# DOES IMPROVED CORPORATE POLITICAL DISCLOSURE AND ACCOUNTABILITY IMPROVE STOCK MARKET AND FINANCIAL PERFORMANCE?

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## Abstract

The major research question in this paper is whether improved corporate political disclosure and accountability lead to improved stock market and financial performance. To explore this question, the paper first examines the corporate financial performance of companies ranked by the Center for Political Accountability (CPA), and finds no significant relationship between a company's ranking on the CPA and its financial and stock market performance. The paper hypothesizes that the reason for the lack of a relationship is because the CPA ranking system is itself flawed, insofar as the criteria used to evaluate corporate political accountability exclude important elements of political activity and potential corruption. To test this hypothesis, the paper adds revised criteria that include important aspects of corporate political activities and accountability. Using these revised criteria, the authors then re-evaluate and re-rank the 196 corporations in the top two quintiles of the S&P 500. The results show that, so long as appropriate criteria are used to measure corporate political disclosure and accountability practices, there is indeed a positive relationship between corporate political disclosure and accountability practices and improved financial and stock market performance.

**Keywords:** Political Disclosure, Accountability, Market Performance

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## 1. INTRODUCTION

Scholars, policy-makers, and corporate managers are constantly searching for relationships between a company's practices and structures, and its financial and stock market performance. For example, many studies have investigated the link between board diversity and financial performance, finding either positive, mixed, or no correlations (Adams & Ferreira, 2009; Ahern & Dittmar, 2012; Campbell & Minguez-Vera, 2008; Dale-Olsen et al., 2013; Erhardt et al., 2003). Another study investigated the benefits of having lawyer-directors on company boards to monitor non-financial risks and found an average 9.5% increase in firm value or market capitalization (Litov et al., 2014). Yet another study of U.S. commercial banks after the financial crisis of 2008 found that CEO duality (i.e., individuals holding positions as both Chief Executive Officer and Chair of the Board) was negatively associated with the banks' financial performance but executive incentive pay was positively associated with the banks' financial performance. Board size and director age also impacted the banks' financial performance (Grove et al., 2011). Board independence was also examined in studies about the impacts of social ties on director independence and on decisions by compensation committees after the Dodd-Frank legislation (Fink, 2006; Grant, 2014). And another study identified links between a corporation's use of ethics and compliance committees and its financial performance (Holcomb et al., 2019).

This paper adds to that discourse by investigating the relationship between a company's political disclosure and accountability practices and its financial/stock market performance.

Corporate political accountability is a growing concern among both investors and the larger public. Among U.S. companies, it is one of the fastest growing topics of shareholder proposals and one with the largest amount of support. According to Institutional Shareholder Services (ISS), there were 74 shareholder proposals on corporate political activity in 2018, including 37 involving political contributions and 36 on lobbying disclosures (Butler, 2018). Among the larger public, corporate political activities have also drawn heavy criticism, especially from progressive political interest groups and politicians.

Based on the growing concern, critics have argued that, at a minimum, greater disclosure of corporate political activities is necessary, since the activities themselves enjoy Constitutional protection. (Citizens United v. Federal Election Commission, 2010).[1] Laws have been proposed in the U.S. Congress requiring disclosure of corporate political spending (Posner, 2019). The Securities and Exchange Commission (SEC) has also considered but thus far not adopted a regulation requiring that corporations disclose various types of political activities.

Among the critics of unaccountable corporate political activities is the Center for Political Accountability (CPA) at the Zicklin Center for Business Ethics Research of the Wharton School of Business. The CPA assists investors in framing shareholder resolutions calling for limits on corporate political activity. It also has created criteria by which to evaluate corporate political accountability and to rank corporations (the "CPA ranking"). Given its prominence and visibility, the CPA ranking has attracted a lot of attention from the media and from investors, and has an influence on corporations.

Given the prominence of the CPA rankings, we find it important to evaluate the ranking system itself. This paper finds that the ranking system used by the CPA is flawed insofar as it omits various important elements of potentially corrupt political activities in its criteria to evaluation corporate practices. We find this problematic because it could lead some to conclude that corporate political disclosure and accountability do not matter because such practices do not translate into improved financial and stock market performance. This conclusion would be incorrect, however. While it is true that a company's CPA ranking does not significantly correlate with improved financial and stock market performance, the reason it does not, we suspect, is because the CPA ranking of political disclosure and accountability practices itself is somewhat flawed. And we, therefore, hypothesize that new and improved rankings would show a significant positive relationship.

The paper determines that an improved system identified herein is more directly related to corporate financial performance than the current CPA rankings. Accordingly, this paper joins other scholarly and journalistic literature in arguing that social and political factors have a statistically significant influence on corporate financial performance.

## 2. FACEBOOK: A CAUTIONARY TALE ON IMPORTANCE OF POLITICAL DISCLOSURE AND ACCOUNTABILITY

Recent events at Facebook demonstrate the financial problems that can occur when a company does not appropriately disclose and check its activities and influence in the public sphere. On June 26, 2018, in response to disappointing sales growth stemming from privacy and political accountability scandals that had become public, Facebook lost $119.4 billion or 19% of its market capitalization, the largest-ever loss of value in one day for a U.S. traded company. The resulting decline in Facebook's market value was approximately equivalent to the entire market value of some best-known U.S. companies, including McDonald's, Nike, and 3M (Phillips, 2018).

We believe that consumers and, in turn, the market were reacting to Facebook's lack of disclosure and accountability. Facebook was the center of major controversies in 2017 and 2018, including its admission that fake news was a problem on its platform, and that Russian operatives used its platform to interfere with the 2016 U.S. election. It was also disclosed that a data consultancy company affiliated with the Trump campaign, Cambridge Analytica, inappropriately siphoned data from the private profiles of 87 million Facebook users which were then used for marketing purposes during the 2016 campaign. This revelation prompted a crisis of confidence in Facebook and gave rise to a *#DeleteFacebook* campaign (Dwoskin, 2018; Poletti, 2018). Ultimately, Facebook had become a prime distributor of misinformation and its CEO, Mark Zuckerberg, had to testify before U.S. Congress for hours with questions over Facebook's role in securing private user data, its effect on the democratic process, and its commitment to stemming disinformation on its website. Zuckerberg apologized profusely but struggled to explain what Facebook will allow on social network and what it will do to ensure similar problems do not occur going forward. Regaining public trust became a major challenge for Facebook, as it seeks to increase the number of people joining Facebook and the time they spend on it (Frenkel, 2018).

[1] The criticism of corporate political activities has grown since the 2010 decision by the U.S. Supreme Court in Citizens United v. Federal Election Commission. That decision, which arguably favored the interests of wealthy individuals and corporations, ruled that there could be no limits placed on spending for or against political candidates, using such avenues as independent political committees or super PACs. Some deny that corporations should have any political speech rights under the First Amendment of the U.S. Constitution, arguing that corporations are not persons, who are meant to be the sole beneficiaries of First Amendment protection (Coleman, 2014; Gibson, 2011; Holloway, 2015; Blair, 2015; Sepinwall, 2015).

Facebook's stock price finally plunged after months of scandal and criticism finally hit the company where it hurts: its stock price declined as a result of declining sales and user growth. The immediate reasons for its anemic sales and user growth were its questionable content policies, its failure to safeguard private data, and its changing rules for advertisers. In the U.S. and Canada, Facebook's user base flat-lined as consumers became more aware of its practices when amplified in domestic politics. Its user base also declined 1 percent after the E.U.'s General Data Protection Regulation went into effect, bringing with it more stringent data privacy guidelines in Europe that highlighted gaps in the company's existing practices. And, these gaps were amplified further when Facebook clumsily adopted new rules broadly requiring "political" advertisers to verify their identities (Bloomberg News, 2018).

Facebook's declining numbers suggest that the backlash against the lack of appropriate disclosure and accountability practices can affect business. Corporate political disclosure and accountability are relevant and may impact a company's reputation and market capitalization.

## 3. THE CPA RANKINGS OF CORPORATE DISCLOSURE AND ACCOUNTABILITY

To explore the relationship between corporate disclosure/accountability and financial performance, it is important to start with the source of the most prominent metric of corporate political accountability: The Center for Political Accountability (CPA) of the Wharton School of Business at the University of Pennsylvania. The CPA began analyzing corporations for their election-related spending in 2003, asking them to voluntarily disclose and oversee all political contributions and expenditures.

Starting in 2015, the CPA developed the CPA-Zicklin Index of Corporate Political Disclosure and Accountability ("CPA rankings"), which evaluates the transparency and accountability practices of each company in the S&P 500. The CPA rankings use twenty-four questions, such as "Does the company publicly disclose corporate contributions to political candidates, parties and committees, including recipient names and amounts given?" to assess the availability, quality, and extent of information on a corporation's publicly available website. For each indicator, scores from 0-6 points may be assigned based on the CPA-Zicklin Center's assessment of the relative importance of the indicator (which dictates how many points may be available for that question) as well as the availability and extent of the information. An overall raw score is then calculated, as well as a percentage of the maximum possible score, along with three sub-categories: disclosure, policy, and oversight (Zicklin Center, 2018).

The S&P 500 companies in the CPA rankings are grouped into five tiers based upon their overall percentage scores as follows: first tier (80-100%), second tier (60-79.9%), third tier (40-59.9%), fourth tier (20-39.9%), and fifth tier (0-19.9%). In the first tier, containing companies with the best ballot-related spending transparency scores according to the CPA-Zicklin Index, there were 113 companies with an average market capitalization (in billions of dollars) of $83.3. In the second tier, 83 companies with an average market capitalization of $58.4. In the third, 62 companies with an average market cap of $56.6. In the fourth, 45 companies with an average market cap of $25.9 billion. And finally, 196 companies in the fifth tier with an average market cap of $20.9 billion.

The 2017 CPA rankings concluded: "a review of the scores of different-sized companies shows a strong positive correlation between the size of a company and the detail and breadth of its political disclosure and accountability policies." In more detail, what this conclusion really meant was that the average market capitalization (size) of companies in the five tiers were positively correlated with: 1) the average overall political accountability ranking scores in the five tiers (96.5% correlation); 2) with the average disclosure scores (96.2%); 3) with the average policy scores (84.4%) and 4) with the average oversight scores (96.8%). The ostensible implication of the conclusion that market capitalizations are positively correlated with individual company political transparency and accountability scores is that bigger companies are somehow better.

We tested this implied CPA report conclusion by correlating the market caps with overall percentage scores of the top 5 companies in each of the 5 tiers for a sample of 25. Only a weak positive correlation of 30.5% was found.

We also tested this implied CPA ranking conclusion again correlating the market caps with overall percentage scores of every 20th company out of the S&P 500 for another sample of 25 companies. Only another weak positive correlation of 33.8% was found.

Such weak positive correlations between individual company market caps and their overall CPA report scores are unlikely to satisfy investors interested in both political disclosure/accountability and market capitalization gains. And they are unlikely to convince corporate managers that political disclosure and accountability really matter.

Based on an analysis of the relationship between a company's CPA ranking and its financial/market performance, investors would seemingly be wise to exercise caution prior to concluding that companies with more transparent or robust internal control of their political spending practices will financially outperform companies with less transparent or managed political activities. Indeed, the weak correlations identified would be consistent with an event study that found weak correlations between the disclosure of previously undisclosed dark money contributions by corporations to the Republican Governors Association in 2014 and those companies' financial performance (Werner, 2017).[2]

We believe that it would be wrong to conclude, however, that corporate political practices are marginally relevant at best. And we hypothesize that part of the reason for the lack of a robust link

[2] According to Werner, the financial performance of those companies making the contributions actually increased after the contributions were made known, especially for the regulated companies and for those companies that actively engaged in other political tactics. However, for companies that had previously been the target of shareholder proposals seeking more disclosure of their political activities, the financial performance of such companies suffered once the dark money contributions were disclosed. This indicates that the effects of disclosure might vary according to the nature of the company and its political context.

between corporate political transparency and market performance is the way in which such corporate practices are measured. In the following section, therefore, we offer a revised method of measuring corporate political practices.

## 4. A REVISED APPROACH TO THE CPA RANKINGS: SIX NEW CRITERIA

We found that the twenty-four indicators used by the CPA rankings did not include some key manifestations of corporate political activity and over-emphasized others.

In our attempt to improve political transparency and accountability indicators applied by the CPA, we added six new criteria that had been ignored. These six criteria are:

1. Disclosure of any corporate support for state judicial election campaigns, the political branch deemed to be most independent;
2. Disclosure of contributions to state attorneys general campaigns, designed to buy a favorable legal treatment in enforcement proceedings;
3. Disclosure of any bundling of individual executive contributions to legislative candidates, designed to evade the individual contribution limits and to produce personal benefits to the bundler, sometimes a CEO or top lobbyist;
4. Disclosure of any support for political party conventions, unregulated ways to curry favor with leaders and candidates of either party;
5. Disclosure of any unregulated contributions to nonprofit organizations and foundations connected to political candidates, designed to assist and influence those candidates;
6. Disclosure of any lobbying, which has a far greater influence on the voting behavior of legislators than do electoral contributions.

By addressing each of these new criteria, we believe corporations can become more transparent in their political and policy-influence activities; business leaders can better manage exposure to reputational, ethical and legal risks; and investors can better assess whether the company's practices align with their values and risk tolerances.

The rationales for our inclusion of each new criteria are listed below:

- Our first new indicator of political transparency and accountability – disclosure of corporate support for state judicial campaigns – reflects a risky manifestation of modern corporate political activity that has moved beyond the legislative branch. To understand the need for disclosure and effective corporate policies on such activity, one need only recall the case A.T. Massey Coal, whose Chairman and Chief Executive, Don Blankenship, spent more than $3 million to help successfully elect a judicial candidate for the West Virginia Supreme Court, which would ultimately hear the appeal of a $50 million verdict against Massey Coal. When the disproportionate expenditures were revealed and the newly-elected Justice refused to recuse himself in Massey's case, the matter reached the U.S. Supreme Court, resulting in lasting reputational harm to both Blankenship and Massey as well as a public rebuke of the Justice (Caperton, 2009).
- Our second new indicator – disclosure of support for state attorney general (AG) campaigns – also reflects a significant form of corporate political activity and risk to be tracked, managed and disclosed. With some AG candidates touting support for their campaigns as a "sophisticated investment," record amounts of expenditures have flowed to these state executive-branch campaigns. (Levine & Hurley, 2017) To the extent they become known, corporate expenditures in this area can lead not only to AGs being tarred with accusations of corruption, such as "acting at the behest of oil and gas companies" (Elliott, 2017) but also to corporate reputational damage.
- Our third new indicator – disclosure of individuals acting as campaign contribution bundlers – is also a critical aspect of political transparency, accountability and risk management. This common practice in Wall Street, Hollywood and Silicon Valley circles not only raises the specter of evading individual contribution limits and donor disclosure laws, but can also give rise to claims of quid pro quo corruption – whether true or not – that can potentially damage corporate reputations where the bundler is the CEO of a company that subsequently receives favorable regulatory treatment (Hellner, 2018).
- Our fourth new indicator – disclosure of corporate sponsorships of political party conventions and related contracts – reflects an activity that corporations have begun to recognize as not only a means of advertising and political access but also of potential reputational damage through association with certain party candidates (Geier & Newmyer, 2016).
- Our fifth new indicator – disclosure of unregulated contributions to nonprofit organizations, foundations or think tanks – is also a growing form of corporate political activity. While such contributions are ideally a form of corporate social responsibility and charity, they also are a growing tool of policy and political influence (Lipton & Williams, 2016).
- Our sixth new indicator – disclosure of lobbying activities and payments – is perhaps the most critical component of political transparency, accountability and risk management excluded by the CPA rankings. While not related to electoral politics but rather to public policy influence, annual corporate lobbying expenditures now exceed the combined budget of the United States Congress (Drutman, 2015). Yet, notwithstanding the existence of state and federal lobbying disclosure statutes and regulations, most corporations do not publicly disclose their lobbying expenditures (Hodgson, 2016). And with the line between legitimate lobbying and criminal bribery notoriously blurry (Sun-Diamond Growers, 1999; McDonnell, 2016), the impact upon corporations and their investors when such activities go awry can be especially significant. For example, when the New York Times published a story in April 2012 revealing an extensive scheme by Walmart's Mexican subsidiary to funnel bribes through lawyers to local public officials in order to secure permits for its stores (Barstow, 2012), Wal-Mart's stock price plummeted more than 5% the next trading day, and sustained a statistically significant decline in expected returns following mass divestiture by investors concerned about potential criminal fines, the integrity of management or otherwise. (Olsen & Klaw, 2017).

When we added these six criteria to the original list of twenty-four created by the CPA and reassessed corporate websites, we believe it created a new and improved metric for political activity disclosure and accountability. The result is a more accurate system to evaluate corporate political transparency and the scope of a company's involvement in political activities, which could generate possible blowback by the investing and consuming public, against such involvement in corrupt activities.

## 5. DATA ANALYSIS

In scoring each corporate political accountability rating by the new criteria, all corporations wound up with a lower grade. Among the 100 largest corporations, according to the old CPA system, 20 companies wound up with a grade of A, 32 with a grade of B, 35 with a grade of C, 17 with a grade of D, and no company had a grade of F.

The new and improved ranking system corrected the grade inflation of the old system, with no company winding up with a grade of either A or B, 20 companies with a grade of C, 51 companies with a grade of D, and 33 companies with a failing grade. Hence, when one considers all the relevant factors of political activity, included in the new rating system, we find that American corporations have a long way to go in improving their political performance.

As shown in the following empirical analysis, investors seemed to agree, as they gained from the market cap performance of those corporations that improved their ranking, based on the new criteria, as opposed to those corporations that suffered a decline in their ranking. While all corporations in the top two tiers had lower raw scores according to the new criteria, since most failed to disclose any activities in the aforementioned six categories, some companies suffered less than others and actually moved up in their ranking from the second tier to the first tier, while others in the first tier performed even worse according to the new criteria and actually slid into the second tier. Different overall political transparency and accountability criteria from those used by the CPA ranking were used here and differences in thirteen companies were found: seven companies improved their scores ("Improved Companies") and six regressed scores in tiers one and two ("Reduced Companies"). Market cap and financial performance criteria for these two groups were then compared, as elaborated in the following Data Analysis section.

Seven companies have been identified, using the improved, different political criteria from the CPA ranking. Consequently, these seven companies improved their ranking by moving from Tier Two into Tier One. These seven companies were Anadarko Petroleum, Applied Materials, Reynolds American, Boston Scientific, Eli Lilly, Lockheed Martin, and Pfizer. In contrast, six companies were also identified who moved back from Tier One into Tier Two. These six companies were Air Products and Chemicals, Costco, Illinois Tool Works, Dow Chemical, eBay, and CVS Health Corp. In the following data analysis of market and financial performance for these companies, one company from each group merged with another company in July 2017: Reynolds American with British American Tobacco and Dow Chemical with DuPont. For the stock market performance variable, the stock price for the last day of trading in July 2017 was used. However, these two companies could not be included in the various financial performance variables which focused upon 5-year averages since they were now new companies. Since our identification of these upgraded criteria for corporate political disclosure and accountability occurred in 2015, this empirical study considered both pre and post impacts of such criteria by analyzing the five year time period 2013-2017 around this 2015 identification midpoint.

For each firm in this study, the following variables were calculated. A key stock market performance measure was the percentage change in the market capitalization (common shares multiplied by stock price) from the end of 2013 until the end of 2017. Six financial operating performance variables were also used here: 5-year annual averages for profit margin, net income growth rate, and sales growth rate and 5-year averages for return on equity, return on assets and return on capital. All these 5-year averages were for the 2013-2017 time period.

## 6. DATA RESULTS

Both median and mean values were calculated for these stock market and financial performance measures in Table 1 (see Appendix). The Improved Companies only had one negative stock market performance result (an outlier) over the 2013-2017 time period. Anadarko Petroleum's value of -32.5% reduced the mean market performance variable to 92.1% from the median of 116.1%. The Reduced Companies had no negative stock market results but their similar median (53.9%) and mean (53.2%) performances were still far less than the Improved Companies. Thus, the Improved Companies outperformed the Reduced Companies on both the median and the mean percentage results for this key market performance variable over the 2013 to 2017 period: 116.1% versus 53.9%, which is 115.4% better for the median, and 92.1% versus 53.2%, which is 73.1% better for the mean, as shown in Table 1. The S&P 500 Index increased at the end of 2013 from 1848 to 2674 at the end of 2017, an increase of 44.7%, versus the superior performance by the Improved Companies of a mean increase of 92.1%, which is 106% better. The S&P 500 Index increase of 44.7% was similar to the mean increase of 53.2% by the Reduced Companies.

Wall Street investors tend to focus upon both sales and net income performance and reward such superior performance according to a CFO who dealt with Wall Street during 40 conference calls over 10 years at two different public companies (Coburn, 2018). Thus, Wall Street may have considered the 5-year annual average sales and net income growth rates which were generally superior performances for the Improved companies versus the Reduced Companies in Table 1. The Improved Companies outperformed the Reduced Companies on both the median and mean percentages for the sales growth metric: 0.9% versus -3.2%, which is 1.28 times better, for the median and 1.9% versus -0.2%, which is 10.5 times better for the mean. Concerning the net income growth rate, the Reduced Companies did outperform the Improved Companies on the median

2.6% versus zero but the Improved Companies outperformed the Reduced Companies on the mean: 18.4% versus 3.2%, which is 4.75 times better.

However, the other four financial performance measures favored the Reduced Companies. They outperformed the Improved Companies on both the median and mean for annual profit margins. Concerning the 5-year averages for the three return measures, equity, assets, and capital, the Reduced Companies outperformed the Improved Companies on four of the six median and mean measures. However, none of those superior percentage changes for the Reduced Companies (4% to 42.9%) were anywhere near as large as the Improved Companies' superior performances on the median and mean percentage changes for stock market performance (115.4% and 73.1%, respectively).

## 7. INTERPRETATION OF RESULTS

Apparently, Wall Street investors were paying more attention to the financial measures of sales growth and net income growth rates than to the financial returns on equity, assets, and capital since the Improved Companies recorded superior stock market performance as measured by the percentage change in market capitalization over the 2013-2017 period.

Another interesting explanation may be that Wall Street is rewarding the non-financial types of risk management. Various rationales for these emerging risks included a focus on political concerns, internal controls, ethical concerns, legal concerns, and the disclosures of corporate wrongdoings. Such disclosures helped destroy market capitalization at Enron, WorldCom, BP, Hewlett Packard, JPMorgan Chase, and Toyota. Accordingly, investors are now more focused on risk management beyond just financial risk, such as political, environmental, climate, governance, litigation, regulatory, product integrity, disaster, cybersecurity, and global terror risks. Such initial non-financial risks may subsequently lead to market capitalization reduction or even destruction, as in the Enron ($78 billion) and WorldCom ($175 billion) bankruptcies (Holcomb, 2017).

To the extent that some investors are rewarding companies that have superior political disclosure and accountability policies, that reinforces their tendency to promote such non-financial policies through shareholder proposals as well. That is not a new phenomenon but started in the 1970s, with a proliferation of social cause-oriented shareholder resolutions, largely sponsored by religious institutional investors affiliated with the Interfaith Center on Corporate Responsibility (Rehbein, Logsdon, & Van Buren, 2013; Rehbein, Waddock, & Graves, 2004). Following was the second wave of more mainstream governance-related shareholder proposals in the 1990s and thereafter, which generally have received a much higher percentage of favorable votes cast by investors. In 2018, more than 400 shareholder resolutions were filed on a wide range of social, environmental, and governance issues (Holcomb, Grove & Clouse, 2019).

Shareholders might now see proposals favoring the formation of political disclosure and accountability policies as opportunities to combine a substantive focus on such non-financial policies with a process-oriented focus on corporate governance. Based on the success of the Improved Companies, this could provide an impetus for an organized effort by shareholders to promote the creation of such policies in other corporations. There is some historic precedent for that type of development. In 1971, when Ralph Nader was still sponsoring shareholder proposals through his Project on Corporate Responsibility and Campaign GM, he introduced a resolution at the General Motors annual meeting that the company form a public responsibility committee of the board (Schwartz, 2012; Vogel, 1979). Avoiding the need for a shareholder vote, GM voluntarily adopted Nader's process reform, setting off a wave of now over one hundred of the Fortune top 200 companies having such a policy, focused on external concerns (Holcomb, 2017; Holcomb, Grove & Clouse, 2019). It would be fitting if companies would now create political disclosure and accountability policies, focused on crucial internal concerns, should shareholders appreciate their need and value and exert demands for such policies.

## 8. CONCLUSION

The major research question is the title of this paper which our research answers positively. This empirical analysis has shown that the companies that improved their political disclosure and accountability, according to new and improved criteria, outperformed companies that reduced their political disclosure and accountability over the 2013-2017 period, primarily in the key stock market performance measure of the percentage change of the market capitalization from the end of 2013 to the end of 2017. The median percentages were 116.1% versus 53.9%, which is 115.4% better and the mean percentages were 92.1% versus 53.2%, which is 73.1% better. The Improved Companies also outperformed the Reduced Companies on the 5-Year Annual Average sales growth rate: 0.9% versus -3.2%, which is 1.28 times better for the median and 1.9% versus -0.2%, which is 10.5 times better for the mean. Also, the Improved Companies outperformed the Reduced Companies on the mean net income growth rate: 18.4% versus 3.2% or 4.75 times better. Such superior profit performance helped impress Wall Street investors who rewarded the Improved Companies with higher growth in stock market capitalization.

These empirical results agree with the previous research hypothesis (Holcomb, 2017) and subsequent research results concerning ethics and compliance committees (Holcomb, Grove, & Clouse, 2019) that Wall Street investors may be more focused on risk management and other non-financial factors beyond just financial risk, such as political, environmental, climate, governance, litigation, regulatory, product integrity, disaster, cybersecurity, and global terror risks. Recent examples of market capitalization reduction from initial non-financial risks, primarily ethical risks which then led to political risks, include four company examples where their total market capitalization destruction of $78 billion occurred primarily in the 2013-2017 period studied in this research. Such market capitalization destruction was caused or at least initiated by, non-financial factors: Volkswagen ($30 billion), Exxon Mobil ($29 billion), Wells Fargo ($13 billion), and Equifax ($6 billion). Also, the largest single-day destruction ever of market capitalization: $119 billion (19%) on July 26, 2018 for Facebook emphasizes the importance of political disclosure and accountability (Holcomb, Grove, & Clouse, 2019).

## 9. SUGGESTIONS FOR FUTURE RESEARCH

Future research could analyze additional impacts and importance of the non-financial factors of political disclosure and accountability on the market capitalization of companies. Also, the new six factors plus the original 24 factors could help investigate the upcoming claims of the 2020 U.S. presidential election that Washington D.C. has been bought and paid for by large corporations through various avenues of political contributions. Future research could also investigate any overall improvement or regression by corporations in their political accountability and disclosure to shareholders, as well as any differences between corporate sectors or between regulated and unregulated industries. Studies might also explore any differences between disclosure practices and the actual behavior itself, to ascertain whether disclosure of political activities leads to less or perhaps even greater political activity. That could, in turn, help determine whether shareholders are apathetic about political behavior, disapprove of such activity, or actually reward corporations with a higher stock value when they do engage in political contributions or other political behavior. The changes in political behavior over time, from one election cycle to another, would also be valuable to know, in order to instruct society and the U.S. Congress on any needed and effective remedies.

Using all thirty criteria of corporate political accountability, future studies could also examine the correlation between political activity and corporate reputation or corporate social responsibility. One might determine whether corporate political activism is correlated with a negative or positive reputation, using various reputation rating scores, such as the Fortune most admired ratings. One might also examine whether a high level of corporate political activism either reinforces or detracts from a corporate social responsibility (CSR) score, as reflected by a high level of corporate philanthropy or social engagement. Whether or not corporations follow a consistent strategy in their external relations could be revealing to both business and to its stakeholders. Finally, studies might explore whether CEO political activism is correlated with the firm's level and direction of political activity and accountability.

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## APPENDIX

**Table 1.** Does improved corporate political disclosure and accountability improve stock market and financial performance? Market and financial performance: 2013-2017

| | *Median %'s* | | *% Change:* | *Mean %'s* | | *% Change:* |
|---|---|---|---|---|---|---|
| | ***Improved*** | ***Reduced*** | ***Difference*** | ***Improved*** | ***Reduced*** | ***Difference*** |
| *Market Performance* | | | | | | |
| Market Cap % Change from 2013 to 2017 | 116.1 | 53.9 | 115.4 | 92.1 | 53.2 | 73.1 |
| *Financial Performance* | | | | | | |
| 5 Year Annual Averages: | | | | | | |
| Profit Margin | 9.4 | 14.6 | -35.6 | 5.9 | 11.4 | -48.2 |
| NI Growth Rate | 0 | 2.6 | n/a | 18.4 | 3.2 | 4.75 |
| Sales Growth Rate | 0.9 | -3.2 | 1.28 | 1.9 | -0.2 | 10.5 |
| 5 Year Averages: | | | | | | |
| Return on Equity | 17.2 | 17.9 | -4.0 | 41.0 | 17.4 | 136.0 |
| Return on Assets | 7.2 | 7.7 | -6.5 | 4.8 | 8.4 | -42.9 |
| Return on Capital | 11.8 | 11.5 | 2.6 | 10.7 | 12.5 | -14.4 |