

# Corporate political giving doesn't pay: study

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Photo courtesy: Rice University/Photos.com

Sixteenth-century European explorers probed the jungles and valleys of South America in search of El Dorado, the legendary lost city of gold, but came up empty-handed. Corporate political supporters may find themselves similarly unrewarded, according according to a new study from Rice University and Long Island University.

The researchers investigated the relationship between corporate political activity and financial returns on a set of 943 S&P 1500 [firms](#) between 1998 and 2008. They found that firms' political investments are negatively associated with market performance. The findings also revealed that cumulative political investments worsen both market and accounting performance, and that firms placing former public officials on their boards experienced inferior market performance and similar accounting performance than firms without such board members.

The study, "In Search of El Dorado: The Elusive Financial Returns on Corporate Political Investments," will be available online this fall and will be published in a forthcoming issue of the *Strategic Management Journal*.

"The view of corporations meddling in politics to the downfall of public interests is nothing new," said Doug Schuler, study co-author and associate professor of business and public policy at Rice's Jones Graduate School of Business. "Since our country's founding, corporate political activity has been seen as promoting its own interests and agendas over those of the broader public. This study simply demonstrates that it might not be quite the return on investment that corporate America or the public at large believes it to be."

The paper outlines four reasons to explain what the study calls its "largely unexpected results."

- Managers who support corporate political giving may in general take overly risky business decisions.
- Corporate political giving may represent poor-quality investments.
- Corporate political giving is difficult for shareholders to monitor.
- Personal reasons of senior managers, such as self-aggrandizement, ideological beliefs and other pressures may influence corporate political activity.

Contrary to these findings, the study found that corporate political giving is positively associated with [market performance](#) for firms in highly regulated industries.

"We believe this may reflect the critical role that government can play in controlling resources and limiting behaviors through its rulemaking and

enforcement processes, necessitating some level of political activities by the regulated firms," Schuler said. "In regulated industries, firms are better able to target specific agencies and get to know their staff, which is more likely to result in more stable interactions."

Schuler hopes the research will challenge the preconceived notions about corporate political giving and focus on agency theory to better understand this practice.

"Like the explorers in search of El Dorado, there is a belief that political investments in D.C. will produce 'riches around the river's next bend,'" Schuler said. "Unfortunately for these politically investing firms, our results strongly show that the lucrative financial returns may never materialize."

The paper was co-authored by Michael Hadani, assistant professor of management at Long Island University.

Provided by Rice University

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