can also have a certain share of the market and be profitable.

Moreover, outside the firm, there are also external stakes, such as in local communities, social activities, media, business support, federal state and local governments, or even foreign governments and the general public. By managerial knowledge, managers may also deploy corporate wealth on extending contracts with external stakeholders. By including the theory of the firm and market transaction, Reve has developed the notion of the firm into a nexus of contract, which includes internal governance and external contracts as shown in formula 3.2:\(^\text{168}\)

\[
Firm = f (\text{internal contract, external contract})
\]

(Equation 2)

The firm, as the nexus of contract among stakeholders in this theory, has laid the theoretical foundation for this analysis. Based on this conceptual foundation, the following model will take a closer look particularly at the external implicit contract between corporations and their political contacts.

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\(^{168}\) See Torger Reve “The firm as a nexus of internal and external contracts” 1990 The firm as a nexus of treaties, at 310.
3.2.1 Value-increase based political connection game: The framework of the principal-agent model

By following the literature, the model is developed based on a classic principal-agent model, which starts from the viewpoint of internal corporate governance. Moreover, this model also takes managerial decisions from boards of directors as results in response towards incentives created and changed by the external environments. To be more specific, when performances of corporations are influenced by public policies, boards of directors will seek solutions to get this parameter to work in the corporation’s favour. Given the fact that political contacts are the key contact for corporations to get access to legislative processes and make desired changes, boards of directors will pursue closer relations with political contacts.

The analysis is built based on the three-way model that directors reach out to political players or legislatures to build the connection which may create a favourable policy environment for the firm, where shareholders have a direct interest in. Directors, as the agent of shareholders, have managerial discretion to determine what the best interests of the corporation are. However, in this case, shareholders and other stakeholders are questioning whether the decisions over whether the firm can participate in political processes and how much the firm can spend should be exclusively determined by directors. Therefore, information and further request for decision-making roles have been requested by shareholders.

The basic element of the theoretical model follows the settings of Holmstrom and Milgrom in the “multitask principal-agent analyses”. For purposes of simplification, this study assumes that there are two main types of managerial tasks for directors, politically related and non-politically related. “Effort” is summarised and defined as the time, knowledge and all other resources that have been invested into the completion of the tasks with using discretion in management. Directors, Agent M in this case, take care of both politically related managerial tasks and non-politically related managerial tasks in stakeholders’ best interests initially. It is assumed in this study that there is no correlation between these two types of efforts, yet they may be substituted as the directors are facing endowment constraints.

To begin, this theoretical model considers a principal-agent relationship in which the agent can choose the degree of effort \( t \), which determines the value of the managerial performance by the function \( \mu(t) \). The efforts can lead to the personal cost \( C(t) \) (assume

---

\( C'(t) > 0, C''(t) > 0, \ C(t) = \frac{c t^2}{2} \), and information signals which constitute the foundation of the principal’s evaluation of the agent \( x = \mu(t) + \epsilon \), where \( \epsilon \) is the stochastic disturbance term which obeys normal distribution with an expected value \( \gamma \) and variance \( \sigma^2 \), \( \epsilon \sim N(\gamma, \sigma^2) \). It is assumed the principal is risk neutral, and Agent M is risk averse with a risk aversion degree \( \theta > 0 \).

The compensation rule is linear of the form \( w(x) = \sigma + \psi x \), where \( \sigma \) is the fixed income of Agent M, and \( \psi \) is the income portion depending on the performance. Therefore the model of principal-agent is set as

\[
\max \ B_t = (1 - \psi)[\mu(t) + \gamma] - \sigma \\
\text{s.t.} \quad CE = \sigma + \psi[\mu(t) + \gamma] - \frac{[\mu(t)]^2 c + \theta \psi^2 \sigma^2}{2} \geq v_0 \\
\mu(t) \in \arg \max \{ \sigma + \psi[\mu(t) + \gamma] - \frac{[\mu(t)]^2 c + \theta \psi^2 \sigma^2}{2} \}
\]

(Equation 3)

Where the expected profit of the principal is \( B_t \), the certainty equivalent of the Agent M is \( CE \), the preserved utility of the principal is \( v_0 \), the variance of the income of the agent is \( \psi^2 \sigma^2 \). The result of the equation is

\[
\sigma^0 = v_0 + \frac{(1 + c \theta \sigma^2)(1 - 2 c \gamma) - 2}{2c(1 + c \theta \sigma^2)} \\
\psi^0 = \frac{1}{c \theta \sigma^2 + 1} \\
[\mu(t)]^2 = \frac{1}{c \psi^2} \frac{1}{c \theta \sigma^2 + 1}
\]

(Equation 4)  
(Equation 5)  
(Equation 6)

From the above model, the principal chooses \( \sigma^0 \) and \( \psi^0 \) to establish a contract with Agent M, which is exchanging the Agent M’s managerial work with the compensation with the rule of \( w^0(x) = \sigma^0 + \psi^0 x \) according to the principle of maximisation of profit. \( \sigma^0 \) and \( \psi^0 \) is common knowledge. Hence the profit of the listed company is predictable. Therefore, the contract is enforceable, the principal will gain the maximised profit \( B_t^0 \) with this contract under the asymmetric information.
3.2.2 Explicit or implicit contract: Further exploration

Dual principal-agent relations among corporate owners, directors and political contacts are formed when corporate political participation has become one of the corporate strategies. Based on the principal-agent relation between owners and directors, directors make every possible effort to fulfil the contract with satisfactory corporate performance. When political connections are built and are becoming a valuable asset to the firm, directors also have extended the contract with their political contacts. Then the directors become the new principal in the derivative principal-agent relation, who delegate political contacts with the task of providing more political “outcomes” that are convertible into managerial outcomes. Assume the function of effort for a managerial agent is $\mu_m(t)$, while political figures’ efforts are noted as $\mu_p(t)$, which also can lead to the cost of the effort, $C(t)$, and the information signal $Z(t)$. In the following sections, two types of political connection, implicit and explicit contract, will be analysed separately.

**Introducing political contacts: The implicit contract**

The Agent M is given a programme to operate based on the contract with the principal with the condition $W^\phi(x) = \phi^\phi + \psi^\phi x$. Regarding the effort from Agent M, the personal cost of the effort is set as $C(t) \leq C'(t) > 0, C''(t) > 0, C(0) = 0, C(1) = +\infty)$. The direct result of the effort is $\mu(t)$, with which the information signal is $z = \mu_m(t) \cdot \varepsilon + [1 - \mu_m(t)] \cdot \varepsilon$. Here $\varepsilon$ is the stochastic disturbance term independent from $\varepsilon$, $\varepsilon \sim N(0, \sigma^2)$. When $\mu_m(t) = 1$, $z = \mu_m(t)$, which means when the effort-outcome reaches the optimal value 1. With more effort paid, $z$ can reflect $\mu_m(t)$ better.

The anticipated value and variance of the conditional random variable $\varepsilon z$ are separately

$$E[\mu_m(t)] = E(\mu Z) = \frac{\mu_m(t) \sigma^2 + \gamma(1 - \mu_m(t))^2 \delta^2}{\mu_m(t) \sigma^2 + \gamma(1 - \mu_m(t))^2 \delta^2}$$  \hspace{1cm} (Equation 7)

$$and \ D[\mu_m(t)] = D(\mu Z) = \frac{\sigma^2 [1 - \mu_m(t)]^2 \delta^2}{\mu_m(t) \sigma^2 + \gamma(1 - \mu_m(t))^2 \delta^2}.$$ \hspace{1cm} (Equation 8)

According to the knowledge and estimation of Agent M, the programme can benefit from the political connection. By the successful delivery of the programme, there will be a new perception of the state of nature, which is the random variables based on the degree of effort.
Agent M will negotiate with Agent P – political contact – to achieve the objective. Given the cost of the effort for Agent M is $E[\mu_m(t)]$, the principal-agent model is described as below:

$$\max_{\sigma_m} B = (1-\psi)[\sigma^0 + \psi^{0}[E[\mu_m(t)] + \mu_p(t)]] - C(\mu_m(t)) - \sigma$$

Subject to:

$$CE = \sigma + \psi[\sigma^0 + \psi^{0}[E[\mu_m(t)] + \mu_p(t)]] - \frac{[\mu_p(t)]^2 c + \theta \psi^2 D(\mu_m(t))}{2} \geq v_0 \quad (Equation \ 9)$$

$$\mu_p(t) \in \arg \max_{\mu_p(t)}(CE)$$

The results of the equation are:

$$\mathbf{x}^* = \frac{1-2cE[\mu_m(t)]}{c[1+\theta cD(\mu_m(t))]^2}$$

$$\psi^* = \frac{1}{1+\theta cD(\mu_m(t))}$$

$$\mu^* = \frac{1}{c[1+\theta cD(\mu_m(t))]}$$

The contract is therefore created based on the results above. Agent M will compensate Agent P according to the rule $w^*(x) = \mathbf{x}^* + \psi^* x$. The profit $\mathbf{x}$ is the centre to this contract, when $\mathbf{x}$ is observable and the contract is explicit and enforceable. In this case, $\mathbf{x}$ is not clearly defined, and is dependent on the performance of Agent P in the political market.

From the analysis above, it is suggested that, to fulfil the objective of cooperation between Agent M and Agent P, the compensation for the political liaison – Agent M shall be clearly stated, and related to the observable profits, which means $\psi$ is large enough. In this case, the sum of saved risk cost and the profit brought by political assets can make up the cost increase caused by including a political figure in the project, and the residual is the extra income of Agent M.

**Coalition by explicit contract**

The underlying implicit contract can be thought of like any other contract where M makes a transfer of benefits to P in return for an expected benefit. So expressing this in the same terms as the principal-Agent M contract, which is explicit. The principal hires Agent M for managerial works only on the rule $w(x) = \mathbf{x}^* + \psi^* x$, and delegates all politics-related tasks to
Agent P with anticipated benefit. With the participation of both Agent M and Agent P, the new principal-agent relationship has a contract as follows:

\[
\max_{\psi} B_i = (1 - \psi_m - \psi_p) \{\sigma^0 + E[\mu_m(t)]\} - \sigma_m - \sigma_p \\
\text{s.t.} \quad CE = \sigma^0 + \psi\{\sigma^0 + E[\mu_m(t)]\} - \frac{[\mu_p(t)]^2 c + \theta \psi^2 D[\mu_m(t)]}{2} \geq v_0 \quad \text{(Equation 13)}
\]

\[\frac{\mu_p(t)}{\mu_m(t)} \in \arg \max_{v_p} (CE)\]

Where \(B_i\) is the expected utility of the principal, and \(\sigma_p\) is the compensation of Agent P based on the linear rule. \(\psi_p\) is the implicit income that Agent P gets through agent M.

The solution of the equations is

\[\psi[\mu_m(t)] = \frac{1 - \psi_m}{1 + \theta cD[\mu_m(t)]}\]  \(\text{(Equation 14)}\)

\[\mu_p[\mu_m(t)] = \frac{1 - \psi_m}{c(1 + \theta cD[\mu_m(t)])}\]  \(\text{(Equation 15)}\)

Moreover, the principal wants to distribute the profit between Agent M and Agent P, \(\psi_m, \psi_p\), according to the rule \(\psi_m + \psi_p \leq \frac{1}{1 + \theta cD[\mu_m(t)]}\). Because the principal will not need Agent M for politics-related tasks after contracting Agent P, the principal now can directly establish principal-agent relations for political matters following the profit distribution rule \(\frac{1}{1 + \theta c\sigma^2}\). Then with the participation of Agent P, the profit proportion given to Agent M and Agent P together is \(\frac{1}{1 + \theta cD[\mu_m(t)]}\), which is the maximum proportion the principal is willing to give to agents. Given \(\psi_m + \psi_p \leq \frac{1}{1 + \theta cD[\mu_m(t)]}\), and \(\psi_p = \frac{1}{1 + \theta cD[\mu_m(t)]}\), therefore

\[\frac{\theta cD[\mu_m(t)]}{1 + \theta cD[\mu_m(t)]} \psi_m \leq 0, \quad \varphi_m \geq 0\]

which lead to

\[\text{Certainly, the explicit exchange of public power and financial benefits is not legitimate, yet this is just part of the theoretical analysis for possible options.}\]

95
\[
\psi_m = 0, \quad \psi_p = \frac{1}{1 + \partial cD(\mu_m(t))},
\]
\hspace{1cm} (Equation 16)

\[
\mu_p[\mu_m(t)] = \frac{1}{c[1 + \partial cD(\mu_m(t))]},
\]
\hspace{1cm} (Equation 17)

\[
\sigma_p = \frac{(1 - 2cE[\mu_m(t)])[1 + \partial cD(\mu_m(t))] - 2}{2c[1 + \partial cD(\mu_m(t))]^2} + v_0
\]
\hspace{1cm} (Equation 18)

Agent M does not have profit relocation while Agent P also has the explicit contractual relations with the principal; however, Agent P faces the same incentive as under the condition of cooperation, which is \( \psi_m = 0, \ w = w^* \). By comparing two cooperating modes between corporations and political figures – by implicit contract and by explicit contract, the pros and cons of each mode are clearer. By implicit contract, the advantage is that corporations will not bear the political risk before the political contact delivers the required political task, and neither will corporation participates in management and supervision of the political process. Therefore, the expected utility is smaller than the expected utility under explicit contract.

Hence Proposition 1 is:

Given that the risk for political contacts facing corruption litigation increases as the exchanges with corporations become more explicit, political contacts are less willing to disclose their cooperation with corporations. However, when the contractual relations are implicit, corporate directors tends to disclose their cooperation with their political contacts as will be included in the evaluation of their managerial performance.

Moreover, provided the overall return on a project is fixed, as well as the effort level of political contact, the approach the corporation adopts for building connections depends on the external institutional environment. When the external environment is steadier and governed by the rule of law, the results of the implicit and explicit contracts tend to be the same, while the risk of political contact being charged with abuse of public power increases. Which is to say, in the environment with sound legal development, corporations and political contacts will prefer implicit contract as the formal expression of cooperation, meanwhile, when the external environment provides fewer constraints and protections from the legal system, cooperation with political contact will tend to adopt explicit contracts.
Without the explicit contract, the corporate agent has no further option to get the payment back if the political contact does not fulfil the contract. Therefore, with the implicit contract, the corporate agent needs a way to guarantee the return of the corporate resource invested in political issues and also to send the signal that efforts have been made as the agent to improve the corporate performance. In the following section, disclosure is considered to further explore behavioural changes of participants of this contractual relation and of other stakeholders in conditions with different levels of information disclosure. The incentives for voluntary disclosure and the cost of the mandatory disclosure will be compared and analysed to shed light on disclosure regulations on corporate political spending.

3.3 The nature of the exchange and the disclosure of private unverifiable information

Under the implicit contract, it has never been and it probably will never be specified that the exchange happened during interactions between business and its political contacts. Various investigations have identified the effect of political connections, which can turn out to be both positive and negative. As Fisch suggests, politicians generate economic rent/revenues by selling rules to interest groups who pay for them with votes, campaign contributions, or both.\(^\text{171}\) For example, according to Hunt, Enron had received legislative favours, tolerance in “oversight of its risky financial derivatives, tax breaks and other privileges in exchange for six million dollars of political contributions”.\(^\text{172}\)

In the majority of literature as well as in reality, connections developed by firms towards political arenas have been taken as “political capital”. In relative studies, political capital has assorted definitions. Boddewyn defined political capital as “an unstated arrangement in which political actors (individual, firms, and politicians) believe and other political actors acknowledge a debt-reward obligation to each other”.\(^\text{173}\)

Political contributions as an investment have been made with the expectation of some benefit in return for their money. In return, candidates supported by contributions will be able to supply the “privilege” demanded by the “investor contributors”.\(^\text{174}\) The motivation of the contribution has been widely assumed as the possibility of the political process improving firm

\(^{172}\) See Albert Hunt “Enron’s One Good Return: Political Investments” 2002 Wall Street Journal.
\(^{173}\) See Jean J Boddewyn “Understanding and advancing the concept of nonmarket” 2003 42 Business & Society 42(3), at 297.
\(^{174}\) At [115] per Snyder.
performance.\textsuperscript{175} Hart has broadened the concept of political capital as economic rent in the form of policy favouritism. “Corporations, unlike interest groups, are seldom driven by a single issue or ideology. A corporation’s dominant objective is to maximise profits, not just to influence policy”.\textsuperscript{176} To summarise, as Ansolabehere suggested, “in three out of four research instances, campaign contribution had no stated significance on the legislation or had the wrong sign - suggesting that more contributions led to less support”.\textsuperscript{177}

The developed assets during the interactions between government and corporations, therefore, cover economic rents and political influence. By supporting political actions, enhancing political intelligence, employing public relation professionals, or encouraging the leadership to engage in political processes, corporations have been gaining political assets in the forms of experience, reputation and relationships through these investments.\textsuperscript{178} If the political capital is recorded in the balance sheet, it becomes a derivative as an investment in noneconomic resources.

Compared to the exchanged items, the transaction process is less well-known to the public due to lack of disclosure, and more importantly, the exchange is based more on trust and commitment rather than enforcement of the contract.

There are three main types of transaction described by Moln: first, unilateral transactions “occur when a policy actor or firm makes and executes a decision without any other parties knowing or having a veto over it”; second, negotiated transactions, “involves firms and actors engaged in a joint decision process by which they reach an agreement on the term of the exchange”; third, reciprocal transactions are “exchange performed separately and is not negotiated in the strict sense”.\textsuperscript{179} The exchange of political capital, as the nature close to the reciprocal exchange, are consummated over time and fulfilled eventually with a specific action.

Although exchange process theory in political science has been a long-term topic,\textsuperscript{180} Moln has further expanded the exchange concept from the narrow view of economic rents and

\begin{flushleft}
\textsuperscript{175} At [6] per Aggarwal, Meschke and Wang.
\textsuperscript{176} David M Hart, ““Business” is not an interest group: on the study of companies in American national politics” 2004 7 Annual Review of Political Science, at 47.
\textsuperscript{178} At [115] per Snyder.
\textsuperscript{180} Such as Robert Salisbury’s interest group scholarship, and Richard Emerson, Karen Cook from social science area, more details see Emerson, Richard M “Social exchange theory” 1976 Annual review of sociology, at 335; Salisbury, Robert H “An exchange theory of interest groups” 1969 Midwest journal of political science, at 1; and Yamagishi, Toshio and Cook, Karen S “Generalized exchange and social dilemmas” 1993 Social Psychology Quarterly, at 235.
\end{flushleft}
pay for play into a more precise political capital anatomy by looking into the five elements as below:

(1) The source of the participants' political capital;
(2) The contingency and trust nature of exchange fostered commitments or obligations;
(3) The type of exchange transaction;
(4) The foundation and intensity duration of a relationship; and
(5) The time elasticity applicable to capital exchange.\textsuperscript{181}

These five elements are determinants for various forms of government-business interactions – different combinations lead to miscellaneous exchange modes of political and financial capital. In the following chapter, the five elements will provide the main breakthrough point from which to examine the exchange processes in various institutional environments.

When it comes to corporate political spending, the core issue is whether the information is observable or verifiable. It is indisputable how much corporations have spent on political issues, yet it is dubious whether the corporation would like to share the information or further the status of the return.

The incentive of corporations to disclose information and how information disclosure as a market strategy is incorporated into corporate operation have been examined by various analytical studies. Voluntary disclosure has been identified as the result of competition as well as the characteristics of the corporation, as well as corporate governance.\textsuperscript{182} The main usage of disclosure as a signal of firm value has been widely recognised; moreover, it has been identified that disclosure can also affect the market price and cost of capital.\textsuperscript{183}

However, as for the disclosure of information about corporate political spending, less attention has been paid to the consequences and features of the topic-specific disclosure. Apart

\textsuperscript{181} At [179] per Moln.


from the policy petitions filed by Bebchuk and Jackson, which are mainly based on the rights of shareholders and the analogy of other newly emerged securities issues, and the rebuttal paper by Guttentag, research has been focusing more on the effect of corporate political donations rather than the effect of disclosures.\footnote{See Lucian A Bebchuk and Robert J Jackson “Corporate political speech: Who decides?” 2010 124 Harvard Law Review 124(1), at 83, and the rebuttal, Michael D Guttentag “Shareholder primacy and the misguided call for mandatory political spending disclosure by public companies” 2014 62 UCLA Law Review Discourse, at 97.}

3.3.1 Disclosure on implicit contracts: With unverifiable information, or unmeasurable assets

As in Myers and Majluf’s model, the negative-stock-price reaction will follow the release of private information on the value of the assets and new investment opportunities.\footnote{See Stewart C Myers and Nicholas S Majluf “Corporate financing and investment decisions when firms have information that investors do not have” 1984 13 Journal of Financial Economics, 13(2), at 187.} The information is conveyed to the market with the signal of the firm’s decision to raise new capital. In the financial market, a stock issue may act as such a signal of firm value.

Apart from stock issues, other signals have been identified as to firm value.\footnote{For example, corporate governance structure, financial index, managerial decisions have been examined as signals of firm value. More details see Kenneth M Eades “Empirical evidence on dividends as a signal of firm value” 1982 17 Journal of Financial and Quantitative Analysis 17(04), at 471; and Mike Burkart, Denis Gromb and Fausto Panunzi “Large shareholders, monitoring, and the value of the firm” 1997 The Quarterly Journal of Economics, at 693.} Corporate political spending has also been explored as one of the factors having an impact on a firm’s value.\footnote{See Amy J Hillman, Asghar Zardkoohi and Leonard Bierman “Corporate political strategies and firm performance: Indications of firm-specific benefits from personal service in the US government” 1999 20 Strategic Management Journal 20(1), at 67.} The content and effect of the signal, however, depends on the outcome of the decision. The discussion on the reaction of the market to information regarding corporate political spending concerns the reaction towards private information on both unverifiable and unmeasurable assets.

Disclosure of details of political donations is not that difficult. The consequences of the disclosure are what makes it challenging. When a firm is disclosing the information on political spending item by item, there are some potential risks from the reaction of internal and external stakeholders. First, unlike philanthropic donations, the outcomes of political donations require more time to be effective. Moreover, the outcome, such as policy change, comes in a more abstract way in that it needs further interpretation for average stakeholders; second, the verification on return of political spending is precarious – before the nature of the exchange can be excluded from corruption, the evaluation on the return is both legally hazardous for the company and politically delicate for the political parties; and third, there has been no unified
method measuring return on political spending, nor any effective audit approach on the evaluation. Even if the practice has adopted a new mode, there is still a risk from stakeholders’ reaction over a disagreement on political opinions, the arrangement of the fund and other issues simply regarding the fact of donation itself.

In consequence, corporations will face considerable marginal cost increases if the disclosure contents go further than the recipients’ details, such as names and amount. As the “full disclosure theorem” states,188 conditions must be met to reach the equilibrium of full disclosure:189

1. It is common knowledge that the informed party is indeed informed about her type; (2) The type space is one-dimensional, and types can be ranked monotonically in terms of payoffs of the informed party; (3) The informed party is able to send a certified message proving that her type is not below (resp. above) her true type; and (4) Disclosure is costless.

When conditions for the full disclosure equilibrium fail to be met, public information generated by voluntary disclosure cannot be sufficient for the market. On this occasion, mandatory disclosure law may be desired to ensure the public will have access to the information. In Shavell and Hagerty’s separate researches, the conditions for introducing the mandatory disclosure rule include the fact that information provided by voluntary disclosure is deficient.190 However, both studies have also pointed out the difficulty in enforcement of the mandatory law because of the possible existence of hidden action. When it comes to corporate political spending, it is not impossible but less possible for the firm to pretend to be ignorant about the spending due to the other version of disclosure by political parties.

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Is it redundant? The standard of “sufficient” also has added up to the complexity of corporate political spending disclosure. According to the Efficient Market Hypothesis (EMH), how much information a market demands and is able to digest depends on the level of the market’s efficiency, which is indicated by the degree of the stock price reflecting all relevant information about its value. Therefore, the efficiency of the market itself determines how much information is enough and which information is required.

Facing the potential cost of the disclosure, considerable numbers of corporations are voluntarily disclosing information on corporation political spending. In the following sections, incentives for the disclosure will be analysed by the disintegration of its elements to achieve a better understanding of the behaviour with the consideration of stakeholders from both inside and outside the company.

3.3.2 Disclosure on verifiable information: Details of corporate political spending

As the previous chapters describe, corporations from industries have been voluntarily disclosing information on corporate political spending, including details on recipients/issues, amounts and time. It is assumed that by disclosing the information, the firm will need to relocate certain corporate resources on gathering information and hiring consultants for the strategy of releasing the information.

Considering the scenario that the firm is disclosing the information regarding details of donations only, the basic cost of disclosing information will be \( C > 0 \). On evaluating the situation, boards of directors with control over corporate political engagement will take actions based on the cost and benefit of the disclosure.

Considering that the observability of the effort determines the compensation of the directors, directors will have no intention to hide the political actions that are conducted towards the best interests of the corporation within that corporation. However, when the information is about to disclosed to external stakeholders, their reactions towards the same information will be based on not only the future value of assets to the firm, but also their political stand.

Besides, the disclosure of information may cause a certain amount of cost, by either gathering relative information, or hiring auditors or strategists to certify and publish the

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information. By adopting the costly state verification approach developed by Townsend, Gale, and Hellwig, the design of the optimum condition is targeted at minimising disclosure (or audit) costs. To participate in political processes, the firm run by risk-neutral managers invests in political assets, including political donations, lobbying and other activities politically related, with the amount $R_p$, whose future value of time $i$ will be $R_i$, with the density function $f(R_i)$. The manager observes $R_i$, and can disclose $R_i$ to the external stakeholders only after a cost $C > 0$ incurred.

If until the time $i$, there is no certified information on $R_i$, investors will anticipate that the manager is pretending that there is no return on the spending. Therefore no kind of repayment will be made to the investors. On the other hand, it will also become more difficult for the manager to finance for the next term. On realisation of $R_i$, the manager will release information on $R_i$, with the probability $\phi(R_i)$ is certified.

Assuming the spending has a positive net present value, the optimal contracting problem reduces to a problem of minimising anticipated cost, subject to meeting the manager and political contact’s incentive constraints for disclosing the valid information, and the participation constraint:

$$\min_{\phi(R_i)} C \int_{0}^{\infty} \phi(R_i) f(R_i)dR_i$$  \hspace{1cm} (Equation 19)

Subject to:

(1) The investor’s individual-rationality constraints:

$$\max_{\psi} B = (1-\psi)[\sigma^0 + \psi^0[E[\mu_m(t)] + \mu_p(t)] - C(\mu_m(t)) - \sigma$$  \hspace{1cm} (Equation 20)

(2) A set of incentive constraints:

$$CE = \sigma + \psi[\sigma^0 + \psi^0[E[\mu_m(t)] + \mu_p(t)]] - \frac{[\mu_p(t)]^2c + \theta\psi^2D[\mu_m(t)]}{2} \geq v_0$$  \hspace{1cm} (Equation 21)

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(3) A set of limited wealth constraints:

\[ \mu_p(t) \in \arg \max_{\mu_p(t)} CE \quad (Equation \ 22) \]

The solution of the model is up to both the agents and the principal’s incentives. Other things being equal, all of them will reduce the disclosure as the cost increases. As a future realised asset, political spending is highly related to the fulfilment of the political contacts’ objective. Hence, the cost of the disclosure also needs to include the potential impact of the disclosure on political elections.

Therefore, the decision will be relying on propositions as follows:

**Proposition 2**: If a company has adopted voluntary disclosure on political participation, boards of directors must have included political participation as the evaluation parameters, which means managerial executives increasingly emphasise presentation of corporate performance. Therefore, the company tends to show more information that is positive to outsiders. Given the nature of the implicit contract, there is the possibility that the political contact directors have invested in will not deliver a satisfactory result. In that case, corporations with traceable records will have a greater chance of having their political contacts fulfil the implicit contract or part of the contract.

As Myers and Majluf have introduced in their analysis, future-centred assets incorporate uncertainty. Unlike other assets, political assets may have various returns within uncertain time spans. For example, the realisation of the spending is highly related to the term of office. Until the result of the election is published, there is no guarantee of realised return on the spending, even after the election. For campaign donations, the election result is only improving the chance that the firm’s political statement is fulfilled, but no return can be expected according to election laws and anti-corruption rules. The only legitimate positive result is that the political figure the firm has supported has implemented the policy that has led the firm to provide financial support for the political figures in the first place.

As for direct policy advocates, there is even more uncertainty over the realisation of the spending since there is no strict time span for any one proposal becoming enforceable regulations and law. In the United States, the Committee on Disclosure of Corporate Political

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193 At [185] per Myers and Majluf.
Spending submitted a rulemaking petition to the Securities and Exchange Commission in 2011.\(^{194}\) So far, more than one million comments on the proposal have been made to SEC. However, due to political pressure, the petition was removed at one stage from the SEC’s agenda.\(^{195}\) Although recently (2015), more support has emerged for this petition, the date when it becomes law remains unknown.\(^{196}\)

On the nature of the political spending in terms of a realisation time span, it is impossible for the firm to give exact numbers on what benefits the firm has received. However, it cannot rule out the possibility that the contributions and other spending are considered as “political credit”, which can be returned in certain ways in the future.

The disclosure on the return of this “political credit” currently is neither verifiable nor measurable. By applying the standard distribution of non-informative priors proposed by Zellner,\(^{197}\) the following chapter attempts to offer some inferences on this matter.

### 3.3.3 Mandatory disclosure introduction

When the information is required by the market, yet insufficiently provided by the voluntary disclosure, mandatory disclosure regulation is the common solution for lawmakers and regulators. How much information is enough for the market? This has always been a debatable question. Based on reviewing the literature on information theory, economic theory and financial theory, the common assumption can be summarised as that more information would make the market behave more efficiently. However, there are also researchers who argue that more information is not making us more rational or more efficient, and that this is due to its effect on fuelling behavioural biases and short-term tendencies.

Nevertheless, the fundamental question of mandatory disclosure is to rectify the information asymmetry. When some stakeholders possess private information concerning the firm’s actions relating to its value creation, while other uniformed stakeholders only have

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\(^{194}\) More details and the petition can be found, Committee co-chaired by Bebchuk submits SEC rulemaking petition on political spending: “Committee co-chaired by Bebchuk submits SEC rulemaking petition on political spending” (2011) Harvard Law Today < today.law.harvard.edu/committee-co-chaired-by-bebchuk-submits-sec-rulemaking-petition-on-political-spending/>.


\(^{197}\) Arnold Zellner An Introduction to Bayesian Inference in Econometrics (John Wiley & Sons, New York, 1996), No. 519.54 Z4.
access to public information, the problem of information asymmetry arises. Under certain circumstances, internal stakeholders, such as managers, lack sufficient incentives to disclose particular information to the public. Mandatory disclosure is, therefore, essential to turn private information into public information and reduce information asymmetry. Therefore, the necessity of introducing mandatory regulation depends on its effect of reducing enhancing information distribution among stakeholders and other economic consequences such as corporate governance, liquidity, and the cost of capital.

When information asymmetry exists, informed traders, under the assumption of rationality, will submit orders to profit from price changes, while the market makers will widen the spread to recover their loss to the informed traders from the uninformed investors. Moreover, under the condition of disclosure and public access to the information, market participants will react towards the information if it is new and is a determinant of the future stock price. The release of information leads to changes in investment decision-making; therefore, the price will change due to the information.

**Proposition 3:** Entity market participants will act in response to the information that mandatory disclosure regulation will be placed on corporate political spending; however, given the differences between corporations and their choices on political participation, shareholders of each company will react differently towards the mandatory disclosure regulation.

In the following chapter, the effect of mandatory corporate political disclosure is tested by a mixed method. First, an event-study model explores the reaction of the market towards information on corporate political spending. Second, a microstructure model of the bid-ask spread is used to measure the degree of market information asymmetry by using high-frequency trade and quote data as two proxies, which are designed to capture the price impact of a trade. Accordingly, these three propositions will be adjusted into testable hypotheses for statistical tests.

In this way, the necessity of introducing mandatory disclosure is given some empirical support. Surely if sufficient truthful information is provided voluntarily, there is no necessity in introducing mandatory disclosure. However, if individual contracting parties have more renegotiating power than the level at which a committed device is introduced, which is further tested in the next chapter, mandatory disclosure will be one of the choices by which regulators can enhance the overall welfare.
3.4 Brief summary

In this chapter, the nature of corporate political participation has been reframed through the lens of Nexus of Contract Theory. By changing the perspective, this thesis suggests that corporations have been participating in political processes as actions to build coalitions with their political contacts. On the one hand, boards of directors have every reason to improve corporate performance through the market and non-market strategies. On the other hand, when public policies have been shaping the external environment for business, boards of directors extend their internal incentives to the external connections with the political world. Under such circumstance, corporations have been offering their political contacts contractual relations, for which, corporations provide their financial support for political contacts to pursue the political goals, and on achieving these goals, corporations will have the possibility of gaining backing from their political contacts when they are in public offices.

Based on a classic principal-agent model, this chapter inquiries into the contractual relation between corporations and their political contacts. With a comparison of incentives for boards of directors and political contacts under an implicit contract and an explicit contract, this chapter argues that political contacts prefer the implicit contract as it brings the same return and less political risk. Meanwhile, corporations who lean heavily on public policies will keep a record of the expenditures – voluntary disclosure on political spending, as a means of increasing the chance that their political contacts will fulfil the implicit contract.

The goal of this chapter has not been to legitimise the implicit contract between corporations and their political contacts. The focus is, rather, on theoretically determining the regulatory background of corporate political participation and its disclosure. In order to clarify the mechanism of corporate political spending and its role, this chapter has applied the concept of an implicit contract to the perplexing phenomenon of campaign finance. Not only does this approach allow outsiders to achieve a better understanding of corporate political behaviour, but it also provides for a possibility of testing the market perception on this implicit contract and the potential effect of disclosure-based regulation.

Overall, this theoretical exploration on corporate political participation and its related disclosure has laid a solid foundation for further analysis in this thesis. It highlights the nature of the interactions between corporations and political players, and illustrates a different comprehension of how the interaction works and what the interaction aims to achieve. Insights provided into the regulatory preference of each party in this implicit contract together with the
function of voluntary disclosure and disclosure-based regulation aids the understanding of current legislative advocacy and potential changes. Therefore, this theoretical background makes a further component essential to the following analysis of reactions from entity participants on corporate political participation and its disclosure.
Disclosure with purposes: Defining implicit contracts through integrated reporting

Controversies on mandatory disclosure regulations regarding corporate political spending centre on whether or not it can serve its purposes. On the one hand, supporters of such regimes argue that it will enhance shareholder knowledge about corporate political issues and participation in decision-making processes. Moreover, it is also believed that more disclosure from the corporation side will shed light on money in politics and prevent quid pro quo corruption. On the other hand, it is also suggested that the same information will supply traceable evidence of corrupt actors seeking further returns, or as conceptualized in this thesis, the disclosed information will provide records for private actors in order to determine whether or not connected politicians have fulfilled implicit contracts, or disclosing the pressures on politicians to fulfil such implicit contracts.

There are two main sides to implicit contractual endeavours from the corporation side, campaign donations and lobbying. For political campaign contributions, if the corporation intends to enter into an implicit contract between the company and politicians, making campaign donations is one common way to build connections with politicians who are running for office. Meanwhile, for lobbying activities, the contract is established between the corporation and lobbyists to achieve the ideal legislative objectives for businesses, which is conditional on the outcome of the interaction between lobbyists and legislators, regulators and other relevant public officials. Bridged by contracts between the corporation and lobbyists, the company builds the connection with staff members in public offices, not just politicians with uncertain futures. As for the concern whether this implicit contract will serve the best interests of the corporation or directors themselves, the analysis is based on the assumption that the return on corporate political spending will be seen in the stock price of the corporation if it indeed benefits the firm as a whole.\(^{198}\)

\(^{198}\) It may also depend on the compensatory structure of executives, for instance, if stock options take a major portion of the compensation plan, executives will have high motivation to seek all means to improve corporate performance, including political participation. However, for convenience of analysis, this thesis will simplify the case as proposed.
The previous chapter explored the rationale for corporate political participation from the perspective of intra-firm decisions based on the theory of the firm. In order to gain a better understanding of the potential consequences of corporation-initiated disclosure on the dual-implicit contracts, the role of disclosure during the entrance, maintenance or existence phases of the implicit contract between corporations and politicians is further discussed in this chapter. To identify whether corporations can obtain an advantage by developing a connection with political players and participating in political processes, the analysis now shifts to examining the role of disclosure in implicit contracts based on corporate political spending. This analysis also assists in identifying other features of the institutional environment which contribute to either promoting or to diminishing the return on corporate political spending by comparing cases from different institutional environments. The institutional domains are divided into distinct arrangements that enable and facilitate transactions in the implicit contracts, from both economic and political markets.

### 4.1 The anatomy of implicit contract between corporations and political players

Based on provisions proposed in the previous chapter, this section furthers the discussion on the role of disclosure and the implicit contract between business and political actors by refining the provisions into testable research questions. Based on individual analysis of elements constituting the implicit contract, this section advances the theoretical analysis with testable hypotheses. The source of political capital is the core of the transaction of the implicit contract. Moreover, the nature of the transaction, the type and the timeframe of exchange, are essential to a more comprehensive understanding of the implicit contract.

![Figure 23: The effect model of disclosure on corporate political spending](image-url)
As shown in Figure 23, the effect of corporate political participation can generally be categorised as costs and benefits for the corporation as a whole. The introduction of disclosures about such behaviour, as described in the preceding chapter, will affect corporate performance through the two channels as costs and benefits, and ultimately the status of agency costs and transaction costs through stimulatory and inhibitory effect created by positive regulation and negative regulation separately. The following section explores in more detail which particular parts of the corporation are influenced by corporate political participation, as well as disclosure on spending.

4.1.1 The source of political capital

As the foundation of the implicit contract between corporations and political players, political capital is a concept that shares the nature of other types of resources. Being a form of capital, political capital is also expected to be productive, although limited to specific conditions. Political capital is connected to the power of politicians and their positions, and is determined by the institutional structure and political orders as well. Unlike other types of assets, political capital is accumulated in public relations. The transaction happens among politicians not just based on relations, but also embedded in the institutional arrangement of political capital exchange among political figures.

Political figures have the potentiality to influence the political conditions of economic activities, which have been generating economic rents. As Stigler pointed out, politicians in office will be inclined to increase the demand for regulations favourable to an industry or firm when attempting to control political competition or to promote strategic ideas.\(^\text{199}\) Corporate political capital is the collection of beneficiary results developed based on the relation between corporations and the government or politicians.\(^\text{200}\) As described in the previous section, this connection may equal preferential treatments, which include less taxation, advantageous regulations or regulatory enforcements, and other favourite possibilities.\(^\text{201}\) These results cannot happen until the completion of transactions between other assets and political capital. As part of the contract, corporations have adopted various ways of accumulating exchangeable

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assets for political capital. For instance, this may operate by offering gifts to government officials without reciprocating purposes, or by more legal conduct, such as campaign donations, lobbying, corporate philanthropy or other interactions with government officials and politicians.

Based on these endeavours, corporations have gained a future opportunity to manage external constituencies, which will finally be converted into financial capital. Consequently, firms can achieve better overall performance due to sufficient resources. Thus, it is anticipated that the positive effect can show in firms’ performance when financial capital for political capital has been successfully exchanged. Furthermore, in practice, due to differences in degrees of governmental intervention or governmental control over economic rent, the performances of the political capital may vary.

4.1.2 The contingency and trust nature of exchange fostered commitments or obligations

As described in the last section, the transaction between corporate political capital and financial capital usually does not happen on the occurrence of corporations’ political participation. For the implicit contract, the transaction is not necessarily accomplished at the same time. Particularly for the case of corporate campaign donations, corporations have shown their support for political candidates during election campaigns with considerable amounts of donations. The “contract” cannot be performed until the related politicians are in public offices. Furthermore, the performance is based on credibility, or the willingness of politicians to fulfil the implicit contract, either by sticking to the original political agendas which corporations have supported or by adjusting public policy as donators prefer after taking office. However, whether the politician can deliver on the promise and fulfil the contract depends on the willingness of the politician, which is the result of considering legal and resource constraints.

It is, however, a different case with lobbying. The progress of lobbying is dedicated to professionals who get in contact with public officials. Lobbyists have played the role of bridging the implicit contract between the corporation and political officials. According to a common lobbyist service agreement, lobbyists agreed to provide professional lobbying services before government bodies and secure legislative goals for the contracted corporation. When it comes to lobbying, it is usually the assumption that most of the interactions have been happening between lobbyists and government officials. However, every single copy of a lobbyist’s service agreement includes the requirement that lobbyists are obliged to lobby government officials in the best interests of corporations, for which lobbyists are being paid
according to the degree that lobbying activities have met the corporation’s goal. This explicit contract, however, is built on the firm’s trust of lobbyists, and also on the trust of lobbyists in governmental officials.

Nevertheless, the outcome of the implicit contract and whether the transactions are able to be proceed to depend on the credibility of political players, including current officials and politicians who are running for office. Therefore, it can be deduced that corporations and lobbyists face less risk when government officials are more “trustworthy”. Hence there will be a higher expected outcome from corporate political spending.

4.1.3 The type of exchange transaction

The most critical discussion in the corporate political participation concerns what exactly the transaction is and how it has been happening. To uncover this implicit contract between business and governments does not significantly lead to a charge of corruption, yet the contents still matter for stakeholders. Unlike other commodities, political capital is not necessarily translatable or effectively working for the other party immediately after the “payments” are made. These payments include but are not limited to fees the firm has paid for campaign donations and hiring lobbyists. For the sake of simplicity, this section decodes the processes of exchange between financial capital and political capital by borrowing terms from asset accounting.202

Payment—in this case, the sum of corporate political spending, which is charged as a specific amount against corporations or associated organisation, and marks the transaction for immediate funds transfer during the next settlement period.

Credit—based on the previous spending, the specific amount expected to be returned to the corporate account. In this case, the return may come in various forms, but finally, it will show in the corporate performance.

Authorization—the request to charge a corporation. It describes the process of political parties raising funds for election in cases of corporate campaign donations.

It is assumed that before the payment is made corporations may agree to support political players with campaign donations or with other sources of financial assistance, it can be

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considered as the authorization from the corporation. Once the payment has been made, in other words, the financial capital has been transferred to the side of the political player, the corresponding amount of credit is for the corporate to collect. With the credit owned by corporations, politicians have obtained more financial resources for reaching out to voters. Although there is still no affirmative evidence to show a correlation between the chance of winning the election and the politicians’ financial strength, financial resources, as one of the most convertible resources for campaigns, will add to the campaign in certain ways.

However, due to the opacity of the implicit contract or its restricted disclosure, the timeline and specific terms of the remainder of the exchange is not clear to outsiders. It appears to the masses that, after politicians take public offices, the favour will be returned in the form of favourable public policies, which is one way to complete the implicit contract for political players. In reality, it usually takes more steps than that simple appearance due to the adoption of democracy in politics.

For representative democracies, there is also a difference between a parliamentary system and a presidential system. Under a parliamentary system, the government operates by delegation to an executive ministry and is subject to a legislative parliament elected by the people while in a presidential system the president has most of the executive power of being the leader of both heads of state and government. In a presidential system, the president is less subject to the legislature in terms of chance of being dismissed from the position. Due to the “checks and balances” in various systems, how and how much political parties/candidates who have accepted financial support from corporations can give fair value back is limited by legislative, executive and jurisdictional conditions.

4.1.4 The foundation and intensity duration of a relationship

As Emerson raised in his question in 1976: “how long does a political capital exchange outcome last? When do commitments expire? When are contingent obligations over?” As the priorities of the firm, the appointment of executives, the election results of politicians change over time, so formed connections, formulated issues, and founded environments evolve as well. “There is a time elasticity embedded in political capital exchanges”. The time

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206 Ibid.
elements in political capital exchange shape the occurrence of the exchange, because with the constraints imposed by time elements corporate executives and politicians may change their strategic priorities after terms of service end.

However, the exchange will vary if the time element is taken into decision-makers’ consideration. As described in *Business and society, corporate strategy, public policy*, the extent of stakeholder interest increases and then decreases after reaching a certain point as time goes by (see Figure 24 as below).

![Figure 24: Trends of issue development with perspective of stakeholders’ interest](image)

**Figure 24: Trends of issue development with perspective of stakeholders’ interest**


From the figure above, issues are described as existing with a life cycle.\(^{207}\) The optimal timing for making an implicit contract is determined by both the life of issue and managerial discretion on the political issues related, which also varies in different political participation methods.

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\(^{207}\) See William Crittenden Frederick *Business and Society: Corporate Strategy, Public Policy, Ethics* (McGraw-Hill Companies, 1988) at 81.
As shown in Figure 25, time spans for different corporate political participation may vary according to the specific method. For political elections, the degree of political competition changes over time according to distinct phases of elections because there are usually limitations on terms of office. Corporations normally participate in the process with financial support from when the campaign begins until the election, and directors will incorporate evaluation of the results into the next electoral cycle. Meanwhile, unlike political elections, lobbying activities may take a longer time to gain any result on the legislative changes. For lobbying processes, corporations may initiate lobbying activities on recognising the importance of the legislative issue until the legislature has introduced change. It is assumed that for a particular public policy
issue, the timing for entering the implicit contract is at the crossing point between the life curve of the issue and managerial discretion trend line. In that way, managerial discretion will influence the entrance of the implicit contract with political contacts and potentially the following corporate performance, however, with a different time span according to which this participation will come into effect, depending on how the corporations have engaged in political processes.

From the above analysis, the implicit contract between corporations and political contacts is based on the existence of governmental control over economic rents. To transfer the form of economic rents to the form of corporate performance, external environmental factors, such as the credibility of parties involved, the nature of the political system and managerial discretion will all influence outcomes of the implicit contract.

4.2 Do firms want a credible commitment?

Given the implicit nature of the contract, this commitment will not be court-enforceable or protected by any laws or regulations. To ensure the validity of the contract, especially during the stage of consummation, contractual parties may adopt measures to assure contractual obligations to be complied with inside the contractual period, which provides key information and a reference point for the next similar situation. In this case, assuming no negotiations and perfection stages of establishing the contract are allowed by law, when a corporation and political players enter into an implicit contract to capitalise the political capital, the political spending cannot in itself guarantee delivery of the implicit contract.

Despite the fact that the comparative powers of parties vary across nations, the party associated with the government is usually the one that has more power among interactions. Therefore, once the corporation has made the offer by spending on political issues, the corporation will be in the position of waiting for the other parties to comply with their expected obligations. However, since the implicit contract is not necessarily performing, the corporation will face the risk of losing the financial resources invested in political capital. That risk consistently exists, and surely, the corporation is aware of it. In taking the risk, the corporation may also adopt precautions to reduce the loss in case of non-performance of the contract.

Disclosures of corporate political spending, apart from their traditional function as a means of improving transparency, also serve as bookkeeping on political spending for the corporation. Compared to disclosures required by campaign finance laws or lobbying acts,
disclosures by corporations give a clear indication of how a political player is related to business. With the trail of political spending on a political candidate, or a particular public policy issue, this effort of the corporation can be reviewed and evaluated without too much trouble. The accumulation of corporate political spending and information will form a thread that is traceable to the political players as their dependence on corporate political spending grows. Therefore, the disclosed information from the corporation side can serve as a measure to help enforcement of the implicit contract.

In the following sections, this study further investigates the question of how the disclosure on corporate political spending is serving the goal of securing the implicit contract. Based on the performance of the implicit contract, relevant corporate governance structure and the market environment of corporations, the result of theoretical analysis has been developed into testable hypotheses for further empirical examination.

4.2.1 Disclosure and corporate market value

Initiated by corporations, corporate political participation has been formed according to a very clear motivation of interest. With the same motivation, disclosure on corporate political spending will serve the same purpose.

Due to the implicit nature of the transaction and legal constraints, corporations cannot demand that political figures deliver any of their objectives, or even admit to the fact that “payment” from corporations has been received. In this case, voluntary disclosure on corporate political spending functions as “bookkeeping” for costs of political capital. This record will not only provide corporations with evidence with which to conduct the internal evaluation, but it will also shape an external pressure driving politicians to keep promises on receiving financial support from corporations. Therefore, it is assumed that corporations with voluntary disclosure on political spending are exerting more significant influence on market value than their peers without voluntary disclosure.

4.2.2 Disclosure and corporate governance

Based on the concept of corporate citizenship, political preference may develop as part of the character. Although it is not always the case, in most cases a company has an economic interest in the results of legislative, regulative and other political processes. Corporate political donations have been made with the intention of influencing these results and ultimately improving competitive corporate performance.
However, with principal-agent relations, it is also not easy to distinguish the political behaviour of the company whether led by the interests of the company or by the interests of executives. For corporate executives, to build connections with political players and governmental officials may also benefit the growth of their personal networks and career development in the future. If the corporate political spending is made mainly because of personal reasons, approaches and their contents may be adjusted according to a specific goal. Certainly, there is a possibility that the motivation is mixed. For example, in the case of managers with a higher proportion of stock options in their remuneration plan, executives may participate in political processes for their own benefit due to the incentive shaped by corporate governance, which ultimately will benefit the performance of the corporation. To that end, the performance of the implicit contract is also fostered by corporate governance status because of the existence of principal-agent relations.

According to the Financial Markets Authority New Zealand, principles for Corporate Governance include, “ethical standards”, “board composition and performance”, “board Committees”, “reporting and disclosure”, “remuneration”, “risk management”, “auditors”, “shareholder relations”, “stakeholder interests”. 208 Based on the guidelines, patterns of corporate governance are distinguished from one another by different features. For instance, board composition, relating to the numbers of executive and non-executive director and independent directors on the board, significantly influences the structure of corporate power and hence the decision-making processes. In addition, it has been assumed in the literature that the personal philosophy or attitude of the chairperson drives the extent to which political issues can be recognised and incorporated in daily operations of the firm. As the chairperson, s/he is responsible for fostering the corporate governance culture; the character of the chairperson may also affect the process of forging corporate strategies.

4.2.3 Disclosure and competition

In the market, a firm cannot avoid competing with its peers. Especially at a time when every piece of information is being analysed, information disclosed voluntarily has become one major channel through which corporations establish their brand and conduct effective marketing, which will ultimately be turned into corporate profits or gains for stakeholders of the corporation. Based on the previous hypothesis, if voluntary disclosure on corporate political

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spending can serve to promote the performance of the implicit contract, the voluntary disclosure will become a means of earning a strategic edge in the market. In a competitive market, if business competitors have adopted voluntary disclosure on corporate political spending, the firm will face advantages and disadvantages at the same time.

Given that other market participants are making voluntary disclosures on corporate political spending, a firm with political participation yet no disclosure creates the image of low transparency. Besides, corporations without records on corporate political spending will leave the opportunity to make a public disclosure to the political players. As for the implicit contract between corporations and their political contacts, the lack of traceable record from the corporation may fail to serve the interest of the corporation, either because the record can serve as a guarantee for implementation of the implicit contract or as evidence supporting the amount that political parties have disclosed.

4.3 Do politicians want the credible commitment?

For political players who are connected with corporations, the risk in this implicit contract is dependent less on the politically related parts than on obtaining extra support through corruption. Because the establishment of the contract is based on the receiving of financial support from the other party, political parties or governmental officials have less pressure to comply with the obligation. On the one side, it is not legal for a corporation to expect a return on political spending which waives the legal responsibility from the political players. On the other side, political players may lose their financial support in the next round if they underperformed in the initial period. As political issues or political careers run over a longer time span, performance from former periods will affect the evaluation of the political player and hence the financial support s/he can get.

The money received by political parties or lobbyists has been disclosed under the regulation of campaign finance laws or lobbying disclosure acts. However, due to the priority of these regulations as preventing the occurrence of corruption, the disclosed information mainly reports from the perspective of political players. Information on corporate participation is scattered in the campaign finance database. Provided there was another formality in which the same dataset yet with the focus on corporations’ political participation and information signalling financial support from a corporation or a group of particular interest, political contacts are anticipated to face more risk of corruption conviction if any corresponding
favourable treatments have been given to the corporation or interest group with reduced effort to contrast and compare.

Whether the rearranged information will promote the welfare of political players, the following sections will explore possibilities from the effect of this information on the election results for political parties and political accountabilities.

4.3.1 Differences between disclosure with different disclosure initiatives

Information overload is one concern resulting from corporation-oriented disclosure on political spending. As for the information itself, it is indeed repetition to be published twice – one time from the political players/recipients, another time from corporations who consist of large donor group. However, for different audiences, this repetition is the way that stakeholders with different priorities can reach the information without too much cost.

Disclosure oriented around regulations aiming at transparency in politics mainly serves stakeholders in political cycles, and contents, forms and frequency of disclosures are forged accordingly. The common practice is that political parties are required to disclose donations received during election campaign periods, which start earlier than the election date.\(^{209}\) Therefore, the contents and donation information are organised according to the political parties/candidates, which information is only available after the election in some jurisdictions.\(^{210}\) Consequently, the availability of the information is also formed by the election cycle.

Compared to politics-oriented disclosures, information released by corporations takes another perspective. Not only is it organised in the corporate sequence, but the frequency is also usually annually or semi-annually. In this way, disclosures fit business reporting cycles, rather than political cycles. Stakeholders of a firm are able to acquire the information on corporate political spending, which is becoming more influential in corporate market value.

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\(^{209}\) For example, in New Zealand, a campaign must be less than 40 days because of laws and conventions. In other countries, there are average lengths, such as 36 days for Canada, 33 days for Australia, and 12 days for France, 9 days for Singapore. Moreover, there are also limitations on the lengths, for instance, campaigns are allowed for 12 days, at 31, 32 and 77.

\(^{210}\) See Electoral Act 1993 s 205 – 209.
4.3.2 Disclosure on political spending by firms and political accountability

Not all information on donations can be found in a campaign finance database. According to the election finance law, political parties have to disclose donations received above certain thresholds, including from corporation-related organisations or corporation-hired lobbyists.\footnote{Ibid, at s 207.}

Partial information disclosure may endanger political accountability by diminishing the original objective of disclosure as a regulatory system. When political constitutions meet another set of incomplete contracts, there is more room for misuse of communal resources.\footnote{Persson and Tabellini pointed out in 1997 that, “Political constitutions are incomplete contracts and therefore leave room for abuse of power.” More details see Torsten Persson, Gerard Roland and Guido Tabellini “Separation of powers and political accountability” 1997 The Quarterly Journal of Economics, at 1163.} With the possibility of adopting proportional donations to avoid going beyond the disclosure bar or of taking advantage of an anonymous donation stream, there still exists the risk of \textit{quid pro quo} under the table. Moreover, with systematic defaults, disclosure as a regulation on the campaign has limited regulatory effectiveness itself.

Moreover, information disclosed according to campaign finance laws is not designed for corporate investors to use. To retrieve information regarding a specific corporations’ spending for a certain politician, it usually will be necessary to know more to conduct a search in the database. Otherwise, an average investor may need to go through the whole database to find the relevant information of interest.\footnote{For reference, take the US relevant database for example, “The Lobbying Disclosure Act Database” (2015) The United States Senate <sopweb.senate.gov/index.cfm?event=selectFields&reset=1>, or the “Campaign finance information disclosure database” (2015) The United States Federal Election Commission <www.fec.gov/data/DataCatalog.do>.
}

As a result, an average investor/voter will get only part of the information on corporate political spending.

The representative relations in a democracy are realised through the procedure of election. Upon forming a government, the elected representatives will be held responsible for the results of their past actions. However, when politicians have developed their own goals or interest in this procedure, the representation may be less accountable.

Whether the information on corporate political spending prepared by corporations will increase accountability remains unknown, yet it is the means of double checking the story to reduce the occurrence of corruption following the election stage.
4.3.3 Disclosure and election

Disclosures required by campaign finance laws have been pursuing comprehensive objectives, including anti-corruption, public education, political privacy and public participation. Furthermore, the ultimate goal of campaign finance laws is concentrated on kerbing the inappropriate influence of money in politics. Given the objective, the mechanism of disclosure is based on the hypothesis that voters can be informed of appeals regarding corruption among campaign donations. Whether the hypothesis can be raised to practical certainty depends on the possibility that the disclosure can either discourage illicit donations or encourage voters to punish the candidate because of the corruption appearance, without further prohibition and penalties from other direct regulations.

Hence, not only has the disclosure regulation shown the effect on the election result, but also the objectives listed above have become achievable. Despite it is not being very difficult to track connections between corporations and star players in politics nowadays, it appears neither donors nor politicians have a problem with information released regarding the connections. Doubts raised concerning the effects of campaign finance disclosure on election results, starting with the accessibility and affordability of analysing the information for voters, have added to the conundrum. Moreover, compared to using the database on campaign finance, voters are more sensitive to information prepared by media or political players themselves, for which the narrative can be adjusted to serve their own purposes. Therefore, information released through the channel of campaign finance disclosure can only serve the regulatory goal to a limited level.

Meanwhile, it needs to be established whether disclosure from the corporation side reinforces transparency of the implicit contract between the corporation and the government. For connected government officials or politicians, this reinforcement leads to potentially harmful suspicion of corruption.

To summarise the above elements of the implicit contract between corporations and their political contacts, and lay the foundation for further empirical tests, the theoretical exploration above and in Chapter Three is developed into hypotheses as below:

**Hypothesis 1:** To secure the implicit contract, corporations which have engaged in political processes tend to voluntarily disclose the information to the public to keep the records.

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Hence, it is possible that the more a corporation has “invested” in politics related issues, the more the corporation will value the implicit contract and want it fulfilled, which leads to more voluntary disclosure.

**Hypothesis 2:** If the voluntary disclosure did serve the purpose of urging the political contacts to fulfil the contract, the results brought by this contract can be found in changes of corporate performance, and further shown in security price.

**Hypothesis 3:** How entity market participants react to the possibility of introducing mandatory disclosure regulation partially shows how useful the information is for them and how beneficial corporate political spending is for the corporation from their point of view.

### 4.4 The mandatory corporate political spending disclosure: Empirical evidence from the US market

To test the above theoretical analysis in the real world, data on corporate political spending, corporate financial basics, and corporate stock prices have been gathered to examine the relations in propositions and hypothesis. Cross-national research should provide stronger evidence on how this topic-specific disclosure regulation is performing and is demanded by the market, yet it is not feasible at this stage, due to lack of legislations and data, to reach a valid comparison.

Hence, two countries have been chosen as the sample for further research. The US has been an outstanding country when comes to the scale of corporate political participation, with rich data and legal cases on corporate political spending. Recent rulemaking petitions calling for disclosure-based regulation have also provided future opportunities to conduct research into the legislative change. In the next chapter, China is included as another example. As a developing country, China has been progressing expeditiously with regard to its gross domestic product, yet the economy is full of uncertainty due to its institutional factors. As an example which differs from the US from most perspectives, the study of how the market perceives Chinese government-business relations may open up further possibilities for introducing laws and regulations for corporate political participation. However, the fact that neither China nor the US is representative of the rest of the world makes the case studies on the two countries initial tests on the theoretical analyses.

Based on previous background introductions on the US market and theoretical analysis, this section focuses on the response from equity markets towards corporate political
participation, voluntary disclosure from corporations on political spending and the adoption of mandatory disclosure regulation on corporate political spending. To be specific, in this study, key events that indicate the adoption or abortion of disclosure regulation on corporate political spending have been examined through market perceptions by using event study. Currently, one of the major markets, the United States, is experiencing changes in this pending regulation, providing the opportunity to observe markets’ reactions towards the adoption of these changes. Meanwhile, in some emerging markets with huge legislative potential and demands, corporate political participation has also become noticeable due to its growing scale in amount and depth. Moreover, according to previous theoretical analysis, political market reactions may also consist of costs and benefits of the introduction of the regulation. Therefore, recent political events have also led to observation of the responses from the political participants.

4.4.1 Methodology, data and variables

Consistent with prior theoretical discussion to the market reaction to events suggesting the possibility of the introduction of mandatory regulation on corporate political spending, this section uses an event study to capture market reactions to the regulation of disclosure on corporate political spending. To further understand the market reactions towards information on corporate political participation, it is assumed that (1) beneficial political relationships should result in a higher share price, (2) if relationships are not known then their revelation should affect a share price – positively if the relationship is perceived as good, negative otherwise, (3) if announcements are made that implying that revelation will become mandatory the this will affect share price according to the previous assumption. Among all empirical study methods, the event study is chosen because that otherwise the effect of political relationships is too tied with other determinants of the value of the firm to be distinguishable. Therefore, events that isolate the impact of political relationships and news of a change in the regulations have been chosen to distinguish the effect as mentioned above.

By using a five-day span event window, the measure aims to capture the anticipated effects of events through firms’ stock prices. Following prior research, the measure focuses on the aggregation of market responses across the observed events. This research focuses on

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216 See Christopher S Armstrong and others “Market reaction to the adoption of IFRS in Europe” 2010 85 The Accounting Review 85(1), at 31.
events identified as regulatory events affecting a large population of firms and examined by the non-regulatory news.

To be more specific, this section examines cumulative abnormal return ($\text{CAR}_{it}$) as a dependent variable, identified as affecting the possibility of future legislative change. This section focuses primarily on whether disclosure on corporate political spending induces an increase or decrease in operating performance or market value. It requires data on CAR on disclosure of corporate political spending, operating performance, market value, corporate governance, voluntary disclosure behaviour, and external political environments that might influence operating performance. In the following section, the relationship between CAR and performance is estimated in Equation (1).

$$\text{CAR}_{it} = \alpha + \beta \text{cps}_{it} + \gamma \text{vd}_{it} + \delta' x_{it} k_{it} + \sigma_{i(k)} + \epsilon_{it}$$  \hspace{1cm} (Equation 23)

Where, $\text{CAR}_{it}$ is the cumulative abnormal returns, evaluated based on return measure accumulated over days (-2, +2), where day 0 is when event date. The window is this width based on comparison among window widths, such as (-5, +5) and (-10, +10), yet (-2, +2) has shown as more statistically salient. $\text{cps}_{it}$ is a measure of corporate political spending in the year $t$; $\text{vd}_{it}$ is the measure of voluntary disclosure on corporate political spending for the firm $i$; $x_{it} k_{it}$ is a vector of time-varying experimental variables; $\sigma_{i(k)}$ is an industry dummy for firms in the industry $k$ and $\epsilon_{it}$ denotes the error terms. Moreover, to explore relations between corporate political management status and other variables, Equation (2) is also estimated, where $\text{CPS}_{C}$ represents the annual corporate political spending that includes campaign donations and lobbying spending:

$$\text{CPS}_{C} = \alpha + \beta \text{cps}_{it} + \gamma \text{vd}_{it} + \delta' x_{it} k_{it} + \sigma_{i(k)} + \epsilon_{it}$$  \hspace{1cm} (Equation 24)

Data used in this research covers data from various sources, including Compustat, CRSP, IRRC/RiskMetrics and the Centre for Responsive Politics (Opensecret.org). Firstly, key dates of events are selected since the start of the rulemaking petition requesting the U.S. Security and Exchange Commission to feature key updates on the legislative possibilities. This research has categorised events into positive and negative groups according to the event’s effect on the regulatory adjustment. Three events are chosen for groups of events that contain both positive
and negative news on the passage of the mandatory disclosure regulation on corporate political spending. For political events, this study chose to look at the day when the US Presidential Candidate Hillary Clinton announced her support for disclosure regulation on corporate political spending. More details on events chosen for the event study can be found in Table 6.

Based on data sources, I collected data on measures of corporate political spending, voluntary disclosure behaviour, corporate performance, governance and external institutional factors to examine the relations. With the data sources listed above, data on cumulative abnormal returns is aggregated from the events, corporate political spending amounts, scores on voluntary disclosure, corporate performance, corporate governance, and other factors that might affect corporate political behaviour.

**Variables of market reaction on legislative changes on corporate political spending**

To evaluate the market reaction towards legislative variations on corporate political spending, this research deploys cumulative abnormal returns calculated based on the methodology of the event study. As described earlier, the events have been divided into two groups, one group suggesting that the legislation will change towards the passage of mandatory regulation on corporate political spending, and another indicating the legislator will not require information disclosure on political spending from corporations. Accordingly, two variables are created, $CAR_{positive}$ and $CAR_{negative}$ equalling separately aggregated abnormal returns over grouped events.

**Corporate political spending variables**

The corporate political spending data is from the Centre of Responsive Politics, which provides information on the amounts that corporations have spent on donation in each election cycle and on lobbying activities in selected years. Based on data provided, four variables are involved, $CPS_C$ and $CPS_L$ representing separately the amount of expenditures on campaign contributions and lobbying. $CPS_C$ and $CPS_L$ will take nature logarithms to reduce the possibility of heteroscedasticity. $CPS_{cf}$ and $CPS_{lf}$ are dummy variables that indicate whether the firm has spent any contributions on campaigns or lobbying (0 indicates that the corporation has no political spending during that year, 1 indicates that there is relevant corporate political spending in that year).
**Variables on voluntary disclosure of corporate political spending**

The Centre for Political Accountability has collected and scored around 500 companies in the US based on their disclosure, regulatory policy and oversight structure. Despite the argument that this database was set up with the aim to “inhibit corporate speech”,\(^{217}\) it is one of the most comprehensive databases on the topic. From the dataset provided, this research employs percentages that indicate how firms performed in providing information, intra-firm regulations and oversight institutions in the year 2004 to form variables disclosure, policy and oversight. These variables provide information on the degree to which firms have prepared for the management of corporate political participation, with a scale from 1 to 100. In Table 5, components and marking systems of these indices are listed below.

Table 5: The scoring guideline for disclosure, policy and oversight variable in 2015 CPA-Zicklin Index\(^ {218}\)

<table>
<thead>
<tr>
<th>#</th>
<th>Indicator</th>
<th>Max Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Does the company publicly disclose corporate contributions to political candidates, parties and committees, including recipient names and amounts given?</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Does the company publicly disclose payments to 527 groups, such as governors associations and super PACs, including recipient names and amounts given?</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Does the company publicly disclose independent political expenditures made in direct support of or opposition to a campaign, including recipient names and amounts given?</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>Does the company publicly disclose payments to trade associations that the recipient organisation may use for political purposes?</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>Does the company publicly disclose payments to other tax-exempt organisations, such as 501(c)(4)s, that the recipient may use for political purposes?</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Does the company publicly disclose a list of the amounts and recipients of payments made by trade associations or other tax-exempt organisations of which the company is either a member or donor?</td>
<td>2</td>
</tr>
<tr>
<td>7</td>
<td>Does the company publicly disclose payments made to influence the outcome of ballot measures, including recipient names and amounts given?</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>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?</td>
<td>2</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th></th>
<th>Question</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>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)?</td>
<td>4</td>
</tr>
<tr>
<td>10</td>
<td>Does the company disclose a detailed policy governing its political expenditures from corporate funds?</td>
<td>6</td>
</tr>
<tr>
<td>11</td>
<td>Does the company have a publicly available policy permitting political contributions only through voluntary employee-funded PAC contributions?</td>
<td>Yes/No</td>
</tr>
<tr>
<td>12</td>
<td>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?</td>
<td>2</td>
</tr>
<tr>
<td>13</td>
<td>Does the company publicly describe the types of entities considered to be proper recipients of the company’s political spending?</td>
<td>2</td>
</tr>
<tr>
<td>14</td>
<td>Does the company publicly describe its public policy positions that become the basis for its spending decisions with corporate funds?</td>
<td>2</td>
</tr>
<tr>
<td>15</td>
<td>Does the company have a public policy requiring senior managers to oversee and have final authority over all of the company’s political spending?</td>
<td>2</td>
</tr>
<tr>
<td>16</td>
<td>Does the company have a publicly available policy that the board of directors regularly oversees the company’s corporate political activity?</td>
<td>2</td>
</tr>
<tr>
<td>17</td>
<td>Does the company have a specified board committee that reviews the company’s policy on political expenditures?</td>
<td>2</td>
</tr>
<tr>
<td>18</td>
<td>Does the company have a specified board committee that reviews the company’s political expenditures made with corporate funds?</td>
<td>2</td>
</tr>
<tr>
<td>19</td>
<td>Does the company have a specified board committee that reviews the company’s payments to trade associations and other tax-exempt organisations that may be used for political purposes?</td>
<td>2</td>
</tr>
<tr>
<td>20</td>
<td>Does the company have a specified board committee that approves political expenditures from corporate funds?</td>
<td>2</td>
</tr>
<tr>
<td>21</td>
<td>Does the company have a specified board committee, composed entirely of outside directors, that oversees its political activity?</td>
<td>2</td>
</tr>
<tr>
<td>22</td>
<td>Does the company post on its website a detailed report of its political spending with corporate funds semi-annually?</td>
<td>4</td>
</tr>
<tr>
<td>23</td>
<td>Does the company make available a dedicated political disclosure web page found through search or accessible within three mouse-clicks from the homepage?</td>
<td>2</td>
</tr>
<tr>
<td>24</td>
<td>Does the company disclose an internal process for or an affirmative statement on ensuring compliance with its political spending policy?</td>
<td>2</td>
</tr>
</tbody>
</table>

**Firm-level variables**

The operating performance of the firm is evaluated by the percentage increase in operating income after depreciation by the formula $\frac{oibdp(t + 1) - oibdp(t)}{[\text{abs}(oibdp)]}$ as per Bebchuk et al. 2009.\(^{219}\) The results provide information on improvement to the firm’s market

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\(^{219}\) See Lucian Bebchuk, Alma Cohen and Allen Ferrell “What matters in corporate governance?” 2009 22 Review of
value. Assuming that corporate political participation will influence the market value, the research also investigates industry-adjusted market-to-book ratios, which is the corporations’ market capitalisation divided by their book assets. This variable uses the same code as Compustat code `prcc_f * csho / at`.\(^{220}\) For further analytical purposes, the analysis includes other financial factors that may influence corporate political participation, including firm size, leverage, cash holdings, acquisitions and dividend payments.

To examine the effect of corporate governance on the performance of corporate political participation, data on governance, such as the anti-takeover provision and internal characteristics can be found in IRRC/RiskMetrics. Based on six key governance provisions adopted by Bebchuk et al., experimental variables also include a classified board structure, poison pill provisions, golden parachutes, limits to amendments to the charter, limits to amendments to bylaws and the number of directors on boards; a variable indicates the CEO is also chairperson of the board, and the proportion of directors of the firm who own less than 1\% of the firm’s stock.\(^{221}\) The selection bias has been considered as a possibility, yet given the difference in scales among firms with and without corporate political participation, it should not severely affect the model.

**Industry level variables**

Assuming variations in industries, factors exploring the influence include the industrial portions of corporate political spending, the average level of the overall score of corporate political participation management and the average nature logarithm of net income of the industry are within the set of experimental variables. To be more specific, a variable on corporate political spending calculated by the industrial aggregated amounts of corporate political spending divided by the total amount describes the comparative level of the industrial corporate political spending. By using the data from the Centre for Political Responsibility, an industrial variable is introduced with information on the maximum level of voluntary disclosure score in the industry. Moreover, there is also an average net income of each industry for the year.

**Geographic level variables**
To explore the role of geographic characteristics in corporate political behaviour, a variable measure the degree of competition between political parties in the area and another variable indicates the scale of political spending within the area. The data are obtained from the Centre of Responsive Politics Database, which covers the total amounts of political expenditure within each state of the US. In Table 6 as below, more detailed descriptions of variables are listed together.

Table 6: Variable Definitions

<table>
<thead>
<tr>
<th>Dependent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market reaction to changes regarding legislation on corporate political spending</strong></td>
</tr>
<tr>
<td>$CAR_{positive}$</td>
</tr>
<tr>
<td>$CAR_{negative}$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate political spending amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$CPS_c$</td>
</tr>
<tr>
<td>$CPS_L$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Corporate political spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\ln CPS_c$</td>
</tr>
<tr>
<td>$\ln CPS_L$</td>
</tr>
</tbody>
</table>

Voluntary disclosure on corporate political spending

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<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dis</strong></td>
<td>A variable that scores from 0-100 and measures the quantity and quality of voluntary disclosure made by the firm $i$ in the year 2014 (data from the Centre for Political Responsibility).</td>
</tr>
<tr>
<td><strong>Policy</strong></td>
<td>A variable that scores from 0-100 and measures the quantity and quality of policy of firm $i$ on corporate policy regarding political spending in the year 2014 (data from the Centre for Political Responsibility).</td>
</tr>
<tr>
<td><strong>Oversight</strong></td>
<td>A variable that scores from 0-100 and measures the quantity and quality of oversight on political spending by the firm $i$ in the year 2014 (data from the Centre for Political Responsibility).</td>
</tr>
</tbody>
</table>

**Experimental Variables: Firm Level**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\Delta OP$</td>
<td>A variable measures performance by capturing the change in operating income before depreciation (calculated using data from Compustat data, $\text{oibdp}$: $\text{oibdp}(t+1)-\text{oibdp}(t)/</td>
</tr>
<tr>
<td>$\Delta MTB$</td>
<td>A variable measures performance by looking at the percentage change in the firm’s market-to-book ratio (calculated using data from Compustat data, $\text{prcc_f,csho,at}$).</td>
</tr>
<tr>
<td>$\ln(\text{Ass}+1)$</td>
<td>The nature log of the firm’s book assets plus 1 (calculated using data from Compustat data, $\ln(at+1)$).</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td>A dummy variable equal to 1 when the firm has paid dividends in the year 2014 (calculated using data from Compustat).</td>
</tr>
<tr>
<td><strong>Acquisitions</strong></td>
<td>A dummy variable equal to 1 when the firm has made acquisitions during the year 2014 (calculated using data from Compustat).</td>
</tr>
<tr>
<td>$C / A$</td>
<td>A variable calculated by Compustat data $\text{ch,at}$.</td>
</tr>
<tr>
<td><strong>RD / Sales</strong></td>
<td>A variable calculated by Compustat data $\text{rdsale}$.</td>
</tr>
<tr>
<td><strong>Debt / A</strong></td>
<td>A variable calculated by Compustat data $\text{dltt,at}$.</td>
</tr>
<tr>
<td><strong>CB</strong></td>
<td>A dummy variable equal to 1 when the firm has a classified board structure (calculated using data from IRRC/RiskMetrics).</td>
</tr>
<tr>
<td><strong>PP</strong></td>
<td>A dummy variable equal to 1 if the firm has poison pill provisions (calculated using data from IRRC/RiskMetrics).</td>
</tr>
<tr>
<td><strong>GP</strong></td>
<td>A dummy variable equal to 1 when the firm has a golden parachutes policy (calculated using data from IRRC/RiskMetrics).</td>
</tr>
<tr>
<td><strong>LABL</strong></td>
<td>A dummy variable equal to 1 when the firm has provisions to limit shareholders’ ability to amend bylaws (calculated using data from IRRC/RiskMetrics).</td>
</tr>
<tr>
<td><strong>LAC</strong></td>
<td>A dummy variable equal to 1 when the firm has provisions to limit shareholders’ ability to amend corporate charters (calculated using data from IRRC/RiskMetrics).</td>
</tr>
<tr>
<td><strong>BdS</strong></td>
<td>The number of directors on the firm’s board (calculated using data from IRRC/RiskMetrics).</td>
</tr>
<tr>
<td><strong>ChairEO</strong></td>
<td>A dummy variable equal to 1 if the chairperson of the board is also the ECO of the firm (calculated using data from IRRC/RiskMetrics).</td>
</tr>
</tbody>
</table>
The variable indicates the proportion of directors of the firm who own less than 1% of the firm’s stock (calculated using data from IRRC/RiskMetrics).

Experimental variables: Industry Level

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPS&lt;sub&gt;ind&lt;/sub&gt;</td>
<td>A variable measures calculation of the corporate political spending of the industry relative to all others (calculated using data from the Centre for Responsive Politics).</td>
</tr>
<tr>
<td>Dis&lt;sub&gt;indmax&lt;/sub&gt;</td>
<td>The maximum level of the overall score of voluntary disclosure on corporate political spending within the firms’ industry in the year 2014 (calculated using data from the Centre for Political Responsibility).</td>
</tr>
<tr>
<td>NI&lt;sub&gt;indmean&lt;/sub&gt;</td>
<td>The average net income of the firm’s industry in the year 2014.</td>
</tr>
</tbody>
</table>

Experimental variables: Geographic

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC&lt;sub&gt;state&lt;/sub&gt;</td>
<td>A variable measures calculation of the degree of competition between political parties within the area (calculated using data from Gallup 2014).</td>
</tr>
<tr>
<td>CPS&lt;sub&gt;state&lt;/sub&gt;</td>
<td>A variable indicating the scale of corporate political spending within the area (calculated using data from the Centre for Responsive Politics).</td>
</tr>
</tbody>
</table>

4.4.2 Empirical study result analysis

Results from the empirical analysis are presented in this section, including the statistical description and univariate analysis, ordinary least squares regression results and robustness tests on endogeneity and systemic differences.

Equity market reactions: Sample description and univariate analyses

The univariate analyses serve as the initial test of the market’s perception and reaction to corporate political participation and voluntary disclosure. Based on Table 6, Table 7 describes sample sizes and components at each stage of analysis. The initial sample consists of CPA-Zicklin index constituents, 498 publicly listed companies in the US. The dataset contains scores given to each firm regarding their performance on corporate political participation with 24 variables that describe three principal perspectives, disclosure, policy and oversight. Based on the CPA-Zicklin data, this research matches the sample with data on corporate political spending amounts from the Centre for Responsive Politics (opensecrets.org), which provides wide coverage of corporate political spending in the US. The final data sample excludes firms
missing any of the event returns and matching data of the firm’s characteristics. After the cleaning processes, the case study for the US market has 489 firms in the sample.

Table 7: Sample Selection

<table>
<thead>
<tr>
<th>Panel A. Identification of Available Firm: US case</th>
<th># of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPA-Zicklin Index constituents</td>
<td>498</td>
</tr>
<tr>
<td>Less: missing required information for matching</td>
<td>9</td>
</tr>
<tr>
<td>Available firms</td>
<td>489</td>
</tr>
</tbody>
</table>

Panel B. Selection of events for event study

<table>
<thead>
<tr>
<th>Event</th>
<th>Description</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive event 1</td>
<td>SEC had received and published the rulemaking petition on corporate political spending disclosure.</td>
<td>03/08/2011</td>
</tr>
<tr>
<td>Positive event 2</td>
<td>SEC reported to update its entry in the Office of Management and Budget’s United Agenda to indicate the issue of a notice of proposed rulemaking on corporate political donation disclosure.</td>
<td>08/11/2012</td>
</tr>
<tr>
<td>Positive event 3</td>
<td>SEC was reported to consider the proposal on the rule.</td>
<td>09/01/2013</td>
</tr>
<tr>
<td>Negative event 1</td>
<td>SEC released its 2014 agenda without the expected item of corporate political spending disclosure.</td>
<td>02/12/2013</td>
</tr>
<tr>
<td>Negative event 2</td>
<td>A commissioner of SEC publicly opposed the rulemaking proposal.</td>
<td>07/11/2014</td>
</tr>
<tr>
<td>Negative event 3</td>
<td>It is reported that support for the rulemaking petition fell from 2013 to 2014.</td>
<td>16/12/2014</td>
</tr>
<tr>
<td>Political event 1</td>
<td>A Democratic candidate running for US President, Hillary Clinton, publicly argued that regulation should be introduced to enforce disclosure on corporate political spending.</td>
<td>08/09/2015</td>
</tr>
</tbody>
</table>

With the sample selected, first, the market responses towards the two groups of events with regard to how investors perceive the introduction of mandatory disclosure regulation on corporate political spending is neutral, beneficial or costly. Table 8 describes averages and medians of results from the event studies, the cumulative five-day abnormal stock return that centred on event dates and aggregated across three events within each group, together with other variables measured as of the 2014 calendar year-end.
Table 8: Summary Statistics

This table presents summary statistics of experimental variables in research on US market.

<table>
<thead>
<tr>
<th>Sample</th>
<th>All Firms</th>
<th>Firms with campaign donations</th>
<th>Firms without campaign donations</th>
<th>Difference</th>
<th>Firms with lobbying</th>
<th>Firms without lobbying</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Means</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAR_pos</td>
<td>0.007</td>
<td>0.006</td>
<td>0.019</td>
<td>-0.014***</td>
<td>0.007</td>
<td>0.009</td>
<td>-0.002</td>
</tr>
<tr>
<td>CAR_neg</td>
<td>0.002</td>
<td>0.002</td>
<td>0.002</td>
<td>0.000</td>
<td>0.001</td>
<td>0.005</td>
<td>-0.005*</td>
</tr>
<tr>
<td>CPS_C</td>
<td>464812.84</td>
<td>529821.63</td>
<td>0.000</td>
<td>529821.63</td>
<td>650363.22</td>
<td>41409.3</td>
<td>608953.92  ***</td>
</tr>
<tr>
<td>In(CPS_CP)</td>
<td>13.049</td>
<td>13.180</td>
<td>0.000</td>
<td>13.180***</td>
<td>13.385</td>
<td>10.631</td>
<td>2.754***</td>
</tr>
<tr>
<td>CPS_cft</td>
<td>1.000</td>
<td>1.000</td>
<td>0.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>0.000</td>
</tr>
<tr>
<td>CPS_L</td>
<td>175112.7</td>
<td>1953458.7</td>
<td>304460.7</td>
<td>1648998.0  ***</td>
<td>2518533.6</td>
<td>0.000</td>
<td>2518533.6  ***</td>
</tr>
<tr>
<td>In(CPS_L)</td>
<td>14.376</td>
<td>14.485</td>
<td>12.626</td>
<td>1.859***</td>
<td>14.739</td>
<td>0.000</td>
<td>14.739***</td>
</tr>
<tr>
<td>Disclosure Percentage</td>
<td>34.015</td>
<td>36.046</td>
<td>19.491</td>
<td>16.556***</td>
<td>40.711</td>
<td>18.736</td>
<td>21.975***</td>
</tr>
<tr>
<td>Policy Percentage</td>
<td>58.722</td>
<td>61.451</td>
<td>38.877</td>
<td>22.574***</td>
<td>66.740</td>
<td>40.478</td>
<td>26.262***</td>
</tr>
<tr>
<td>Oversight Percentage</td>
<td>35.026</td>
<td>37.115</td>
<td>20.093</td>
<td>17.022***</td>
<td>42.124</td>
<td>18.829</td>
<td>23.295***</td>
</tr>
<tr>
<td>Ac</td>
<td>0.468</td>
<td>0.464</td>
<td>0.500</td>
<td>-0.036</td>
<td>0.474</td>
<td>0.456</td>
<td>0.017</td>
</tr>
<tr>
<td>Cash/Asset</td>
<td>0.081</td>
<td>0.080</td>
<td>0.090</td>
<td>-0.010</td>
<td>0.079</td>
<td>0.088</td>
<td>-0.009*</td>
</tr>
<tr>
<td>Debt/Asset</td>
<td>0.241</td>
<td>0.239</td>
<td>0.254</td>
<td>-0.015</td>
<td>0.240</td>
<td>0.243</td>
<td>-0.003</td>
</tr>
<tr>
<td>Div</td>
<td>0.840</td>
<td>0.841</td>
<td>0.833</td>
<td>0.008</td>
<td>0.847</td>
<td>0.826</td>
<td>0.022</td>
</tr>
<tr>
<td>dOP</td>
<td>-0.029</td>
<td>-0.043</td>
<td>0.074</td>
<td>-0.117**</td>
<td>-0.046</td>
<td>0.011</td>
<td>-0.057*</td>
</tr>
<tr>
<td>R&amp;D/SALE</td>
<td>0.033</td>
<td>0.033</td>
<td>0.037</td>
<td>-0.004</td>
<td>0.036</td>
<td>0.027</td>
<td>0.009*</td>
</tr>
<tr>
<td>MTB</td>
<td>2.205</td>
<td>2.124</td>
<td>2.782</td>
<td>-0.657***</td>
<td>2.269</td>
<td>2.060</td>
<td>0.209</td>
</tr>
<tr>
<td>GP</td>
<td>0.791</td>
<td>0.783</td>
<td>0.850</td>
<td>-0.067*</td>
<td>0.788</td>
<td>0.799</td>
<td>-0.010</td>
</tr>
<tr>
<td>LA_bylaws</td>
<td>0.873</td>
<td>0.874</td>
<td>0.867</td>
<td>0.007</td>
<td>0.891</td>
<td>0.832</td>
<td>0.059**</td>
</tr>
<tr>
<td>LA_Charter</td>
<td>0.969</td>
<td>0.972</td>
<td>0.950</td>
<td>0.022</td>
<td>0.979</td>
<td>0.946</td>
<td>0.033***</td>
</tr>
<tr>
<td>PP</td>
<td>0.067</td>
<td>0.068</td>
<td>0.067</td>
<td>0.001</td>
<td>0.074</td>
<td>0.054</td>
<td>0.020</td>
</tr>
<tr>
<td>CB</td>
<td>0.170</td>
<td>0.159</td>
<td>0.250</td>
<td>-0.091***</td>
<td>0.159</td>
<td>0.195</td>
<td>-0.036</td>
</tr>
<tr>
<td>ChairEO</td>
<td>0.037</td>
<td>0.035</td>
<td>0.050</td>
<td>-0.015</td>
<td>0.029</td>
<td>0.054</td>
<td>-0.024*</td>
</tr>
<tr>
<td>PROP</td>
<td>0.881</td>
<td>0.882</td>
<td>0.874</td>
<td>0.008</td>
<td>0.899</td>
<td>0.840</td>
<td>0.060***</td>
</tr>
<tr>
<td>%Lobbying industry</td>
<td>0.102</td>
<td>0.104</td>
<td>0.086</td>
<td>0.018**</td>
<td>0.107</td>
<td>0.089</td>
<td>0.018***</td>
</tr>
<tr>
<td>%CPS_ind</td>
<td>0.533</td>
<td>0.525</td>
<td>0.584</td>
<td>-0.059</td>
<td>0.552</td>
<td>0.489</td>
<td>0.062</td>
</tr>
<tr>
<td>Political competition</td>
<td>0.111</td>
<td>0.111</td>
<td>0.114</td>
<td>-0.003</td>
<td>0.113</td>
<td>0.107</td>
<td>0.006</td>
</tr>
<tr>
<td>State Corporate income tax</td>
<td>0.063</td>
<td>0.063</td>
<td>0.066</td>
<td>-0.003</td>
<td>0.064</td>
<td>0.060</td>
<td>0.004*</td>
</tr>
</tbody>
</table>

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Panel B: Median Values

<table>
<thead>
<tr>
<th>Variable</th>
<th>Median 1</th>
<th>Median 2</th>
<th>Median 3</th>
<th>Median 4</th>
<th>Median 5</th>
<th>Median 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAR_p</td>
<td>0.003</td>
<td>0.004</td>
<td>0.000</td>
<td>0.004**</td>
<td>0.003</td>
<td>0.005</td>
</tr>
<tr>
<td>CAR_n</td>
<td>-0.001</td>
<td>0.000</td>
<td>-0.004</td>
<td>0.004**</td>
<td>-0.001</td>
<td>0.000</td>
</tr>
<tr>
<td>ln(CPS_C)</td>
<td>11.857</td>
<td>12.687</td>
<td>NA</td>
<td>NA</td>
<td>12.324</td>
<td>10.357</td>
</tr>
<tr>
<td>ln(CPS_L)</td>
<td>13.150</td>
<td>13.897</td>
<td>11.356</td>
<td>2.541***</td>
<td>13.589</td>
<td>NA</td>
</tr>
<tr>
<td>Disclosure</td>
<td>19.444</td>
<td>27.778</td>
<td>5.556</td>
<td>22.222***</td>
<td>40.278</td>
<td>5.556</td>
</tr>
<tr>
<td>Percentage</td>
<td>34.722***</td>
<td>11.857</td>
<td>12.687</td>
<td>50.000***</td>
<td>81.250</td>
<td>31.250</td>
</tr>
<tr>
<td>Policy</td>
<td>68.750</td>
<td>81.250</td>
<td>31.250</td>
<td>50.000***</td>
<td>81.250</td>
<td>31.250</td>
</tr>
<tr>
<td>Oversight</td>
<td>22.222</td>
<td>33.333</td>
<td>0.000</td>
<td>33.333**</td>
<td>44.444</td>
<td>0.000</td>
</tr>
<tr>
<td>Percentage</td>
<td>44.444***</td>
<td>9.743</td>
<td>9.862</td>
<td>8.964</td>
<td>10.010</td>
<td>9.029</td>
</tr>
<tr>
<td>ASS</td>
<td>0.054</td>
<td>0.052</td>
<td>0.059</td>
<td>-0.006</td>
<td>0.052</td>
<td>0.058</td>
</tr>
<tr>
<td>Cash/Asset</td>
<td>0.222</td>
<td>0.217</td>
<td>0.230</td>
<td>-0.013</td>
<td>0.219</td>
<td>0.225</td>
</tr>
<tr>
<td>Debt/Asset</td>
<td>0.045</td>
<td>0.038</td>
<td>0.093</td>
<td>-0.055*</td>
<td>0.036</td>
<td>0.056</td>
</tr>
<tr>
<td>dOP</td>
<td>0.000</td>
<td>0.000</td>
<td>0.007</td>
<td>-0.007*</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>MTB</td>
<td>1.620</td>
<td>1.591</td>
<td>2.275</td>
<td>-0.685</td>
<td>1.617</td>
<td>1.627</td>
</tr>
<tr>
<td>BdS</td>
<td>11.000</td>
<td>11.000</td>
<td>9.000</td>
<td>2.000**</td>
<td>11.000</td>
<td>10.000</td>
</tr>
<tr>
<td>%Lobbying industry</td>
<td>0.057</td>
<td>0.069</td>
<td>0.057</td>
<td>0.011*</td>
<td>0.069</td>
<td>0.057</td>
</tr>
<tr>
<td>%CPS_ind</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Political</td>
<td>0.082</td>
<td>0.082</td>
<td>0.093</td>
<td>-0.011</td>
<td>0.083</td>
<td>0.082</td>
</tr>
<tr>
<td>competition</td>
<td>0.071</td>
<td>0.071</td>
<td>0.071</td>
<td>0.000</td>
<td>0.071</td>
<td>0.071</td>
</tr>
</tbody>
</table>

It is worth noticing that reactions from firms’ daily return data on good news and bad news are both positive, and have been captured by cumulative abnormal returns over two groups of events that have been identified as implications for passage or decline of the mandatory disclosure regulation on corporate political spending. The average for \( CAR \) of the positive event group is 0.007, while the average \( CAR \) of the negative event group is 0.002. Furthermore, by examining subgroups among firms with and without campaign donations and firms with and without lobbying activities, firms with more active political participation are showing fewer positive reactions towards legislative change towards mandatory disclosure regulations on corporate political participation. When the \( CAR \) of the two groups are compared, \( CAR \) of the positive group is more salient than the negative group.

As previously discussed, scores of corporate political engagement range from 0-100 and measure the disclosure, policy and oversight perspectives of the participation. For all firms with available data, the average score of policy on corporate political participation is 58.722, which is much higher than average scores of disclosure and oversight, which are separately 34.015 and 35.026. Among subgroups, firms with political participation have higher scores than firms without on average.
For financial variables, what is worth noticing is that the average operating performance of firms with political spending is negative (-0.043 for firms with campaign donation and -0.046 for firms with lobbying), yet firms without political spending is positive (0.074 for firms with campaign donation and 0.011 for firms with lobbying), which differs significantly. Looking at the market-to-book ratio for campaign donations, firms with campaign donations have lower market value (2.124) than firms without (2.782). Meanwhile, firms with lobbying are showing more market value (2.239) than their peers (2.060). Averagely, assets of firms with political participation are comparatively higher.

Among variables on corporate governance, board structures are statistically distinct among subgroups. To be more specific, corporations which have adopted golden parachute and classified boards are showing less political participation. However, corporations with political participation appear to have larger board sizes than others.

In Table 9, the correlations reveal that $\text{CAR}_p$ is significantly positively correlated with Cash/Asset and industry level of corporate political spending, and negatively correlated with corporate political policy score, corporate political oversight score, Debt/Asset, dividend, and operating performance. Meanwhile, $\text{CAR}_n$ is significantly positively correlated with operating performance and market-to-book ratio. The correlation between $\text{CAR}$ and other variables is insignificant. As for corporate political spending amounts, expenditure on campaign donations is positively correlated to expenditure on lobbying, corporate political spending management scores, firm size, board size, and the industry level of lobbying expenditure, and negatively correlated to operating performance and adoption of classified boards. Meanwhile, expenditure on lobbying is significantly positively correlated with corporate political management scores, firm size, board size, the proportion of board members holding more than 1% stocks and the industry level of lobbying spending. On the disclosure perspective, the disclosure score is significantly positively correlated with firm size, dividends, board size, proportion of board members holding more than 1% of stocks, and industry lobby level. It is also negatively correlated with cash/asset and operating performance.
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
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<td>CAR_positive</td>
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<tr>
<td>CAR_negative</td>
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<td>3</td>
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<td>CPS_C</td>
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Table 9: Correlations (N=489)
Table 10 presents regression results based on the proposed model (1). Focusing on the firm-level experimental variables, it is found that \( CAR \) of the positive event group has a significantly negative coefficient with operating performance \( \Delta OP \) (-0.022, t-stat=-3.578), with dividend payment \( Div \) (-0.020, t-stat=-2.128) and with leverage \( Debt / Asset \) (-0.058, t-stat=-3.191). These are consistent with the equity market perceiving that firms are having weaker operating performance, less ability to pay shareholders out of earnings and less leverage to make self-interest investment will be able to institute the regulation more efficiently and cost-effectively. From the entity participants’ point of view, less competitive companies are gaining more from the political relations the company has, or it is thought to have. The results indicate a significantly positive coefficient on cash holdings \( Cash / Asset \) (0.090, t-stat=2.144) and acquisitions \( Ac \) (0.011, t-stat= 1.937), consistent with investors expecting higher net benefits for firms with more tangible assets. Moreover, the coefficient on corporate lobbying expenditure \( lnCPS_L \) is significantly positive at the 0.1 level (0.001, t-stat=1.669). This suggests equity market participants reacted more positively to mandated corporate political spending for firms with higher lobbying costs. The coefficients on the other variables are insignificant.
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To test the robustness of the results, estimators of various models have been estimated by OLS regressions. For corporate political spending, there are four instrument variables (IV), apart from the direct corporate political spending amounts, of corporate political participation, including lobbying expenditures, disclosure on political spending score, policy score and oversight score. Although the IV coefficients for lobbying expenditure and political expenditure scores distinguish those for corporate political spending, estimates for the four types of corporate political participation were not statistically different from one another.

Turning to cumulative abnormal return over negative event groups $\text{CAR}_n$, the coefficient of operating performance $\Delta OP$ is positive (0.009, t-stat=2.858), consistent with previous results from cumulative abnormal returns across events of the positive event group, that investors expecting the mandated disclosure regulation on corporate political spending cause higher net costs for firms with better operating performance. When it comes to industry-level variables, there is a significantly positive coefficient on industry-level lobbying expenditures (0.062, t-stat=2.159), and a significantly negative coefficient on industry-level campaign donations (-0.007, t-stat=-2.098). This suggests that equity market participants perceive campaign donations and lobbying expenditures as two types of spending with different natures, and industry with higher lobbying spending will anticipate more political benefit without the mandate, while industries with higher levels of campaign donations are facing higher political costs resulting from the mandate.

When exploring the corporate political participation management score, especially the disclosure score, it is found that the degree of voluntary disclosure from corporations have a significantly positive coefficient on the corporate political spending scale (campaign donations $lnCPS_C$, 1.256, t-stat=3.432; lobbying $lnCPS_L$, 1.113, t-stat=4.541), firm size (9.104, t-stat=5.922), dividend payment (8.092, t-stat=1.949), market-to-book ratio (1.547, t-stat=1.860), proportion of directors who are holding less than 1% of voting power (11.224, t-stat=1.878), industry-level of campaign donations and state corporate income tax (91.498, t-stat=1.827). This suggests that corporations with higher levels of political spending performed better in voluntary disclosure on corporate political spending. As for corporate governance, the decentralised voting rights did form a more suitable intra-firm environment to make disclosure and communications with shareholders on the matter of political participation. Moreover, corporations with higher market value and stronger ability to pay shareholders’ dividends are more capable of managing disclosure on corporate political spending. Furthermore, firms in
the industry with higher levels of campaign donations have voluntarily disclosed more information on political spending. It is also worth noticing that firms in areas with a higher corporate income tax rate have higher scores in corporate political spending.

However, the disclosure score has been identified with a significantly negative coefficient on limited ability to amend charters $LA_{charters}$ (-15.999, t-stat=-1.798), consistent with firms with the adoption of limited ability for shareholders to amend charters making more disclosure on corporate political spending.

**Political reaction**

To look at the reverse effect, an example is used as an initial exploration on the electors’ reaction on introducing further regulations on corporate political spending. To rule out the possibility that there was no other event affecting the analysis, the following example has been chosen as it was a single topic speech on introducing further transparency of corporate political spending.

The US Democratic Presidential candidate Hillary Clinton, who has received large corporate donations in the 2016 election cycle, stated during her campaign that companies need to be required to disclose political donations and called for a donation-matching program aimed at boosting the influence of donations from small donors. By borrowing the idea and methodology of event study, the daily support rates for Hillary Clinton were used as individual variables and the Democratic Party support rate as the group variable. Using the market model, this study gets “cumulative abnormal support” for Hillary Clinton. As shown in Figure 26, around the time of the speech, the cumulative abnormal support rate had been growing since the announcement date, which boosted the increasing support rate in that period.
Figure 26: Cumulative abnormal 'vote' for a Democratic Party candidate around the announcement date of supporting disclosure regulation on corporate political spending, 16/Aug/2016-25/Sep/2016

The single event is not sufficient to provide strong evidence on how the endorsement for disclosure regulations on corporate political spending would earn or lose the edge in the political competition for political parties. However, politicians, in this case, did not lose their voter support, which can show that corporate political spending disclosure by corporations is not severely resisted by voters, even if it is possible that voters do support having such regulations introduced.

It is also possible that other activities made the candidate’s support rate go up during that period. Due to lack of data and the focus of this thesis, other further research will be needed to explore voter perceptions on the disclosure-based regulation on corporate political spending.

4.5 Summary

This chapter aims to examine market perceptions of mandated corporate political spending disclosure by looking at the US market. Specifically, for the US market, this study has investigated equity market reactions towards both positive and negative event groups regarding the passage of the regulation mandating corporations to disclose information regarding political spending. To identify the market reaction towards regulation, this study looked into the stock return of the sample firms with various industry, area and firm characteristics. This work has first documented the average positive market reaction to both groups of events, which has been interpreted as investors expecting net benefits related to this
regulation for most of the sampled firms. It then deploys a cross-sectional analysis to uncover reasons for this positive reaction.

The empirical results have shown that corporations with higher political spending are more willing to disclose information on this political engagement. Moreover, corporations which are more actively disclosing the spending are also performing better than their peers are. The evidence discloses that the more positive the reaction of a firm toward the passage of the regulation, the lower the operating leverage and operating performance, and the less it is able to pay dividends to shareholders. This result is interpreted as the equity market participants having more concerns about firms with lower performance to successfully conduct political participation. Therefore, information and explanation regarding the spending can work better as one of the oversight methods. In addition, this study has also examined the determinants of voluntary disclosure behaviour, finding that firms with the larger size, higher market-to-book value, more dividends for shareholders and more modern managerial structures tend to perform better in voluntary disclosure on corporate political participation.

Overall, this section concludes that it is possible that corporations have been using voluntary disclosures to secure the implicit contract. Moreover, the equity markets perceive that these disclosures would lead to net benefits for affected corporations, particularly those with lower financial performance and less effective corporate governance structures.
Implicit disclosures under developing legal environment: Empirical evidence from China

The rapid growth of the Chinese economy with a retarded legal and financial system remains a mystery to the outside world. Allen et al. explained that the unconventional financing channel and corporate governance mechanism based on reputation and Guanxi (personalised networks of influence in Chinese society) constitute a primary source for supporting the development of private enterprises in China. Apart from Guanxi, the research of substitute solutions concentrates more on government regulations, concerning which even Coase admitted in *The Nature of the Firm*, “Government regulations can improve economic efficiency under certain circumstances”. Government intervention is common for the planned economy with hysteresis effects or the economy in the rapid transition without a corresponding legal system. In such economic systems, institutional environment for corporate political participation usually is different from economic systems in the previous study. China in the transition period makes a good observation to explore the possibility of introducing further regulation on corporate political participation into the system.

Following the last chapter, this chapter continues to explore the forms corporate political participation have been taking by looking into another case study, China, and how far they go towards making the implicit contract explicit. To make the context clear, this chapter is set to begin with an introduction to the background of the Chinese market.

5.1. Background for the Chinese Market

5.1.1. Legal and political environment of business

For a better understanding of how the implicit contract between corporations and political players and how disclosures on this specific topic are being made in the China context, it is

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224 At [43] per Coase.
important to review the Chinese legal system before further discussion. As a civil law country with a unitary system, the contemporary Chinese legal system distinguishes itself from other countries by its unique reflection of incorporating influences from “civil law, common law, so-called socialist law, and traditional Chinese law”.225

This uniqueness in the legal system is closely connected to the country’s history of civilisation. The concept of law (fa) has rooted in the long history of China. In the first recorded dynasty in China, Xia Dynasty (approximately 2070 BC – 1600 BC), the Law of Yu (Yu Xing), a set of criminal penalties for breaching the rules, was documented as a supplement to the mainstream customary law back then. During the Xia Dynasty, the initial definitions of ownership of lands, the tax system, judicature and prisons had emerged.226 After Xia, Shang (approximately 1600 BC – 1046 BC) and Western Zhou Dynasty (approximately 1046 BC – 249 BC), Legalism (fa jia) and Confucianism (ru jia) became two mainstream legal thoughts during the Spring-Autumn Period (770 BC – 476 BC).227 In 221 BC, the King of Qin Kingdom, Yingzheng, unified China and established a set of rules to control and run the country, which opened a new era in the Chinese legal history by-laws (lu/fa) made by the emperors to ensure the stability of the whole nation, such as Qin Lu of the Qin Dynasty, Han Lu of the Han Dynasty, Tang Lu of the Tang Dynasty, Great Qing Lu of the Qing Dynasty.228 Since Han Dynasty (220 BC – 202 BC), Confucianism started its dominance as the official orthodoxy of the country until the beginning of the Nineteenth Century, when the Western law was firstly introduced to China via the legal reform in the late Qing Dynasty. With borrowed experience from Japan, where German Law concepts have significantly influence on its legal set-ups, the legal reforms of late Qing Dynasty were featured with legal thoughts from German legal theories.229

After the establishment of People’s Republic of China in 1949, the Soviet Union Law had an enormous influence on the country in the way that a planned economy was implemented.

225 Fu, Jane Corporate Disclosure and Corporate Governance in China (Kluwer Law International, Alphen aan den Rijn, 2010), at 35.
227 Confucianism advocated running the country with morality (de). The rule of men precedes the rule of law, cardinal guides and constant virtues are superior to legal compulsion. Legalism supported the reigning power in the country with draconian laws in order to construct a prosperous state. Most factors from the traditional legal institution are based on tyranny, privilege and the patriarchal system, for example, the emphasis on the rule of men, cardinal guides based on inequity among people, depression of individualism, transmutation of public law and private law, amalgamation of justice and administrative system, mixture of lawsuits and substantive law, and the reality of emphasizing substantive justice instead of procedural justice. Although these features which contradict modern western legal ideology have been formally discarded, essentially they can still be seen in the operational logic of the modern Chinese legal system. See Chen Jinzhao “Legal Norms’ Retrogression in Legal Thought” 2012 1 China Legal Science, at 4.
228 At [226] per Zeng.
in the regime. The interim legislature, the National Political Consultative Congress had adopted a Common Program as the provisional Constitution (until 1954) and enacted basic legislation about land ownership reform, marriage, employment and the organisation of courts in the first stage. On the First Plenary Meeting of the First National People’s Congress in 1954, the first Constitution of the People’s Republic of China, together with five other basic laws regarding the structure of the State, were enacted. In the following two years (1954 – 1956), a preliminary legal system framework was set up. However, this progressive trend was hindered by “Anti-rightists Movement” and hence the Culture Revolution. In the year of 1978, both the Chairman of the PRC and the CPC and the Chairman of NPC, Deng Xiaoping, made a speech at the preparatory meeting of the Third Plenary Session of the Eleventh Central Committee of the CPC to emphasise the importance of the legal system. A series of laws were enacted afterwards, such as the General Principles of the Civil Law of 1986, the Technology Contract Law of 1987, the Customs Law of 1987, the Chinese-Foreign Contractual Joint Venture Law of 1988, and the Law of Industrial Enterprises Owned by the Whole People of 1988. Moreover, since the South China Tour Speech in 1992, the focus of the legislative tasks was moved to serve the socialist market economy. The Company Law of 1993, the revised Economic Contract Law of 1981, the Maritime Law of 1992, the Consumer Protection Law of 1993, Arbitration Law of 1994, the Foreign Trade Law of 1994, the Advertisement Law of 1994, the Law of Negotiable Instruments of 1995, among other 125 laws were enacted with the focus on the socialist market economy, including the further regulation of the Chinese securities market.

As the legal system evolves, the sources of law, legislatures and legislative processes have been steadily institutionalised. According to the Constitution of the People’s Republic of China and Legislation Law of the People's Republic of China, the legislative power is practised by the National People’s Congress and its Standing Committee (known as “the highest organ

232 The five basic laws are, the Organic Law of the NPC, the Organic Law of the State Council, the Organic Law of the People’s Court, the Organic Law of People’s Procuratorates, and the Organic Law of Local People’s Congresses and Local People’s Governments of 1954.
233 As he stated in the speech, “in order to safeguard the people’s democracy, the legal system must be strengthened. Democracy needs to be institutionalized and legalized so that such a system and such laws would not be changed merely because of a change of leadership or a change of the leaders’ views and attention. The current problem is that the laws are not complete; many laws have not yet been enacted; the leaders’ words are often taken as ‘law’, and if one disagrees with what the leader says, it will be called ‘unlawful’ ”. Deng, Xiaoping, cited by Chen, Albert HY in An introduction to the legal system of the People's Republic of China, at 136.
234 Full text can be found at https://archive.org/stream/SelectedWorksOfDengXiaopingVol.3/Deng03_djvu.txt.
of state power”). The State Council, as the highest organ of administrative power, is authorised to draw up regulations, and the local level – provisional, autonomous regional and direct-controlled municipal People’s Congresses can formulate local legislation and statutory legislation in autonomous regions.

Sources of law

The statutory law is the main source of the Chinese law by the civil law tradition. In addition, legislative interpretation (li fa jie shi) issued by the NPC’s Standing Committee with the power granted by the Article 67 of the Constitution. At the meantime, the Supreme People’s Court also is given the power of judicial interpretation (si fa jie shi) to deal with the specific application of the laws and rules.

Moreover, Laws and rules also come with a structured hierarchy with a form of ‘law’, ‘regulation’, ‘rule’, ‘measures’, ‘decision’, or ‘resolution’. According to the PRC Constitution of 1982 and the Legislation Law of the PRC of 2000, statutory laws include the national level and the local provincial level laws and rules. At the national level, the Constitution and laws enacted by the National People’s Congress set up a basic system in civil, economic, and political areas or for the special administrative regions. Below the Constitution and laws (including basic laws, ji ben fa, and department laws, bu men fa), there are administrative regulations (xing zhen fa gui) made and enacted by the State Council to supplement laws in practice. At the same time, there are also local regulation, autonomous regulations, separate regulations and local administrative rules made and enacted by local People’s Congresses and local governments.

Legislatures

The National People’s Congress is the supreme legislative body of the PRC, with the power to enact and amend the Constitutions and basic laws. The Standing Committee of the NPC exercises the power of the highest state organ, including enacting national laws. Although the State Council has less authority than the NPC’s Standing Committee, it is also allowed to make administrative regulations. At the provincial government level, including minority autonomous regions and municipalities under the direct control of the central

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236 The PRC Constitution of 2004 (PRC), Article 67 (4).
237 The Organic Law of People’s Court of 1983 (PRC), Article 33.
238 The PRC Constitution of 1982 (PRC), Article 89.
239 Ibid, at Article 67(3).
240 Ibid, at Article 89; the PRC Law on Lawmaking of 2000 (PRC), Article 56.
government, the local People’s Congresses and Standing Committee hold the power to make local regulations, while the executive governments at the provincial level or of some big cities have the power to make local administrative rules as well.

Legislative process

Currently, the enactment of a piece of legislation by the NPC usually has to pass through five stages: 1) once the bill is made either by the state institutions, including the Presidium of the NPC, the Supreme Committee of the NPC, the State Council, the Supreme People’s Court, the Supreme People’s Procuratorate, and the Committees of the NPC, or a delegation of the NPC or by thirty delegates of the NPC; 2) the Presidium of the NPC will make a decision on whether the proposal bill will be presented to the NPC; 3) and examined by all the delegates of the NPC and then the relevant special committee of the NPC; 4) after the Law Committee of the NPC’s final examination, the final draft of the bill will be presented to the General Assembly of the delegates of the NPC for a vote; 5) the bill will be signed by the President of the PRC and become law and get published after the enactment with a majority votes for the bill. 241 It may vary for the process for making administrative regulation by the State Council, making departmental administrative rules by the ministries and commissions of the State Council, or making local administrative rules by the provincial governments according to the PRC Law on Lawmaking of 2000.242

The judicial system in China, which is built based on the former Soviet Union model, includes the People’s Court, which is called “judicial organ”, and the People’s Procuratorate, which is the “organs for legal supervision”. The People’s Court and the People’s Procuratorate are equivalent to the government at the administrative level. Judicial organs also come both in broad and narrow senses. The broad concept of the judicial organ also includes the public security organ, the organ for investigation, and other institutions supervising the administration of justice.243 Relations among legislature, administration and judicial work, or relations among organs within the judicial system, can be simply summarised as separation of functions and cooperation instead of separation of power and checks and balances. The relations among

241 The PRC Law on Lawmaking of 2000 (PRC), Article 12, 13, 16 and 22.
243 Ibid, per Article 58.
judicial organs are also subject to the law based on the division of labour, such as Article 7 from the Criminal Procedure Law of the People’s Republic of China, which says: 244

in conducting criminal proceedings, the People's Courts, the People's Procuratorates and the public security organs shall divide responsibilities, coordinate their efforts and check each other to ensure the correct and effective enforcement of law”. No matter whether the judicial system is being considered in a broad or narrow sense, it remains under the absolute leadership of the Communist Party of China (CPC). Appendix IV & V have briefly described the structure of the Government of PRC and how they interact with each other.

In such an institutional environment, the interaction between governments and corporations in China started mainly with the supervisor-subordinate and regulator-regulatees relationship. The State was the ultimate shareholder of enterprises, and the entrepreneurs were appointed by CPC and other superior administrative organs. Since the economic reform initiated in 1992, more and more private enterprises have joined the market. Since then, the political behaviour of enterprises started taking forms of the corporate political-related activities and direct political participation into the legislation processes. Although it may also take many other forms of interactions with CPC (including to become a CPC member), or other non-governmental organizations, communities, interest groups or political organizations, participation in the legislative processes to formulate laws and policies for a better external environment of corporations is so far the method with the most information accessible to the public. 245

5.1.2. Government-business relationship

Within such political system and institutional context, the relationship between the government and corporations partly determines the development pattern and efficiency of the country. It is assumed that corporations decide what, how much and how to produce based on their own welfare and the motivation to maximise it. The government is expected to make up for market defects and perform in the areas where the market fails to act, with the purpose of maximisation of the overall welfare of society. Sometimes, the malposition of this relationship

245 The name list usually will be fully published by NPC, see www.npc.gov.cn.
can be frustrating for the theorists. Under the economic planning system, the Chinese government is the proprietor owner, administrator and commander in macroscopic readjustment and control. As the owner and ultimate shareholders of the SOEs, the government gives administrative orders that represent the planning objectives, which leads to the line between the functions of the government and enterprises being blurred.

As highlighted by Donald Clark, the main focus of government-business interactions is on agency problems and within either SOEs, or companies limited by shares (CLS).\(^{246}\) First, in relation to SOEs, from the early days of the foundation of PRC to the period prior to the opening-up, the Chinese economy was under the planned economic system, which is mainly featured as the state-owned enterprise system.\(^{247}\) The newly established country adopted a system combining the highly centralised macro planning and a politically dependent micro-operation to achieve the desideratum of raising the accumulation rate from a quite backwards starting point, aiming at constructing a comprehensive industrial system through the development of state-owned enterprises.\(^{248}\) From the view of the law, the state-owned enterprises form the state economy sector under the ownership of the people of China, which observes the unified leadership and implementation plans of the state. Therefore, there has been a natural executive affiliation between the government and SOEs since the beginning. Since the opening-up policy, this relationship of executive affiliation between the government and corporations has become the major obstruction towards further development of the SOEs. As the reform of the planned economy system continues to deepen and with the introduction of the market economy and modern enterprise system, a new relationship between the government and business has been evolving ever since.\(^{249}\)

Second, in relation to companies limited by shares, in October 1978, an SOE reform was launched successively in provinces and municipalities, such as Sichuan, Beijing, Shanghai and Tianjin. Until 1982, this reform unfolded on a nationwide basis. Reform of this period concentrated on excessive government control, and used delegating rights and profits as a breakthrough. The main points of the reform were as follows. First, the government delegated some power to corporations, including autonomous rights as well as profit rights. Second, they put in place an economic responsibility system combining responsibility, rights and interests.


\(^{247}\) Tu, Guangshao, Zhu Chongjiu Corporate Governance: International Experience and China Practice (People’s Press, Beijing 2001), at 1.

\(^{248}\) Fu, Jian “The enterprise concept in Chinese law and its application in PRC company law” 1998 8 (3) Australian Journal Corporate Law, at 266.

in practice. Third, a new tax policy featured as “tax for profits” (li gai shui) was implemented, the profit delivery by taxes. Fourth, reform of the investment system was introduced, fiscal allocations were gradually replaced by bank loans, which is also known as “substituting fiscal appropriations with borrowing” (bo gai dai). As such, the SOE reform launched since 1978 adjusted the relationship between the government and corporations, and motivated corporations and emergence of private entities. This reform distinguished itself from past ones by focusing on the relationship between the central government and local governments, and hence the relations between government and corporations. However, these reform’s effects were limited due to its nature of adjustment under the economic planning framework. Corporations were given some autonomous rights and access to part of the profits, which was a peripheral amendment to the planned economy instead of a change to the essence of government’s dominant position in the economy.

The dependent relations between the government and corporations were radically changed in 1992, the South Inspection Speech of Deng Xiaoping restated the essence of socialism and the relationship between the state plan and the market, which theoretically untangled the confusion during reform and signalled a direction for the transformation from planned economy to market economy. Decisions of the Central Committee of the Communist Party Regarding Constructing the Socialist Market Economic System as proposed on the Third Plenary Session of the Fourteenth Central Committee, clearly revealed that the purpose of the SOE reform was to build up the modern corporate structure, which was characterized as an enterprise system of clearly-established ownership, clarifying responsibilities, separation of enterprise from administration and scientific management. It is expected that through the reform enterprises would become legal entities and subject to market competition with self-decision in management, self-responsibility for profits and losses, self-supporting in the development and self-reliant in restriction. The reform of this period was centred on the following perspectives. First, reform focused on switching the mechanism of management by “three breaks – lifelong secure jobs, salaries and leaderships”. Second, pilot reform launched the construction of the modern corporate structure, which furthered the SOE reform so that enterprises began to possess the full property rights of a legal person formed by all investments including those from the state, and becoming legal entities with full civil rights

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250 At [247] per Tu and Zhu, at 23.
252 Ibid.
and responsibilities. Investors are entitled to the capital gain right according to the amounts of capital invested. This reform continued the momentum by admitting that SOEs had not only management rights but also property rights, which is a major breakthrough, laying down the institutional foundation for a reforming relationship between government and corporations.

What has been ejected from the institutional changes to the legal environment can be found in the company laws, tax codes, and other regulations on the markets. Based on the results of the Third Plenary Session of the Fourteenth CPC National Congress, the first Company Law of the PRC was passed in 1993, with the main purpose to help SOEs to build a modern enterprise system, including “clear ownership, clear rights and responsibilities, the separation of government and enterprises, and scientific management”. These first ideas have been institutionalised into more concrete laws on the corporate governance system as the economic reform and enterprise reform proceed – the relation between the government and corporations has also been changing accordingly.

5.1.3. Approaches to constructing political connections in China

Despite the fact that the current transition makes enterprises rely heavily on government, they do not merely adapt passively to the environment, but construct political connections to manage their relationship with government. Zhang suggested that the major difference between the Chinese market and western markets was that it is government dominated. It is quite common for enterprises in China to develop such public relationships. Meanwhile, the nature of ownership diversified the objectives of state-owned enterprises and private enterprises. Hence, their relationship with government will be different as well.

(1) State-owned enterprises’ political connections

Compared to private enterprises, political connections of SOEs are much more identifiable and mainly formed by shareholding, executive appointment or mergers and acquisitions with related parties. However, even after years of marketization of SOEs, SOEs

253 At [246] per Donald C. Clarke, at 501.
254 At [248] per Fu, at 9.
256 See Xin Meng and Junsen Zhang “The two-tier labor market in urban China: occupational segregation and wage differentials between urban residents and rural migrants in Shanghai” 2001 29 Journal of Comparative Economics 29(3), at 485.
remain closely tied to the government, carrying extra responsibilities or policy objectives, such as maintenance of social stability, assurance of job opportunities and sustenance of economic growth. While SOEs are naturally politically connected to the government, and the cost of such connections is almost zero. Nevertheless, the existence of the accountability policy means that their actual maintenance costs are much higher than in genuine private enterprise.

The generally known political strategies of SOEs are as follows. First, influence over government decisions by political participation or other formal channels. Providing information to government departments via submission of relevant reports or protecting their interests through industry associations are two other common channels of formal participation apart from entrepreneurs’ participation in government and political affairs. Secondly, financial contributions to the parties concerned. This verges on bribery and corruption involving enterprise supply material incentives, such as gifting and sponsoring international travel, its purpose being to achieve connections with higher-level government officials and thereby achieving their political agendas. Meanwhile, some companies employ government officials as a strategy to get access to their accumulated social capital. A third strategy is the provision of various kinds of support. Enterprises participate in projects/activities organised by the government, which need support from enterprises involved to make a favourable impression. Similarly, there are also activities such as lobbying, participating sessions of NPC, CPPCC and non-Communist Parties, moving the policy decisions through the information collecting system of the decision-making organ (policy research organs of the party and the government), sponsoring academic conferences, promoting a corporate point of view through academic publications, private connections with government officials and extensive application of propaganda or the mass media to shape public opinion.

(2) Political strategies of private enterprise

Compared to SOEs, private enterprises value the relationship with government more, which shows in their intentions to devote more time and resources to building and to maintain relationships with the government as a substitute for incomplete legal and formal institutions. According to various researches, whether or not the private enterprises are motivated to develop political connections is closely related to the local political environment and the property protection system. Political connections act as a protection mechanism. Many entrepreneurs believe that a good relationship with the government is the key to success. Private enterprises gathered political resources and better communication by forming ties with the
government and government officials of all levels to bring together political and economic interests. The independence and coherence of interests have been enforced by the entrepreneurs’ emergence in the political process through participation in chambers of commerce and trade associations. Moreover, letters, visits and research reports, direct visits to key persons of policy makers or having a resource to the law or regulations are also common ways of developing connections.

For private enterprise, there are dominant political connections and implicit political connections. The dominant connection refers to the status that entrepreneurs have political positions or shares held by the government, which builds long-term and stable ties between the corporation and the government based on law and institutions. By definition, the political connections have a direct/indirect impact on the government during decision-making processes. The dominant political connections are mainly formed by being elected as a representative of the NPC or CPPCC, joining the Chinese Communist Party or the non-Communist parties, or seeking positions in the National Association of Industry and Commerce, Youth Federation, Women’s Federation and other community organisations. The other method is through equity transactions with government, government officials and SOEs, which bring a “red touch” to the firm, together with the better protection of property rights and further access to strategic resources.

The implicit political connections include informal government-business relationships excluded from legal protection based on personal connections. Relatives, friends, alumni or co-workers can all be means to establish links. Private enterprise also often develops and maintains the relationship with the government by informal reports, gifting to family members and donations to related charities. However, due to the unrevealed nature of the implicit connections, some actions are illegal and excluded from the protection of the law. Once it gets exposed, enterprises will face legal risks. According to the Enterprise Survey conducted by the World Bank in China, improvement of relationships with government usually costs corporations extra resources. When “getting things done” comes with a price tag, it is quite difficult to get things done without knowing the price.

5.2 Disclosure on corporate political participation: Empirical evidence from the Chinese market

Under the regulation of Company Law of 2013 the Securities Law of 2005, and the 2006 and 2009 Amendments to the Criminal Law, key information on the listed companies are required to be made accessible to the investors or the public, which mainly is the responsibility of directors and the senior manager. For example, as the Article 145 of Company Law of 2013 states: 258

a listed company shall disclose its financial status, business condition and major litigation according to the provisions of laws and administrative regulations, and shall publish a financial and accounting report once every six months in each fiscal year.

Alternatively, as the Article 70 of the Securities Law 2005: 259

the information which must be disclosed as prescribed by law shall be publicised through the media as designated by the securities regulatory authority under the State Council and shall, at the same time, be made available for public reference at the company's domicile and the stock exchange.

The contents specifically required by China Securities Regulatory Commission per Administrative Measures for the Disclosure of Information of Listed Companies issued include: 260

1) the basic information of the company; 2) the main accounting data and financial indicators; 3) the information about the issuance and changes of corporate stocks and bonds, the total amount of stocks and bonds by the end of the reporting period, total number of shareholders, as well as the shares held by the 10 biggest shareholders; 4) the information about the shareholders

holding 5% or more of the shares, the controlling shareholders and the actual controllers; 5) the information about the appointment of directors, supervisors and senior managers, changes of the shares held by them, as well as their annual remunerations; 6) the report of the board of directors; 7) the discussions and analyses of the management team; 8) the major events occurring within the reporting period and their influence on the company; 9) the full texts of the financial accounting statements and audit report; and 10) other matters prescribed by the CSRC.

However, there is no specific article require the information on corporate political spending (either information on the monetary spending, or working hours on building relations) in China so far. Therefore, it is impossible to examine the effect of corporate political spending disclosure in China based on direct data, not just because there is no such thing as corporate political spending disclosure in the country at the moment, but because the nature of implicit contract discussed above makes the information less available. Nevertheless, it does not necessarily mean there is no way to explore the potential effects of such regulations. As a discussion of the potential effectiveness of such regulation, the basic idea of this empirical examination is to identify the market reactions towards information on corporate political connections. In the case study of China, although there is less precise information regarding the amount of corporate political spending, examination on whether alternate information, such as the information on entrepreneurs participating the legislative processes as NPC/CPPCC delegates, is new to the market and the corresponding responses still can offer reliable references for assessment on the future of disclosure regulation on corporate political participation in the context of the Chinese market.

5.2.1. The effect of disclosure on government-business relations and hypothesis

Dominant connections, such as entrepreneurs being elected as representatives of NPC/CPPCC, have together been considered as a potential factor in improving corporate performance in China. Although some positive evidence is provided to demonstrate that corporations with executives listed as representatives of NPC/CPPCC outperform their peers, the causation remains hard to identify as other potential factors may be involved. Because of the stability of the list of NPC/CPPCC representatives, publication of these lists may or may not be new to the market. Therefore, the variations of the market around the date may have

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other information. For implicit connections, disclosures of those connections, due to the vagueness of the boundary between legal and illegal, will expose companies not just to market risks caused by the reactions of market participants, but also to legal risks of exposure of the illegal actions.

To examine the market reaction to disclosures of political connection and its particular circumstances under the emerging market where political connections are commonly built on implicit contract, this part of the thesis will explore disclosures of political connections based on the announcement of the elected NPC/CPPCC representatives. This announcement serves as the passive disclosure on corporate political participation, which also indicates resources have been deployed in this effort.

5.2.2. Event identification

To examine the above hypotheses, this thesis uses information disclosed indirectly. With the context being that not a single company in China is disclosing their spending on improving relationships with the government, this study obtains observations from disclosures made by the government instead, to identify the connections.

Announcement of political connections

The most noticeable disclosures about political connections are the releases from National People’s Congress (NPC) and Chinese People’s Political Consultative Conference (CPPCC), which are quite clear about those entrepreneurs participating in the law- and policy-making process. Every five years, the two sessions will publish the elected representatives, among which entrepreneurs are included, in both sessions for the responsibility of offering counsel during the next five years. It is expected that representatives will give suggestions on behalf of the people, but it is also highly possible that they will provide consultation to change the legal environment and future policies based on their own interests, which will potentially benefit related companies. Apart from the announcement of the list, there are also onsite visits by political leaders, trade promoting delegation membership and other ways can imply the close connection. However, these events may not be as distinguishable as the announcement of the list, and hence more difficult to identify through econometric methods.

Samples, variables and descriptive statistics
For the dominant political connection, the sample comes from companies with executives elected as representatives of NPC or CPPCC. The sample is restricted to issuers whose ordinary common shares are traded on the Shanghai and Shenzhen exchanges. The data are further filtered to cover only stocks that have information in CSMAR and SESSET at the time of announcements. The dates of the accouchements are 29th February 2008 (11th NPC), 25th January 2008 (11th CPPCC), 27th February 2013 (12th NPC) and 1st February 2013 (12th CPPCC). The effects of new listing – delegate who were not on the previous list but newly added to the current list, and delisting – vice versa, are also examined. The samples are selected by comparison between 11th and 12th NPC/CPPCC representatives. The sample was divided into eight groups, four for the four announcement dates of the NPC/CPPCC in 2008 and 2013. In addition, changes of lists are also examined.

First of all, this analysis calculates the benchmark-adjusted cumulative abnormal returns on the announcement day and two days before and after (i.e., day -2 to day 2) after comparing different results of various event windows. For each stock, the abnormal return on day t is calculated as the actual return on day t minus the return on the matching size and book-to-market portfolio on day t. The main trend of the market index can be found in Figure 27.

Figure 27.1 Variations in Mainland China Market around the Announcement of the Members of 11th National People’s Congress (Date, 29.2.2008; Shanghai-Shenzhen 300 Index)
Figure 27.2 Variations in Mainland China Market around the Announcement of the Members of 11th National People’s Consultative Conference (Date, 25.1.2008; Shanghai-Shenzhen 300 Index)

Figure 27.3 Variations in Mainland China Market around the Announcement of the Members of 12th National People’s Congress (Date, 27.2.2013; Shanghai-Shenzhen 300 Index)
Figure 27.4 Variations in Mainland China Market around the Announcement of the Members of 11th National People’s Consultative Conference (Date, 1.2. 2013; Shanghai-Shenzhen 300 Index)

Figure 27: Cumulative abnormal return on announcements of NPC/CPPCC representative lists

The average cumulative abnormal return equals 0.003163 for 11th NPC, -0.01102 for 11th CPPCC, 0.013776 for 12th NPC and 0.02218 for 12th CPPCC. For changes of lists, the average cumulative abnormal return of the newly added, NPC is -0.01498, the delisted of NPC is 0.000687, the newly added of CPPCC is 0.003008, and the delisted of CPPCC is -0.00286.

Table 11: Variable definitions for the China case

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Calculation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAR</td>
<td>Cumulative abnormal return</td>
<td>$\sum (\text{return} - \text{predicted return})$</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on asset</td>
<td>$\text{net income} / \text{total asset}$</td>
</tr>
<tr>
<td>LEV</td>
<td>Debt/book value of total asset</td>
<td>$\text{debt} / \text{book value of total asset}$</td>
</tr>
<tr>
<td>BM</td>
<td>B/M ratio</td>
<td>$\text{book value} / \text{market value}$</td>
</tr>
<tr>
<td>OWNER</td>
<td>The dummy variables – the identity of actual control person</td>
<td>Coded by CSMAR</td>
</tr>
<tr>
<td>AGE</td>
<td>The age of the firm</td>
<td>$2013 - \text{year of establishment}$</td>
</tr>
<tr>
<td>LOC</td>
<td>The location of the registered headquarter</td>
<td>3 if it is municipality, 2 for provincial capital city, 1 for others</td>
</tr>
</tbody>
</table>

262 Variables are extracted from CSMAR and calculated accordingly on the announcement date, unless indicated otherwise.
SIZE
Natural logarithm of the total asset $= \ln(\text{total asset})$

Table 12: Data description of China case

<table>
<thead>
<tr>
<th>11th NPC</th>
<th>11th CPPCC</th>
<th>12th NPC</th>
<th>12th CPPCC</th>
<th>NPC+</th>
<th>NPC-</th>
<th>CPPCC+</th>
<th>CPPCC-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample</td>
<td>134</td>
<td>101</td>
<td>155</td>
<td>53</td>
<td>88</td>
<td>46</td>
<td>30</td>
</tr>
<tr>
<td>CAR</td>
<td>0.003</td>
<td>-0.010</td>
<td>-0.011</td>
<td>0.023</td>
<td>-0.015</td>
<td>0.003</td>
<td>0.004</td>
</tr>
<tr>
<td>ROA</td>
<td>0.018</td>
<td>0.027</td>
<td>0.014</td>
<td>0.008</td>
<td>0.012</td>
<td>0.008</td>
<td>0.008</td>
</tr>
<tr>
<td>LEV</td>
<td>0.075</td>
<td>0.061</td>
<td>0.071</td>
<td>0.058</td>
<td>0.057</td>
<td>0.100</td>
<td>0.062</td>
</tr>
<tr>
<td>OWNER</td>
<td>2078.134</td>
<td>2012.871</td>
<td>2309.400</td>
<td>2227.925</td>
<td>2398.409</td>
<td>2149.565</td>
<td>2379.667</td>
</tr>
<tr>
<td>LOC</td>
<td>1.552</td>
<td>2.0693</td>
<td>1.471</td>
<td>2.264</td>
<td>1.500</td>
<td>1.761</td>
<td>2.133</td>
</tr>
</tbody>
</table>

The first hypothesis relates to whether or not firms with political connections have an increase in return after the announcement. Table 12 presents means of cumulative abnormal returns and other experimental variables for each case. To provide further insights, the cumulative abnormal return and some corporate financial indicators of sample firms are examined together in a regression model as below:

$$CAR_i = \alpha + \beta K X_i + \epsilon_i$$

*(Equation 25)*

Hence, the results of estimated models can be found in Table 13. For the eight groups examined, ROA has a negative coefficient in all models except the 11th NPC, which supports the inference that political connections are of greater value for firms with poorer performance. A similar case can be found concerning the size and age of firm.

Table 13: Participation in political processes, changes and corporate performance

<table>
<thead>
<tr>
<th>NPC</th>
<th>11th NPC</th>
<th>12th NPC</th>
<th>NPC+</th>
<th>NPC-</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>0.224</td>
<td>0.111</td>
<td>0.135</td>
<td>-0.957*</td>
</tr>
<tr>
<td></td>
<td>[0.417]</td>
<td>[0.084]</td>
<td>[0.144]</td>
<td>[0.064]</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.034</td>
<td>0.174**</td>
<td>-0.001*</td>
<td>-0.001</td>
</tr>
<tr>
<td></td>
<td>[0.530]</td>
<td>[0.026]</td>
<td>[0.069]</td>
<td>[0.253]</td>
</tr>
<tr>
<td>BM</td>
<td>-3.714E-5</td>
<td>-0.001*</td>
<td>-0.001*</td>
<td>-8.692E-6</td>
</tr>
<tr>
<td></td>
<td>[0.964]</td>
<td>[0.096]</td>
<td>[0.069]</td>
<td>[0.582]</td>
</tr>
<tr>
<td>OWNER</td>
<td>4.479E-6</td>
<td>5.030E-6</td>
<td>1.494E-6</td>
<td>-8.692E-6</td>
</tr>
<tr>
<td></td>
<td>[0.513]</td>
<td>[0.369]</td>
<td>[0.863]</td>
<td>[0.582]</td>
</tr>
</tbody>
</table>

164
On the fourth announcement date, the ownership’s estimated coefficients are all positive. The data was extracted from CSMAR using its own coding system, the basic rule is that the higher the owner rank, the higher the score. Therefore, the estimation results show that private enterprises may have higher CAR on the announcement of political connections.

To be more specific, for cumulative abnormal returns of NPC-related groups, a negative coefficient (−0.015 for the year 2011 and −0.010 for the year 2012) on the size of the firm has been found, which indicates the equity market is perceiving that firms with smaller sizes gained more benefits in joining the political processes with NPC. For CPPCC participation, it has a significantly positive coefficient on ownership (1.885E−5 for the year 2011), and on location, 263 The code for ownership type is: SOE 1100, private enterprise 1200, natural persons 3000.

| AGE  | 0.000 [0.926] | -0.002* [0.068] | -0.001 [0.291] | 0.000 [0.802] |
| LOC  | -0.003 [684] | 0.001 [0.916] | -0.006 [0.487] | 0.015 [0.124] |
| SIZE | -0.015** [0.045] | -0.010* [0.088] | -0.013 [0.133] | -0.005 [0.689] |
| Constant | 0.143* [0.067] | 0.111* [0.084] | 0.135 [0.144] | 0.064 [0.596] |
| Observations | 134 | 155 | 88 | 46 |
| R-Squared | 0.078 | 0.101 | 0.164 | 0.170 |
| CPPCC | 11th CPPCC | 12th CPPCC | CPPCC+ | CPPCC- |
| ROA  | -0.114 [0.660] | -1.335** [0.033] | -1.828** [0.031] | -0.005 [0.991] |
| LEV  | 0.064 [0.463] | 0.023 [0.738] | -0.023 [0.814] | 0.005 [0.914] |
| BM   | 0.000 [0.919] | 0.000 [0.610] | -0.004 [0.255] | 0.000* [0.109] |
| OWNER | 1.885E-5* [0.084] | 2.929E-6 [0.766] | -3.656E-6 [0.813] | 9.196E-6 [0.202] |
| AGE  | -0.001 [0.733] | 0.000 [0.761] | 0.000 [0.796] | 0.001 [0.180] |
| LOC  | 0.011 [0.314] | 0.014* [0.104] | -4.591E-5 [0.997] | 0.002 [0.732] |
| SIZE | 0.013 [0.159] | -0.006 [0.327] | -0.022* [0.071] | 0.015*** [0.009] |
| Constant | -0.192* [0.063] | 0.062 [0.447] | 0.267** [0.054] | -0.203*** [0.003] |
| Observations | 101 | 53 | 30 | 108 |
| R-Squared | 0.074 | 0.191 | 0.387 | 0.139 |
which implies that investors perceive that firms with fewer State-owned equities, and with a location in a capital city, experience higher demand to participate in the CPPCC.

The “newly-listed” firms which have directors participating in political processes with NPC reveal a significantly positive coefficient on leverage, which suggests that investors are expecting firms with more room for managers to make investment decisions have higher net benefits from the change. As for firms newly added to CPPCC, significantly negative coefficients on ROA and firm size have been found, as market participants evaluating firms with less profitability and smaller size has higher benefits from the engagement.

However, for firms no longer participating in the policymaking processes of NPC, there is a significantly negative coefficient on ROA, which reveals the equity market is perceiving that firms with lower profit capability will have more benefits from withdrawing from political participation. Meanwhile, for CPPCC, the “delist” CAR is associated with an increased firm size of 0.015, indicating larger firms expecting higher net benefits from breaking away from the session. The study cannot rule out the possibility that other events have been happening during the observed periods, especially the spillover effect of the “two session effect” – markets tend to go up due to optimistic anticipation during the annual meeting of the legislative body and national advisory body.

When compared to the US case, the distinguishing difference can be found in the equity market participants perceiving the role of firm sizes in determining outcomes of political participation. In the US market, larger firms are believed to gain greater net benefits from political participation in general. Meanwhile, smaller firms in China consider it to be more advantageous to have access to policymaking processes.

The result suggests that corporate political participation is also perceived as valuable by Chinese equity market participants. However, the difference is that, in the Chinese market, corporations with lower performance are considered as ones who can benefit more from political participation. Given the policy environment is the same for corporations, this perception is suggesting that firms with political connections are receiving favours for the firm, instead of overall policy changes, in which way the firm can stay in the market without outstanding performance. This difference in motivation of political participation indicates distinctions in institutional environments. Therefore, corporate political participation may come in various forms, and face a different degree of possible transparency requirements.
5.3 Brief summary

This chapter has explored the disclosure on corporate political participation in China with limited available data. This study explored more “passive” ways of revealing the interactions between corporations and the government by examining published lists of delegates participating in the “two sessions” of NPC and CPPCC. Firms with executives who are elected as delegates have shown on average positive cumulative abnormal stock returns. To examine more factors attributing to this positive reaction, this work analyses some corporate financial variables with available data. It is found that investors have perceived political participations as a more valuable resource for smaller firms with lower profitability, and little or no state-owned equity than to their peers.

The two sampled countries in this thesis are not comparable. Despite huge differences in legislative, judicial and executive systems of the two countries, entity market participants from both countries perceive that it is beneficial for corporations to participate in political processes and build an implicit contract with their political contacts. In different systems, governments have different levels of intervention in economic activities with their unique methods. Therefore, corporations have developed their own ways of securing the implicit contract correspondingly. In the US market, when both the business market and the political market are heavily competitive, corporations have development voluntary disclosure to ensure that their political contacts will return the favour either when the candidates are in public office, or the legislative issues change favourably. However, in China, when the CCP government is the dominant role in both markets, firms have chosen to participate in the legislative process, which is open to private entrepreneurs. Through the studies from both countries, it can be seen that the way for corporations to develop the implicit contract with their political contacts varies according to the institutional environment.

This chapter, together with Chapter Four, has contributed to the thesis argument with empirical evidence mainly on entity market participants’ reactions in corporate political participation and related matters. While the focus is on a comparison between various jurisdictions, this chapter has emphasised characteristic features and corporations methods of building the implicit contract with their political contacts. The insights gained from this empirical analysis substantially contribute to a better understanding of corporate political behaviour. After the introduction of the status quo, theoretical analysis and empirical studies, in the following chapter, ethical concerns caused by corporate political participation will
complete the research with more grounds to form the guidelines for corporate political participation and disclosure.
Beyond the Law: Ethics of corporate political spending

The legislation change initiatives have demonstrated concerns about Corporate Political Spending (CPS), especially on its moral permissibility. The question whether the spending serves to enhance corporate performance in business achievements is usually accompanied by questions about risks caused at the same time. Corporate political standing points, which are usually expressed with financial support for political parties and candidates, not only relate to political spending, but also to the company’s reputation, public relations and directions of business strategies, even the legal footing of these activities. Corporations which are spending money on political issues commonly argue that this expenditure aims at improving social, governance, environmental and economic sustainability efforts around the world. The cost of fulfilling these noble goals includes participation costs and correspondingly additional corporate responsibilities. In practice, it is also usually the case that corporations who are currently making voluntary disclosures on political spending are putting them under the column of corporate social responsibility or corporate citizenship. Certainly, as shown in survey results of Chapter Two, there are also corporations are making specific and independent disclosure on political spending. For most of the surveyed cases, corporate rules on political spending or relationships with government(s) can be found in their Code of Ethics. This commitment to ethical behaviour in business strategy, management and development, however, attracts less emphasis during a discussion on corporate governance, but is more related to corporate reputation and conscience. The sustainable perspective has brought company responsibility to a point above the level of legal compliance. With increasing corporate engagement, it is worth asking: what is the ethical code of corporate political spending? Based on the previous exploration, this chapter completes the research with more exploration into ethical concerns of corporate political spending, which provides another perspective to discuss the necessity and possibility of introducing disclosure-base regulations.
6.1 The controversy of corporate political spending

Although the emphasis of this research is the possibility of disclosure serving as the regulatory force on corporate political expenditures, a closer consideration of controversies on corporate political spending facilitates a better understanding of the mechanism of corporate political spending, and hence better potential outcomes of the policy.

6.1.1 Ethical concerns behind corporate political disclosure: What to expect

Evaluating the results of corporate political spending is risky. Once corporations have announced to their shareholders and external stakeholders how much they have gained economically based on the corporate political expenditures, questions will be asked concerning how the economic gain has been achieved or which elements were in the exchange. The appearance of “quid pro quo” could cause a series of troubles for the corporation and linked politicians if there is any litigation raised for the purpose of anti-corruption.

However, it is also tricky not to evaluate the outcome of corporate political spending. One reason is that advocates for mandatory disclosure regulation on corporate political spendings, such as shareholders, together with other stakeholders, who currently have the right to dividend and assets, expect to know how the corporation spent the money and what the results were. Notwithstanding the shareholder primacy framework, directors, who are responsible for related decisions on corporate political participation, are required to possess the corresponding knowledge to provide proper guidance and oversight. Therefore, despite the risk of admitting or evaluating the outcome of corporate political activities, there is indeed increasing demand for the information.

Undoubtedly this is a dilemma. What shareholders want to know may cause trouble for the corporation, even the supported candidates or policies. However, under current legislations of most states, corporate political participation with financial influence has not been criminalised as a corruption of public officials.

Taking New Zealand for example, it is not legal to expect any political favours based on financial support. Functionaries, such as a Minister or PM, may face criminal charges and incarceration if they are involved in corrupt behaviour in the capacity. The Criminal Act 1961 and Field v R, Section 103 expresses itself in these terms.264

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103 Corruption and bribery of member of Parliament

(1) Every member of Parliament is liable to imprisonment for a term not exceeding 7 years who corruptly accepts or obtains, or agrees or offers to accept or attempts to obtain, any bribe for himself or any other person in respect of any act done or omitted, or to be done or omitted, by him in his capacity as a member of Parliament.

(2) Everyone is liable to incarceration for a term not exceeding 7 years who corruptly gives or offers or agrees to give any bribe to any person with intent to influence any member of Parliament in respect of any act or omission by him in his capacity as a member of Parliament.

(3) No one shall be prosecuted for an offence against this section without the leave of a Judge of the High Court. Notice of the intention to apply for such leave shall be given to the person whom it is intended to prosecute, and he shall have an opportunity of being heard against the application.

The key is the stage at which corporations engaged in political processes before political candidates being appointed ex officio, not during the period serving in public administration or government. As in the previous example — “in (his) capacity as a member of Parliament” — the instant exchange has been emphasised as the condition for criminalisation.

However, it does not necessarily make it legitimate for corporations and their stakeholders to expect deferred reciprocity based on their financial investments. Commonly, goals for corporate political participation have been emphasising the importance of shaping a suitable policy environment for the firm, and further, the community. For political parties or candidates, donations have been alleged to be made, as is legitimately expected, according to policy directions political professionals have been advocating. The expected outcome can be considered as satisfactory if the support can assist the sponsored political parties/candidates to become officials by election and hence implement supported policies. Meanwhile, as for attempts to influence decisions made by officials, especially legislators, lobbying actions may require the result to be as beneficial as the entities desire it to be, which may also include alteration in public policies.

As the target set for public policies, the expected change will focus on public policies. Questions have been raised about the ethics of this issue because changes in public policies
create room for revenue generation. That is what shareholders are caring about and why they are caring about it.

6.1.2 The bribe line: What is the difference between corporate political spending and slush funds

Again, what is the difference between corporate political spending and bribery? According to the United Nations Handbook on Practical Anti-Corruption, “Bribery is the act of conferring a benefit in order improperly to influence an action or decision”.265 This abstract definition covers most international and national legal explanations, yet the difference is in the degree of criminalization. In some jurisdictions, only bribery involving public sectors where the public interest is affected is criminalised. Nevertheless, it has also been pointed out that politicians, regulators, law enforcement officials and other officials from law enforcement are also “potential targets”.266

Corporate political spending has been claimed as a necessary way for a corporation not only to participate but also to advocate their preference in the political process towards better policy environments. The general argument from corporations is the environment in which corporations will be improved to advance particular legitimate regulatory and political interests. If it can be simplified as election contributions equal to further adjustments in public policy that are beneficial to corporations, this is also a financial influence on the action or decision. Then what is the difference between corporate political spending and bribery?

Based on previous research on corruption, bribes have been interpreted as “grease money” for lubricating “squeaky wheels of rigid bureaucracy and commerce”, or “endogenously generated price mechanism that corrects disequilibria and restores optimal allocation in the market”.267 According to definitions from the dictionary, bribery may be described as:268

266 See Philippa Webb “The united nations convention against corruption global achievement or missed opportunity?” 2005 8 Journal of International Economic Law 8(1), at 191.
268 See H. S. James Jr “When is a bribe a bribe? Teaching a workable definition of bribery” 2002 6 Teaching Business Ethics 6(2), at 199.
the act of promising, giving, receiving, or agreeing to receive money or some other thing of value with the corrupt aim of influencing a public official in the discharge of higher official duties. When money has been offered or promised in exchange for a corrupt act, the official involved need not actually accomplish that act for the offence of bribery to be complete.

The concern is that corporate political spending can be used as leverage for favours in public policy and legislative changes. The key is there is no time restraint for the transaction. Among the typical examples of bribery in the business world, such as bribery to avoid liability for taxes, criminal liability, or in support of fraud, or unfair competition for benefits or resources, parties involved usually will require an instant return on the financial offers. However, corporate political spending, especially the part focusing on campaign donation, is after the long-term outcomes, which is a long enough period to weaken the cross-examination. Moreover, there are also definitions with less emphasis on the condition that public officials are involved, such as defining bribery as “money or favour given or promised in order to influence the judgment or conduct of a person in a position of trust”269, or, “… such as money or a favour, offered or given to a person in a position of trust to influence that person’s views or conduct.”270 With the vague definition of “influence” and the imprecise time frame for the “influence” to occur, these definitions have left quite a grey zone in which to interpret the behaviour towards their preference in practice.

When is corporate political spending a bribe? According to Christoph Stückelberger, there are ten ethical criteria to judge corruption: (1) justice, (2) equality, (3) truth, (4) freedom, (5) productivity and work, (6) rationality/efficiency, (7) participation, (8) human rights, (9) self-interest against common good and (10) responsible use of power.271 Based on these criteria, there should be a baseline for corporate political participation, or more widely, political participation for any member of the society.

271 Christoph Stückelberger “Ten Ethical Criteria to Judge Corruption” <www.christophstueckelberger.ch/dokumente_e/ethicalcriteriacorruption.htm>.
First, for political campaigns, there needs to be a more precise evaluation of the influence of corporate political participation, such as on political equality, freedom and other dimensions of political ethics.

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Baseline_{\text{political participation}} = \frac{\text{Campaign expenditures} - \text{public funding}}{\text{Number of voters}}
\]  

(Equation 26)

As an initial proposal for calculating the baseline for financial support during political campaigns, the total amount of funds demanded campaign expenditure, apart from public funding, can be divided by the number of voters to provide a rough baseline to observe equality in political participation with financial support. It is not necessary to restrain each donor’s donations, considering there is the possibility of insufficiency of campaign funds. Therefore, the baseline will serve as a benchmark for corporate political spending, which provides the foundation for evaluating excessive influence from financial support.

Second, a benchmark would be constructive for checking equality for every participant in the process of lobbying, especially legislation. As it differs from election processes, calculation of the benchmark requires consideration of more elements, yet the core idea stays the same as offering a foundation for evaluating potentially excessive influence from entities.

The foundation for application of the baseline is that political spending has been shaping policy directions or strategic directions of political parties, by reinforcing their original policy advocacy, or by redirecting the policy emphasises. Upon receiving donations that account for high proportions, political parties will take more consideration in policy preference of donors to maintain the financial support. As one of the essential resources in the election, financial donations are the most flexible of resources, which can be applied to every single link in the electioneering process. The more competitive the political market is, the more political parties are reckoning on resources to outperform in election contests. On the other hand, it is easier for lobbying activities to provide substantial financial support. Large firms, compared to other peers, possess more deployable resources for planning and undertaking political actions.  

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With increasing amounts of corporate money in politics, political equality is potentially at risk. Therefore, regulatory measures with a focus on political equality become crucial to prevent corporate funds compromising ethics in both politics and business.

6.1.3 The paradigm framework: Towards whose better interests?

Stakeholders of corporate political participation consist of individuals and entities with financial interests in corporations and political interests in communities. Under various circumstances, the primacy of stakeholders varies together with the priorities of interests. Corporate political participation will be easier to define and regulate if the ultimate beneficiaries can be traced in a more explicit way.

Within the range of corporations, boards of directors serve companies as an internal governing mechanism role which has been shaping corporate governance with direct executive power. Correspondingly, boards are playing quite a crucial role in decision-making processes concerning corporate political participation. With principal-agent relations in corporate governance structures, directors have been facing choices between representing the best interests of the firm and pursuing advantages for their careers. With differences in director primacy or shareholders primacy frameworks, corporate political spending may be led by various emphases for engagement. For example, although this thesis is focused on firm-oriented political behaviour, a firm may participate in supporting particular initiatives because of political preference of directors.

In the wider context, corporate political participation may have a potential influence on political processes due to their incomparable financial capacity. Political parties or candidates currently are actively soliciting corporate support during campaigns to reinforce their competitive advantage. Moreover, given the high cost of large-scale lobbying activities, only “deep pockets” can afford to move issues along through this method. The unparalleled support from corporations has endorsed not only political parties/candidates/issues, but has also probably scaled down political equality for others.

To sum up, the priority of interests of different groups defines the regulatory preference and potential adjustment. Legislators and regulators will get a better result in relation to the first question— who has the most to gain from disclosure of political spending?

6.2 Advantages and disadvantages of disclosure on corporate political spending

To clarify the regulatory system, further methods through which to achieve the goal are equally important. Undoubtedly, there are many other substantive regulatory approaches to managing corporate funds in politics. The use of disclosure as regulation can accomplish the regulatory goals because features of the disclosure-based regulatory process are well understood and matched with the objectives of public policy. The following section further describes advantages and disadvantages of the adoption of disclosure as the regulation of corporate political spending.

6.2.1 Advantages of disclosure on corporate political spending

Disclosure as regulations has been serving legislators and regulators as a standard regulatory tool that “interferes less with individual choice and with the operation of the market”. The applications are more prevalent for the securities market, as nowhere else can the market participants have been assisted with such comprehensive information, intermediaries and professional advice. In the security markets, disclosure-based regulations have been working comparatively efficiently through the sophisticated mechanism by which the disclosed information can be obtained, processed and conducted by participants. More importantly, there is only one primary direct indication for these behavioural changes. Therefore, the security market is entirely agreed on adopting disclosure as regulation, due to its role in improving transparency and providing information to market participants.

**Alleviating information asymmetry**

It has been widely accepted that information asymmetry leads market participants to require compensatory premia so that disclosure policy is beneficial for improvement of the markets’ price-setting function. The proposition is that adequate information is the prerequisite for buyers and sellers to make accurate decisions. Disclosure regulations are believed to assist the process of delivering information and assessing risks, because:

The most efficient allocation of resources will occur when the information is sufficient for the purposes of those making decisions, when it is reliable, and when it is disseminated in a timely manner.

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274 See Paula J Dalley “Use and misuse of disclosure as a regulatory system” 2006 34 Florida State University Law Review 34, at 1089.
 Compared to targeted information distribution, disclosure regulations can make the information available to the public, hence reducing the perception of unfairness. Moreover, as one feature of disclosure regulations, standardisation in release formation makes it easier for average investors to use. Finally, under disclosure rules, the information can be guaranteed to be released in a regular and timely manner.

Information on corporate political spending can fill the gap for investors or other stakeholders regarding political engagement and future strategy of the firm, which has certainly remedied information asymmetry between inside and outside corporations, as well as the internal and external dimensions of political processes.

However, how much such information has improved the degree of information asymmetry is unknown.

**Rectifying conduct**

As part of the functions of disclosure regulations, detection of illegitimacy has also been cited as a reason to introduce disclosure regulation. As William Gladstone first commented on 1844 Railway Act, “publicity is all that is necessary. Show up the roguery and it is harmless”. Later in the earlier 20th Century, former US Supreme Court Justice Louis Brandies echoed this sentiment with “sunlight is…the best disinfectant; electric light the most efficient police”.277 With publicity of more information on internal operation and results, investors and other external stakeholders will have better access to information and can assist with the more accurate evaluation of related investments. Furthermore, since there is greater exposure of internal operations, unlawful conducts, if there were any, would cause a higher risk for corporations to face litigation or further difficulty raising funds in stock markets, bond markets and through other channels. Therefore, either by uncovering unlawful conduct by disclosure or having corporations rectify unlawful behaviours because of potential losses on exposure, the use of disclosure as regulation constitutes an alternative to substantive regulations on the targeted items.

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277 See L. D. Brandeis *Other people's money and how the bankers use it* (Cosimo, Inc., 2009), at 92.
**Bottom-up processes in political decision-making**

It is also usually the case that disclosures can benefit governmental objectives. Regulators and governments themselves are also in need of information from industries to evaluate situations, designing or adjusting public policies towards better outcomes.278 As one important role of governmental administration, the public policy making process is based on numerous market studies and timely data.

Information on how and how much corporations have participated in political processes can provide a practical reference for the regime. As participants in the front line, companies have been handling more “first-hand” facts on ongoing matters in the market. From issues raised by companies, the administration is able to acquire current trends from industries, which makes for prompt and useful reference.

**Providing information for internal control**

As discussed earlier, the existence of principal-agent relations within corporations can also gain further improvement by supervision brought by disclosure regulations. The introduction of disclosure regulation can enhance corporation performance by providing relevant information that either aids regulatory supervision or illustrates the real situation with specific data.

An issue can gain extra attention if the relevant information is going to be released to the public. According to a Mason-Dixon Polling & Research Survey on members of corporate boards of directors regarding their attitudes and awareness of corporate political spending, directors, in 2008, did not necessarily have a deep understanding of corporate political participation and relevant legislations, rendering internal control on this matter more difficult.

Mandatory requirements for disclosing the information may not necessarily enhance the oversight capability of directors on political spending, yet it will raise the chance of its being brought to their attention. Given the potential effects of the information on the market value of corporations, directors have an obligation to evaluate the information and, more fundamentally, the managerial decisions on political spending. Moreover, the accountability of directors requires related knowledge, explicit policies and reviewed procedures. Therefore, the

recognition of the potential influence on releasing the relevant information throws the emphasis on the corporate political behaviour itself.

**Increasing public awareness**

One of the regulatory goals is to bring matters to public awareness. As analysed in previous sections, there are two main tiers of general outside audiences, within business circumstances, and within a political context. No matter which condition they find themselves in, outsiders who are less informed are likely to neglect factors that will alter the result of their decisions under the condition, with or without the information. In the massive databases of campaign finance or lobbying disclosure, it is possible to neglect the role of the corporation in these political processes without exhausting efforts to investigate. However, with the information disclosed by companies themselves, investors, and hence voters, will have some solid evidence on the amount of corporate expenditure on political issues and the influence of the expenditure on corporate performances, shareholders’ interests and political equality.

One of the essential rationales for introducing disclosure regulation is that there is demand for the related information. However, sometimes the lack of demand is caused by lack of awareness. Disclosed information on corporate political spending will provide people who are holding stakes either in the firm or the political environment with a better understanding of their present and future situations.

Under various institutional circumstances, there are various justifications, apart from those listed above, for regulators to adopt this policy. However, there are obstacles to adopting disclosure policy on corporate political spending.

**6.2.2 Disadvantages of disclosure on corporate political spending**

Despite all the advantages of the introduction of disclosure regulation, yet there is no substantial evidence to show the necessity of the additional information on corporate political spending or further proof that the policy will successfully introduce desired change in behaviour. To be more specific, the mechanism behind this policy includes the procedure by which the information can be directed to reach out to targeted audiences, as well as the process by which audiences respond to the information and evaluation on costs of the disclosure, which includes the costs of collecting and distributing the information, and beyond. Among these, the

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279 The UK as an example, see Ciara Torres-Spelliscy and Kathy Fogal “Shareholder- Authorized Corporate Political spending in the UK” 2012 46 University of San Francisco Law Review 46, at 479.
various levels of individual ability to process information, together with the mechanism through which information influences individual and corporate behaviour, are the two prime factors contributing to uncertainty of results of the policy.

**Availability bias**

One of the prime objectives of disclosure-based regulation is to facilitate the information’s reaching the targeted audiences. Therefore, the top judgmental heuristic is the availability of the information for an audience. In other words, although goals of disclosure regulation have been set clearly, yet how the information is reaching out to the targeted audience is not as clear as has been predicted.

Availability of one particular type of information depends on the frequency of occurrence.\(^{280}\) Besides, various cognitive mechanisms and underlying features of subjects can also cause availability bias. Due to the unavoidable existence of availability bias, it is over-ambitious to expect to ensure that information on corporate political spending can reach every stakeholder, even though the relevant information has been provided.

**Information overload**

The efficient-market hypothesis (EMH) suggests that asset prices incorporate and reflect all available information. One of the barriers to the EMH accomplishing this in reality is information overload. The market failure caused by a limitation in the ability of market participants to process information has been discussed for many years, yet as for argument on the introduction of disclosure regulation on corporate political spending, the problem has become recognised as the fact that information in the market is beyond the level that average investors are able to process. Therefore, the necessity of such a policy is questioned.

As the information technology has been developed very quickly in the past thirty years, the climate for information distribution has become more convenient. Especially in the Internet age, the supply of information on all aspects has become excessive. Bombarded by loads of information without the possibility of apprehending the comprehensive coverage of the facts, investors or other market participants can become overwhelmed by it all.

While the commitment to collect information resembles the effort to pursue rationalism or better judgmental performance in decision-making, there is no guarantee the additional

\(^{280}\) See Amos Tversky and Daniel Kahneman “Availability: A heuristic for judging frequency and probability” 1973 5 Cognitive Psychology 5(2), at 207.
information is value-added to the investor per se. In this case, the information on corporate political spending has often been released together with other news on Investor Relations or Corporate Social Responsibility, which is not directly derived from corporate financial fundamentals. It is highly possible that stakeholders will value the facts of corporate market performance over their political participation. Given that there are costs for corporations to collect and distribute the information, and there is also the possibility that the disclosed information on corporate political spending is causing stresses from other perspectives, the situation of information overload for stakeholders may lead to costs potentially overwhelming the firm.

**Credibility in the wrong way**

The other concern is about corporate political participation itself. It has been pointed out that these expenditures on political issues result from directors acting in bad faith. According to the definition, bad faith includes when directors “(1) take official action that is motivated primarily by any reason other than advancing the corporation’s best interests or (2) consciously disregards her fiduciary duties.”

As shown in various previous studies and this thesis, corporate political spending does not necessarily improve organisational performance, at least within the length of the observed period. It is not naturally equal to the inference that directors are acting in bad faith. However, after witnessing abundant entrepreneurs’ enthusiasm in politics, it is reasonable to doubt whether corporate political participation is driven by institutional welfare or individual interest.

Moreover, it is usually the case that policy changes claimed relevant to organisational development will need a longer time, at least frequently longer than terms of service of directors, to happen. With the subtle outcomes and lack of evaluation, even accompanied by information disclosed, shareholders may still face the risk of putting their trust in the wrong place. Moreover, without concrete evidence that the spending is benefiting the firm, directors can be held accountable for wasting corporate assets.

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282 There have been countless of examples where entrepreneurs have shown interest in running for public offices, such as Donald Trump from the Trump Group, and Carly Fiorina as former CEO of Hewlett-Packard in the campaign of 2016 US Presidential election.
6.3 Ethics of corporate political spending: What is to be expected

To examine ethical principles and moral problems that arise concerning corporate political expenditures, the spectrum covers all perspectives of conduct, including the behaviour of both individuals and entire organisations. Therefore, it goes beyond the area of business ethics and reaches to the scope of political principles. Apart from corporate governance, corporate social responsibility and fiduciary duties, directors are also bound to the values of political process and the ethics of political policy.

To achieve business strategies through corporate political participation, the firm as a whole, the involved employees and the executive team members, should all be equipped with necessary knowledge. First, it is fundamental to learn about laws and regulations on corporate political spending, and thus available methods and options to contribute. Second, it is a must to be aware of risks on the political stage, including interests of various stakeholders, the reputation of the firm, relationships with employees, customers, shareholders and other related outsiders, and most important of all, the potential effects on business strategy. Third, management’s duties require an efficient mechanism to ensure that this behaviour adheres to the company’s value. Finally, it is important to understand the obligations of political participation, together with the potential consequences. More specifically, decisions on corporate political participation demand not only compliance checks of their fiduciary duty but also management discretion on the main elements of this corporate behaviour, including:

1. whether the corporation will participate in political processes;
2. how and how much the corporation will engage;
3. which parallel systems will be adopted to ensure the implementation, evaluation and administration.

To that end, ethics of corporate political spending, which serving as guidelines and frameworks, should be set in advance.

6.3.1 Checklist for boards of directors

First, directors, who are supposed to navigate firms, should master fundamental and necessary knowledge on political participation for corporations:

Laws and regulations: Various legislations and jurisdictions across nations have provided distinct institutional environments for corporations to operate in, which leads to
discrepancies in applicable laws and regulations. Corporations, especially directors and other executives, are obliged to know and understand boundaries for legitimate corporate political behaviour.

**Options available:** Before adopting political participation as one of the strategic actions, all participants, including directors, employees and other affiliated organisations, must possess adequate knowledge regarding corporate political participation. A better understanding of available options for corporations to participate in various political processes is the first step before any further actions.

**What it takes:** As one of the strategic decisions, directors must be aware of the potential risks of engaging in political spending. While considering the possible advantages gained by political spending for companies, participants should be aware of risks companies are exposed to, including financial loss, reputational harm, and possible corruption of political processes due to corporate political participation.

**Baseline:** Before engaging in political spending, “exit conditions” are defined—conditions under which the firm can draw the conclusion that political spending has failed, such as when political contribution conflicts with corporate value, market position or strategies; hazardous effects caused by possibility of *quid pro quo* for political favours; and passive adjustments in corporate investment contacts. The baseline will serve as an internal control benchmark and provide valuable information for evaluation both *ex-ante* and *ex-post*.

Second, directors will be able to set the regulatory framework, based on which corporations can have instructions that are more specific for each stage of the participation in political processes.

**Funding sources:** According to laws and regulations, there have been certain restraints under which sources of funds can be used for political spending. For example, the use of general treasury money is prohibited in some jurisdictions.283

**Channels for political participation:** As political processes consist of different means of formulating and administering public policy, corporations face a set of measures to join the interaction with political leadership and public opinions.

**The criteria for decision-making procedure and process control:** Without the precise steps of selecting and comparing means of participating in political processes, it will be difficult

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283 Bipartisan Campaign Reform Act (US) PL 107-155; Federal Election Campaign Act (US) 2 USC § 431 et seq.
to tell how the decision has been made and what the expected result is. Moreover, without a procedure design that major stakeholders have agreed on, motivations and other factors that have led to the arrangement are onerous to discern. The criteria, together with discussion courses by relevant executives, and other evidence which have led the firm to the decision shall be recorded and filed for future reference.

**Institutional framework for oversight:** Political participation, similar to any other corporate activities, requires active monitoring. Hence, a structure, and later a functional unit, will be necessary for balancing the interests of various stakeholders in a company, concerning this matter.

**Policy framework for oversight:** Based on the formation of a functional unit, the system of rules, practices and processes by which the political spending is directed and controlled shall be formed for a better result. The framework needs to elaborate and cover ex-ante and ex-post activities comprising political participation.

**The introduction of the third party:** As part of the policy, and to check the balance of powers inside and outside the corporation, a third-party role shall be introduced in the processes of corporate political spending. First, to inspect the relevant transaction, it is necessary to add an auditor to ensure the proper usage of funds. Second, a separate internal section will be needed to gather relevant information and report the related issues to specified board committees. Third, for stakeholders outside the corporation, a neutral agency is required to examine the required information and report it to the public. Besides, authorities in charge of political advertising standards, corporate political spending disclosure standards and other related topics shall also be introduced as required.

Third, it is necessary to introduce an evaluation system to assess the performance of corporate political spending.

**Design a systematic method to determine the effect of political expenditures:** Based on corporate targets and policies on political spending, an evaluation system on how these goals have been met is indispensable for subsequent decisions. The red-flag set before engaging political spending serves as a standard. Moreover, more specific quantitative and qualitative ways of measuring the effect of political spending are due to be developed for checking the implementation of policies. Furthermore, contents of the evaluation shall not just focus on benefits and costs of the political spending for the firm; impacts on shareholders, and other stakeholders shall also be included.
Evaluate the degree of compliance: As one reason why corporations have been engaging in political processes, legislation is dynamic and changeable. Corporations contribute their efforts to making policy changes as they consider suitable. In the meantime, it is important for corporations to watch changes in laws and regulations to ensure that political behaviour adheres to the public policy.

Estimate the demand for external assistance or consultancy: Apart from professional corporations with major business in politics, such as law firms and polling agencies, most firms are not, or were not, considered as experts in the political field. This lack of experience and qualifications may blind executives from making the right decisions for corporations. One of the solutions is to form a specialised team through new hiring. Meanwhile, when directors cannot be independent on this matter, or lack the necessary knowledge and experience, outside assistance can be a good option.

6.3.2 Shareholders’ consent

It has been argued that the behaviour of corporate political contribution is a breach of management’s duty of loyalty to the corporation, such as waste and self-dealing if shareholders believe that the contributions cannot represent their best interests. The argument is that shareholders did not choose directors as their political proxies. The case will only be correct in an ideal world without interaction between business and governments.

Shareholders’ rights may vary across constitutions. However, the core set of rights include:

(1) Having one vote for each share they hold during general meetings;
(2) The right to an equal share in any dividend;
(3) The right to an equal share in any surplus assets.

However, under most laws and regulations, shareholders, mainly as beneficial owners who have transferred control power to directors, do not possess the right to engage the management of corporations’ business and affairs. Under the present corporate governance structure, it is not necessary for directors to consult shareholders on political spending matters unless a census of the issue is required for a general meeting.

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284 At [281] per Leahy.
Therefore, the question of who has a say on corporate political spending matters comes down to a fundamental question of corporate governance — whose interest comes first as the separation of ownership and control processes continues. On the one side, according to the shareholder primacy theory, shareholders, since the joint stock companies’ period, have been regarded as ultimate owners of companies, or, at least, the residual claimants. Moreover, due to the agency problem, shareholders are assumed to be more incentivized to increase profits and enhance economic efficiency. On the other side, shareholder primacy has been criticised as short-term perspective management. Additionally, shareholders, frequently are presented as one group, yet consist of divergent interests.

If the core notion of the democracy is to reach a set of collective decisions by votes that come from distributed right, every member who shares the power will have their portion of authority in the decision-making processes. Provided that this core notion applies both inside and outside the corporation, any member who shares rights and obligations in the organisation or the community and, at the same time, holds a stake in the future decision, shall have a say on the pending decision. For example, as for corporate political spending, it is a matter which needs not only a census of stakeholders of the firm but also of stakeholders in the political processes. If corporate political spending needs to be open to opinions from outsiders, not only will shareholders have the opportunity to express their preferences, citizens will also need to vote on corporations’ participation, as this corporate behaviour will possibly affect the capability of citizens in political processes.

6.4 Brief conclusion

This chapter has discussed ethics of corporate political spending, from justifications provided by corporations themselves, to doubts on corporate political spending, as well as pros and cons of introducing disclosure-based regulation on corporate political expenditures. Based on this discussion, other aspects of ethics of corporate political spending are expanded to lay the foundation of disclosure-based regulation on corporate political expenditures.

As a necessary part of the research, this chapter touches the “grey area” of corporate political spending and suggests further steps to regulate corporate political behaviour, so it can comply with laws, corporate governance rules and ethical guidelines. Corporate political spending cannot be categorised as bribery as long as the contract remains implicit. However,
being legitimate does not necessarily equal being ethical in practice. To prevent corporations’ political spending turning into the hidden form of corruption, more regulations and guidelines for practices are required in the system. This chapter has made the first attempt to propose some items to start with based on previews, research and discussion. It is hoped that more transparency will be introduced to corporate political participation.
The strategic importance of disclosure-based regulation on corporate political spending has rapidly developed into both regulatory corporate governance frameworks and public administration practices. Consequently, new guidelines are emerging and current ones are beginning to be reviewed. Responding to the increasing significance of this phenomenon, this thesis has explored the status quo of corporate political participation and the potential introduction of this new regulatory system into corporate governance and public administration, the ultimate goal being to develop a set of policy recommendations on how the regulations can be best designed and what information should be included in a disclosure scheme. The result, it is hoped, will support prospective legislative changes and regulatory agencies in their future efforts to introduce or amend political participation practices.

Setting the foundation, Chapter One demonstrated the vast political engagement initiated by corporations at a global level and the corresponding oversight gaps at both firm and state levels. Companies have been presented as expanding the scope of their strategic fits by all possible means, including political participation. Highlighting their circumstances and practical experiences as revealed in research of corporate political participation, this trend is recognised as calling for a synergic perspective from both corporate governance and public regulations. The current exploration not only outlined the payoffs of corporate participation in elective and legislative processes, but also drew attention to concordance and conflict of interests of multi-shareholders based on the nexus of contract. While this complexity has itself already been the cause of heated debate concerning the range of beneficial interests and the benefiting parties from corporate political spending, the further rationales discussed in Chapter One further emphasised the effect of such corporate behaviour on the average voters in a larger sense.

Based on identified regulatory gaps, Chapter Two then broke down the operative complication of corporate money in politics and conducted a comprehensive survey of current laws and regulations governing corporate political behaviour. It focused first on publicly listed companies that are also in the UN Global Compact 100 Index constituents. This thesis took
corporations which are for example in compliance with sustainable development methods regarding human rights, labour, environment and anti-corruption, dividing governance guidelines into external and internal codes. The exploration then consequentially reveals the necessity for more specific regulatory approaches in the form of firm-specific governance measures and more broadly scoped governance guidelines for corporations participating in policymaking processes.

To respond to regulatory deficiencies, this thesis has incorporated a sample of practices adopted by firms in compliance with sustainable development goals for corporate political participation as part of the guiding suggestions, in addition to explicating other external measures that could enhance the possible practical impact of these legislations. Building on an understanding of the status quo of corporate political spending and corresponding governance rules on corporate political participation, Chapter Three sought an explanation of the phenomenon based on corporate governance theories. The second step, unveiling the motivational background and objectives of this political participation, further illuminates potential areas of future regulatory adjustments towards improving results for corporate political participation, as well as elective and legislative processes. In order to uncover the incentives of stakeholders and the interactions in corporate political activities, Chapter Three also searched for answers based first on a systematic survey of the literature on corporate governance, economic theories, political science, social science and legal theories. Based on the nexus of contracts theory, an analytical framework of dual implicit contracts was first outlined and then applied to interpret corporate political participation behaviour. From this starting point, the theoretical study showed that corporate political participation results from interactions from both the internal implicit contract – stakeholders and managers, and the external implicit contract – firm and political players. This perspective helps to break down the dual principal – agent relations, between stakeholders and managers and between managers and political players, seeking improved comprehension of potential effects of disclosure-based regulation on the set of contracts. As such, it is argued that the external implicit contract between managers and political players indicates potential advantages for the firm, hence it alters the performance or the anticipated performance of the internal implicit contract between stakeholders and managers. The informative nature of disclosure-based regulation has been added to the discussion, due to the effect of the new information brought into decision-making processes for both economic and political market participants.
The analytical framework provided by the first three chapters has led to the assessment of the disclosure regulations with a clear target – the market reactions towards the information. Chapters Four and Five deployed two examples from the US and China to illustrate how the equity market perceived the introduction of the mandated disclosure regulation on corporate political spending and/or released reports containing political spending data. As a general result of this investigation, the empirical study has identified generally positive reactions from the equity market participants regarding the introduction of the mandated disclosure on corporate political spending in the US case. Investors appear to support the introduction of the disclosure regulations, especially for firms with lower operating performance, leverage and dividend payments to shareholders. Meanwhile, due to the unavailability of data on the Chinese market, the research has employed published lists of entrepreneurs who are participating in policymaking processes as a proxy for disclosure on corporate political participation. The results have shown varied reactions towards corporate political behaviour. Among all experimental variables, the size of the firm is what matters to equity market participants – the smaller the firm size is, the more beneficial the investors perceive the political participation to be. These two markets are not quite comparable, but what they do have in common is that the equity market participants retain the image that firms with less advantage in operating performance would gain more from participating in political processes. Moreover, investors appear to believe that the introduction of disclosure-based regulation would be favourable to stakeholders of firms that are competitive yet are engaged in policymaking processes. Given the fact that statuses of political participation of corporations from different countries vary from case to case, the two case studies have only been able to show individuality, instead of commonness with the currently available data.

With respect to the general result of investigations, this thesis has sought to illustrate the main issues hindering information symmetry concerning corporate political spending between firm executives and other stakeholders, specifically with reference to reactions from equity market participants towards possible access to this information. Moreover, in relation to business ethics, the thesis also discussed certain issues that may become ethical hazards for corporate political participation. First, commonly adopted interpretations for corporate political spending have been thoroughly investigated in terms of a better understanding of motivations of corporations as well as gaps between these motivations and the real effects. Second, popular ethical controversies are targeted, such as whether or not there will be transactions between corporate donors and political beneficiaries, and what makes this corporate political behaviour
cross the “bribe line”. Third, on the principal research topic of the thesis, this section further discusses the advantages and disadvantages of deploying disclosure as a regulator of corporate political spending. Finally, yet importantly, the ethics of corporate political spending are intensively discussed, which are essential to the protection of interests of stakeholders and the prevention of corruption of public offices.

This set of implications developed based on the above discussion can prospectively offer a reference for drafting both corporate governance guidelines of corporate political participation and for more detailed public administration rules for legitimate corporate political conduct. Meanwhile, through this contract and the comparison of regulatory methods from countries both on corporate and policy levels, policymakers will have the chance to review more options regarding corporate political participation management and the real effects under similar circumstances.

As solution-centred research, the detailed discussion and evaluation of disclosure regulation on corporate political spending are central to this thesis, which explicates the importance of this rulemaking decision to the less-informed stakeholders. This thesis has covered a wide array of research, theories and data as the supporting foundation for further policy adoption; it is thereby hoped that it will contribute to making information on corporate political spending easier to access and of greater value to corporate decision makers, stakeholders and public policymakers. In addition to the necessity of bringing more transparency to corporate political participation, greater public awareness of the results and potential effects of corporate political spending is also critical. When big businesses are in politics, the question is not just for shareholders to ask how much participation will add to the dividend, but also for the average voter to ask how much they have lost in the power of their vote. It is anticipated that this wider attention to the existence and practices of corporate political spending will emphasise the importance of corresponding corporate governance guidelines and oversights for managers. More importantly, it will also provide corporations with more parameters to include in their decision-making processes when they are trying to blend into the political processes as corporate citizens, while also directing greater public awareness of their significance and influence for the political equity of society.

This research is limited by data availability, however, the ongoing US legislation change may provide another chance to examine the effect of the disclosure regulation on corporate political participation after the UK case. Moreover, this comparative research has also been
limited by the length of this thesis and samples chosen as observations. Future research with richer data and a wider range of samples has the potential to explore further and answer questions raised in this thesis. Outcomes from future research on disclosure-based regulation on corporate political spending certainly will provide more comprehensive grounds for future rulemaking decisions, which helps legislature determine how to take further actions to regulate political spending. At the meantime, advances in identifying stakeholders and understanding the mechanism of corporate governance for corporate political participation will draw this implicit contract to the attention of corporation and imply corporate policies aiming for better effects.

To a larger extent, not just shareholders, but electors and other stakeholders in this process of corporate political participation will possess more knowledge and information on this matter as the research progresses, which should lead to better decision making both in financial investment and political participation. With these conditions for wiser choices, it can be further reassured that everyone shares the equal right and to be part of building the very fabric of the nation and strengthening the core of democracy.
## Annex

### Annex I: NZX constituent companies and their political participation policy statuses

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company</th>
<th>Sector</th>
<th>Policy on Corporate Political Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIA</td>
<td>Auckland International Airport Limited</td>
<td>Utilities</td>
<td>“Political contributions to any Government official, political party, political party official, election committee or political candidate must not be made, whether directly or indirectly, on behalf of Auckland Airport without the prior approval of the Board.” (Ethics and Code of Conduct Company Policy)</td>
</tr>
<tr>
<td>AIR</td>
<td>Air New Zealand Limited</td>
<td>Industrials</td>
<td>“No donations were made to any political party. It is Air New Zealand’s policy not to make donations, in cash or in kind, or to provide free of charge travel to political parties.” (Corporate Governance at Air New Zealand)</td>
</tr>
<tr>
<td>ANZ</td>
<td>Australia and New Zealand Banking Group Limited</td>
<td>Financials</td>
<td>“Never make any donation or other financial contribution from ANZ to a political party or candidate unless it has been approved by the ANZ CEO and the ANZ Board.” (Code of Conduct &amp; Ethics)</td>
</tr>
<tr>
<td>ARG</td>
<td>Argosy Property Limited</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>ATM</td>
<td>The a2 Milk Company Limited</td>
<td>Industrials</td>
<td>“Employees will not without the prior consent of the Board support a political party or organisation other than in a personal capacity.” (Code of Conduct)</td>
</tr>
<tr>
<td>CEN</td>
<td>Contact Energy Limited</td>
<td>Energy</td>
<td>NA</td>
</tr>
<tr>
<td>CNU</td>
<td>Chorus Limited</td>
<td>Consumer Discretionary</td>
<td>“Directors must not (in that capacity) support a political party, without the prior consent of the Board. If intending to support in a personal or other capacity, Directors should consider whether such action has the propensity to reflect in any way on Chorus.” (Director Code of Ethics)</td>
</tr>
<tr>
<td>COA</td>
<td>Coats Group plc</td>
<td>Overseas</td>
<td>NA</td>
</tr>
<tr>
<td>DIL</td>
<td>Diligent Board Member Services INC</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>DNZ</td>
<td>DNZ Property Fund Limited</td>
<td>Financials</td>
<td>NA</td>
</tr>
</tbody>
</table>

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287 Information on each firm has been gathered from the corresponding website.
<table>
<thead>
<tr>
<th>Code</th>
<th>Company Name</th>
<th>Sector</th>
<th>NA</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBO</td>
<td>Ebos Group Limited</td>
<td>Consumer Staples</td>
<td>NA</td>
</tr>
<tr>
<td>FBU</td>
<td>Fletcher Building Limited</td>
<td>Industrials</td>
<td>NA</td>
</tr>
<tr>
<td>FPH</td>
<td>Fisher &amp; Paykel Healthcare Corporation Limited</td>
<td>Consumer Staples</td>
<td>NA</td>
</tr>
<tr>
<td>FRE</td>
<td>Freightways Limited</td>
<td>Industrials</td>
<td>NA</td>
</tr>
<tr>
<td>FSF</td>
<td>Fonterra Shareholders’ Fund</td>
<td>Industrials</td>
<td>NA</td>
</tr>
<tr>
<td>GMT</td>
<td>Goodman Property Trust</td>
<td>Financials</td>
<td>&quot;Prohibition on Political Donations Goodman’s policy around political donations is as follows: + Goodman will not make any direct Political Donations (monetary or otherwise) to political parties, elected members, candidates or groups of candidates, third party campaigners or Government employees; + Goodman will not contribute funds for membership or affiliation to political parties or individuals; and + Goodman will not make a donation to an individual or organisation such as a not for profit for the purpose of the individual or group making political donations; In certain circumstances: + Goodman may pay for Directors, Officers or employees to attend a political fundraising function on behalf of Goodman where it is lawful to do so and there is a corporate benefit for Goodman. In such an event the Director, Officer or employee must seek prior approval from the Regional CEO.” (Political Donations Policy)</td>
</tr>
<tr>
<td>GNE</td>
<td>Genesis Energy Limited</td>
<td>Energy</td>
<td>NA</td>
</tr>
<tr>
<td>HNZ</td>
<td>Heartland New Zealand Limited</td>
<td>Financials</td>
<td>&quot;The Company’s employees will not, without the prior written consent of the Company: (b) Support a political party or organisation other than in a personal capacity;”</td>
</tr>
<tr>
<td>IFT</td>
<td>Infratil Limited</td>
<td>Investment</td>
<td>&quot;Infratil people will not without the prior written consent of Infratil engage in any other business or commercial activities which may conflict with their ability to perform their duties to Infratil or support a political party or organisation other than in a personal capacity.”</td>
</tr>
<tr>
<td>Code</td>
<td>Name</td>
<td>Sector</td>
<td>Notes</td>
</tr>
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<td>------</td>
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<td>----------------------------------------------------------------------</td>
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<tr>
<td>KPG</td>
<td>Kiwi Property Group Limited</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>KMD</td>
<td>Kathmandu Holdings Limited</td>
<td>Consumer</td>
<td>NA</td>
</tr>
<tr>
<td>MEL</td>
<td>Meridian Energy Limited</td>
<td>Energy</td>
<td>“Political donations and activities: Meridian will not make political contributions and will not participate directly in the activities of political parties. If you wish to take part in political activities you must do so in a manner that does not compromise your duties to Meridian.”</td>
</tr>
<tr>
<td>MET</td>
<td>Metlifecare Limited</td>
<td>Financials</td>
<td>“You must not support a political party or organisation other than in a personal capacity;”</td>
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<tr>
<td>MFT</td>
<td>Mainfreight Limited</td>
<td>Industrials</td>
<td>NA</td>
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<tr>
<td>MPG</td>
<td>Metro Performance Glass Limited</td>
<td>Industrials</td>
<td>“Metroglass people will not without the prior consent of Metroglass: support a political party or organisation other than in a personal capacity;”</td>
</tr>
<tr>
<td>MRP</td>
<td>Mighty River Power Limited</td>
<td>Energy</td>
<td>NA</td>
</tr>
<tr>
<td>NPX</td>
<td>Nuplex Industries Limited</td>
<td>Industrials</td>
<td>“Political Interests: Political contributions to any Government official, political party, political party official or candidate or election committee must not be made, whether directly or indirectly on behalf of Nuplex without prior approval of the Board of Directors.”</td>
</tr>
<tr>
<td>NZX</td>
<td>NZX Limited</td>
<td>Financials</td>
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<tr>
<td>OHE</td>
<td>Orion Health Group Limited</td>
<td>Financials</td>
<td>NA</td>
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<tr>
<td>PCT</td>
<td>Precinct Properties New Zealand Limited</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>PEB</td>
<td>Pacific Edge Limited</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>PFI</td>
<td>Property for Industry Limited</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>POT</td>
<td>Port of Tauranga Limited</td>
<td>Utilities</td>
<td>NA</td>
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<tr>
<td>RBD</td>
<td>Restaurant Brands New Zealand Limited</td>
<td>Consumer</td>
<td>NA</td>
</tr>
<tr>
<td>Code</td>
<td>Name</td>
<td>Sector</td>
<td>Notes</td>
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<tr>
<td>------</td>
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<tr>
<td>RYM</td>
<td>Ryman Healthcare Limited</td>
<td>Financials</td>
<td>“Ryman people will not without the prior consent of Ryman: support a political party or organisation other than in a personal capacity;”</td>
</tr>
<tr>
<td>SKC</td>
<td>Sky City Entertainment Group Limited</td>
<td>Industrials</td>
<td>NA</td>
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<tr>
<td>SKL</td>
<td>Skellerup Holdings Limited</td>
<td>Consumer</td>
<td>NA</td>
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<tr>
<td>SKT</td>
<td>Sky Network Television Limited</td>
<td>Consumer</td>
<td>NA</td>
</tr>
<tr>
<td>SPK</td>
<td>Spark New Zealand Limited</td>
<td>Consumer</td>
<td>“Spark New Zealand people will not without the prior written consent of Spark New Zealand: Support a political party or organisation other than in a personal capacity;”</td>
</tr>
<tr>
<td>STU</td>
<td>Steel &amp; Tube Holdings Limited</td>
<td>Industrials</td>
<td>NA</td>
</tr>
<tr>
<td>SUM</td>
<td>Summerset Group Holdings Limited</td>
<td>Financials</td>
<td>NA</td>
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<tr>
<td>TME</td>
<td>Trade Me Group Limited</td>
<td>Financials</td>
<td>NA</td>
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<tr>
<td>TPW</td>
<td>Trustpower Limited</td>
<td>Energy</td>
<td>NA</td>
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<tr>
<td>TWR</td>
<td>Tower Limited</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>VCT</td>
<td>Vector Limited</td>
<td>Energy</td>
<td>“3.4 No donation or payment can be made to a political party or candidate by Vector, unless it has been approved by the Vector board and/or the Group Chief Executive.”</td>
</tr>
<tr>
<td>VHP</td>
<td>Vital Healthcare Property Trust</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>WBC</td>
<td>Westpac Banking Corporation</td>
<td>Financials</td>
<td>NA</td>
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<tr>
<td>WHS</td>
<td>The Warehouse Group Limited</td>
<td>Consumer</td>
<td>NA</td>
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<tr>
<td>XRO</td>
<td>Xero Limited</td>
<td>Financials</td>
<td>NA</td>
</tr>
<tr>
<td>ZEL</td>
<td>Z Energy Limited</td>
<td>Energy</td>
<td>“Directors must not (in that capacity) support a political party, without the prior consent of the Board. If intending to support in a personal or other capacity, Directors should consider whether such action has the propensity to reflect in any way on Z Energy.”</td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Political participation attitude (Yay/Nay/NA)</td>
<td>Position of the policy</td>
</tr>
<tr>
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<td>----------------------------------------------</td>
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</tr>
<tr>
<td>Akzo Nobel NV</td>
<td>Materials</td>
<td>Nay</td>
<td>Home&gt;Sustainability&gt;Integrity&gt;Code of Conduct</td>
</tr>
<tr>
<td>Alcatel-Lucent, S.A.</td>
<td>Telecommunication Services</td>
<td>Yay</td>
<td>Home&gt;Sustainability&gt;Ethics&gt;Anti-corruption compliance program</td>
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</table>

Information on each firm has been gathered from the corresponding website as indicated.
<table>
<thead>
<tr>
<th>Company</th>
<th>Type</th>
<th>Lobbying Code of Conduct</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allianz SE</td>
<td>Financials</td>
<td>Yes</td>
<td>“Allianz Lobbying Code of Conduct”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Political donations (webpage): As a company headquartered in Germany, Allianz has a significant role to play as a German corporate citizen. We are committed to the country’s vibrant democracy, which has brought prosperity, freedom and justice to the German people for 70 years. For this reason, Allianz has contributed for many years to democratic political parties that support the social market economy. Code of Conduct (Download): 14. Political and Charitable Contributions/Sponsorship--Political contributions and contributions to political parties have to be decided and disclosed by the respective Operative Entities’ (OE) board of management.”</td>
</tr>
<tr>
<td>Assicurazioni Generali S.P.A</td>
<td>Financials</td>
<td>Yes</td>
<td>NA</td>
</tr>
<tr>
<td>Atalas Copco AB</td>
<td>industrial</td>
<td>Yes</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“• Lobbying is primarily conducted through the representation by or in trade and other non-governmental organizations. • The Group does not take political stands. Therefore we do not use Group funds or assets to support political campaigns or candidates, or NA</td>
</tr>
</tbody>
</table>
Australia & New Zealand Banking Group Ltd.

<table>
<thead>
<tr>
<th>Financials</th>
<th>Yay</th>
<th>Yes</th>
<th>Home&gt; About us&gt; Corporate Responsibility&gt; More from Mike&gt; Public Policy Advocacy&gt; Political Donations Policy Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Political Donations Policy”</td>
</tr>
</tbody>
</table>

```
• ANZ will make a single annual donation to each of the two major Australian federal political parties to support the democratic process in Australia. Any other donation or provision of a benefit to a political party or candidate on behalf of ANZ requires specific approval by the ANZ Board and the Chief Executive Officer.  
• ANZ will publicly disclose all donations or benefits to political parties or candidates. This disclosure includes a statement in ANZ’s annual report and the publicly available political donation return to the Australian Electoral Commission.  
• ANZ employees are not permitted to act as representatives of ANZ at political fundraising activities, even as a guest of a third party, unless approval has been obtained from the Group General Manager, Corporate Affairs in the first instance, then by the ANZ Board and the Chief Executive Officer. ANZ employees and contractors must avoid actions or attendance at functions that could be perceived as political
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<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Relevance</th>
<th>Policy</th>
<th>Consent</th>
<th>Policy Description</th>
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</thead>
<tbody>
<tr>
<td>Aviva plc</td>
<td>Financials</td>
<td>Yay</td>
<td>Yes</td>
<td>Yes</td>
<td>“We work closely with the Aviva public policy team to respond to key government and regulator consultations at the UK, EU and UN level. We believe we have a key role to play in shaping policy for longer-term markets. We also participate in key industry initiatives focused on tackling short-termism in the market.”</td>
</tr>
<tr>
<td>Banco Santander (Brasil) S.A.</td>
<td>Financials</td>
<td>NA</td>
<td>Yes</td>
<td>No</td>
<td>“General Code of Conduct: 27. Political or associative activity”</td>
</tr>
<tr>
<td>Barloworld Ltd.</td>
<td>industrial</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>“1. Any linkage to, membership of or co-operation with political parties or other types of entities, institutions or associations of a public nature or which are outside those of the Group itself, or any contribution or services to such bodies, should be carried out in such a way as to clarify the personal nature of such activity, avoiding any involvement of the Group.  2. Prior to accepting any appointment to public office, Persons Subject to the Code should notify their immediate superior and Human Resources Management in order to determine the existence of any incompatibilities or restrictions with respect to the holding of such office.”</td>
</tr>
<tr>
<td>Company</td>
<td>Sector</td>
<td>Lobbying</td>
<td>Guidelines for lobbying and political communication</td>
<td>Political dialogue is part of sustainable governance at BASF</td>
<td>NA</td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------------------------</td>
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<td>-------------------------------------------------------</td>
<td>-----------------------------------------------------------</td>
<td>----</td>
</tr>
<tr>
<td>BASF SE</td>
<td>Materials</td>
<td>Yes</td>
<td>NA</td>
<td>BASF conducts its Political dialogue in compliance with corporate values and principles-Memberships of associations and BASF liaison offices</td>
<td>NA</td>
</tr>
<tr>
<td>Bayerische Motoren Werke Aktiengesellschaft</td>
<td>Consumer Discretionary</td>
<td>NA</td>
<td>Yes</td>
<td>BASF support the social commitment of company employees</td>
<td>NA</td>
</tr>
<tr>
<td>BCE, Inc.</td>
<td>Telecommunication Services</td>
<td>Yes</td>
<td>NA</td>
<td>BASF does not make donations to Political parties Exchange of staff with international organizations, governments, ministries and public administration.”</td>
<td>NA</td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>CSR</td>
<td>Volunteering</td>
<td>Donations, Sponsorships and Employee Volunteering Policy</td>
<td>Lobbying</td>
</tr>
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</tr>
<tr>
<td>BNP Paribas SA</td>
<td>Financials</td>
<td>Yes</td>
<td>No</td>
<td>“Donations, Sponsorships and Employee Volunteering Policy”</td>
<td></td>
</tr>
<tr>
<td>Bombardier Inc.</td>
<td>industrial</td>
<td>Nay</td>
<td>Yes</td>
<td>CSR Home&gt;Local Roots&gt;Donation s and Sponsorships No</td>
<td>“Bombardier does not provide any funding or other forms of support for: Political parties, organizations and related events unless prior approval has been obtained from Corporate Public Affairs and Corporate Legal.” Corporate Public Affairs and Corporate Legal</td>
</tr>
<tr>
<td>BRF S.A.</td>
<td>Consumer Staples</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
</tr>
<tr>
<td>CA Technologies</td>
<td>Information technology</td>
<td>Yay</td>
<td>Yes</td>
<td>Home&gt;Investor Relations&gt;Corporate governance&gt;Codes of Conduct No</td>
<td>“Code of Conduct: Conducting business with governments”</td>
</tr>
<tr>
<td>Campbell Soup Company</td>
<td>Consumer Staples</td>
<td>Yay</td>
<td>Yes</td>
<td>Home&gt;Investor Center&gt;Corporate Governance&gt;Corporate Governance Standards No</td>
<td>“Corporate Governance Standards: 6 Communities and the public, political activities”</td>
</tr>
<tr>
<td>Company</td>
<td>Sector</td>
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<td>Yes</td>
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<tr>
<td>CEMEX, S.A.B. de C.V.</td>
<td>Materials</td>
<td>NA</td>
<td>Yes</td>
<td>Home&gt;Investor Center&gt;Corporate Governance&gt;Code of Ethics</td>
<td>No</td>
</tr>
<tr>
<td>China Vanke Co. Ltd.</td>
<td>Financials</td>
<td>NA</td>
<td>NA</td>
<td>Home&gt;Corporate governance&gt;Corporate Political Activities Statement</td>
<td>NA</td>
</tr>
<tr>
<td>Citigroup, Inc</td>
<td>Financials</td>
<td>Yay</td>
<td>Yes</td>
<td>Home&gt;About us&gt;Corporate governance&gt;Corporate Political Activities Statement</td>
<td>Yes</td>
</tr>
</tbody>
</table>
City Developments Ltd. | Financials | NA | NA | NA | No | NA | NA | NA | NA | NA
---|---|---|---|---|---|---|---|---|---|---
Coca-Cola Icecek A.S. | Consumer Staples | NA | NA | Home>Investor Relations>Corporate governance>Codes of Ethics | No | “Code of Ethics” | “The Company is not involved in employees’ affiliation with political processes” | NA | NA | NA
Coloplast A/S | Health Care | NA | Yes | NA | No | NA | NA | NA | NA | NA
Companhia Energetica de Minas Gerais S.A. | Energy | NA | NA | NA | No | NA | NA | NA | NA | NA
Compania Cervecerias Unidas S.A. | Consumer Staples | NA | NA | NA | No | NA | NA | NA | NA | NA

reports to the CEO.
<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Approval</th>
<th>Code of Business Conduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dai Nippon Printing Co. Ltd.</td>
<td>industrial</td>
<td>No</td>
<td>NA</td>
</tr>
<tr>
<td>Daimler AG</td>
<td>Consumer</td>
<td>No</td>
<td>“Integrity Code”</td>
</tr>
<tr>
<td>Deutsche Telekom AG</td>
<td>Telecommunication Services</td>
<td>Yes</td>
<td>NA</td>
</tr>
<tr>
<td>Diageo plc</td>
<td>Consumer</td>
<td>Yes</td>
<td>“Code of Business Conduct: Political activity”</td>
</tr>
<tr>
<td>DNB ASA</td>
<td>Financials</td>
<td>No</td>
<td>NA</td>
</tr>
<tr>
<td>Ebara Corp.</td>
<td>industrial</td>
<td>No</td>
<td>“Outline of Ebara Group of Conduct: Chapter 4 Society and the EBARA Group: 3 Donations and</td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Director</td>
<td>NA</td>
</tr>
<tr>
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</tr>
<tr>
<td>Electrolux AB</td>
<td>Consumer Discretionary</td>
<td>Nay</td>
<td>NA</td>
</tr>
<tr>
<td>Embraer SA</td>
<td>industrial</td>
<td>Nay</td>
<td>NA</td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Approval</td>
<td>Note</td>
</tr>
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</tr>
<tr>
<td>Empresa Nacional de Electricidad SA</td>
<td>Industrial</td>
<td>Nay</td>
<td>“Zero Tolerance Plan Against Corruption: 2.2 Donations to political parties”</td>
</tr>
<tr>
<td>Enagas SA</td>
<td>Energy</td>
<td>Nay</td>
<td>“Code of Ethics: 4.2. Express rejection of fraud, corruption and bribery”</td>
</tr>
<tr>
<td>Ericsson</td>
<td>Telecommunication Services</td>
<td>Nay</td>
<td>“Code of Conduct: Political Activities”</td>
</tr>
<tr>
<td>Company</td>
<td>Consumer Discretionary</td>
<td>Yay</td>
<td>Yes</td>
</tr>
<tr>
<td>--------------------------</td>
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</tr>
<tr>
<td>Fujitsu Limited</td>
<td>Information technology</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>
authorized in writing by a senior level of management. We should not speak to the media or make statements on behalf of Fujitsu, unless authorized by the Public Relations office.”

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Grupo Argos SA</td>
<td>Materials</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>H &amp; M Hennes &amp; Mauritz AB</td>
<td>Consumer Staples</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>HCL Technologies Ltd</td>
<td>Information technology</td>
<td>Nay</td>
<td>NA</td>
<td>Home&gt; About Us&gt; Corporate Governance at HCL</td>
<td>No</td>
<td>“Corporate Social Responsibility”; “Anti-Bribery Policy (External)”</td>
<td>“Corporate Social Responsibility: b. Contributions of any amount directly or indirectly to any political party shall not be considered as CSR activity under the Policy. Anti-bribery policy external: 10. Political activities We are apolitical, advocate government policies on sustainability and do not contribute financial or in-kind to political parties, politicians and related institutions in any of the countries.”</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>
We do not make contributions to political parties, political party officials or candidates for political office.
Payment or use of corporate assets of any type as payment, directly or indirectly to any person, business, political organization or public official for any unlawful or unauthorized purpose is prohibited. You should not make any political contribution on behalf of HCL, use any HCL resources to assist a candidate or elected official in any campaign or coerce or direct another employee to vote a certain way. You should never attempt to offer any incentives to public officials in the hopes of influencing the decision of that individual.”

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Nay</th>
<th>Na</th>
<th>Downloads</th>
<th>No</th>
<th>Code of Conduct: 6. Corporate Citizenship and donations”</th>
<th>The criteria applied in relation to donations are essentially as follows: • no donations to political parties;”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Henkel AG &amp; Co. KGaA</td>
<td>Consumer</td>
<td>Nay</td>
<td>Na</td>
<td>Home&gt;Company&gt;Downloads</td>
<td>No</td>
<td>“Code of business conduct and ethics: Corporate political activities”</td>
<td>“Laws in countries where the Company and its subsidiaries do business may make it a criminal offense for any corporation to make contributions in connection with a political campaign or to make any payments to an official’s election campaign where a corporation</td>
</tr>
<tr>
<td>Hess Corporation</td>
<td>Energy</td>
<td>Nay</td>
<td>NA</td>
<td>Home&gt;Investor&gt;Corporate Governance&gt;</td>
<td>No</td>
<td></td>
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</tr>
</tbody>
</table>

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has business dealings with a government. Therefore, it is our Company policy not to make political contributions with corporate funds, whether in cash or in-kind, even if the laws of certain jurisdictions may permit them. “Contributions” is a broad term that includes not only money, but also the use of corporate resources and personnel. In addition, because lobbying activities are highly regulated, we may not make any contacts with government officials in an attempt to influence legislation, regulation, policy or other governmental actions on Hess’ behalf. The only exception to this rule is when you have specific permission from the Legal Department.”
<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
<th>Approving Contributions</th>
<th>Political Contributions</th>
<th>Advisory Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hitachi Ltd.</td>
<td>industrial</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Holmen Aktiebolag (publ)</td>
<td>industrial</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Industria de Diseno Textil SA</td>
<td>Consumer Discretionary</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Infosys Ltd.</td>
<td>Information technology</td>
<td>No</td>
<td>“Code of conduct and ethics: Political contributions”</td>
<td>The Board</td>
</tr>
</tbody>
</table>

“Infosys reserves the right to communicate its position on important issues to the elected representatives and other government officials. It is Infosys’ policy to comply with all local, state, federal, foreign and other applicable laws, rules and regulations regarding political contributions. Infosys’ funds or assets must not be used as contributions for political campaigns or political practice under any circumstances without the prior written approval of the Board. For obtaining such approvals, please send your request to complianceandethics@infosys.com”
<table>
<thead>
<tr>
<th>Intel Corporation</th>
<th>Information technology</th>
<th>Yay</th>
<th>Yes</th>
<th>Home&gt;Investor Relations&gt;Corporate information&gt;Corporate Governance and Ethics</th>
<th>Yes</th>
<th>“Political Accountability guidelines”</th>
<th>“Purpose; Process; Transparency/Disclosure”</th>
<th>Review; Corporate Affairs and Global Public Policy departments; Vice president of Global Public Policy and the vice president of Corporate Affairs; The Board’s Corporate Governance and Nominating Committee</th>
<th>Yes (2014-2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intesa Sanpaolo S.p.A</td>
<td>Financials</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>
## Political Contribution Policy

The following principles guide our political contributions and activities to ensure compliance with applicable federal and state laws and go beyond compliance to implement leading practices in accountability and transparency.

Executive Operating Team; the Corporate Vice President for Diversity and Public Affairs and a senior leader from at least one of our three business units; the General Counsel or Legal Department and the Vice President for Diversity and Public Affairs.

### Table: Political Contribution Policy

<table>
<thead>
<tr>
<th>Company</th>
<th>Category</th>
<th>Fiscal Year</th>
<th>Contribution</th>
<th>Disclosure</th>
<th>Compliance</th>
<th>Review</th>
<th>Approval</th>
<th>Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johnson Controls Discretionary</td>
<td>Materials</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>JSR Corp</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Kimberly-Clark Corporation</td>
<td>NA</td>
<td>Yes</td>
<td>No</td>
<td>NA</td>
<td>“Code of Conduct: Conflicts of interest”</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Policy Status</td>
<td>Financial Status</td>
<td>Policies</td>
<td>Description</td>
<td></td>
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<td></td>
<td>“We comply with public procurement rules that apply to government projects or contracts. We do not make any contribution, in money or in kind, to political parties or organizations, or to individuals engaged in politics.”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lenovo Group Limited</td>
<td>Information tech.</td>
<td>NA</td>
<td>Yes</td>
<td>Home&gt;Investor Relations&gt;Statutory Publications</td>
<td>“Code of Business Conduct:”</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>“Lenovo Government Affairs is responsible for coordinating Lenovo’s communications and other interactions with government officials and policy makers. Lenovo employees should not communicate with public officials on policy matters, make political contributions or engage in political activities on Lenovo’s behalf except in accordance with applicable law or policy and in coordination with Lenovo Government Affairs. Various laws restrict us from using Lenovo funds, assets, services or facilities on behalf of a political party or candidate.”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lexmark International Inc.</td>
<td>Information tech.</td>
<td>Nay: political contribution</td>
<td>Yes</td>
<td>Home&gt;Investor Relations&gt;Corporate Governance&gt;Highlights</td>
<td>“Political contribution policy:”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>“Under this policy, Lexmark will not make contributions of any kind (money, employee time, goods or services) to political parties or candidates, political committees, including political committees organized under Section 527 of the Internal Revenue Code, or in support of or against ballot measures.”</td>
<td></td>
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</tr>
</tbody>
</table>
Because of our policy on political contributions and expenditures, we do not have a Political Action Committee (PAC).”

<table>
<thead>
<tr>
<th>Company</th>
<th>Category</th>
<th>Political Contributions</th>
<th>Political Expenditures</th>
<th>NA</th>
<th>NA</th>
<th>NA</th>
<th>NA</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG Electronics Inc</td>
<td>Information technology</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>L'Oréal SA</td>
<td>Consumer Staples</td>
<td>Nay</td>
<td>Nay</td>
<td>No</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

“L’ORÉAL does not contribute to political parties, politicians or related institutions. However, L’ORÉAL, as a leader in the cosmetics industry, believes it is its duty to be proactive and take part in the public decision making process in the countries in which it operates. L’ORÉAL respects its employees’ right to participate as individuals in the political process – so long as they make sure that, in doing so, they do not represent the Company.”
<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Response</th>
<th>Reported</th>
<th>Description</th>
<th>NA</th>
<th>NA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mondi Limited</td>
<td>Materials</td>
<td>Nay</td>
<td>NA</td>
<td>“Mondi is opposed to corruption and illegal practices in all forms. We do not tolerate the giving and receiving of bribes; nor condone anti-competitive practices in dealings with governments and in the marketplace. Mondi does not permit contributions or donations for political purposes. Our approach to preventing corruption is published in corporate brochures, newsletters and on the Group website. Mondi requires any lobbying undertaken to be in line with the Group’s business ethics and internal policies. Our policies with regard to these matters are set out in our Group Business Integrity Policy.”</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>National Australia Bank Limited</td>
<td>Financials</td>
<td>Yay</td>
<td>Yes</td>
<td>“Group representatives will often attend political party conferences and political functions. Such attendance must be for strictly commercial reasons and is dependent on the price charged not being in excess of the commercial value (in terms of access) of that function.”</td>
<td>The Principal Board</td>
<td>include d in our Annual Financial Report</td>
</tr>
<tr>
<td>NEC Corporation</td>
<td>Information technology</td>
<td>Yay</td>
<td>Yes</td>
<td>“We will adhere to applicable laws and regulations, such as laws to regulate money used for political activities and laws to regulate public elections, for all political funds and donations as well as expenditures related to elections and political activities.”</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Vote</td>
<td>Supports Political Contributions</td>
<td>Code of Conduct: Political Contributions/Activities</td>
<td>Political Contributions/Activities Details</td>
<td></td>
</tr>
<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>Norsk Hydro ASA</td>
<td>Energy</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>“Financial or other contributions to political parties, officials thereof or candidates for public office shall never be made on behalf of Hydro. This does not preclude Hydro from supporting political views in the interest of the company or prevent employee from participating in political activities as private citizens.”</td>
<td></td>
</tr>
<tr>
<td>Novartis AG</td>
<td>Health Care</td>
<td>Yay</td>
<td>Yes</td>
<td>No</td>
<td>“Generally, Novartis does not make political contributions. However, since public policy issues impact Novartis’ business, its employees, and the communities in which Novartis operates, in certain cases it may be appropriate to use its resources to make political contributions. For instance, Novartis may seek to support candidates, committees, or other organizations that are committed to economic development, recognize the importance of healthcare innovation, and improve patient access to therapies. Political contributions must never be made with the expectation of a direct or immediate return for Novartis. Political contributions must be: - Compliant with applicable laws, regulations, and industry codes; - Covered by a separate budget position, approved in the ordinary budget process; and -”</td>
<td>Relevant Novartis Country President</td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Approval</td>
<td>Disclosure</td>
<td>Position on Public Affairs</td>
<td>Statement</td>
<td>NA</td>
</tr>
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</tr>
<tr>
<td>Novo Nordisk A/S</td>
<td>Health Care</td>
<td>Nay</td>
<td>Yes</td>
<td>No</td>
<td>“Our position on public affairs”</td>
<td></td>
</tr>
<tr>
<td>Novo Nordisk A/S</td>
<td>Health Care</td>
<td>Nay</td>
<td>Yes</td>
<td>No</td>
<td>“Novo Nordisk does not engage in any corporate political contributions. This means that no corporate funds are used for direct or indirect contributions or expenditures for political candidates or parties or any payments made to trade associations or entities used for intervening in a political campaign.”</td>
<td>NA</td>
</tr>
<tr>
<td>Novozymes A/S</td>
<td>Health Care</td>
<td>Nay</td>
<td>Yes</td>
<td>No</td>
<td>“Business integrity principles”</td>
<td></td>
</tr>
<tr>
<td>Novozymes A/S</td>
<td>Health Care</td>
<td>Nay</td>
<td>Yes</td>
<td>No</td>
<td>“Political and charity contributions We do not give money to political parties, but we occasionally contribute to charities”</td>
<td></td>
</tr>
<tr>
<td>OMV Aktiengesellschaft</td>
<td>Energy</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
<td>NA</td>
</tr>
<tr>
<td>Osaka Gas Co., Ltd.</td>
<td>Utilities</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td></td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>“8.9 refuse support and contributions to political parties or political campaigns of candidates for elective offices;”</td>
<td>NA</td>
</tr>
<tr>
<td>Company</td>
<td>Code of Ethics: Rule 16 Clear separation between work and political activities</td>
<td>Ethical Code: Compliance with the Code</td>
<td>Code of business principles</td>
<td></td>
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</tr>
<tr>
<td>Peugeot SA</td>
<td>“The Group does not make financial contributions to political parties.”</td>
<td>“The Pirelli Group does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation.”</td>
<td>“In line with our Code, we do not support political parties or fund groups that promote party interests.”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pirelli &amp; C. SpA</td>
<td>“The Group does not make financial contributions to political parties.”</td>
<td>“The Pirelli Group does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation.”</td>
<td>“In line with our Code, we do not support political parties or fund groups that promote party interests.”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PT Unilever Indonesia Tbk</td>
<td>“The Group does not make financial contributions to political parties.”</td>
<td>“The Pirelli Group does not provide contributions, advantages, or other benefits to political parties or trade union organizations, or to their representatives or candidates, this without prejudice to its compliance with any relevant legislation.”</td>
<td>“In line with our Code, we do not support political parties or fund groups that promote party interests.”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Policy</td>
<td>Response</td>
<td>Statement</td>
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</tr>
<tr>
<td>PTT Global Chemical Public Company Ltd.</td>
<td>Materials</td>
<td>Nay</td>
<td>NA</td>
<td>PTT Global Chemical Group does not have the policy to provide support in the form of money, resources or any other asset, either directly or indirectly, to politicians, political parties or political groups with the hope to benefit from them. Code of Conduct: 9. Political rights and neutrality. PTT Global Chemical Group has a policy of legally managing the business on the basis of honesty. PTT Global Chemical Group is politically neutral and independent in all decisions and actions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repsol, SA</td>
<td>Energy</td>
<td>Nay</td>
<td>Yes</td>
<td>Repsol declares its political neutrality and states that it does not directly or indirectly, in Spain or abroad, finance political parties, their representatives or candidates.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Sustainaibility</td>
<td>Ethics</td>
<td>Governance</td>
<td>Code of conduct: 6 Doing business with public bodies and making political contributions</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Ricoh Company Ltd.</td>
<td>NA</td>
<td>NA</td>
<td>Home&gt;CSR&gt;Concept</td>
<td>No</td>
<td>“Code of Conduct: 6. Doing business with public bodies and making political contributions”</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
<td>Basic policy-the Ricoh group, in doing business with public bodies and making political contributions, shall be in compliance with the relevant laws. Governance: Bribery Prevention Policy The Ricoh Group established RGS, &quot;Ricoh Group Standard for Bribery Prevention” in compliance with 5. Limits on entertainment and gifts, and 6. Doing business with public bodies and making political contributions, stipulated in Ricoh Group Code of Conduct.”</td>
<td></td>
</tr>
<tr>
<td>Sasol Ltd.</td>
<td>Energy</td>
<td>Nay</td>
<td>Yes</td>
<td>Home&gt;Sustainability&gt;Ethics</td>
<td>No</td>
<td>“A guide to the application of Sasol's code of ethics: Contributions to government officials or political parties”</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>“Contributions to political parties or government officials may be interpreted as an inducement for future beneficial treatment, and interference in the democratic process. Sasol businesses therefore do not make payments or other contributions to government officials or political parties or take part in party politics”</td>
<td></td>
</tr>
<tr>
<td>Shiseido Company Ltd.</td>
<td>Consumer</td>
<td>NA</td>
<td>NA</td>
<td>Home&gt;Company&gt;Governance</td>
<td>No</td>
<td>“Corporate governance report”</td>
</tr>
<tr>
<td></td>
<td>Staples</td>
<td></td>
<td></td>
<td></td>
<td>“We strictly maintain fairness and a high level of transparency in our relationships with national and local government entities and officials, political parties and politicians.”</td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>Industry</td>
<td>Participation</td>
<td>Code of conduct</td>
<td>Notes</td>
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</tr>
<tr>
<td>SK Hynix Inc</td>
<td>Information technology</td>
<td>Nay</td>
<td>“Code of conduct: Article 25 Ban on participation in political activities”</td>
<td>“The company does not participate in politics, and will not provide donations or expenses to candidates running for elected posts, political parties and political committees, directly or indirectly. The company, however, can express its position about policies or laws when stated policies or laws are connected with its interests. The company respects personal opinions of its members, but members should be careful that any opinions they express are not construed as the views of the company. No political activities are allowed within the company.”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Snam SpA</td>
<td>Utilities</td>
<td>Nay</td>
<td>“Code of conduct: 3.2 Political organisations and trade unions”</td>
<td>“Snam does not make any direct or indirect contributions in whatever form to political parties, movements, committees, political organisations and trade unions, or to their representatives and candidates, except those specifically expected by applicable laws and regulations.”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>S-Oil Corporation</td>
<td>Energy</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>Statoil ASA</td>
<td>Energy</td>
<td>Nay</td>
<td>Yes</td>
<td>Home&gt; About us&gt; Ethics values</td>
<td>No</td>
<td>NA</td>
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<tr>
<td>Stora Enso Oyj</td>
<td>Materials</td>
<td>Yay</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
</tr>
<tr>
<td>Storebrand ASA</td>
<td>Financials</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
</tr>
<tr>
<td>Suncor Energy Inc.</td>
<td>Energy</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>No</td>
<td>NA</td>
</tr>
<tr>
<td>Company</td>
<td>Category</td>
<td>Support</td>
<td>Involvement</td>
<td>Engagement Description</td>
<td>Period</td>
<td></td>
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</tr>
<tr>
<td>Symantec Corporation</td>
<td>Information technology</td>
<td>Yay</td>
<td>Yes</td>
<td>“Political Engagement”</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Home &gt; About Symantec &gt; Government Affairs &gt; Political Engagement</td>
<td>Yes</td>
<td></td>
<td>“Symantec is committed to engaging constructively and responsibly in the public policy and political process. We do so in numerous ways, including educational outreach to elected officials on key public policy issues related to the company’s business, political giving by employees through the Symantec Political Action Committee (SymPAC), and membership in trade associations which help to advance our business objectives.”</td>
<td>Per six months, 2014-2011</td>
<td></td>
</tr>
<tr>
<td>Tata Chemicals Ltd.</td>
<td>Materials</td>
<td>Nay</td>
<td>Yes</td>
<td>“Code of Conduct: Clause 7 Political non-alignment”</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Home &gt; Our Company &gt; Code of Conduct</td>
<td>No</td>
<td></td>
<td>“A Tata company shall be committed to and support the constitution and governance systems of the country in which it operates. A Tata company shall not support any specific political party or candidate for political office. The company’s conduct shall preclude any activity that could be interpreted as mutual dependence / favour with any political body or person, and shall not offer or give any company funds or property as donations to any political party, candidate or campaign.”</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>Category</td>
<td>Compliance Status</td>
<td>Management Policy</td>
<td></td>
<td></td>
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<td>--------------------------------------------</td>
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</tr>
<tr>
<td>Tata Consultancy Service Ltd.</td>
<td>Information technology</td>
<td>Nay Yes No</td>
<td>“Code of Conduct: Clause 7 Political non-alignment”</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“A Tata company shall be committed to and support the constitution and governance systems of the country in which it operates. A Tata company shall not support any specific political party or candidate for political office. The company’s conduct shall preclude any activity that could be interpreted as mutual dependence / favour with any political body or person, and shall not offer or give any company funds or property as donations to any political party, candidate or campaign.”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technicolor SA</td>
<td>Consumer Discretionary</td>
<td>NA NA No</td>
<td>“Code of Ethics: Political Contribution”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>“Technicolor rarely uses its resources to support political parties or candidates and then only when it is clearly legal to do so. Therefore, any exceptions to this rule require specific approval by the Ethics Compliance Committee. Technicolor personnel, of course, may support their own parties and candidates as long as they do so on their time and do not use Technicolor resources.”</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telefonica Brasil SA</td>
<td>Telecommunication Services</td>
<td>Nay Yes NA</td>
<td>“Business Principles: Bribery and anti-corruption”</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
|                                            |                           |                   | “• We will behave with integrity and not seek gain for ourselves or for a third party by misusing our position or contacts within Telefónica. As a corporate entity, we will act with absolute political neutrality.  
• We will abstain from any direct or indirect...” |

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participation that could be interpreted as taking a position in favour of or against legitimate political parties. In particular, we will not make donations of any type, in support of political parties, organisations, factions, movements, or public or private entities whose activities are clearly linked with political activity.”

<table>
<thead>
<tr>
<th>Code of Ethics: 3.9 Political Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Background-Telenor does not want to take political positions or be associated with specific political movements. However, Telenor may participate in public debates which are of importance to Telenor’s strategies and business performance. Our standard-Telenor does not support political parties, neither in the form of direct financial support nor paid time. Employees may participate in legitimate political activities without reference to Telenor or to the employment with Telenor. Employees who take part in such activities will be granted leave from their work in accordance with law and applicable agreements. Our conduct - You shall notify your leader in advance if you want to take such leave of absence. Any leave granted shall be within a reasonable timeframe and with due regard to the</td>
</tr>
<tr>
<td>Company</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td>Terna Rete Elettrica Nazionale Societa per Azioni</td>
</tr>
<tr>
<td>The Linde Group</td>
</tr>
<tr>
<td>Toppan Printing Co., Ltd</td>
</tr>
</tbody>
</table>

Implications for the ongoing business activities, in accordance with law and applicable agreements.”
<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>CSR</th>
<th>Relevance</th>
<th>Code of Conduct</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toshiba Corporation</td>
<td>industrial</td>
<td>NA</td>
<td>Yes</td>
<td>No</td>
<td>“Code of Conduct: 7. Bribery”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>“Toshiba Group Companies shall: observe all applicable laws and regulations, and lawful business practices, prohibit illegal or improper payments against lawful business practices; and not provide any illegitimate benefits or favours to any politicians or political organizations.”</td>
</tr>
<tr>
<td>Unilever plc</td>
<td>Consumer Staples</td>
<td>Nay</td>
<td>Yes</td>
<td>No</td>
<td>“Code of business principles”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>“In line with our Code, we do not support political parties or fund groups that promote party interests.”</td>
</tr>
<tr>
<td>UPM-Kymmene Oyj</td>
<td>Materials</td>
<td>Nay</td>
<td>Yes</td>
<td>No</td>
<td>“Code of conduct: Conflicts of Interest, Gifts and Bribes”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>“The Company does not support political candidates, parties or groups.”</td>
</tr>
<tr>
<td>Volkswagen AG</td>
<td>Consumer Discretionary</td>
<td>NA</td>
<td>Yes</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>
Westpac Banking Corporation

Financials

Yay

Yes

Home> About Westpac > Sustainability and community > Sustainability strategy > Our Approach

Yes

“Sustainability Strategy: Political donations”

“We believe we have a responsibility to support the democratic process and make sure governments are well informed of our activities. We are therefore committed to ensuring that any political donations we make are: Solely for the purpose of supporting the democratic process ; Lawful and properly recorded in our accounts ; Adequately disclosed in accordance with relevant electoral laws ; Not made where there can be any misrepresentation of their purpose. Political donations are reported in the director's report within the concise annual report, to the Australian electoral commission, and the various states in accordance with the law. Westpac participates in industry consultation with various government bodies on a range of issues pertaining to our business. Westpac is a member of relevant industry associations including Australian Bankers Association (ABA), Investments and Financial Service Associations (IFSA), Financial Planning Association (FPA), Australia Financial Markets Association (AFMA).”

Wipro Ltd.

Information technology

Nay

Yes

Home> Investor > Corporate Governance

No

“Code of Conduct: Political Contributions”

“Wipro does not make contributions to any political party. Also, no employee may make a political contribution, whether cash or otherwise.”

NA

NA
### Woolworths Limited

<table>
<thead>
<tr>
<th>Consumer Staples</th>
<th>Nay</th>
<th>NA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home&gt; About us&gt; Community &gt; Corporate Responsibility Report&gt; Who we are&gt; Corporate governance</td>
<td>No</td>
<td>“Code of Conduct: Political Activities”</td>
</tr>
</tbody>
</table>

Woolworths Limited respects the rights of its employees to participate in the political process but is mindful of any potential conflicts of interest. It is important for us all to know that the Company is not allowed to offer or give gifts, loans, rewards or favours to any government official or government employee with a view to favourable treatment in return. You are expected to respect the Company’s stance on this issue particularly in cases where you work with local or overseas government representatives. If you have any concerns or questions you should contact the Director – Corporate and Public Affairs.”

on behalf of Wipro. Lobbying must have prior written approval of such activity from CFO, Wipro Limited.”

Director – Corporate and Public Affairs | NA |
**Annex III: Legal environments for corporate political spending in selected countries, 2015**

<table>
<thead>
<tr>
<th>Country</th>
<th>Electoral System</th>
<th>Legal system</th>
<th>Corporate donations to political parties</th>
<th>Corporate political donations to candidates</th>
<th>Regulatory body</th>
<th>Relevant laws</th>
</tr>
</thead>
</table>

Information on each country has been gathered from website as indicated, and also, IDEA Political Finance Database <http://www.idea.int/political-finance/>.
<table>
<thead>
<tr>
<th>Country</th>
<th>Voting System</th>
<th>Language</th>
<th>Authority</th>
<th>Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Majority Vote</td>
<td>English</td>
<td>Banned</td>
<td>Canada Elections Act, 2000 (1 April 2012 amendment)</td>
</tr>
<tr>
<td>Chile</td>
<td>Binomial System</td>
<td>French</td>
<td>Allowed with authorisation</td>
<td>Constitución Política de la República de Chile (July 2011) (Constitution); Law 19.884, on Transparency, limits and oversight of electoral expenses</td>
</tr>
<tr>
<td>China</td>
<td>Majority Vote</td>
<td>German</td>
<td>Not applicable</td>
<td>Electoral Law of the People’s Republic of China for the National People’s Congress and Local People’s Congresses (2010 Amendment)</td>
</tr>
<tr>
<td>Colombia</td>
<td>Proportional representation</td>
<td>French</td>
<td>Allowed, yet there is a ban on corporation donations to presidential election</td>
<td>Constitución Política de Colombia (2009) (Constitution); Ley 1475 de 2011, por la cual se adoptan reglas de organización y funcionamiento de los partidos y movimientos políticos, de los procesos electorales y se dictan otras disposiciones (Political Parties' Organization Law)</td>
</tr>
<tr>
<td>Country</td>
<td>System Type</td>
<td>Language</td>
<td>Domestic</td>
<td>Foreign</td>
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<td></td>
<td>representation</td>
<td>avian</td>
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<td>representation</td>
<td>avian</td>
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<td></td>
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<tr>
<td></td>
<td>representation</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>First-past-the-post</td>
<td>English</td>
<td>Allowed for companies have registered for more than three years</td>
<td>Allowed for companies have registered for more than three years</td>
</tr>
<tr>
<td>Country</td>
<td>System Description</td>
<td>Language</td>
<td>Permissible Limitation</td>
<td>Source</td>
</tr>
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<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Indonesia</td>
<td>A two-round majority system for its presidential elections and a one-round proportional system for its lower and upper houses of parliament.</td>
<td>French</td>
<td>Allowed under a limit of donations per company/corporation exceeding the amount of Rp 7,500,000,000 within the period of 1 year.</td>
<td>General Election Commissions (Komisi Pemilihan Umum, or KPU), <a href="http://www.kpu.go.id/">http://www.kpu.go.id/</a></td>
</tr>
<tr>
<td>Japan</td>
<td>Segmented System</td>
<td>German</td>
<td>Allowed under the upper limit of the total donation by corporations, trade unions to political parties and political fund organizations</td>
<td>Ministry of Internal Affairs and Communications; Election Administration Commission, <a href="http://www.soumu.go.jp/english/soumu/io.html">http://www.soumu.go.jp/english/soumu/io.html</a></td>
</tr>
<tr>
<td>Country</td>
<td>System</td>
<td>Language</td>
<td>Status</td>
<td>Status</td>
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</tr>
<tr>
<td>Country</td>
<td>Voting System</td>
<td>Language(s)</td>
<td>Permitted</td>
<td>Final Law/Act</td>
</tr>
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<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Singapore</td>
<td>First-past-the-post</td>
<td>English</td>
<td>Allowed</td>
<td>Elections Department, <a href="http://www.elections.gov.sg/">http://www.elections.gov.sg/</a></td>
</tr>
<tr>
<td>Country</td>
<td>System</td>
<td>Language</td>
<td>Allowed</td>
<td>Allowed</td>
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<tr>
<td>Country</td>
<td>System</td>
<td>Language</td>
<td>Allowed</td>
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</tbody>
</table>

(To be continued)
(Continue) Annex III: Legal environments for corporate political spending in selected countries, 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Duration of official campaign</th>
<th>Ceiling of campaign expenditure</th>
<th>Source of funding</th>
<th>Public campaign disclosure</th>
<th>Sustainable Governance Indicators 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>6 weeks, between the issue of writs and the election day</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>6.18</td>
</tr>
<tr>
<td>Austria</td>
<td>varies among parties, 4-8 weeks</td>
<td>7 million euros per party</td>
<td>Public funding, membership fees, donations and assessments of officeholder</td>
<td>Annually</td>
<td>6.14</td>
</tr>
<tr>
<td>Brazil</td>
<td>48-80 weeks</td>
<td>The limit is set per political party</td>
<td>Public funding, donations and other forms of private funding</td>
<td>Annually</td>
<td>..</td>
</tr>
<tr>
<td>Canada</td>
<td>5 weeks, <a href="http://www.parl.gc.ca/parlinfo/Compilations/ElectionsAndRidings/LengthCampaigns.aspx">http://www.parl.gc.ca/parlinfo/Compilations/ElectionsAndRidings/LengthCampaigns.aspx</a></td>
<td>$0.70 multiplied by number of names on the electoral list(s)</td>
<td>Public funding, individual donations and other forms of funding</td>
<td>Annually</td>
<td>6.11</td>
</tr>
<tr>
<td>Country</td>
<td>Period</td>
<td>Limit</td>
<td>Funding</td>
<td>Reporting Method</td>
<td>Annual Funding</td>
</tr>
<tr>
<td>----------</td>
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</tr>
<tr>
<td>Chile</td>
<td>4 weeks</td>
<td>One third of the overall amount of the expenses allowed to its nominated candidates.</td>
<td>Public funding, authorized donations and other forms of funding</td>
<td></td>
<td>Annually</td>
</tr>
<tr>
<td>China</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Colombia</td>
<td>24 month</td>
<td>The limit is set per political party or candidate</td>
<td>Public funding, individual donations and other forms of funding</td>
<td></td>
<td>Annually</td>
</tr>
<tr>
<td>Denmark</td>
<td>4 weeks</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td></td>
<td>Annually</td>
</tr>
<tr>
<td>Finland</td>
<td>40 days</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Internal auditing and reporting</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>2 weeks</td>
<td>Presidential candidates separately at first and second ballot</td>
<td>Public funding, individual donations and other forms of funding</td>
<td></td>
<td>Annually</td>
</tr>
<tr>
<td>Germany</td>
<td>24 months</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td></td>
<td>Annually</td>
</tr>
<tr>
<td>Country</td>
<td>Time Period</td>
<td>Limit Details</td>
<td>Funding Sources</td>
<td>Frequency</td>
<td>Value</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-----------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------</td>
<td>-----------</td>
<td>-------</td>
</tr>
<tr>
<td>India</td>
<td>2 weeks</td>
<td>Limit is set per candidate (to the House of the People and to the legislative Assembly of a state)</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>..</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3 days for second round of presidential election</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Only apply to the use of public funds</td>
<td>..</td>
</tr>
<tr>
<td>Italy</td>
<td>8 weeks</td>
<td>The limit is one euro [IS 0.8] per vote cast to a party for the elections to the Chamber and one euro per vote cast for the Senate elections.</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>5.04</td>
</tr>
<tr>
<td>Japan</td>
<td>2 weeks</td>
<td>The limit is set per candidate</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>5.92</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>21 days for presidential campaign</td>
<td>Multiple of population size in electoral area; multiple varies per type of election</td>
<td>Public funding, individual donations and other forms of funding</td>
<td>Annually</td>
<td>6.11</td>
</tr>
<tr>
<td>Country</td>
<td>Limit Duration</td>
<td>Limit Details</td>
<td>Funding Sources</td>
<td>Reporting Requirements</td>
<td>Average Donation Amount</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------</td>
<td>-------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Mexico</td>
<td>20 weeks</td>
<td>Limit is set per public office</td>
<td>Public funding, individual donations and other forms of funding</td>
<td>An annual report and quarterly preliminary reports are required during election year</td>
<td>4.96</td>
</tr>
<tr>
<td>Netherland</td>
<td>14 weeks</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>6.75</td>
</tr>
<tr>
<td>Norway</td>
<td>-</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>7.69</td>
</tr>
<tr>
<td>Singapore</td>
<td>After the notice of contested election is issued, up to 8 weeks</td>
<td>The maximum amount a candidate can spend on election expenses is $600,000 or an amount equal to 30 cents per elector on the registers of electors, whichever is the greater.</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>..</td>
</tr>
<tr>
<td>South Africa</td>
<td>10 weeks</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Duration</td>
<td>General Elections Funding</td>
<td>Additional Funding</td>
<td>Funding Type</td>
<td>Frequency</td>
</tr>
<tr>
<td>---------</td>
<td>----------</td>
<td>----------------------------</td>
<td>--------------------</td>
<td>--------------</td>
<td>----------</td>
</tr>
<tr>
<td>Spain</td>
<td>2 weeks</td>
<td>EUR 0.24 [ISK 0.33] per resident in the electoral districts where the party presents its list. - European Parliament elections: EUR 0.12 [ISK 0.16] per resident - Municipal elections: EUR 0.07 [ISK 0.10] per resident. Additionally EUR 96,162 [ISK 131,000] for each province where the political party meets certain conditions.</td>
<td>EUR 96,162 [ISK 131,000]</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
</tr>
<tr>
<td>Sweden</td>
<td>(Sweden is the only country in the sample in which early dissolution of the legislature is constitutionally prohibited)</td>
<td>NA</td>
<td></td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
</tr>
<tr>
<td>Switzerland</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td>No</td>
<td>7.63</td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>Duration</td>
<td>Limit</td>
<td>Funding Sources</td>
<td>Frequency</td>
<td>Cost</td>
</tr>
<tr>
<td>--------------</td>
<td>----------</td>
<td>----------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>-----------</td>
<td>------</td>
</tr>
<tr>
<td>Thailand</td>
<td>4 weeks</td>
<td>Limit determined by EMB after consultation with the political parties</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>..</td>
</tr>
<tr>
<td>Turkey</td>
<td>8 weeks</td>
<td>NA</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>4.68</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3 weeks</td>
<td>£30,000 [I$ 49,000] per constituency or £810,000 [I$ 1,330,000] (England), £120,000 [I$ 198,000] (Scotland) and £60,000 [I$ 99,000] (Wales), whatever is the greater (£30,000 [I$ 49,000] per constituency in Northern Ireland); For candidates, refer to Art 76. 2 Representation of the People Act, 1983</td>
<td>Public funding, private donations and other forms of funding</td>
<td>Annually</td>
<td>6.88</td>
</tr>
<tr>
<td>United States of America</td>
<td>60 weeks</td>
<td>The limit for coordinated expenditure is an amount equal to 2 cents multiplied by the voting age population of the United States. However, these limits do not apply for expenditure made without such coordination (independent spending)</td>
<td>Public funding, political action committee donations and other forms of funding</td>
<td>Annually</td>
<td>5.45</td>
</tr>
</tbody>
</table>
Annex IV: Government structure outline of People’s Republic of China (1949)

Source: www.npc.gov.cn

**Organs under the Central Committee**
- Coordinating Group for Xinjiang Affairs
- Leading Group for Finance and Economics
- Leading Group for Foreign Affairs
- Coordinating Group for Hong Kong and Macau Affairs
- Guidance Committee on Ethnical and Cultural Construction
- Leading Group for Party Building
- Leading Group for Propaganda and Ideology
- Central Organization Committee
- Central Party School
- Coordinating Group for Tibet Affairs
- Central Leading Group for Judicial Reform
- Leading Group for Rural Work
- Central Organization Department
- Central Secrecy Committee
- Central United Front Work Department
- Committee for Comprehensive Social Management
- Central Committee General office
- Central Compilation and Translation Bureau
- Central Institute of Archives
- Central International Department
- Leading Group for Taiwan Affairs
- Central Overseas Publicity Office
- Central party History Research Centre
- Central Politics and Law Committee
- Central Publicity Department
- Central Taiwan Work Office
- Guangming Daily
- People’s Daily
- Qiushi
- Work Committee for Central Committee Organs
- Work Committee for Central Government Organs
Deliberation and Coordination Organizations under the State Council

- Food Safety Commission
- National Committee for Patriotic Health Campaign
- National Energy Commission
- South-to-North Water Transfer Project construction Committee
- Working Commission for Prevention and Treatment of AIDS
- Leading Group on Climate Change
- Leading Group for Medical and Health Care Reform
- Leading Group for Revitalizing Northeast China and Other Old Industrial Bases
- Leading Group for Western Region Development
- Leading Group on Information
- Three Gorges Project Construction Committee
- National Afforestation Committee
- National Defence Mobilization Committee
- Leading Group for Science, Technology and Education

Commission under the State Council

- National Development and Reform Commission
- National Health and Family Planning Commission
- State Ethnic Affairs Commission

Institutions under the State Council

- China Banking Regulatory Commission
- China Earthquake Administration
- China Insurance Regulatory Commission
- China Meteorological Administration
- China Securities Regulatory Commission
- Chinese Academy of Engineering
- Chinese Academy of Governance
- Chinese Academy of Sciences
- Chinese Academy of Social Sciences
- Development Research Centre
- National Council for Social Security Fund
- National Natural Science Foundation of China
- Xinhua News Agency

Ministries under the State Council
Ministry of Culture
Ministry of Human resources and Social Security
Ministry of Industry and Information
Ministry of Land and Resources
Ministry of National Defence
Ministry of Transport
Ministry of Agriculture
Ministry of Civil Affairs
Ministry of Commerce
Ministry of Education
Ministry of Environmental Protection
Ministry of Finance
Ministry of Foreign Affairs
Ministry of Housing and Urban Rural Development
Ministry of Justice
Ministry of Public Security
Ministry of Science and Technology
Ministry of State Security
Ministry of Supervision
Ministry of Water Resource

Offices of the State Council

Hong Kong and Macau Affairs Office
Legislative Affairs Office
Overseas Chinese Affair Office
Research Office

Organizations under the State Council

State Administration of Work Safety
State Forestry Administration
China Food and Drug Administration
Counsellors’ Office
General Administration of Custom
General Administration of Press, Publication, Broadcast, Film and Television
General Administration of Quality Supervision, Inspection and Quarantine
General Administration of Sport
Government Offices Administration
National Bureau of Corruption Prevention
- National Bureau of Statistics
- National Tourism Administration
- State Administration for Industry and Commerce
- State Administration for Religious Affairs
- State Administration of Taxation
- State Intellectual Property Office

**Organs at the ministerial level under the State Council**

- People’s Bank of China
- National Audit Office

**Special Organization under the State Council**

- State-Owned Assets Supervision and Administration Commission

**Source:** www.npc.gov.cn and connectedchina.reuters.com
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