



Investor reactions to changes in the composition of presidential councils

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Abstract (Portuguese):

Logo após ter estabelecido dois conselhos presidenciais, o presidente dos Estados Unidos Donald Trump anunciou a destituição daqueles em agosto de 2017, na sequência de declarações públicas e renúncias de vários membros dos conselhos. Com base no estudo do mercado financeiro, as reações dos investidores a estes acontecimentos foram analisadas. No entanto, os resultados apresentados na presente tese demonstram que as reações dos investidores aos eventos não foram significativas. A principal descoberta neste estudo é o facto de as reações por parte dos investidores não terem sido significativamente afetadas pelas declarações públicas, renúncias e destituições dos conselhos presidenciais, não se verificando efeitos de mudança no desempenho das empresas após a destituição dos conselhos presidenciais.

Abstract (English):

Shortly after establishing two presidential councils, US president Donald Trump announced the dismissals of those in August 2017, following public statements and renunciations of several council members. Based on a financial market event study, investors' reactions to these events were analyzed. However, this master thesis finds that investor reactions to the events in presidential councils were not significant. The key finding of the event study is that investors reactions were not significantly affected by public statements, renunciations, and dismissals of presidential councils, supporting no firm performance effects of changes in the composition of presidential councils.

Keywords: corporate political activity (CPA), nonmarket strategy, performance, public policy outcome

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1. Introduction

The debate over firms influencing politics has grown substantially in the US due to favorable legislative decisions, firms' increased political expenditures, and most recently, the election of Donald Trump as US president. The US holds a special position regarding corporate influence in politics because regulations on political spending turned to be less strict compared to the international context. Particularly, the recent Supreme Court's decision in *Citizens United vs. Federal Election Commission* (FEC) in 2010 released strict regulations on firms' political spending.

In fact, political spending in the US has been shown to increase steadily. Lobbying expenditures rose from USD 1.57 billion in 2000 to USD 2.43 billion in 2017 (Center for Responsive Politics, 2017). However, firms are not only politically active in terms of lobbying but they hold corporate relationships with the ruling elite. Indeed, when President Trump established two corporate presidential councils in January 2017, he provided firms with new political resources which extend conventional forms, for example lobbying.

From a theoretical perspective, corporate political activity (CPA) describes a firm's decision to engage in politics to gain political influence and thereby leverage a potential competitive advantage (Shaffer, 1995). Firms may use political resources, e.g. campaign contributions, to access the political market and influence public policy making (Dahan, 2005). The membership in presidential councils provided firms with the opportunity to extend their political resources and manage the institutional context (Lux, Crook, & Woehr, 2011). The goal of this master thesis is to examine whether the councils' opportunities translated into firm performance effects for council members based on a market wide event study.

Problem description

Connecting theory and practice, the events around presidential councils provide an opportunity to examine firm performance effects of non-monetary CPA, which seem to be less explored in current CPA literature (e.g. Lux et al., 2011). At the time of foundation, the two councils included 47 CEOs to advise President Trump on manufacturing growth and increased employment for the US economy. However, since then, an increasing number of CEOs took a stand against President Trump's politics via public statements and renunciations. This gradual process was enforced by controversial policies (e.g. withdrawal from Paris Climate Accord) and came to an end in August, 16, 2017, when President Trump dissolved the two presidential councils himself: 'Rather than putting pressure on the businesspeople of the Manufacturing Council & Strategy & Policy Forum, I am ending both. Thank

you all!' (Trump, Twitter, 2017). However, investors as well as CPA research seem to be unclear on presidential councils as an extension of non-monetary CPA.

From a theoretical perspective, CPA research is divided on firm performance effects of CPA and presidential councils have not been examined yet as a form of non-monetary CPA. For a long time, the majority of research assumed positive firm performance effects of CPA, particularly for monetary forms, e.g. lobbying expenditures (e.g. Bonardi, 2006; Dorobantu, Kaul, & Zelner, 2016). However, positive performance effects are not as distinctive as previously claimed (e.g. Lux et al., 2011), resulting in inconclusive firm performance effects of CPA. Another structural peculiarity in CPA research applies to non-monetary forms of CPA (Lux et al., 2011), which have only scarcely been investigated by now. Overall, prior research in CPA only rarely considered firm performance effects of presidential councils because the effects appeared to be less quantifiable than monetary forms of CPA are.

Objective

This master thesis aims to fill this research gap and uses events of presidential councils to analyze firm performance effects of a new form of non-monetary CPA. The recent changes in presidential councils (i.e. corporate renunciations, public statements, and President Trump's dismissal) set the opportunity to measure the performance effects of changes in the composition of presidential councils. Based on an event study, investor reactions to three events are analyzed: corporate renunciations, public statements, and the dismissals.

From a theoretical perspective, this master thesis extends CPA research by introducing a new form of non-monetary CPA (i.e. presidential councils), by supporting prior research's results of insignificant performance effects and by initiating and encouraging further research on firm performance effects of presidential councils.

The following section of this master thesis introduces the literature on CPA. Thereafter, the development of presidential councils is explained. Next, the main Hypotheses are developed. Following, the master thesis employs a market-wide event study to examine the relationship between firm returns and market returns for Hypotheses 1-4. The results of the market-wide event study show that investors did not react significantly to any of the events of presidential councils. Therefore, I cannot assume significant firm performance effects of changes in presidential councils. The last part of this master thesis concludes with discussion, managerial implications, limitations and suggestions for future research.

2. Literature Review

In this master thesis, I will use contemporary nonmarket strategy literature to explain that investor's reactions will be negative, on average, towards changes in the composition of presidential councils (i.e. Hypothesis 1). For subgroup analyses, however, I assume negative reactions to public statements as well as renunciations from presidential councils (i.e. Hypothesis 2, 3), and positive reactions to CEOs remaining in presidential councils (i.e. Hypothesis 4).

Hadani and Schuler (2013) summarize the current status of CPA literature when they claim that 'the relationship between CPA and financial performance seems to be complex and incompletely understood' (p. 166). That is, a general theory combining various theoretical perspectives does not exist, the majority of research focuses on monetary CPA (e.g. Lux et al., 2011), and an increasing number of research does not support firm performance effects of CPA anymore as it finds inconclusive results (e.g. Aggarwal; Meschke, & Wang, 2012; Cooper; Gulen, & Ovtchinnikov, 2010; Mellahi et al., 2016). Considering this context, this master thesis aims to fill the research gap by analyzing firm performance effects of non-monetary CPA (presidential councils).

2.1 Corporate political activity

2.1.1 Definition

There are various options for firms to manage the corporate environment. These include instruments such as social marketing, philanthropy, public relations, and CPA (e.g. Deephouse, 2000; Hoeffler & Keller, 2002). CPA is defined as 'actions taken in the nonmarket environment to create value by improving its [firm's] overall performance' (Oliver & Holzinger, 2008, p. 496) and by influencing and managing political entities (Hillman, Keim, & Schuler, 2004). As such, CPA is embedded in corporate nonmarket strategy which aims to manage the competitive landscape as well as the corporate institutional environment (Boddeyn, 2003) to generate economic advantages (North, 1990; Lux et al., 2011).

2.1.2 Development

Research finds CPA to be interesting because it can be an instrument to explain performance effects in the political environment across different firms and industries, driven by various characteristics (Hillman et al., 2004). The US political environment is particularly attractive for CPA because favorable legislative developments and disclosed political expenditures support firms' political activities and research's interest (Werner, 2017). Firms across different industries inherit an active position in the US political environment. They are from tobacco, pharmaceuticals or oil and gas, and aim to influence the government through lobbying, campaign contributions, agreements or political action committees (e.g. Delmas & Montes-Sancho, 2010; Spiller 1990; Okhmatovskiy, 2010).

2.1.3 Drivers

Research assumes that corporate levels of CPA are positively driven by diverse factors. The attractiveness of the political market being one of them, it is assumed that an attractive political market increases the likelihood of successful CPA (Bonardi, Hillman, & Keim, 2005; Werner, 2017). However, Lux et al. (2011) claim that the firm itself (i.e. firm size) can have a significant positive effect on a firm's engagement in CPA, whereas the market and industry level (i.e. industry concentration) are claimed less supportive in explaining a firm's engagement in CPA. Expanding the two approaches, Rajwani, Lawton and McGuire (2013) consider exogenous context and shocks (e.g. European liberalization of telecommunications system) as drivers to adapt corporate political resources in order to sustain corporate competitive advantage.

2.1.4 Advantages

Firms' large interest in CPA is driven by the idea to sustain corporate advantages. According to most research, firms' primary goal of political actions is to obtain or maintain economic returns (e.g., North, 1990), with CPA to be a favorable investment option when benefits exceed costs (e.g. Baron, 1995; Lux et al., 2011). Retaining corporate profits, firms apply political resources in order to access and influence the political market (Hillman & Hitt, 1999). The political market is considered an exchange between demand (firms) and supply (politicians) (Hillman & Keim, 1995), so that '... they [firms] must give something valued by public officials in exchange for getting favorable policies' (Getz, 2002, p. 318). Additionally, 'organizations may use political means to alter the condition of the external economic environment' (Pfeffer & Salancik, 1978, p. 189, 190), for example, to lower transaction costs, decrease environmental uncertainty, and improve sustainability in the long run (Hillman, Zardkoohi, & Bierman, 1999).

Concluding, research outlines CPA as a powerful instrument to improve firm performance and influence politics in the nonmarket environment such that it provides an attractive area of research. This master thesis and particularly the following part shed more light into the current status of CPA literature.

2.2 Categorization

The development of CPA research is complex and inherits different perspectives. Research started between the 1980s and 1990s (Keim & Zeithaml, 1986; Shaffer, 1995) and Hillman and Hitt (1999) provided a theoretical basis which was built on by many researchers. They categorized CPA into general approaches, levels of participation, and political strategies. Hillman et al. (2004) expanded their approach with an overview of antecedents, types, and outcomes of CPA. However, no overall

theory on CPA emerged but rather research from multiple perspectives increased (Getz, 1997) as a result of 'contexts ... under which CPA is more and is less effective' (Hadani, Bonardi, & Dahan, 2016, p. 357). As a consequence, the following section presents CPA research from three different perspectives. Grounding on Dorobantu et al. (2017), Mellahi et al. (2016), and Rajwani et al. (2013), research on CPA mainly stems from the institutional environment, the political environment, and adaptive corporate resources and capabilities.

Concluding, CPA research inherits various perspectives to explain the link between business and politics. In the following, the literature review refers to three areas, reflecting the main body of CPA research.

2.2.1 Institutional basis

Studies from the institutional basis claim that firms are participants in the institutional environment and explain how they interact with different institutions (e.g. Hadani et al., 2016; Hillman, Whiter, & Collins, 2009; Jackson & Deeg, 2008; Rajwani et al., 2013; Vogel, 1996). They examine not only how institutional settings influence corporate government relations, but they also consider how these lead to adapted corporate resources. Moreover, the *institutional basis* sets the theoretical basis for the political environment as a constituent as well as for corporate resources and capabilities (e.g. Hillman et al., 2009; North, 1990; Rajwani et al., 2013).

Various papers describe institutional characteristics to be important to influence CPA. However, the majority of research focused on quantifiable aspects (e.g. formal rules), whereas unquantifiable characteristics were neglected (e.g. culture, history) (Rajwani et al., 2013). Looking at characteristics, institutions are claimed to be incomplete if they experience changing market conditions through technological change (North, 1990) and do not have applicable rules. As a result, firms transacting in this institutional environment experience transaction costs (Barzel, 1997; Foss, 2003) because '...the actors have an imperfect understanding of the issues affecting them' (North, 1990, p. 357). Besides, uncertainty in the institutional environment arises because 'politics is notoriously fickle. Momentum can shift rapidly and unexpectedly' (Hart, 2004, p. 55).

Additionally, studies have superficially explored the specific interaction between firms and institutions yet. This may be due various influences from the institutional setting (Jackson & Deeg, 2008) or the degree to which institutional settings are pronounced country wise. That is, emerging economies tend to have emerging formal institutions whereas complex institutions exist in developed countries (Rajwani et al., 2013). Particularly, a large part of CPA studies refers to the US context. Research on US institutions profits from long-term data availability on corporate political spending as well as from a competitive corporate political area due to the fragmented US political system

(Werner & Wilson, 2010). But, research on emerging economies is increasing and the relation between firms and emerging institutions is further explored (e.g. Khanna & Palepu, 2000).

Furthermore, the different institutional settings in countries not only determine the number of studies on a country, but influence the forms of CPA as well. CPA can be adapted to the political system, political landscape or interest groups (e.g. Coen, 1997; Hillman, 2003; Hillman et al., 2004; Hillman & Keim, 1995; Hillman & Hitt, 1999) as well as globalization or international laws (Rajwani et al., 2013). Concluding, the focus of CPA research on institutions concentrates on the US as well as emerging markets in order to provide a better understanding of the institutional context together with firms' CPA.

2.2.2 Political environment constituent

The interrelation between business and politics takes place in the political environment, which describes the mutual interaction between political systems and firms and shapes CPA (e.g. Blumentritt & Nigh, 2002; Bonardi et al., 2005; Frynas & Mellahi, 2003; Hillman et al., 1999; Hillman & Hitt, 1999; Rajwani et al. 2013; Shaffer, Quasney, & Grimm, 2000; Walker & Rea, 2014). A popular strategy in the political environment is the theory of attractiveness of the political market to explain the interaction between CPA and politics (Bonardi et al., 2005). The authors claim that it depends upon the attractiveness of the political market to what extent firms engage in CPA.

There is a common understanding in research that the political market shapes firm performance (e.g. Gorostidi & Zhao, 2017; Hadani et al., 2016; Henisz, 2000), particularly the level of political risk does (Milliken, 1987). Studies on political risk categorize countries based on their political setting. That is, the US or Germany are low risk countries, whereas developing countries with non-democratic systems are high risk countries and oftentimes included in studies on firm performance effects of CPA (e.g. Delios & Henisz, 2003; Kobrin, 1979). Furthermore, research finds that the certainty of a political environment influences corporate and political interaction. The degree of certainty (or uncertainty) in a political environment shapes CPA (e.g. Delios & Henisz, 2003), and is linked to political risk together with political processes or regulation (Rajwani et al., 2013).

In addition to political risk and uncertainty, CPA studies refer to industrial organization theory when it comes to factors which shape CPA. Hillman and Hitt (1999) explain that firms can either use the transactional or the relational approach. Whereas the former one assumes CPA to be implemented only after an issue arises, the latter one considers the concurrent development of CPA and nonmarket issue. That is, the transactional approach refers to a short-term exchange between different parties based on a specific event, whereas the relational approach refers to the development of a long-term relationship and exchange between firms and politics including various events.

Besides, there is research suggesting a link between market developments and CPA. For example, it is claimed that increased diversification within a firm may increase corporate conflicts and costs of CPA (e.g. Blumentritt & Nigh, 2002; Shaffer & Hillman, 2000). Looking at the process of CPA, studies typically consider the level of CPA in business strategy to be linked with the market strategy (e.g. Baron, 1995; Meznar & Nigh, 1995). Bonardi et al. (2006) state that a firm's political environment may influence firm performance effects of CPA. In their sample of 190 private US electric utilities during 1980-1992, they found that rivalry among interest groups lead to negative effects of nonmarket strategies whereas rivalry among politicians lead to positive effects.

Concluding, the political area as a constituent of the institutional environment inherits characteristics that shape CPA and influence firm performance.

2.2.3 Adaptive corporate resources and capabilities

Studies from adaptive corporate resources and capabilities describe factors that shape firms' application of resources and capabilities in the non-market environment (e.g. Bonardi, Holburn, & Bergh, 2006; Capron & Chatain, 2008; Dahan, 2005; Frynas, Mellahi, & Pigman, 2006; Hillman et al., 2009; Keim & Zeithaml, 1986; McWilliams, Van Fleet, & Cory, 2002; Oliver & Holzinger, 2008; Rajwani et al., 2013; Schuler, Rehbein, & Cramer, 2002). Scholars consider corporate resources to be applied in the nonmarket environment, for example by tying corporate relations with the ruling political elite (Bonardi et al., 2006; Capron & Chatain, 2008; Frynas et al., 2006; Hillman et al., 2004; Oliver & Holzinger, 2008), and examine how these increase corporate profits (McWilliams et al., 2002). Defining political resources and capabilities, a number of scholars refers to the goods exchanged in the political market (e.g. Hillman & Hitt, 1999) and Dahan (2005) suggests four categories. Firms can use relational resources (e.g. personal contacts), they can apply recreational capabilities (e.g. corporate events), they can exploit financial resources (e.g. campaign contributions), and they can capitalize on their legitimization (e.g. corporate expertise, stakeholder support or public image). These political resources can be either owned or controlled by the firm to influence public decision making. However, studies seem not to consider the combination of political resources yet (Rajwani et al., 2013). Applying these corporate resources and capabilities in specific political environments, firms will not only be affected differently by political decisions (Bonardi et al., 2005; Coen, 1997), but they might influence the public policy process according to Oliver and Holzinger (2008). They claim that firms can manage the political environment by linking corporate capabilities with political strategies by hiring government experts, lobbying, and active advocacy. There are studies how firms implement their political resources and, for example, Dorobantu et al. (2016) suggest that they do so either collaboratively or independently to create and sustain value.

Across different contexts and industries, e.g. oil and gas, firms may establish superior resources and capabilities (e.g. Bonardi et al., 2006; Frynas et al., 2006). Literature categorizes different contexts according to the level of corporate anticipation of events in their environment (Rajwani et al., 2013). A high level of anticipation is attributed to the endogenous context (Frynas et al., 2006), where firms react to foreseeable policy decisions, by effectively using their political resources (Capron & Chatain, 2008). In contrast, a low level of anticipation is attributed to the exogenous context, where firms adapt their political resources to novel events to sustain competitive advantage (Lawton & Rajwani, 2011; Oliver & Holzinger, 2008). Mellahi et al. (2016) complement this approach and claim that firms either adapt to (e.g. employ corporate resources and capabilities) or protect themselves from (e.g. lobbying, relational ties) the external environment (e.g. political market) which is what they call bridging and buffering strategies.

From a theory's perspective, there are various theories on political resources and capabilities. The agency theory, for example, examines how managers' biased decision making influences the use of political resources, whereas the resource dependency theory claims dependency on government an important factor to influence CPA (e.g. Hart, 2004, Hillman et al., 2004; Hillman et al., 2009; Meznar & Nigh, 1995) which can be measured as the corporate share of exports (Martin, 1995; Schuler, 1999). Bonardi et al. (2005) claim a positive relation between institutional dependency and the likelihood to engage in political activity (Birnbaum, 1985). Moreover, the industrial organization theory explains the incorporation of political resources into the corporate strategy (Dahan, 2005) and the resource based view, finally, considers how valuable resources are developed (Mellahi et al., 2016). The resource based view is incorporated in many CPA studies (e.g. McWilliams et al., 2002) and provides the basis for organizational capabilities in the nonmarket environment to explain competitive advantages (e.g. Teece, Pisano, & Shuen, 1997).

Concluding, research inherits the predominant idea that corporate political resources and capabilities are adapted in different political contexts to manage the interaction with the political environment and generate competitive advantages. The following sections examines whether CPA is able to translate competitive advantages into positive firm performance effects.

2.3 Firm performance effects

This part is grounded on adaptive corporate political resources and capabilities, their application in the political market and the link between competitive advantages and firm performance. Research assumes that firms integrate political resources into their political strategy to gain corporate advantages and influence the public policy process (e.g. Dahan, 2005) in order to get favorable policy changes, e.g. rate increases (Bonardi et al. 2006), or new import tariffs (Schuler, 1996) to affect firm

performance directly or indirectly (Lux et al., 2011). Political strategy formulation comprises a sequential decision on how to engage in CPA (Dahan, 2005; Hillman & Hitt, 1999). Hillman and Hitt's (1999) influential approach categorizes the decision making process into the approach (transactional/ relational), the participation level (individual/ collective) and types of strategies. These types of strategies (information, financial incentive, constituency building) refer to the resources exchanged and include actions such as lobbying, contributions or grassroots mobilization of employees or suppliers.

However, CPA research is increasingly divided about firm performance, reporting inconclusive results. Looking at the most popular forms of CPA, i.e. campaign contribution and lobbying (Kaiser, 2009), research claims positive, negative as well as inconclusive firm performance effects simultaneously. Considering the divided view on firm performance effects in CPA research, the following section introduces literature on research design and different performance effects of CPA.

2.3.1 Research design

Research on nonmarket strategies, particularly CPA, and firm performance has increased since 2010, supported by improved statistical methods and data availability (Mellahi et al., 2016). The majority of research has commonly used accounting-based measures to determine firm performance effects of CPA, e.g. corporate profits, as well as considered a short time period, neglecting long-term effects of CPA (Lux et al., 2011). The majority of studies includes monetary CPA (e.g. PAC contributions and lobbying expenditures) compared to a minority that considers non-monetary measures of CPA as well (e.g. office space in Washington, D.C.) (Lux et al., 2011). This peculiarity is driven by public available data since 1974 for contributions and lobbying expenditures in the US (Lux et al., 2011).

The most important drivers for firms to engage in CPA, i.e. explanatory variables, are described by two research streams. On the one hand, management scholars refer to firm size and the institutional environment to explain CPA (e.g. Hillman et al., 2004). On the other hand, government regulation and political incumbency is claimed to be the decisive force by economic and political science (e.g. Grier & Munger, 1993). However, research across different fields has recognized that these antecedents of CPA may be more interrelated than expected and need more investigation (Lux et al., 2011). An increasing number of studies includes further links between nonmarket strategies and firm performance, e.g. relationship with stakeholders (Hillman & Keim, 2001) and consumer perception (Luo & Bhattacharya, 2006), to better explain the relationship between business and politics.

2.3.2 Positive effects

Beginning with the positive effects of CPA, a considerable number of academic papers in nonmarket strategy research used to support this idea by examining monetary as well as non-monetary forms of CPA. For the former one, Shaffer et al. (2000) report a positive link between media reports of firms' lobbying activities and firms' net income. Moreover, de Figueiredo and Silverman (2006) find that universities receive more financial support from political committees, located in the same state, if they engage in lobbying. For the latter one, studies report positive firm performance effects as well. Hillman et al.'s (1999) early study finds positive abnormal returns for top managers appointed to federal office. Hillman (2005) supports the positive firm performance effects of political ties and claims that politicians on the board of directors are associated with better market-based performance particularly for regulated industries.

Looking at a broader angle, Lux et al. (2011) find a dominant opinion of positive firm performance effects of CPA in studies from 1976 to 2010. They selected 78 studies which reported a relation between antecedents/ CPA and/ or performance effects/ CPA, including monetary as well as non-monetary forms of CPA. What they find is that the majority of research found positive firm performance effects for monetary forms of CPA, neglecting non-monetary CPA.

2.3.3 Negative effects

Continuing with negative firm performance effects of CPA, an increasing number of studies questions positive effects of CPA by analyzing monetary as well as non-monetary forms of CPA. In comparison to distinct positive effects of lobbying, two studies found negative firm performance effects. On the one hand, Coates (2010) analyzed lobbying expenditures to be negatively related to firm value for S&P500 firms between 1998 and 2004. On the other hand, Igan et al. (2012) examined that financial institutions engaged in lobbying experienced strong negative abnormal returns during the financial crisis 2007/ 2008. Recently, Aggarwal et al. (2012) confirm negative firm performance effects. They examined corporate donations for political candidates between 1991 and 2004 in the US and found a negative correlation between donations and firm-level excess returns.

Hadani and Schuler (2013) support negative firm performance effects for various forms of monetary CPA in their study of political investments for 943 S&P 500 firms between 1998 and 2008. They find negative firm performance effects for CPA, including lobbying, campaign contributions, as well as corporate board service of former government employees.

2.3.4 Inconclusive effects

Concluding with inconclusive firm performance effects of CPA, some studies claim neither positive nor negative but insignificant results for campaign contributions as well as corporate lobbying (e.g.

Hersch, Netter, & Pope, 2008; Lenway, Jacobsen, & Goldstein, 1990; Lenway & Schuler, 1991). Hadani et al. (2016) just recently supported this claim by reviewing the performance effects of 93 papers and claiming that the direct relation between CPA and firm level outcomes is only weak.

Even more important, they revisit Lux et al.'s (2011) findings of positive firm performance effect of CPA in their review of papers from 1976 to 2010 and claim insignificant performance effects for Lux et al.'s sample. They attribute the discrepancy to Lux et al.'s findings to a possible overestimation of positive effects by considering each reported sample as an independent observation. Furthermore, they weighted the effect sizes based on the sample size to adjust the measured effects.

Concluding, even though many studies exist around firm performance effects of CPA, there is no consensus among research on how CPA shapes firm performance, providing future areas of research.

2.3.5 Issues

Inconclusive firm performance effects might be attributed to various factors that need more investigation. Firstly, CPA benefits from strong secondary data availability but has difficulty to gather primary data because response rates might be low. However, Lux et al. (2011) encourage research to use field study methods such as interviews or surveys. Secondly, the majority of research included monetary forms of CPA to measure performance, neglecting non-monetary forms of CPA aside effects (Lux et al., 2011). Thirdly, favorable public policy outcomes are not only shaped by CPA (Keim, 2001; Schuler, 2002), but by other influencing factors that need to be considered such as political party, media and national aspects (Keim, 2001). The latter one challenges the impact of CPA on firm performance (Holburn & Vanden Bergh, 2004). Fourthly, most research includes only short time period of CPA in t_0 and performance effects in t_1 , neglecting long-term effects (Lux et al., 2011).

2.4 Link to presidential councils and outlook

Considering inconsistent research findings as well as recent developments in the US, presidential councils set the opportunity to analyze firm performance effects of non-monetary CPA.

Firstly, research on CPA increased, however, the consensus about firm performance effects of CPA did not. Looking at two popular forms of CPA, i.e. contribution and lobbying, research claims positive, negative as well as inconclusive firm performance effects simultaneously, providing the need for further investigation.

Secondly, economic and legislative developments support the importance of CPA. Centrally planned economies have been decreasing whereas market economies increased globally, representing attractive political markets which seem to address 'the need for greater comparative understandings of firms and governments in a range of institutional contexts' (Rajwani et al., 2013, p. 3). Additionally,

expenditures on CPA increased in the US. Lobbying expenditures rose from USD 1.57 billion in 2000 to USD 2.43 billion in 2017 (Center for Responsive Politics, 2017). These developments are underpinned by favorable US legislative development (i.e. *Citizens United vs. Federal Election Commission*).

Thirdly, the political development supports CPA as well. Two presidential councils were introduced by President Trump and provided council members with the opportunity to access the political market and establish ties with the new administration.

Concluding, inconclusive performance effects as well as recent developments in the US presidential councils set the opportunity to analyze firm performance effects of presidential councils. This master thesis aims to analyze the events around presidential councils (i.e. public statements, renunciations, dismissal) based on a market wide event study to determine firm performance effects. The following section contains the development of presidential councils, Hypotheses motivation, the event study's methodology, and results.

3. Investor reactions to changes in presidential councils

3.1 Development of President Trump's councils

President Donald Trump established the Manufacturing Council and the Strategy and Policy Forum at the beginning of 2017, comprising of 47 members, to integrate corporate advice in policy making (see Table 1). CEOs largely appreciated their appointments to the councils, claiming their membership a 'privileged opportunity to be in the room.' (Robert Iger, Walt Disney). The following section describes the development of presidential councils from initiation until dismissal and contributing factors.

For the first time in US council history, three firms announced their disapproval with the administration's decisions and renounced from the councils in January and June (i.e. Uber, Tesla, Walt Disney) due to several reasons. In the case of Uber, they were claimed to approve the Muslim Travel Ban and strong external pressures from customers followed (#deleteUber App campaign). Uber's CEO explained that '... staying on the council was going to get in the way of that' (Isaac, 2017), referring to fair immigration rights. In the case of Tesla and Walt Disney, they renounced due to the President's withdrawal from the Paris Climate Accord in June, claiming that 'climate change is real. Leaving Paris is not good for America or the world.' (Musk, 2017). External pressure as well as negative publicity increased and complicated the situation for council members. The C.E.O.s experienced 'continuing pressure from customers, employees, shareholders and board members to

take a position against what's going on and separate themselves from president Trump's councils' (Gelles, 2017).

Demonstrations in Charlottesville marked a turning point and initiated a wave of renunciations. Firms complied with stakeholders' pressure and renounced from the councils after the Charlottesville demonstrations when a woman was killed and President Trump did not take sides. The first to renounce was Kenneth Frazier (Merck) who explained that 'America's leaders must honor our fundamental values by clearly rejecting expressions of hatred, bigotry and group supremacy, which run counter to the American ideal that all people are created equal' (Rushe, 2017). Merck's renunciation triggered different reactions, reflecting the controversial situation. On the one hand, there were council members who supported Frazier's decision and renounced from the councils (e.g. Under Armour, Intel, AFL-CIO). On the other hand, President Trump claimed the firm to be 'a leader in higher & higher drug prices while at the same time taking jobs out of the U.S. Bring jobs back & LOWER PRICES!' (Trump, Twitter, 2017).

Nevertheless, the public continued to consider CEOs not to take their responsibility as industry leaders to comment on President Trump's statements on Charlottesville. For example, Tom Glocer (former CEO of Thomson Reuters) impelled to follow Merck's example, when he '... call[s] on all other members of Trump's image-burnishing committees to do the same.' (glocer, 2017). However, some council members did not react because they 'feel some reticence to speak out because they're afraid of being attacked by the president by name' (Gelles, NY Times, 2017). Furthermore, the councils' effectiveness was increasingly questioned because they used to have '... a few meetings with a bunch of fanfare, but it was more symbolic than anything else' (Gelles, NY Times, 2017).

Though, some days after Charlottesville, council members reacted. Members of the Manufacturing Council renounced and the Strategy and Policy Forum disbanded. On August 16, 2017, they let President Trump know about their decision, however, the President preempted them and dismissed the councils in a tweet himself. The dimension of the development and dismissal of the presidential councils is illustrated by Professor Jeffrey Sonnenfeld, Yale School of Management, when he explains that 'In American history, we've never had business leaders decline national service when requested by the president... They've now turned their backs on him.' (Gelles, NY Times, 2017).

Table 1: Overview of presidential councils

#	Member firm	Representative	GICS Industry Group	Public company	In both councils	Renounced	Remained	Public statement	Extract of corporate statements
American Manufacturing Council									
1	3M Co	Inge Thulin, CEO	Industrial Conglomerates	x		16.08.17			After careful consideration, I believe the initiative is no longer an effective vehicle ...
2	AFL-CIO	Richard Trumka, President			x	15.08.17			The AFL-CIO has unequivocally denounced the actions of domestic terrorists in Charlottesville
3	Alliance for American Manufacturing	Scott Paul, President	-			15.08.17			I'm resigning from the Manufacturing Jobs Initiative because it's not the right thing for me to do.
4	Campbell Soup	Doug Oberhelman, former CEO	Food Products	x		16.08.17			I believe the President should have been – and still needs to be – unambiguous on that point.
5	Corning Inc.	Wendell Weeks, CEO	Electronic Equipment	x		16.08.17			Over the last few days I have been saddened and angered by the events taking place
6	General Electric	Jeff Immelt, Chairman	Industrial Conglomerates	x	x	16.08.17			The President's statements yesterday were deeply troubling
7	Intel Corp.	Brian Krzanich, CEO	Semiconductors & Equipment	x	x	14.08.17			I resigned to call attention to the serious harm our divided climate is causing to critical issues
8	Johnson & Johnson	Alex Gorsky, CEO	Pharmaceuticals	x		16.08.17			Johnson & Johnson has a responsibility to remain engaged in important policy decisions are made.
9	Merck & Co Inc.	Kenneth Frazier, CEO	Pharmaceuticals	x	x	14.08.17			I feel a responsibility to take a stand against intolerance and extremism.
10	Tesla motors Inc.	Elon Musk, CEO	Automobiles	x	x	01.06.17			Am departing presidential councils. Climate change is real and Paris is not good for America
11	Under Armour Inc.	Kevin Plank, CEO	Textiles, Apparel & Luxury Goods	x	x	14.08.17			I am appreciative of the opportunity to have served, but have decided to step down from the council.
12	United Technologies Corp	Greg Hayes, CEO	Aerospace & Defense	x		16.08.17			It is clear that we need to collectively stand together and denounce the politics of hate
13	Arconic	Klaus Kleinfeld	-	x		-	-	-	
14	Caterpillar Inc.	Doug Oberhelman	Capital Goods	x		-	-	-	
15	Ford Motor Company	Mark Fields	Automobile and Components	x		-	-	-	Former CEOs
16	U.S. Steel	Mario Longhi	-	x		-	-	-	
17	Boeing Co.	Dennis Muilenburg, CEO	Aerospace & Defense	x	x	16.08.17			Muilenburg is staying with the council, the company said.
18	Dana Inc.	Jim Kamsickas, CEO	Auto Components	x		16.08.17			-
19	Dell Technologies Inc.	Michael Dell, CEO	Software	x		16.08.17	18.08.17		There's no change in Dell engaging with the Trump administration and governments around the world
20	Dow Chemical	Andrew Liveris, CEO	Chemicals	x		16.08.17	14.08.17		I condemn the violence this weekend in Charlottesville, Virginia
21	Harris Corp.	Bill Brown, CEO	Communication Equipment	x		16.08.17			-
22	Hoover Institute	Kevin Warsh	-			16.08.17			-
23	International Paper Co.	Mark Sutton, CEO	Containers & Packaging	x		16.08.17	16.08.17		International Paper strongly condemns the violence that took place in Charlottesville over the weekend
24	Lockheed Martin Corp.	Marillyn Hewson, CEO	Aerospace & Defense	x		16.08.17			-
25	Newell Brands Inc.	Michael Polk, CEO	Household Durables	x		16.08.17	15.08.17		We find the events of this past weekend in Charlottesville to be incredibly troubling.
26	Nucor Corp.	John Ferriola, CEO	Metals & Mining	x		16.08.17	14.08.17		At Nucor, we condemn the violence that occurred this past weekend in Charlottesville
27	Timken Company	Rich Kyle, CEO	Machinery	x		16.08.17			-
28	Whirlpool Corp.	Jeff Fettig, CEO	Household Durables	x		16.08.17	14.08.17		The company will continue on the Manufacturing Jobs Initiative to represent our industry.
Strategy and Policy Forum									
1	Walt Disney Co.	Bob Iger, CEO	Media	x		01.06.17			As a matter of principle, I've resigned from the President's Council on the #ParisAgreement
2	Uber	Travis Kalanick, former CEO	-			02.02.17			We will fight for the rights of immigrants in our community. That each of us can be who we are
3	BCG	Rich Lesser, CEO	-			16.08.17			-
4	IHS Markit	Daniel Yergin, Vice Chairman	Professional Service	x		16.08.17			-
5	General Motors Co.	Mary Barra, CEO	Automobiles	x		16.08.17	16.08.17		The President and members of the President's Strategic and Policy Forum have disbanded the forum.
6	IBM	Ginni Rometty, CEO	IT Services	x		16.08.17	16.08.17		But this group can no longer serve the purpose for which it was formed.
7	Cleveland Clinic	Tobi Cosgrove, CEO	-			16.08.16			There will be no change to Cosgrove's role, the Cleveland Clinic told the Cleveland Plain-Dealer.
8	PepsiCo Inc.	Indra Nooyi, CEO	Beverages	x		16.08.17	12.08.17		Heartbroken by the violence in #Charlottesville. Hate and intolerance are a betrayal of what we stand for
9	E&Y	Mark Weinberger, CEO	-			16.08.17			-
10	Global Infrastructure Partners	Adebayo Ogunlesi, CEO	-			16.08.17			-
11	JPMorgan Chase & Co	Jamie Dimon, CEO	Banks	x		16.08.17	14.08.17		We were all disturbed by the bigotry and violence in Charlottesville, Virginia this past weekend
12	Wal mart Stores Inc.	Dough McMillon, CEO	Food & Staples Retailing	x		16.08.17	14.08.17		We believe we should stay engaged to try to influence decisions in a positive way
13	Patomak Global Partners	Paul Atkins, CEO	-			16.08.17			-
14	BlackRock Inc.	Larry Fink, CEO	Capital Markets	x		16.08.17			-
15	Blackstone Group LP	Stephen Schwarzman, CEO	Capital Markets	x		16.08.16	14.08.17		I am deeply saddened and troubled by the tragic events in Charlottesville.

Firms marked with "-" are excluded because CEOs resigned from their corporate position

3.2 Development of hypotheses

In order to explain different firm performance effects of changes in the composition of presidential councils, the motivation of four Hypotheses will be introduced below. For Hypothesis 1, the average investor reaction to all events of presidential councils is assumed to be negative. For Hypotheses 2, and 3, investor reactions to are assumed to be positive (i.e. renunciation from the council, public statements), whereas for Hypothesis 4 investor reactions are assumed to be negative (i.e. remaining in the council until dismissal).

3.2.1 Negative reactions

This section explains that negative investor reactions are expected to changes in presidential councils due to an unstable US context as well as little corporate control over political resources. The changes in presidential councils include renunciations, public statements, and the dismissal, and average investor reactions to these events are measured.

From a theoretical perspective, some research finds that CPA generates positive firm performance effects, and presidential councils are a new form of political resources (Dahan, 2005). Additional political resources may increase the attractiveness of the political market and positive firm performance effects (Bonardi et al., 2005; Werner, 2017).

However, the current US context as well as diminished control over corporate political resources may hamper positive firm performance effects. Firstly, uncertainty in US politics arose due to unexpected political decisions of President Trump's administration and due to the shift in US world politics (e.g. withdrawal from Paris Climate Accord). Besides, enhanced income inequality in the US increased public interest on corporate political engagement (Walker & Rea, 2014) as well as social concerns (Hiatt & Park, 2013), resulting in negative sentiment on CPA (Smith, 2000) and negative brand awareness for firms that make contributions to outside political spending groups (Torres-Spelliscy, 2016).

Secondly, it seems that council members' control over political resources and political influence decreased (Dahan, 2005) as a result of decreased stakeholder support, public image and political reputation which was shown in three cases. First, the customer-initiated campaign #deleteUber accused Uber of supporting President Trump's 'Muslim Travel Ban' and made the firm lose a lot of customers. Second, public image of council members was hampered when those were urged to react because 'executives cannot live with customers thinking they are in cahoots with someone [President Trump] who supports white supremacists or neo-Nazis.' according to Bill George, a board member of Goldman Sachs (Gelles, NY Times, 2017). Third, corporate political

reputation decreased as happened with Merck, when President Trump publically questioned the firm's operating business after its CEO renounced from the Manufacturing Council.

Concluding, the uncertainty in US politics, the negative sentiment on CPA as well as lost corporate political resources lead to Hypothesis 1:

***Hypothesis 1:** Negative investor reactions to changes in the composition of presidential councils.*

3.2.2 Positive reactions to renunciations

Hypotheses 2-4 refer to investor reactions to a specific event in presidential councils and include subsamples of council members to detail investor reactions. The first subsample to be examined consists of eleven firms that renounced from the councils prior to the dismissals. For this case, positive investor reactions are assumed because renunciations may signalize corporate commitment to the claims of the society in which firms operate.

In theory, renunciations can be considered reallocations of corporate political resources and capabilities due to adjusted profit expectations (Bonardi et al., 2005; Coen, 1997). That is, exogenous shocks (i.e. withdrawal from the Paris Climate Accord) may have hampered corporate competitive advantages (Lawton & Rajwani, 2011; Oliver & Holzinger, 2008). Therefore, firms may experience diminished corporate success so that they adapt their profit expectations and reallocate their political resource (i.e. renunciation from council).

Following, I consider three attributes important in explaining positive investor reactions to renunciations. Firstly, council members were able to evade increasing stakeholder pressure by renouncing. In August 2017, the situation of council members was characterized by strong '... customer issues for those [companies] where some of the CEOs felt they were under pressure' according to Stephen Schwarzman, chairman of the Strategy and Policy Forum (Landy, 2017). Even more direct voices urged member firms 'to stop, and desert, and leave this administration isolated' (Kaplan, 2017). Research supports customers' ability to exert pressure, claiming that they have the ability to determine the global impression of the firm based on their collective perception (Rindova, Williamson, Petkova, & Sever, 2005). However, by renouncing, council members complied with external pressure to end their council membership.

Secondly, renouncing firms may signal uncertainty avoidance to the markets. In fact, the prevailing business mood in the US is characterized by '...extreme uncertainty introduced into the market by the new Administration' (ACEC, 2016). The nervous sentiment of the markets was reinforced by changes in the government (Gorostidi & Zhao, 2017) and the political regime (Sun, Mellahi, & Wright, 2012), when Donald Trump was elected US president and when the US withdrew

from Paris Climate Accord. Renouncing from presidential councils, council members ended their direct communication channel to the political administration and a reliable source of information regarding future political steps of the administration. However, simultaneously, renouncing firms signaled uncertainty avoidance to both markets and customers because they retract from direct dependency on the administration, comply with customer pressure and make a first step to restore control over their public image.

Thirdly, renouncing firms may decrease the costs of possible intervention from government. Investors may consider renunciations a monetary means to decrease corporate costs arising from governmental interventions. Okhmatovskiy (2010) claims that political ties with government officials can raise corporate costs (Gorostidi & Zhao, 2017). Boeing, for example, suffered from increased corporate costs due to its corporate ties with the administration. That is, the council member's share price dropped distinctively following President Trump's tweet to cancel the order of the President's Air Force One: 'Boeing is building a brand new 747 Air Force One for future presidents, but costs are out of control, more than \$4 billion. Cancel order!' (Trump, Twitter, 2016). Renouncing from the councils, firms applied an instrument in order to evade possible interventions from government and corporate costs of these.

Concluding, the combination of evaded stakeholder pressure, uncertainty avoidance, and reduced costs of government intervention suggest that renunciations from presidential councils lead to positive investor reactions towards renunciations in Hypothesis 2:

***Hypothesis 2:** Firms renouncing from presidential councils will experience positive investor reactions.*

3.2.3 Positive reactions to public statements

The second subsample to be examined consists of twelve firms that remained in the councils until dismissal while submitting public statements about their corporate and their continuance in the council. In this case, I assume positive investor reactions because of firms' improved public image, reduced information asymmetries, and retained corporate political ties.

Firstly, firms may use public statements to improve their public image. Council members were involved in controversial discussions over presidential councils and the President's administration. This may have hampered the members' public image, as a political resource, as well as their political strategy (Dahan, 2005). Using public statements, firms may have improved their public positioning by declaring corporate values and beliefs, e.g. ecological engagement. For the sports industry, Kellison and Mondello, (2012) showed that corporate pro-environmental behavior improves corporate public image, illustrating the positive effects of corporate statements. Another example is

Jeff Immelt's statement, CEO of GE and member of the Manufacturing Council, when he assured to continuously fight climate change, even though he was 'disappointed with today's decision on the Paris Agreement. Climate change is real. Industry must now lead and not depend on government.' (Immelt, 2017).

Secondly, public statements may be an instrument to reduce information asymmetries between managers and investors. Aligning corporate strategic goals with CPA, investors value public statements as a means 'to gain insight into management's better informed perceptions... [which] should, in principle, reduce the information asymmetry that investors face' (Schijven & Hitt, 2012, p. 1248). Firms' public commitment to corporate goals has been proven to be of importance, particularly after the Charlottesville demonstrations in August 2017. which increased information asymmetries, because '...the events of the last few days have transformed the council's laudable mission of job creation into a perception of political support for the Administration and its statements.' (Ramsey, 2017). Submitting public statements, council members may have increased investors' certainty over corporate goals and by doing so, decreased information asymmetries.

Thirdly, public instruments may be a means to retain direct corporate links to the ruling elite, resulting in positive investor reactions. Council members appreciate their membership and claim it a 'privileged opportunity to have a voice in the room.' (Barnes, 2017). The value of political ties is supported by Hillman et al. (1999), claiming that firms receive positive abnormal returns if they manage to establish political ties via appointments of their managers into federal office.

Concluding, the combination of improved brand image, reduced information asymmetries and retention of political ties lead to positive investor reactions towards corporate public statements in Hypothesis 3.

***Hypothesis 3:** Firms submitting a public statement and remaining in the councils will experience positive investor reaction.*

3.2.4 Negative reactions to remaining firms

The third subsample to be investigated are nineteen firms that remained in the councils until dismissal, while not submitting a public statement despite public controversy. We know from Hypothesis 3 that firms submitting a statement may improve their political reputation. However, negative investor reactions are assumed towards remaining firms because they may suffer from brand damage, negative public sentiment, and decreased firm reputation. Before describing the reasons for negative investor reactions I explain why firms remained in councils.

Retaining their political ties, firms tried to avoid a negative public breach with President Trump as seen with Merck's renunciation from the Manufacturing Council. Gorostidi and Zhao

(2017) explain this occurrence in the sense that firms try to ‘hold and protect a special position that guarantees access to a future strategic step, which seals its right to participate in a more influential manner’ (p. 381). By doing so, firms attempt to maintain their reputation with political actors, exercise control over their political reputation and use it as a political resource within their political strategy to influence public policy (Dahan, 2005). Also, firms’ sympathetic ideology and republican party affiliation may have encouraged firms to remain and support President Trump (Burriss, 2001; Lux et al., 2011). Despite firms’ attempt to retain political ties and strengthen their political reputation, I assume negative investor reactions due to the brand damage and negative public sentiment.

Firstly, explaining the difficult situation for council members, experts claimed that ‘within companies, there’s a high level of alert on the public outrage. The cost to corporate brands rises each day that they continue to align themselves with Trump.’ (Levine, 2017). This rising negative public tendency is particularly harmful for council members not submitting a public statement in the light of the positive influence which organizational reputation has on organizational performance (Rindova et al., 2005).

Secondly, there is negative public sentiment on firms related to President Trump. The research firm MavenMagnet analyzed 6,421 digital conversations between November 2016 and April 2017 to determine consumer perception of corporate relations with President Trump. They find that firms, somehow connected to President Trump, have been associated with negative digital conversations in channels (e.g. social media). This finding gives rise to the assumption that council members’ reputation might be particularly hampered, because it is ‘consisting of subjective perceptions held by a particular audience with respect to the likelihood of seeing desired behaviors and outputs from the firm in the future’ (Lange, Lee, & Dai, 2011, p. 158).

Concluding, firms remaining in the presidential councils might experience negative public awareness due to their political ties with President Trump and witness brand damage, negative public sentiment, and decreased firm reputation, leading to negative investor reactions towards remaining firms in Hypothesis 4:

***Hypothesis 4:** Firms remaining in presidential councils will experience negative investor reactions.*

3.3 Event study analysis

3.3.1 Research design assumptions

The following section introduces the market event study analysis to examine firm performance effects of presidential councils. The events related to presidential councils (i.e. renunciations, public statements, dismissals) provide the basis for this master thesis in order to analyze how investors

reacted to the changes in the composition of presidential councils. Before estimating the market-wide event study, I checked whether critical assumptions of an event study hold in this context.

Firstly, events must not be foreseeable so that investors could not have predicted the events. In the case of renunciations and public statements, investors reacted to events that have been controlled by the CEOs of the council members. In the case of the dismissals, investors reacted to President Trump's twitter statement, announcing the dismissal of the presidential councils. Concluding, the events on presidential councils are not foreseeable.

Secondly, I examine confounding events during the event window. If other events than the dismissal, public statements or renunciations occurred, they might distort firm performance effects of presidential councils. Based on the definition of McWilliams and Siegel (1997), confounding events are comprised of dividend declaration, mergers and acquisitions (M&A), government contract, new products/services, suits, unexpected earnings, change in key executive. I found two M&A announcements for JPMorgan Chase on August 16 and for Blackstone Inc. on August 18 derived from Reuters Eikon. However, both events are not considered significantly, as the former includes an advisory position with rather low fees and the latter deal is of too small volume to significantly influence the large PE firms. Therefore, I assume no confounding events.

Thirdly, I apply a short event window due to unanticipated events and efficient markets. Efficient markets assume that existing information is displayed in the stock price and new information is immediately included. The information about the events is most likely to be immediately incorporated into the stock price which is in line with the kind of events: President Trump dismissed the two councils in an instant via a tweet so that every relevant information was revealed immediately. This is supported by the fact that the media awareness of President Trump and council members has been already high due to several public statements and renunciations from council members before the dismissal happened. Thus, the released information regarding the dismissals might be even faster incorporated in the stock price, so that I base the market-wide event study on the following estimation and event window: $[-408, -10]$, $[-1, 1]$.

Before estimating the market model and calculating abnormal returns, I exclude all firms that are not publicly listed. By doing so, I only incorporate listed firms so that the sample is reduced by 10 firms to 40 firms overall. Additionally, four firms are excluded from the sample because their CEOs retired from their corporate position. Lastly, six firms that have memberships in both councils are counted once in the sample, so that the overall sample of this master thesis is comprised of 30 firms.

3.3.2 Methodology

As all critical assumptions of an event study hold, I am able to leverage the changes in presidential councils via an event study to assess investors' reactions to these events.

First, I apply the market model to estimate the correlation between a single firm's stock return and the market return. By doing so, I include two types of data into the market model: council members' returns (Firm return_{it}) and S&P500 firms' returns (Market return_t), both derived from Yahoo Finance. The estimation window ranges from January 2016 until August 2017 [-408, -10], and the event window is [-1,1]. I estimated the following regression:

$$\text{Firm return}_{it} = a_i + b_i \text{Market return}_t + e_t \quad (1)$$

Second, I use equation (1) to calculate each firm's abnormal return (AR). That is, I deduct the predicted market return derived from equation (1) from the firm return measuring the abnormal firm return for every trading day.

$$\text{Abnormal firm return}_{it} = \text{Firm return}_{it} - (a_i + b_i \text{Market return}_t) \quad (2)$$

Third, I use equation (2) to calculate each firm's cumulative abnormal return (CAR). That is, I sum each firm's abnormal return for a chosen event window retrieving the cumulative abnormal return for each firm which will be applied for Hypotheses 2-4.

$$\text{Cumulative abnormal firm return}_i = \sum \text{Abnormal firm return}_{it} \quad (3)$$

Fourth, I average equation (3) to calculate each firm's average cumulative abnormal return (CAAR) to compare average returns of different events in changes in the composition of presidential councils (i.e. dismissal) which will be applied for Hypothesis 1.

$$\text{Cumulative average abnormal firm return}_i = 1/N \sum \text{Abnormal firm return}_{it} \quad (4)$$

Concluding, based on the event study, I examine investor reactions to changes in the composition of presidential councils in Hypotheses 1-4.

3.3.3 Results

After conducting the market wide event study, the results are presented in Table 2 - 4 and provide no support for the claims of Hypotheses 1-4. Thus, the assumption of significant investor reactions to changes in the composition of presidential councils cannot be supported. As a consequence, conclusions drawn from this master thesis's results cannot be generalized. Instead, the results should be considered in the context of novel events of presidential councils, they should be retested based on a larger sample, and they should be comprehensive in measuring the direct link between CPA and firm performance. In the following, the results as well as possible context specific explanations are presented.

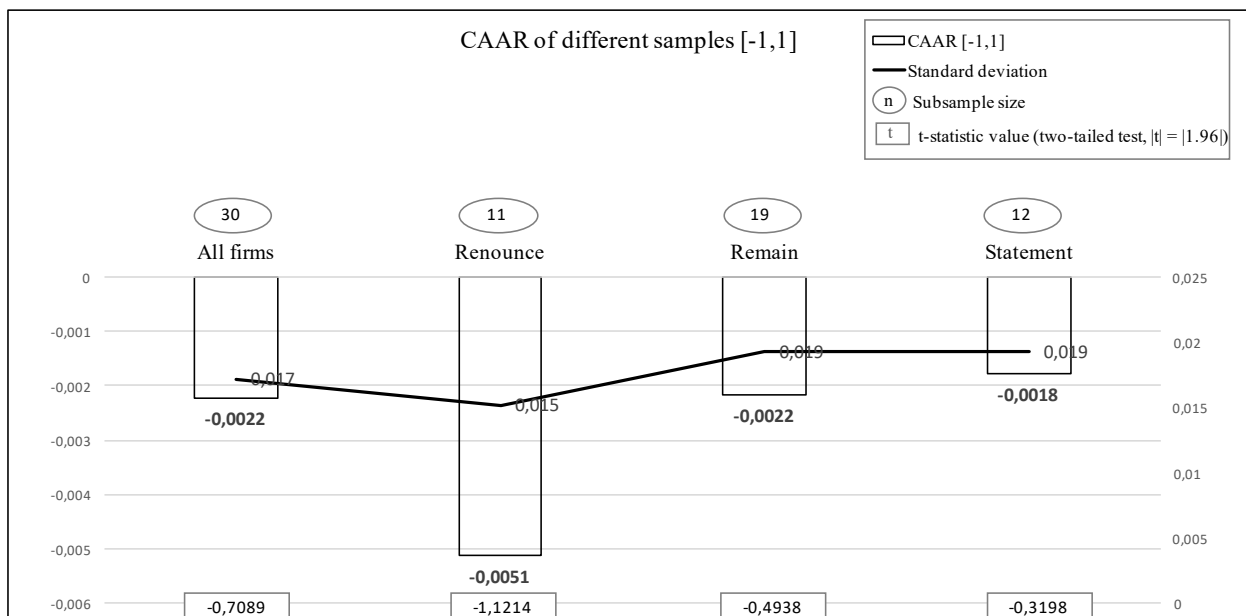
Table 2: Average investor reactions to presidential councils

Estimation Window	Event Window	Events	n	CAAR	Standard deviation	t-statistics	Significance 95%
		All firms	30	-0,0022223	0,0171689	-0,7089478	NO
[-408, -10]	[-1, 1]	Renounce	11	-0,0051305	0,0151738	-1,121407	NO
		Remain	19	-0,0021773	0,0192216	-0,4937526	NO
		Statement	12	-0,0017761	0,0192384	-0,3198105	NO

Hypothesis 1: Negative investor reactions to changes in the composition of presidential councils.

For Hypothesis 1, the results of the event study do not support negative investor reactions and correspond to insignificant firm performance findings of CPA of prior research (e.g. Hersch et al., 2008; Lenway et al., 1990;). Looking at the results of the analysis (see Table 2), the negative signs of the CAARs of each event are in line with Hypothesis 1 and rather negative for eleven firms renouncing from the councils (-0.0051305) compared to the overall market development. However, the negative effect of changes in councils is not significant for any of the events, on average. According to the two tailed t-test at alpha = 5% ($|t| > |1.96|$), the CAARs are insignificant across any change in composition of presidential councils (see Table 3). Concluding, the results do not support the claim of negative firm performance to any of the changes in presidential councils.

Table 3: CAARs across different subsamples



In the following, possible inferences for the non-results will be drawn, including prior research results of inconclusive effects of CPA and economic factors.

The non-effect of Hypothesis 1 corresponds with findings of prior research. Those include insignificant effects of campaign contributions or lobbying on firm performance (e.g. Hersch et al., 2008; Lenway et al., 1990), and Hadani et al.'s (2016) finding that past research's claim of positive firm performance effects is not as strong as expected. A potential reason behind the non-result is Dahan's (2005) claim that firms are able to influence the political market if they are able to control political resources such as brand image or political reputation. In fact, the development of the councils was characterized by negative publicity on council membership as well pressure from stakeholders, impairing public image and questioning council members' control over their political resources.

Another potential reason might be that council members from highly regulated industries experienced institutional dependency, consistent with resource dependency theory (e.g. Meznar & Nigh, 1995, Hart, 2004, Hillman et al., 2004; Hillman et al., 2009). As markets used to consider governments' corporate influence when evaluating corporate performance as a means of stock price change, corporate relations with the government as well as corporate membership in presidential councils might be already incorporated in the stock price and may weaken a possible stock market reaction to the new information released.

Besides, a further reason for the non-effect may be firms' and investors' lack of experience with President Trump's interaction with the councils. The councils were established recently by President Trump, research on councils is little and the events around presidential councils were novel. Thus, investors relation towards the councils as well as President Trump's interaction with the council members was developed over a short period of time as well as their assessment towards the events, possibly explaining insignificant investor reactions.

Concluding, the analysis reveals a non-effect for changes in the composition of presidential councils which can be partly explained by prior research and encourages further research on presidential councils and firm performance effects.

Hypotheses 2-4: subgroup analyses of Hypothesis 1

The following section reports the results for Hypotheses 2, 3, and 4 by calculating the CARs as the sum of the CAR of each observation in the subgroups (see Table 4) in the event window [-1, 1].

Table 4: Investor reactions to events in presidential councils

Estimation Window	Event Window	Hypotheses	n	CAR	mean CAR	t-Statistics	Std. Error	Std. Dev.	[95% Conf. Interval]	
		H1: All firms	30	-0,0022*	-0,0022*	-0,7089	-	0,0171	-	-
[-408, -10]	[-1, 1]	H2: Renounce	11	-0,1693	-0,0154	-1,9423	0,0079	0,0263	-0,0330	0,0023
		H3: Statement	19	-0,1241	-0,0065	-0,8552	0,0076	0,0333	-0,0226	0,0095
		H4: Remain	12	-0,0639	-0,0074	-0,8520	0,0086	0,0299	-0,0264	0,0116

* Calculation based on CAAR instead of CAR

Hypothesis 2: Firms renouncing from presidential councils will experience positive investor reaction.

For Hypothesis 2, the results of the event study do not support positive investor reactions. Looking at the results of the analysis (see Table 4), the claim of Hypothesis 2 is not supported. The sign of the cumulative abnormal return is not positive as expected (-0.1693) and more importantly the CAR is not significant, according to the two tailed t-test at $\alpha = 5\%$ ($|t| > |1.96|$). This claim is supported by the range of the 95% confidence interval, including zero.

Following, I will state possible reasons for this non-effect, including public pressure, unsecure US context, different motives of renunciations, and disparity towards the political administration. Firstly, renunciations comport with Engau and Hoffman's (2011) claim that firms may withdraw from uncertain political markets to avoid risk. In the case of renunciations, President Trump publicly commented on the renunciations, such as with Merck, when he wrote on Twitter that 'for every CEO that drops out of the Manufacturing Council, I have many to take their place. Grandstanders should not have gone on. JOBS!' (Trump, Twitter, 2017). Therefore, renunciations might not be the best option to avoid risk so that council members might want to search for further political strategies to circumvent uncertain political markets.

Secondly, renunciations have been embedded within an unsecure US context. That is, the unstable current economic, civic and political development in the US may influence corporate business. Thus, the US's changing future global position (e.g. protectionism) as well as allegations towards current administration's bonds with Russian officials may be of more interest to stock markets than renunciations are.

Thirdly, renunciations have been characterized by different motives, sending disparate signals. Looking at the first renunciations (e.g. Walt Disney, Tesla, Merck), they were a means to express disagreement with current politics (e.g. withdrawal from Paris Climate Accord), whereas later renunciations followed strong external pressure to leave the councils. Therefore, intrinsic corporate

motivation may have been different according to the timing of the renunciation, so that council members might want to search for additional means to express their motives in public.

Fourthly, the number of renunciations differed between the Manufacturing Council and the Strategy and Policy Forum. That is, twelve members of the Manufacturing Council renounced whereas two members of the Strategy and Policy Forum did. This might be due to the different level of dependency on the government, which might be more pronounced for Strategy and Policy Forum members due to their industry affiliation and degree of regulation. Renouncing from the councils, more firms of the Manufacturing council decided to stop their political engagement, possibly accounting for divergent strategic goals, the assessment of the current political development, and the potential influences of renunciations.

Concluding, the analysis reveals a non-effect for renunciations which corresponds with insignificant results of prior CPA research, and encourages further research on renunciations.

Hypothesis 3: Firms remaining in presidential councils until dismissal but submitting a public statement will experience positive investor reactions.

For Hypothesis 3, the results of the event study do not support positive investor reactions. Looking at the results of the analysis (see Table 4), the claim of Hypothesis 3 is not supported. The sign of the cumulative abnormal return is not positive as expected (-0.0639) for twelve firms giving a public statement. Additionally, the CAR is not significant, according to the two tailed t-test at $\alpha = 5\%$ ($|t| > |1.96|$). This claim is supported by the range of the 95% confidence interval, including zero.

Following, I will explain possible reasons for this non-effect, including the prevalent controversy on councils and many corporate statements in media. Firstly, council members have experienced a public controversy around corporate council membership and were increasingly urged to renounce from the councils. Besides, council members attracted public attention due to customer movements (e.g. #deleteUber campaign) or they were put into public spotlight when they were mentioned in a tweet of President Trump ('Now that Ken Frazier of Merck Pharma has resigned from President's Manufacturing Council, he will have more time to LOWER RIPOFF DRUG PRICES!', (Trump, Twitter, 2017)). Considering the context of high media awareness of council members, corporate public statements might not be the most effective ones so that firms may want to find further strategic means in order to be heard in public.

Secondly, the firm performance effects of public statements are different according to the date of the statement. This comports with Yoffie's (1987) approach of political leader and followers, when he differentiates between the corporate political participation order in the political market. Looking

at the first public statement of PepsiCo's CEO, Indra Nooyi, after Charlottesville demonstrations on August 14, the CAR for PepsiCo was 0.0248. However, looking at six following public statements, their average was -0.0254. The difference in the two rates shows that effect of the first public statement was positive whereas it was negative, on average, for the following statements. Thus, firms might want to consider the first mover advantages and political leaders according to Yoffie (1987) in their political strategy in order to achieve the desired results.

Thirdly, President Trump used to give public statements via Twitter, introducing a new form of political expression to the public. By doing so, the President is able to declare his opinion on certain topics and reacts fast on political and economic developments. Thus, people not only witness political developments from newspapers or TV shows, but those are communicated via usual channels such as social media. Considering the context of presidential statements given on social media, council members might want to search for additional communication strategies than corporate public statements in order to reach the public.

Concluding, the analysis reveals a non-effect for public statements, providing future research to study on firm performance effects of corporate public statements.

Hypothesis 4: Firms remaining in presidential councils until dismissal will experience negative investor reactions.

For Hypothesis 4, the results of the event study do not support negative investor reactions. Even though the sign of the cumulative abnormal return for nineteen firms remaining in presidential councils is negative as expected (-0.1241), the CAR is not significant, according to the two tailed t-test at $\alpha = 5\%$ ($|t| > |1.96|$). This claim is supported by the range of the 95% confidence interval, including zero.

Following, I will explain possible reasons for this non-effect, including CEOs representing the firms, further CPA channels of council members, different company valuation, and stock market performance in the US. Firstly, comporting with Hadani and Schuler's (2013) findings, biased managerial decision making may influence a firm's decision to engage in CPA. Thus, managers inherit a specific position in the decision making process of CPA and stand out from the firm. Therefore, it might be inferred that council membership might be rather attributed to managers as individuals than to the firms so that impacts of council membership are less attributable to the firms.

Secondly, most of the council members are engaged in long-term CPA which comport with Lux et al.'s (2011) findings, that larger firms are rather likely to be engaged in CPA. Considering the 2016 lobbying expenditures of the council members (retrieved from opensecrets.org), 27 of 30

council members reported lobbying expenditures with a total volume of USD 129.694.330,00 and USD 4.631.940,36 \$ per firm, on average. Referring to positive firm performance effects of lobbying according to Shaffer et al. (2000), council members' lobbying activities might be more of a suitable instrument of CPA than presidential councils are.

Thirdly, the US media landscape was determined by negative publicity towards presidential councils and the current political administration. However, looking at the S&P 500, the development from December 2016 until August 2017 was positive, according to Reuters Eikon. That is, the index increased from approx. 2.245 points in December 30, 2016 to approx. 2,470 points in August 16, 2017. Considering the positive stock market development, it might be inferred that council members contributed to the positive development as well as benefitted from the positive market.

Concluding, the analysis reveals a non-effect for firms remaining in the council, providing future research with more opportunities to examine effects of council membership.

In addition to context specific explanations for Hypotheses 1-4, the methods of this master thesis's analysis as well as the results correspond to prior research. The results of Hypotheses 1-4 are in line with an existing body of research on insignificant results (e.g. Hersch et al., 2008; Lenway et al., 1990; Lenway & Schuler, 1991; Hadani et al., 2016). Besides, stock price reaction was used as a market-based measure to determine firm performance effect of presidential council which is in line with most research on CPA (see Lux et al., 2011). There are non-performance measurements that could be applied to account for effect sizes, e.g. office space in Washington D.C., as happened with Lux et al. (2011), when significant effects were found. Furthermore, this master thesis explores the direct link between CPA and firm performance as happened in prior research (e.g. Lux et al., 2011; Mellahi et al., 2016). There are further explaining attributes (e.g. consumer relation, stakeholder perception, brand image) which can be considered to explain effects (Mellahi et al., 2016). Furthermore, the event window of [-1, 1] complies with the ones that were applied in prior research (Lux et al., 2011). Larger time frames might be appropriate to measure effects because firm performance effects might have an impact in further time periods.

As a consequence, the non-results of this master thesis comply with prior research's findings of insignificant firm performance effects. Moreover, a general conclusion cannot be inferred from these results due to several shortcomings, e.g. the firms sampled, the event window applied or the measure of performance effects. Conclusions should be considered in the specific context of novel effects of presidential councils and provide future areas of research, which will be stated in the following section.

4. Discussion and conclusion

4.1 Contribution

This master thesis contributes theoretically and empirically to CPA literature.

From a theoretical perspective, this master thesis extends the area of non-monetary CPA and corporate political resources (i.e. corporate council membership). Besides, it enhances the research field of presidential councils which appears to be less explored in current literature so far. This is due to the fact, that events on presidential councils have been available only sparsely. In addition, the findings of this master thesis complement with prior research on inconclusive firm performance effects of CPA, providing support for prior research's findings of insignificant performance effects of CPA which may be related to the master thesis's limitations that are further explained below.

From an empirical perspective, this master thesis finds that the claim of investor reactions to events of presidential councils is not supported despite negative publicity and public pressure on member firms to take a stand in public on their political opinion. Additionally, the non-effects of Hypotheses 2-4 suggest that it cannot be supported that renunciations, public statements, and dismissals significantly influenced stock prices.

4.2 Managerial implications

Oler, Harrison, and Allen (2008) claim that managerial implications are limited in the sense that 'decision-makers should exercise caution when deciding how much weight to give to information regarding immediate market reactions' (p.174). However, the following part suggests managerial implications under consideration of the small sample size, the novel events and the non-effects.

Firstly, public disapproval and customer skepticism have been proven to arise quickly. The development of the presidential council has shown how customer movements are able to shape corporate reputation and brand image. Thus, companies might want to explore political strategies how to secure their public reputation and how to cope with negative public sentiment.

Secondly, biased managerial decision making may influence a firm's decision to engage in CPA (Hadani & Schuler, 2013). Thus, managers inherit a specific position in the decision making process of CPA and represent their firm within the presidential council, representing corporate values and beliefs. Thus, it might be inferred that council membership might be rather attributed to managers as individuals than to the firms so that consequences of council membership is less attributable to the firms. Considering the representative function of managers in public political functions, firm might want to consider their alignment with company representatives in their corporate political strategy.

Thirdly, managers should be selective in how to invest their limited resources available. From a managerial perspective, managers have limited resources (e.g. attention, time) and from a market

performance perspective, presidential councils might not create value because the market does not react to any changes in the composition of presidential councils. Even though presidential councils grant political access they might not be the most influential mechanism to improve firm performance. Consequently, companies might want to explore further options how to access the political market and improve performance.

Finally, CPA might impel information asymmetries. Firms may use council membership to increase corporate influence on public policy outcomes. By doing so, information asymmetries increase because it makes it more difficult to distinguish between corporate influence and policy outcomes. Therefore, firms might want to consider effects of information asymmetries in their political strategy and how these affect their business and stakeholder relation.

4.3 Limitations

The key limitations of this study are that events on presidential councils are novel CPA events even if only a small number of firms was involved. Therefore, the representativeness of empirical inference is questionable (limitations one, two, three) as well as the analyzed non-effect (limitations four, five).

Firstly, there is only limited amount of past literature on presidential councils to draw an. Therefore, the empirical characterization and determination of councils is restricted because this master thesis's inferences cannot be compared with prior research results on presidential councils.

Secondly, the small sample size of this master thesis ($n=30$) may impede the assumption of normal distribution and can be influenced by outliers. Generally, event study methodology is based on large sample size accommodated with normal distribution. Therefore, McWilliams and Siegel (1997) claim that 'bootstrap' methods are a means to overcome the normality assumption. For the latter one, a nonparametric test (i.e. the binomial Z statistics) could be applied to account for outliers. Therefore, the general applicability of this master study might be limited.

Thirdly, the current political and economic context of the US might confine the general applicability of this master thesis's results. High uncertainty in the US political market as well as unclear future global positioning of the US (e.g. protectionism, withdrawal from Paris Climate Accord) might influence market reactions on presidential councils.

Fourthly, results might be different if the council composition was comprised of firms from highly regulated industries only. In highly regulated industries, the government may exercise its power as a large customer on highly dependent firms so that changes in the composition of the presidential councils might influence firm performance more distinctively.

Fifthly, results might diverge from this master thesis's findings using other indicators than performance measures to analyze the effects of CPA. Instead of measuring abnormal stock price

changes, one could include firm reputation to measure effects of presidential councils. However, alternative measures analyze different changes and are more difficult to be retrieved in good quality as it is the case for stock price changes, but they might be more suitable.

Sixthly, results might be different if confounding events are taken into consideration. For two council members, i.e. J.P. Morgan Chase and Blackstone Inc., there are events that have not been considered confounding events, so that both firms have been included in the analysis. However, results might be different if the two firms were excluded from the sample, precisely because the two were members of the Strategy and Policy Forum.

4.4 Suggestions for future research

Finally, this study suggests new dimensions for CPA and non-market strategy research. Firstly, future research might want to investigate underlying mechanisms of firm performance effects of CPA. Building upon Mellahi et al.'s (2016) suggestion, additional explaining attributes (e.g. consumer relation, stakeholder perception, brand image) can be considered to explain firm performance effects of CPA as well as inconclusive firm performance effects of prior research.

Secondly, due to the councils' nature, i.e. dependency on Presidential tenure, and novel character, research may want to incorporate historic councils. Considering the long tradition of councils advising the President's administration, i.e. President Eisenhower's 'Foreign Intelligence Advisory Board', there is data available to be investigated. A potential field of research are council meetings. These are significant events, attended by most council member firms and have important topics discussed. However, an event study requires new information to be released which may not hold in the light of council meetings. What future research could do is to include only those council meetings in the analysis that produce new information to the market

Thirdly, future research may analyze firm performance effects of announcements of historic presidential councils. These announcements release new information to the markets and incorporate external opinion which turned out to be important for presidential councils. By incorporating historic councils into the analysis, the sample of firms increases, improving the representativeness of results.

Fourthly, future research might want to explore firm performance effects of corporate statements' order. The effect of Pepsi's statement, for example, resulted in a positive CAR whereas following statements resulted in negative average CARs. Thus, future research might investigate the pioneer's CAR and compare it to the followers' CARs for each event, i.e. Muslim Travel Ban, withdrawal from Paris Climate Accord, and statements on Charlottesville demonstrations.

Fifthly, future research may analyze investor reactions to the formation of presidential councils. According to Dahan (2005), firms are able to influence the political market if they are able

to control political resources such as brand image. However, council members have been confronted with negative publicity as well pressure from stakeholders, impairing their public image and questioning control over political resources. Instead, analyzing investor reactions at the time of formation, research may avoid hampered control over political resources and achieve different results.

Sixthly, future research might want to use other measures than performance measures to analyze the effects of renunciations from presidential councils. Looking at the first renunciations, they were a means to express disagreement with current politics, whereas later renunciations followed strong external pressure to leave the councils. Therefore, intrinsic corporate motivation may have been different according to the timing of the renunciation, so that there might be dependent variables that capture the effects of renunciations more appropriately and might be more relevant measures than performance is.

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