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Stock Market Reaction to Corporate Political Activity

When companies confront the government

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Abstract

The purpose of this study is to investigate the market reaction to Corporate Political Activity (CPA) using an event study methodology to determine the impact of a specific event on firm's abnormal stock returns. The sample consists of The Standard & Poor's 500 Index, US-based companies which signed the declaration *We are still in*, to express their disagreement with the government's decision to pull the United States of America out of the Paris Agreement, announced on 01.06.2017. Daily stock return data is used in order to calculate the Cumulative Average Abnormal Return (CAAR) and Cumulative Abnormal Return (CAR) for the event window [0,1], including the day of the event and the following day. The main results indicate that there is no market reaction to the studied event. Furthermore, the study presents the results of Hierarchical Multiple Regression models used to investigate the relation between CARs and firm-related factors such as size, reputation, industry regulation and previous engagement in CPA. It was proven that none of these aspects has a significant influence on the studied market reaction.

O objectivo deste estudo é investigar a reacção do mercado à Estratégia Política Corporativa, por meio de uma metodologia de estudo de eventos, para determinar o impacto de um evento específico nos retornos anormais da cotação de mercado de uma empresa. A amostra consiste em empresas americanas listadas no índice Standard & Poor's 500 que assinaram a declaração *We are still in*, para expressar o desacordo em relação à decisão do governo de retirar os Estados Unidos da América do Acordo de Paris, anunciada a 01.06.2017. Os retornos da cotação de mercado diários são utilizados de forma a calcular os Retornos Médios Anormais Acumulados e os Retornos Anormais Acumulados para a janela de evento [0,1], incluindo o dia em que as empresas assinaram a declaração e o dia seguinte. Os resultados principais indicam que não há uma reacção do mercado ao evento estudado. Além disso, o estudo apresenta os resultados de modelos de Regressão Múltipla Hierárquica usados para averiguar a relação entre os Retornos Anormais Acumulados e factores empresariais como o tamanho, a reputação, a regulação da indústria e os envolvimento prévios em estratégias políticas corporativas. Foi provado que nenhum destes factores tem uma influência significativa na reacção de mercado estudada.

Keywords: non-market strategy, Corporate Political Activity (CPA), activity against government, market reaction, event study, market model, Cumulative (Average) Abnormal Return, S&P 500, presidency of Donald Trump

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*“The most beautiful experience we can have is the mysterious.
It is the fundamental emotion that stands at the cradle of true art and true science”*

Albert Einstein (1949)

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I. Introduction

“Not only does this deal subject our citizens to harsh economic restrictions, it fails to live up to our environmental ideals. As someone who cares deeply about the environment, which I do, I cannot in good conscience support a deal that punishes the United States, which is what it does. (...) The Paris Accord would undermine our economy, hamstringing our workers, weaken our sovereignty, impose unacceptable legal risk and put us at a permanent disadvantage to the other countries of the world. It is time to exit the Paris Accord. And time to pursue a new deal that protects the environment, our companies, our citizens and our country.”

Statement by President Trump on the Paris Climate Accord; June 1, 2017

“Together, /these/ leaders are sending a strong signal to the international community and the 194 other parties to the Paris Agreement about the continued commitment of the U.S. to ambitious action on climate change absent leadership at the federal level. (...) Signatories include leaders from 125 cities, 9 states, 902 businesses and investors, and 183 colleges and universities. Participating cities and states represent 120 million Americans and contribute \$6.2 trillion to the U.S. economy (...) The signers all understand that the Paris Agreement is a blueprint for job creation, stability, and global prosperity and that accelerating the United States' clean energy transition is an opportunity - not a liability - to create jobs, spur innovation, promote trade and ensure American competitiveness.”

Open letter *We are still in* from the US. state, local, and business leaders; June 6, 2017

Is it possible that the two statements by representatives of the same American society regarding the same issue are that different? Is it possible that the President of the United States of America is not aware of the advantages of an international climate agreement signed by other 194 countries? Or did those who signed *We are still in* misinterpret his words? Do they want to show their position against the government's decision or they just want to underline their concern about the environment? Why do they need to communicate their opinion which clashes with the President's statement, and even more, shows the discrepancy between leaders on a state level and the Head of the country?

“Business”, following Sheldon and McDowall (1983) is like a “game”. Are the companies who signed declaration a part of some kind of game, and this was a part of their strategy? If yes, who will evaluate their actions and what will be the prize or punishment for those who took a step against the government's decision?

This paper will present a specific type of non-market strategy, namely Corporate Political Activity (hereinafter referred to as CPA), which is a part of *the business game*. In this specific *round* the *referee* will be an *external player*- investors- and the *prize* will reflect their positive or negative reaction to the specific *move* of companies as *main players*- signing the open letter *We are still in*.

Companies might be perceived as open systems which interact and exchange information, capital, energy, and material with other actors in the environment in which they operate (Daft, 2007), being not only economic, but also social and political performers (Donaldson & Preston, 1995; Wicks, Gilbert, Daniel, & Freeman, 1994). In the present literature, the business conditions in which companies operate are divided into the market and non-market environments (Baron, 1995; Boddewyn, 2003; Doh, Lawton, & Rajwani, 2012). As these two areas are not mutually exclusive, decision-makers such as managers need to not only recognize the differences between them, but also to design a strategy which will allow to properly integrate them, exploiting the advantages of each (Bach & Allen, 2010; Lawton, Doh, & Rajwani, 2014). The market environment consists of "those interactions between the firm and other parties that are intermediated by markets or private agreements", while non-market environment can be described as "those interactions that are intermediated by the public, stakeholders, government, the media, and public institutions" (Baron, 1995, p. 47). Baron offers another explanation of non-market environment as "the social, political, and legal arrangement that structure interactions outside of, although in conjunction with, markets and private agreements" (Baron, 2003, p. 2). Following Baron's definitions, the non-market area is much broader than the market one, including actors that constitute and create the general business context, such as pressure groups, governments, and the general public, which might have a significant influence on companies (Liedong, Ghobadian, Rajwani, & O'Regan, 2015). Capron and Chatain (2008) argue that as this context may have important consequences on the performance of firms, both scholars and managers have turned their attention to analyse, understand and manage powerful non-market players by implementing a non-market strategy.

Considering the increasing significance of non-market strategies, namely Corporate Social Responsibility (hereinafter referred to as CSR) and CPA, it is important to examine their influence not only on the environment or society but also on the financial performance and evaluation of the companies by stakeholders.

Starting from CSR, the existing literature suggests that it might generate desired business benefits such as positive firm image, customers' loyalty and satisfaction or even resilience to negative events (Klein & Dawar, 2004; Luo & Bhattacharya, 2006). However, certain studies have shown that a majority of CEOs believe that investors do not reward socially responsible companies (Lacy, 2010). On the contrary, Yu and Bhattacharya (2013, p. 6) show that "investors do pay attention to CSR reports and indeed adjust their expectations of future long-term firm performance based on the information disclosed in the CSR reports". Nevertheless, "with few exceptions (McWilliams & Siegel, 2001) scholars in the CSR literature have directed limited attention to examining the impact of CSR on the market value of firms." (Arya & Zhang, 2009, p. 1090).

With respect to CPA, according to research by Lux, Crook, and Woehr (2011, p.223) "CPA is positively related to firm performance and is an important determinant of firm performance". Lux, Crook, and Woehr (2011, p. 225) argue that "Scholars typically assume that firms engage in non-market strategies, and political activities to enhance performance". Contradictory, Oberman (2004) argues that CPA might be seen as negative, when there is alleged corruption in the relationship between business and government. The findings on this respect are not consistent and further research needs to be done. Despite growing interest in explaining different non-market strategies, only a few types have been explored by researchers so far. According to Funk and Hirschman (2017, p. 33) "most existing research on CPA focuses on (...) statutory changes and how firms lobby, litigate, and influence policymakers to produce such changes". The interpretation of CPA as used to support the government, especially with monetary contributions, significantly limits a potential examination of CPA which does not involve money or which is used against the government or its decisions, and potential influence of such activity on stock prices.

Therefore, the aim of this paper is to offer a possibility to test and discuss a yet unexplored type of non-market strategy, namely CPA against the government's decision, which does not include any monetary contribution. The study is based on the example of American companies which signed the open letter *We are still in* and influence of this event on abnormal stock returns reflecting the market reaction to such action.

In light of the volatile and unpredictable political situation, especially from the beginning of the presidency of Donald Trump, the governance-related topics are both current and relevant. Some could expect that investors would tend to positively react to CPA supporting government, believing that companies building a positive relationship with political entities will improve their positioning and assure better cooperation with the government. Consequently, expressing disagreement with decisions or actions undertaken by the government could lead to a negative market reaction. Because of the fact that similar events have not been so far explained by research, the possible reaction of investors is rather difficult to predict. Thus it is even more interesting to reveal how the reaction, if any, may differ depending on factors such as company's size, reputation, industry regulation or previous CPA.

In this study, I aim to extend the research on types and outcomes of non-market strategy, imparting the act of standing against the government's decision as a type of CPA, and exploring the market reaction as an outcome. Furthermore, I hope the findings of the paper will be helpful for managers who need to make decisions regarding the implementation of the non-market strategy, presenting its possible effects.

The rest of the paper proceeds as follows. Firstly, I will explore the prior research on non-market strategies, with a special focus on CPA. Secondly, I will introduce the event and general context, as well as possible reactions to CPA in order to propose the hypotheses. Then, I will present the methodology and gathered data, including factors which might have a moderating effect on the examined variable. In the last part, I will discuss the results, define limitations, propose further research, and present final conclusions, covering managerial implications.

II. Literature Review

1. Non-market strategy: Corporate Political Activity

“An extensive body of the literature argues and demonstrates that an effective non-market strategy is of vital importance to firm survival, organizational performance, and possibly sustainable competitive advantage”

(Mellahi, Frynas, Sun, & Siegel, 2016, p.145).

The non-market strategy has become of interest for scholars in the past decades (Hillman et al., 2004; Aguinis & Glavas, 2012). Non-market strategy might be described as the concentrated pattern of incentives and actions of a firm, which aim to improve its performance through management of the societal and institutional contexts of economic competition (Baron, 1995; Lux, Crook, & Woehr, 2011). So far, two main pillars of non-market strategy- CSR and CPA- have been present in research, but mainly in isolation. Both concepts focus on main aspects of the relationship between companies and society's laws, norms & institutions (Rodriguez, Siegel, Hillman, & Eden, 2006), suggesting that firms can be proactively engaged in changing their business environment. In the recent review on non-market strategy literature between 2000 and 2014 made by Mellahi, Frynas, Sun, and Siegel (2016), the authors try to integrate literature on CSR and CPA, developing a framework to better understand the possible effects of non-market strategy in general, focusing on the mechanisms through which non-market strategy influences organizational performance. Other late researchers analyse the complementarity of both notions and their influence on government policy (Liedong et al., 2015). Although, according to Hond, Rehbein, Bakker, and Lankveld (2014), CSR and CPA are complementary and should be aligned, they are not interchangeable and still should be considered as two different concepts. When interacting with non-market actors, implementing a non-market strategy, companies might use CPA (like lobbying), as well as CSR activities (like strategic philanthropy), in order to pursue their business objectives (Hond et al., 2014).

The first element of non-market strategy, Corporate Social Responsibility (CSR), following The World Business Council for Sustainable Development, can be defined as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (Holme & Watts, 2000, p.8). Recently the relation between CSR and political issues has gained more and more importance since CSR has expanded to cover also political concerns, among others tax avoidance (Jankis & Newell, 2013) or international development goals (Blowfield, 2005). On the one hand, various researchers call attention to the political impact of CSR, suggesting that companies became providers of community services (education, health), which has been previously associated with the state (Blowfield & Frynas, 2005; Boodewyn & Doh, 2011). Other scholars indicate self-regulatory behaviour expressed through voluntary incentives of firms, such as implementing codes of conducts or environmental guidelines, with the intention of complementing global governance or national public regulation (Bartley, 2007; Slager, Gond, & Moon, 2012). On the other hand, governments have also recognized an important active role of CSR, e.g. entering social partnerships with firms (Selsky & Parker, 2005) or introducing CSR obligations for businesses (Gond, Kang, & Moon, 2011).

Although political restrictions might influence CSR activities, scholars suggest that companies also exercise their political pressure, e.g. by affecting regulations, engaging in lobbying or participating in advisory committees (McWilliams, Van Fleet, & Cory, 2002; Child & Tsai, 2005). This introduces the second element of non-market strategy, the focal point of this paper, CPA, which can be defined as corporate actions and attempts used to shape government policy (Baysinger, 1984) or to influence political actors and manage political institutions in ways favourable to the company (Hillman et al., 2004; Lux et al., 2011). CPA may involve not only lobbying, political directorships or Political Action Committee (hereinafter referred to as PAC) contributions (Doh et al., 2012), which are addressed to elected politicians (Hillman & Hitt, 1999) but also business campaigns in civil society, collective actions through coalitions and associations, or engagement in electoral politics (Walker & Rea, 2014). Companies’ involvement in the political environment allows them to shape their competitive environment, which may lead to better utilization of economic opportunities (McWilliams et al., 2002; Capron & Chatain, 2008). According to Liedong, Ghobadian, Rajwani, and O’Regan (2015, p. 409) “Influencing the non-market environment contributes to firm performance, whether economic or reputational”.

Companies, as important actors of the business environment, need to interact with numerous audiences, which often have conflicting demands or expectations (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). One of the most important stakeholders is the state, responsible for creating the rules and regulations, along with the system of punishments and laws that together constitute the formal pillar of institutional environments (Scott, 2001). Although legal rules may significantly constrain corporate behaviour, firms tend to also be active on the political arena, deploying different tactical strategies (e.g. Hillman et al., 2014). Through the political behaviour, companies attempt to either initiate, modify, or defend the government policies which affect them either directly or indirectly (Liedong et al., 2015). CPA which might have a direct impact on public policy outcomes (Hadani, Munshi, & Clark, 2017) influencing policies or regulations, may have a further impact on the business environment, industry or firm itself (Lux et al., 2011).

Taking the example of lobbying, a company may lobby for regulations which support its business, or block those that harm its interests (Shaffer, 1995). Even though such return cannot be guaranteed, the research suggests that CPA concerning specific public policy outcomes (such as regulatory decisions) may provide companies with a return on political investments (Aggarwal, Meschke, & Wang, 2012; Hadani, Bonardi, & Dahan, 2016). The existing research exhibits that the majority of benefits of CPA accrue to companies in a private manner, in the form of subsidies (Liebman & Reynolds, 2006; Wu & Cheng, 2011), lower taxes (Adhikari, Derashid, & Zhang, 2006; Richter, Samphantharak, & Timmons, 2009), or increased access to finance (Khwaja & Mian, 2005; Claessens, Feijen, & Laeven, 2008). Nonetheless, there are other outcomes of CPA which may impact not only the company, but also other businesses, such as antidumping regulations (Marsh, 1998).

Linking CPA to the resource dependence theory (Pfeffer & Salancik, 1978), Hillman, Keim, and Schuler (2004) clarify that a company's dependence on the government as a resource provider might be perceived as a factor which motivates firms to manage their relationship with the government through CPA (also Hillman & Hitt, 1999; Schuler, Rehbein, & Cramer, 2002). For instance, when companies depend on government's regulations regarding limits for market entry, permits to operate or revenues from government contracts (Hansen & Mitchell, 2000), CPA enables companies to control or influence the corresponding decisions (Cho, Patten, & Roberts, 2006; Kersh, 2002). Consequently, CPA may serve as a firm's protection against governmental threats or a way to set a connection between public officials and a company, both of which may contribute positively to firm financial performance (Blumentritt, 2003; Mezner & Nigh, 1995).

Using the political market analogy (Bonardi, Hillman, & Keim, 2005) CPA might be seen as exchanges between firms and other interest groups as policy demanders on the one side of policy arena, and regulators, legislators and their staffs as policy suppliers on the other side. Following this concept, companies compete for the limited access to public officials (Hillman & Hitt, 1999). Consequently, with multiple political rivals, the ability of a firm to influence a given public policy is limited and has a low probability of success (Baumgartner, Berry, Hojnacki, Kimball, & Leech, 2009; Gray & Lowery, 1997).

Overall, although CPA is becoming more and more important, it still remains unexplored. The existing research focuses on business activities which support political actions or decisions, but does not on those which are against. The result of the meta-analysis of the antecedents and outcomes of CPA by Lux, Crook and Woehr (2011, p. 241) states that "CPA is largely comprised of PAC contributions and lobbying". The authors explain that there is a lack of a theoretical approach to CPA, resulting from the complexity of firms' decisions regarding such activity which is influenced by a multiplicity of factors. Moreover, the literature explaining the outcomes of CPA in majority concentrates on firm financial performance (example Ansolabehere, 2003; De Figueiredo & Silverman, 2006; Kim, 2008) or on the relationship between CPA and government actions (example Tripathi, 2000). Despite the fact that CPA has become of interest for scholars (Reich, 2009; Shell, 2004), but even more for managers and policymakers, the reactions of financial markets on such activities are yet to be explained.

2. Corporate Political Activity in the United States

“The view of corporations meddling in politics to the downfall of the polity is not new, as corporate political activity (CPA) has been seen since the founding of this country [the United States] as promoting corporate interests and agendas over broader public interests”

(Hadani & Schuler, 2013, p. 165)

Corporate attempts to shape or influence governmental policies in a way desirable for firms have been studied by research in sociology, economics, political science or management, and proved to be employed by companies across countries. The omnipresent nature of the political connection of companies has been studied, among others, in Jordan and Kuwait (Moore, 2001), South Korea (Kang, 2002), Japan (Angel, 2000), Russia (Peregudov & Semenenko, 1996) and the European Union (Coen, 1997).

As well as in other countries, also in the United States as one of the most important economies and political environments, the widespread interests of businesses affecting public policy are incessantly documented (Hillman et al., 2014). In this country, the topic of the corporate stake in politics and interconnections between the business world and the political arena emerged from several corporate scandals (e.g. Enron scandal or American International Group case), adding to frequent concerns regarding inappropriate relationships between policymakers and managers (Dal Bó, Dal Bó, & Di Tella, 2006; Stone, 2006).

A significant part of empirical research on CPA focuses on the United States, presenting firms' non-market environments and explaining their attractiveness for political investments (Werner, 2017). CPA in form of lobbying, campaign contributions, operating a government relations office, or contributing to trade and to industry PACs has been steadily increasing in the United States (Lux et al., 2011). According to Kaiser (2009) only between 1994 and 2004, contributions of businesses to House and Senate campaign committees and to the Republican National Committee increased 220%- from \$358 million to \$782 million. Moreover, the decision made by Supreme Court Citizens United v. Federal Election Committee in 2010, allowed for unlimited corporate expenditures aimed to indirectly influence elections, by contributing to political campaigns, thereby opened up new opportunities for firms' engagement in political activities (Stratmann & Verret, 2015).

Consequently, the example of the United States helps to illustrate the importance of a proper understanding of CPA and its potential outcomes. “Corporate political influence is an increasingly contentious subject that draws widespread media coverage and public criticism, especially given steady declines since the 1970s in public approval of the role of business in American politics” (McDonnell & Werner, 2016, p. 585). Companies’ attempts to affect political individuals or governmental decisions and actions are usually followed by public skepticism about firms’ justifications to undertake such actions, considering whether they are led by pro-social approach or rather self-interests (Rao, Yue, & Ingram, 2011; Walker, 2014). Investors, as critical representatives of public recipients of CPA, do not only observe companies’ activities, but also express their perspective on any actions, which is reflected in stock prices.

On 01.06.2017 President Donald Trump announced the decision to withdraw the United States from the Paris Agreement (for the full text of the announcement see Appendix 1). The agreement, so far signed by 195 parties, strives to strengthen countries’ ability to deal with the impact of global climate change and to respond to the threat of such change controlling for global temperature rise (United Nations, 2017). Although celebrated by some Republican Party’s members (Shear, 2017), the decision received meaningful criticism from other political leaders, businesses, religious organizations and scientists, both in the United States and abroad (Volcovici & Mason, 2017), even before the official announcement (Muoio, 2017). As a proof of disagreement, “mayors, county executives, governors, tribal leaders, college and university leaders, businesses, and investors” signed the “Open letter to the international community and parties to the Paris Agreement from U.S. state, local, and business leaders” (for the full text of the open letter *We are still in* see Appendix 2). This research aims to investigate how the market reacted after companies engaged in CPA by signing the open letter *We are still in* as their manifestation against the government’s decision. Albeit this study concentrates on US-based companies and US-based governmental units, the market reaction examined might be generalised to other institutional entities and countries, forasmuch in any democratic country, companies need to comply with political regulations (Brown, 2016).

3. Market Reaction to Corporate Political Activity

The influence of political administrations and elections on markets have been a topic of a broad strand of economic literature (Wisniewski, 2016). In order to analyse what kind of impact CPA, and especially CPA used as a tool to express disagreement with a government's decision, might have on stock prices, one should take into account several factors, such as the general market perception of the incumbent government, the possible reaction of different stakeholders (customers, society) to this activity, or its impact on company performance and profitability. These aspects might suggest what kind of reaction from investors could be expected after a firm engages in CPA.

With regard to the relationship between politics and investors' reactions, the existing research concerns the influence of political uncertainty on higher risk premia (Pastor & Veronesi, 2013) or increased stock market volatility (Goodell & Vahamaa, 2013). Focusing on the United States political arena, Hersch and McDougall (2000) proved that Republicans are generally sympathetic to business interests, while ones from the Democratic Party used to reinforce more labour and environmental concerns. As the example, the Republican Party which gained control of Congress in 1994, likely accelerated CPA supporting incumbents, showing that businesses believed in more favourable circumstances under new government (Kaiser, 2009). Later studies concerning congressional elections between 1997 and 2006 point out that PACs tend to be significantly higher for Republican candidates (McKay, 2010). According to the findings of Chien et al. (2014), a drop of the market prices after election suggests that market does not believe in the presidential capability to grow an economy, while the increase of market prices suggests the opposite.

Relating to reaction of society, Liedong, Ghobadian, Rajwani and O'Regan, (2015, p. 417) states that "CPA /thus/ seems to be an egocentric and opportunistic activity; it is rarely perceived as benevolent". Some political activities, such as PAC contributions might be perceived by the public as inducements leading to influence political decisions and processes, and moving political power to corporations (Hond et al., 2014; Milyo, Primo, & Groseclose, 2000). Moreover, in corporate governance circles, it has been noticed that CPA has negative implications on shareholder protection and on firm performance (Aggarwal et al., 2012; Hadani & Schuler, 2013). Because of its potential association with corruption or the fear that companies may exert undue influence on politics, CPA might be rejected or distrusted by stakeholders (Doh, 2012; Lawton, McGuire, & Rajwani, 2013).

In terms of CPA's effect on firm performance, the main assumption of the majority of the theoretical perspectives is that companies tend to engage in such activities in order to maintain or obtain economic returns (e.g. North, 1990), but empirical evidence has not fully agreed on that (Hillman et al., 2014). The earlier theories suggest that CPA may benefit companies in different ways, e.g. by managing the risks connected with firm's dependence on resources from the government such as direct contracts (Blumentritt, 2003), by influencing public officials to provide rules and laws which may alter market structure in a desirable way (Peltzman, 1976; Stigler, 1971), or by reinforcing relationships between public officials and business executives that help to maintain favourable business conditions (Clawson, Neustadtl, & Weller, 1998). Although CPA research suggests its positive correlation with company performance (Bonardi, Holburn, & Bergh, 2006; Hillman, Zardkoohi, & Bierman, 1999), more recent analyses suggest that political investments are not profitable for companies and indeed might harm firm performance (Hadani & Schuler, 2013). Examining the three types of CPA – lobbying, hiring formal public officials, and campaign contributions, which represent the important part of CPA types (Hilman & Hitt, 1999; Hersch, Netter, & Pope, 2008), the authors suggest that political investments of companies and hiring politically connected directors are significantly and negatively related to their market valuation. Other recent studies present that CPA is unprofitable (Aggarwal et al., 2012; Coates & John, 2012; Knight, 2006) and may represent an example of agency costs when “managers make contributions to further their personal political preferences at the expense of the firm, thus reducing the firm's value” (Stratmann & Verret, 2015, p. 546). Following the above findings, companies which engages in CPA usually should not expect the positive effect on performance.

In the light of last election in the United States (November 8, 2016), since Donald John Trump became the 45th President, the capitalization of world stock markets until the moment of writing this paper, has been steadily exceeding the threshold of \$70 million (Angelini, Foglia, Ortolano, & Leone, 2017). In the first year since the election, the Standard & Poor's 500 Index (hereinafter referred to as S&P 500) has returned 21%, which is approximately double annual average, while the Dow Jones industrial average is 28,5% higher, which is the best score since 1995 (Campos, 2017). Evidence from the period between 1979 and 2002, covering 12 election cycles also indicates a corporate preference for conservative, Republican candidates (Brunell, 2005) and positive market reaction following Trump as a representative of Republican Party (Brewster, 2017) supports this finding. Further research on industry level done by Shon (2010) proposes that industry groups which donated more to Republicans

experienced positive market reaction shown in abnormal returns after the presidential elections in 2000. Following these findings, one could expect that companies which participate in CPA aimed to support the political activity of the Republican Party should experience a positive market reaction, and vice versa. In the specific case being analysed, companies engaging in CPA act indeed against an incumbent government in which the major party is Republican and against a decision of the President whose election met positive market reaction reflected in stock prices. All these arguments lead to conclusion that such action, being an instance of CPA against a government's decision, may lead to a negative market reaction.

**Hypothesis 1 (H1): Companies engaging in Corporate Political Activity
that does not support an incumbent government's decision
will experience a negative market reaction**

4. Moderating Effects on Market Reaction to Corporate Political Activity

Prior research on CPA has primarily focused on identifying the factors which determine its use and efficiency in terms of influence on politics or on firm performance (e.g. Lux et al., 2011). Management scholars, economists, and political scientists, have highlighted institutional, industry, and firm-level factors as important predictors of CPA, underlining such aspects as extent of industry regulation, industry concentration, company size or liquid capital (Hillman, 2003; Macher & Mayo, 2012; Macher, Mayo, & Schiffer, 2011; Weymouth, 2012). Although existing research explains essential characteristics that determine if firms will have the tendency and capabilities to engage in CPA, foregoing work has not included the components which could illustrate any variation in the sensitivity of political actors (McDonnell & Werner, 2016) or the difference in market reaction to such activity.

Therefore, this paper analyses the factors which might explain variation of investors' reaction to CPA against government's decision, starting with factors related directly to the company, such as size and reputation, through market-related aspect- level of regulation of industry, finishing with non-market actions with special attention to CPA.

4.1 Company' size

The research by Schuler and Rehbein (1997) proposes that company size is perceived as a proxy for available resources indicating the ability to become politically engaged. Following, Mathur and Singh (2011, p. 255) “larger firms engage politically to a greater degree as they have greater capacity and incentive to do so”. Studying political activity, Weymouth (2011) finds that well-organized, big oligopolies are more likely to influence government policy, simultaneously developing their political power (Macher & Mayo, 2011). Moreover, bigger companies, with higher exposure to the overall economic and social environment, seek to maintain their health focusing not only on market but also non-market strategies more than smaller companies (Miles, 1987). CPA might be considered as a tool to provide more reliable access to external resources (Schuler & Rehbein, 1997), therefore CPA against government's decision might have adverse, thus negative effect. Due to the higher potential influence and exposure, the negative reaction of investors to CPA against government's decision may be stronger for larger firms.

**Hypothesis 2: The market reaction to the Corporate Political Activity
that does not support an incumbent government's decision
will be negatively related with company's size**

4.2 Company's reputation

CPA might be negatively interpreted by the public, when business environment and relations between companies and government are related with corruption (Oberman, 2004). Perception of unethical CPA might harm corporate reputation (Hond et al., 2014) or increase public resistance to other corporate political participation (Liedong et al., 2015). Because, in general, political engagement of companies is perceived negatively by wider society (Smith, 2000), companies experience important societal constraints when considering engagement in politics (Hiatt & Park, 2013), which may lead policymakers and investors to prefer that firms engage in CPA covertly (Werner, 2017) in order to protect their reputation. Therefore, CPA against government's decision, which has been publicly announced and might lead to negative reaction from the society, may worsen reputation and lead to a negative investors' reaction.

**Hypothesis 3: The market reaction to the Corporate Political Activity
that does not support an incumbent government's decision
will be negatively related with company's reputation**

4.3 Industry regulation

Research shows that CPA tends to be higher among companies operating in regulated industries (Hadani & Schuler, 2013; Hansen & Mitchell, 2000; Holburn & Bergh, 2008). The relationship between regulation and CPA has been studied and proven to influence strategic decisions across various industries, such as manufacturing (King & Lenox, 2000), utilities (Russo, 2001), telecommunication (De Figueiredo & Tiller, 2001), and pharmaceuticals (Mathieu, 1997). Investors who need to manage their uncertainty regarding the non-market environment may react positively to companies in more regulated industries, in which governments should have bigger control over resources and prospects (Hart, 2001; Holburn & Bergh, 2008). Consequently, companies in highly regulated industries are more exposed and impacted by government's decisions. Therefore, CPA used not to support, but to disagree with government's decision might lead to negative investors' reaction.

**Hypothesis 4: The market reaction to the Corporate Political Activity
that does not support an incumbent government's decision
will be negatively related with company's membership in a highly regulated industry**

4.4 Previous CPA

The final factor which might have influence on market reaction to the CPA is the company's previous engagement in other political actions. Bonardi, Holburn and Bergh (2006, p. 1225) state that "repeated interactions between firms and policymakers are likely to be an important mechanism for developing nonmarket capabilities since they provide an opportunity for firms to learn from experience and to establish organizational routines". Their research presented that indeed firms with more experience in interacting with governments achieve better policy outcomes. CPA perceived as a way to supplement the previous non-market activities, may lead to positive reaction of investors, signalling that a company is building a strategy which will not be easily replicated or abandoned (Dahan, 2005) or is developing its non-market capabilities.

**Hypothesis 5: The market reaction to the Corporate Political Activity
that does not support an incumbent government's decision
will be positively related with company's previous engagement in CPA**

III. Methodology and Data Collection

1. Event Study

The primary aim of this study is to examine the abnormal returns observed after companies engage in CPA against a government's decision. In order to do so, I used the event study methodology, which is one of the most popular research methods (e.g. Brown & Warner, 1980; Henderson 1990; McWilliams & McWilliams, 2000; Kotahi, 2007; Konchitchiki, O'Leary, & Daniel, 2011) used to evaluate stock price changes due to a specific event (McWilliams & Siegel, 1997). The event study assumes that new information presented to the market will trigger immediate investors' reaction (Arya & Zhang, 2009) which will be reflected in a change of companies' returns, thus it allows to examine the market response to a specific event by examining the stock prices around this event (Rani, Yadav, & Jain, 2016).

In this study, the analysed event is the engagement of companies in CPA against a government's decision, by signing the open declaration *We are still in*. To the extent that investors do not support the company's choice to sign it, expecting it to negatively influence future cash flows and profitability of the firm or increase the risk of the company's stock, a negative variation of market returns for this company is expected (and vice versa, in the case where investors support the company's choice).

The information about the companies which signed the declaration appeared in corporate releases, the financial press, on the Internet, and through other communication channels, which means it was fully disclosed to investors. In order to assess the effect of the event on firm's returns, it is necessary to control for returns of the market. Following McWilliams and Siegel (1997), I calculated the abnormal returns using the market model methodology. The parameters of this model are estimated by statistical modelling of the relation between a company's returns over an estimation window and the market returns for the same period (Arya & Zhang, 2009), which allows to control for any external trends or shocks in the market. The abnormal returns are the differences between the observed returns during the estimation window and the observed returns during the event window.

As the first step, I identified all 52 firms listed on S&P 500 stock market index which signed the declaration *We are still in*. Before estimating the event study, in order to avoid any differences in financial reporting requirements (Pfarrer, Decelles, Smith, & Taylor, 2008) and due to the fact that event was directly connected with the business environment and

government of the United States, I excluded companies which are not based in the United States. Moreover, some of the independent variables used in the study can be used only for American companies. By doing so, I excluded 9 firms, leaving a sample of 43 companies.

Furthermore, I checked whether or not any of these companies experienced confounding events on the event date, or on the following day. I used the information about firm's filings of obligatory form 8-K submitted to U.S. Securities and Exchange Commission (SEC), in which companies announce major events that shareholders should know about, such as "Registrant's Business and Operations", "Matters Related to Accountants and Financial Statements", or "Corporate Governance and Management", to name a few. Out of 43 companies, I identified and excluded 5 which reported at least one confounding event during the mentioned time period, leaving a final sample of 38 companies for the analysis.

To conduct the event study, I calculated the abnormal returns using the market model, to estimate the relationship between a firm's equity returns and the market returns over an estimation window consisting of 150 days. I used the return on S&P 500 which "has been widely regarded as the best single gauge of the large cap U.S. equities market since the index was first published in 1957" (Ban, Zhang, Pang, & Sarrafzadeh, 2013, p. 605). By estimating the relationship between the return of each company and returns of a wider and diversified portfolio of stocks I was able to control for any external shocks or general trends on the stock market (Arya & Zhang, 2009).

Following researchers' recommendation to use short event windows, in order to minimize a possible influence of other factors on the analyzed relationship (McWilliams & Siegel, 1997), I focused the analyses on event window [0,1], including the day of the event and the following day. In order to control for the robustness of the study, I used different event windows. To capture the possible leakage of information before the event (42% of companies in the sample made separate statements expressing disagreement with government's decision, indicating they might engage in studied CPA) and the time which investors might take to react, thus to track down any possible price adjustments which may occur during few days after the event, I also calculated abnormal returns for event windows [-1,1], [0,3], [-3,3], [0,5], [-5,5]. All analyses were performed using the Eventstudy tool (Schimmer, Levchenko, & Müller, 2014), which has been becoming popular among scholars (e.g. Schimmer, 2012; Simsek & Ada, 2013; Jeundupeux, Guerra, & Laamanen, 2015; Kruppert, 2017).

2. Cross – sectional Variation in Cumulative Abnormal Returns

The results of the event study demonstrate the immediate market reaction to the companies which engaged in CPA against the government's reaction by signing the *We are still in* declaration, testing Hypothesis 1. In order to test Hypotheses 2-6 regarding how the variation in Cumulative Abnormal Return (hereinafter referred to as CAR) might be related to firm attributes, I used ordinary least squares (OLS) regression, following Werner (2017).

$$CAR_i = b_0 + bZ_i + \theta X + e_i,$$

For these calculations the dependent variable is CAR_i for the [0,1] event window, Z_i is a vector of the independent variables of interest for Hypotheses 2-6; X is a vector of control variables and e_i stands for an error term.

To compute the results, I used Hierarchical Multiple Regression in IBM SPSS Statistics. Accordingly, I estimated 4 models: Model 1 for Hypothesis 2, Model 2 for Hypothesis 3, Model 3 for Hypothesis 4, and Models 4, 5 and 6 for Hypothesis 5. I used Multiple Regression in Models 7 and 8, in order to obtain additional information for analyses of the results.

2.1 Independent variables

To test **Hypothesis 2**, which refers to the company's size, I retrieved the data about companies' *Total Assets* from Thomson Reuters Datastream database for the fiscal year 2016. The variable measured the logged amount (plus 1), following King and Soule (2007).

To test **Hypothesis 3**, which refers to the company's reputation, I used a dummy variable *Reputation*, coding firms with a high reputation as 1, and 0 otherwise. The firm's reputation was defined using 2 rankings: The World's Most Reputable Companies 2017 by Forbes and The World's Most Admired Companies by Fortune. If the company appeared in at least one ranking, it was considered as a firm with high reputation. 67% of companies with high reputation appeared in both rankings.

To test **Hypothesis 4**, which refers to the company's membership in a highly regulated industry, I used a dummy variable *Regulated*, coding firms in a highly regulated industry as 1, and 0 otherwise. The industry to which each company belongs was defined using Standard Industrial Classification (SIC) codes. Having these codes allowed me to place each company into Fama-French 48 industries classification, used by Coates and John (2012, p. 696) presenting following industries as regulated: "4 (alcohol), 5 (tobacco), 13 (drugs), 24 (aircraft), 26 (guns), 27 (gold), 30 (oil), 31 (utilities), 32 (telecom), 40 (transportation), 44 (banks), 45 (insurance) and 47 (finance)".

To test **Hypothesis 5**, which refers to the company's previous engagement in CPA, I examined the levels of PAC contributions during last election cycle 2016. The information was gathered from the website Open Secrets, which tracks money in politics and reports corporate expenditures for political reasons. Interestingly, for all companies in the sample, the majority of contributions have been made to the Democratic Party. As PAC represents only one type of CPA, I also examined the companies' expenditures on lobbying Congress and federal agencies during last year, reported by Open Secrets website. Both variables *PAC* and *Lobbying* measured the logged amount (plus 1) of expenditures.

As monetary amounts tend to follow skewed distributions, I decided to use logarithmic transformation for the following variables: *Total Assets*, *PAC* and *Lobbying*, therefore variables presented in tables are already log-transformed.

2.2 Control variables

The control variables were used to capture company's attributions which might have impact on the firm's returns, including financial structure, performance, risk, growth prospects and operating indicators. Following research which suggests that a firm's value to shareholders depends on the financial structure of company (Schulze, Skiera, & Wiesel, 2012) I used the *Net Debt*, representing an overall financial situation of the firm and *Return on Equity* for profitability. Growth prospects were measured by *Total Assets 5-year Annual Growth*. Furthermore, I included *Dividend Yield* which informs about financial stability. Moreover, I measured *Current Ratio* as a liquidity ratio expressing company's ability to meet its short-term financial obligations. The data was retrieved from Thomson Reuters Datastream database for the fiscal year 2016.

All analyses were performed using IBM SPSS Statistics.

IV. Results

The descriptive statistics for the sample of 38 companies are presented in Table 1. All the variables have been available for 32 companies and the majority of variables were available for the full sample of 38 companies. Due to the small sample of the analysis, missing values have been omitted, but the observation was still included in the analysis (following the pairwise deletion method, as one of the most common techniques to handle missing data according to Peugh and Enders (2004)).

Correlations between the variables are reported in Table 2. Except for Return on Equity - Total (%), all other variables are not significantly correlated with the dependent variable CAR for the event window [0,1]. The correlations between several independent variables, especially between Log PAC and Log Lobbying and the rest of variables were quite high. However, as these variables were used to test different hypotheses, they were included in separate models, omitting the threat of multicollinearity. In order to control for high correlation between Log PAC and Log Lobbying which were both used to analyse Hypothesis 5, I ran 3 separate models (Models 6-8), including first both variables together and then each of them separately. In regard to correlations between the control variables and between control and independent variables, only Current Ratio variable showed relatively high correlation with other variables. As the values did not exceed .5 thresholds, I decided to include them in the models.

Table 1 Descriptive Statistics for Cross-Sectional Analysis

	N	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance	Skewness
CAR for event window [0,1]	38	-.0913	.1068	.0114	.000300	.0278270	.001	.566
Log Total Assets	38	10.88	19.59	608.69	16.0182	1.93300	3.736	-.369
Reputation	38	0	1	15	.39	.495	.245	.449
Regulated	38	0	1	4	.11	.311	.097	2.679
Log PAC	35	.00	16.03	401.17	11.4619	3.70440	13.723	-1.801
Log Lobbying	35	.00	16.63	269.40	7.6971	6.49262	42.154	.060
Net Debt	38	-79343000	32378000	-68020352	-1790009.26	18492630.775	341977392979012.250	-2.937
Return On Equity- Total(%)	38	-24850.00	84.91	-24481.58	-644.2521	4032.99773	16265070.694	-6.164
Total Assets 5-Year Annual Growth	36	-20.32	80.78	456.07	12.6686	20.23947	409.636	1.674
Dividend Yield	38	.00	20.05	68.13	1.7929	3.30787	10.942	4.744
Current Ratio	37	.16	11.97	84.31	2.2786	2.33562	5.455	2.670
Valid N (listwise)	32							

Table 2 Correlation Matrix for Cross-Sectional Analysis

	1	2	3	4	5	6	7	8	9	10	11
1 CAR for event window [0,1]											
2 Log Total Assets	-.14										
3 Reputation	-.11	.71**									
4 Regulated	-.07	.10	-.10								
5 Log PAC	-.15	.72**	.56**	.04							
6 Log Lobbying	-.23	.76**	.77**	-.06	.60**						
7 Net Debt	-.14	-.20	-.19	.14	-.22	-.22					
8 Return On Equity- Total(%)	-.64**	.09	.14	.06	.14	.21	-.02				
9 Total Assets 5-Year Annual Growth	.00	.07	.11	-.16	.39*	.15	-.17	.17			
10 Dividend Yield	-.12	-.32	-.09	.05	-.21	.06	.10	.09	-.44**		
11 Current Ratio	.10	.12	.07	-.21	.25	.13	-.45**	.03	.49**	-.22	

** Correlation is significant at the 0.01 level (2-tailed)

* Correlation is significant at the 0.05 level (2-tailed)

1. Event Study Results

Table 3 presents the main results of the event study. The outcome for the main event window [0,1], reported in the first line, shows that the Cumulative Average Abnormal Return (hereinafter referred to as CAAR) for the sample of 38 companies was 0.03%, with 52.63% of companies which experienced negative CARs. In order to test the significance of the results, I used Cowan Generalized Sign Test (abbreviated as Generalized Sign Z). The null hypothesis of no abnormal returns suggests that the number of stocks with positive abnormal cumulative returns is expected to be in line with the fraction of positive returns during the estimation window. These results are not statistically significant ($p > .05$), therefore the null hypothesis cannot be rejected. Consequently, the results of the event study do not support Hypothesis 1, stating that companies engaging in CPA will experience a negative market reaction. For all event windows analysed, the majority of companies experienced a negative market reaction, however CAAR values vary between particular event windows and are close to 0.

Table 3 Stock Market Reaction to CPA

CAARs						
Event Window	CAAR Value	Precision Weighted CAAR Value	pos:neg CAR	% of negative CARs	Number of CARs considered	Generalized Sign Z
(0, 1)	.03%	-.0017	18:20	52.63%	38	-.2271
(-1, 1)	-.37%	-.0053	12:26	68.42%	38	-2.1848
(0, 3)	.17%	-.0024	16:22	57.89%	38	-.8761
(-3, 3)	.24%	-.0008	16:22	57.89%	38	-.9323
(0, 5)	-.38%	-.0079	17:21	55.26%	38	-.5516
(-5, 5)	-.30%	-.0073	17:21	55.26%	38	-.5948

2. Cross – sectional Variation Results

In order to test Hypotheses 2-5 I used Hierarchical Multiple Regression in Models 1-6. By doing so, I was able to use explanatory variables in the controlled order, entering independent and control variables as two separate blocks (1st including only control variables and 2nd including control variables and independent variable(s)), and understand the relative contribution of each block of variables on the model. Additionally, I used Standard Multiple Regression in Models 7 and 8. Model 7 includes only the control variables, which are the same as used in each of the models 1-6 as the 1st block. Model 8 includes all variables used in the study, indicating the stronger predictor variables. As the 1st block was the same for each of the Models 1-6, Table 4 reports the coefficients for blocks including independent variable(s) for each model, and coefficients for control variables are reported in Model 7. The table represents both unstandardized (x/...) and standardized (.../y) coefficients. The standardised version is recommended for interpretation of results of Multiple Regression models due to the easiness of comparison and possibility to compare the importance of each variable in the model (Freedman, 2009). However, standardizing removes the unit of measurement from variable's value, hence the coefficient represents the influence and the strength of the relationship between predictors and the dependent variable in relation to the rest of variables but does not allow to measure the unit changes, especially when predictors are dummy variables (Jaccard, Wan, & Turrisi, 1990). Because of that, I chose the unstandardized coefficients for the main interpretation.

In order to investigate the ability of firm-related factors such as firm size, reputation, adherence to regulated industry and previous engagement in CPA I performed Hierarchical Multiple Regression. For each of Models 1-6, in the 1st step of Hierarchical Multiple Regression, five control variables were entered: Net Debt, Return on Equity- Total (%), Total Assets 5-Year Annual Growth, Dividend Yield, and Current Ratio. The same variables have been used in Model 7. This model was not statistically significant $F(5, 29) = 4.507$; $p = .004$ and explained 43.7% of variance in CAR [0,1]. Only Return on Equity- Total (%) made a significant unique contribution to the model ($p = .000$). The same results were presented by Model 7, using Standard Multiple Regression, including only control variables. For models summary, see Appendix 3.

For each of the Hypotheses 2-5, the independent studied variable(s) was(were) entered in the 2nd step.

Table 4 Cross-Sectional Variation in CARs

Dependent variable:	CAR [0,1]	CAR [0,1]	CAR [0,1]	CAR [0,1]	CAR [0,1]	CAR [0,1]	CAR [0,1]	CAR [0,1]
Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Constant	.028 (.037)	-.003 (.008)	-.005 (.007)	.005 (.016)	.007 (.015)	.000 (.008)	-.005 (.007)	-.014 (.087)
Log Total Assets	-.002/-.135 (.002)							.002/.107 (.007)
Reputation		-.004/-.063 (.008)						.008/.145 (.015)
Regulated			.000/.004 (.013)					.002/.019 (.015)
Log PAC				-.001/-.085 (.002)		-.001/-.148 (.001)		-.001/-.159 (.002)
Log Lobbying				.000/-.101 (.001)		-.001/-.149 (.001)		-.001/-.263 (.002)
Net Debt	-2.254E-10/ -.150 (.000)	-2.092E-10/ -.139 (.000)	-1.909E-10/ -.127 (.000)	-2.417E-10/ -.161 (.000)	-2.241E-10/ -.149 (.000)	-2.375E-10/ -.158 (.000)	-1.904E-10/ -.127 (.000)	-2.407E-10/ -.160 (.000)
Return On Equity-Total(%)	-4.364E-6/ -.633*** (.000)	-4.448E-6/ -.645*** (.000)	-4.509E-6/ -.654*** (.000)	-4.340E-6/ -.629*** (.000)	-4.421E-6/ -.641*** (.000)	-4.333E-6/ -.628*** (.000)	-4.506E-6/ -.653*** (.000)	-4.366E-6/ -.633*** (.000)
Total Assets 5-Year Annual Growth	7.079E-5/ .051 (.000)	.000/.079 (.000)	.000/.077 (.000)	.000/.119 (.000)	.000/.124 (.000)	.000/.099 (.000)	.000/.076 (.000)	.000/.183 (.000)
Dividend Yield	-.001/-.062 (.001)	.000/-.014 (.001)	-7.753E-5/ -.009 (.001)	-1.033E-5/ -.001 (.001)	0.000/-.018 (.001)	8.210E-5/ .010 (.001)	-7.946E-5/ -.009 (.001)	.001/.069 (.002)
Current Ratio	.000/.027 (.002)	.000/.018 (.002)	.000/.022 (.002)	.000/.020 (.002)	.000/.022 (.002)	.000/.019 (.002)	.000/.022 (.002)	.000/.024 (.002)

~ p < 0.1 ; * p < 0.05 ; ** p < 0.01 ; *** p < 0.001

Table presents unstandardized/standardized coefficients across models 1-8 ; standard errors presented in parentheses

Models 1-6 report Hierarchical Multiple Regression ; Models 7-8 report Standard Multiple Regression

Hypothesis 2

In Model 1 at 2nd step, after entry of the independent variable Log Total Assets, which measures company's size, the total variance explained by the model as a whole was 45.3% ($F(6, 28) = 3.858$; $p = .006$). Introduction of Log Annual Assets independent variable explained additional 1.5% of variance in CAR [0,1], after controlling for 1st block of control variables, however the contribution was not significant (R^2 change .015; $F(1, 28) = .783$; $p = .384$). In the final model 1 only Return on Equity- Total (%) was a significant predictor ($\beta = -.633$, $p = .000$). The independent variable of interest- Log Total Assets recorded $\beta = -.135$. This variable was not significant ($p = .384$).

The results of Model 1 do not provide support for Hypothesis 2 stating that the market reaction to CPA will be negatively related with company's size. The unstandardized coefficient for Log Annual Assets variable shows that if total assets of company grows by 1%, CAR, on average, decreases by -.002 units, which is -0.2%, *ceteris paribus*. This value is not statistically significant, therefore the null hypothesis that there is no correlation between CAR and company's size cannot be rejected.

Hypothesis 3

In Model 2 at 2nd step, after entry of the independent dummy variable Reputation, which stands for company's reputation, the total variance explained by the model as a whole was 44,1% ($F(6, 28) = 3.681$; $p = .008$). Introduction of Reputation independent variable explained additional 0.4% of variance in CAR [0,1], after controlling for 1st block of control variables, however the contribution was not significant (R^2 change .004; $F(1, 28) = .186$; $p = .669$). In the final model 2 only Return on Equity- Total (%) was a significant predictor ($\beta = -.645$, $p = .000$). The independent variable of interest- Reputation recorded $\beta = -.063$. This variable was not significant ($p = .669$).

The results of Model 2 do not provide support for Hypothesis 3 stating that the market reaction to CPA will be negatively related with company's reputation. The unstandardized coefficient for the Reputation variable shows that if a company has high reputation, on average, CAR is by -.004 units, which is 0.4% lower than for company which does not have high reputation, *ceteris paribus*. This value is not statistically significant, therefore the null hypothesis that there is no correlation between CAR and company's reputation cannot be rejected.

Hypothesis 4

In Model 3 at 2nd step, after entry of the independent dummy variable Regulated, which stands for the level of regulation of an industry in which companies operate, the total variance explained by the model as a whole was 43.7% ($F(6, 28) = 3.626$; $p = .009$). Introduction of Regulated independent variable did not explain additional variance in CAR [0,1], after controlling for 1st block of control variables and was not significant (R^2 change .000; $F(1, 28) = .001$; $p = .976$). In the final model 3 only Return on Equity- Total (%) was a significant predictor ($\beta = -.654$, $p = .000$). The independent variable of interest- Reputation recorded $\beta = .004$. This variable was not significant ($p = .976$).

The results of Model 3 do not provide support for Hypothesis 4 stating that the market reaction to CPA will negatively related with company's membership in highly regulated industry. The coefficient for Regulated variable shows that if a company belongs to highly regulated industry, on average, CAR does not differ than for company which does not belong to highly regulated industry, *ceteris paribus*. The value of 0 indicates that there is no correlation between CAR and company's membership in highly regulated industry.

Hypothesis 5

In Model 4 at 2nd step, after entry of two independent variables Log PAC, which measures companies' PAC contributions, and Log Lobbying, which measures companies' lobbying expenditures, the total variance explained by the model as a whole was 46.1% ($F(7, 25) = 3.054$; $p = .018$). Introduction of Log PAC and Log Lobbying independent variables explained additional 2.4% of variance in CAR [0,1], after controlling for 1st block of control variables, however the contribution was not significant (R^2 change .024; $F(2, 25) = .549$; $p = .584$). In the final model 4 only Return on Equity- Total (%) was a significant predictor ($\beta = -.629$, $p = .000$). The independent variables of interest- Log PAC recorded $\beta = -.085$. The second independent variable of interests- Log Lobbying recorded $\beta = -.101$. These two variables were not significant ($p = .675$ and $p = .605$ respectively).

In order to understand the influence of the fact that two independent variables of Hypothesis 5 were significantly correlated (.60**) on the results of model 4, I ran two additional models including only one independent variable in each (Models 5 and 6). Even if the β coefficients changed (Log PAC $\beta = -.148$ and Log Lobbying $\beta = -.149$), the results were not significant ($p = .366$ and $p = .339$ respectively) therefore to obtain the main results for hypothesis 5 I analysed Model 4.

The results of Model 4 do not support Hypothesis 5 stating that the market reaction to CPA will be positively related with company's previous engagement in CPA. The unstandardized coefficient for Log PAC variable shows that if PAC contributions increase by 1%, the market CAR, on average, decreases by -.001 units, which is -0.1%, ceteris paribus. The unstandardized coefficient for Log Lobbying variable shows that if Lobbying expenditures increase by 1%, the market CAR, on average, decreases by -.001 units, which is -0.1%, ceteris paribus. These values are not statistically significant, therefore the null hypothesis that there is no correlation between CAR and company's previous engagement in CPA cannot be rejected.

In the Model 7 I performed Standard Multiple Regression, including only control variables, which presents the results of each 1st block of Hierarchical Multiple Regression of Models 1-6. The results have been commented above. In Model 8 I performed Standard Multiple Regression, including all variables used in this study. The total variance explained by the model was 47.1% ($F(10, 22) = 1.956$; $p = .091$). In this final model, only Return on Equity-Total (%) was a significant predictor, recording the highest β coefficient value ($\beta = -.633$, $p = .001$). All the other variables were not significant.

V. Main Conclusions & Future Research

*“Science, my lad, is made up of mistakes,
but they are mistakes which it is useful to make, because they lead little by little to the truth.”*

Jules Verne (1977)

1. Discussion

This paper aims to answer the following questions: Does the market react to CPA against a government’s decision? If so, how do company’s characteristics influence the strength of such reaction?

By answering these research questions, this paper aimed to explore the market reaction to CPA against a government’s decision, using the market reaction to the fact that American companies signed the declaration *We are still in*, expressing disagreement with the government’s decision to withdraw from the Paris Agreement. The main objective was to measure the effect of this event on stock returns which reflect the market reaction and to investigate if company-related factors, such as size, reputation, regulation of industry and previous CPA have a moderating effect on this reaction.

The results of the study did not show significant abnormal returns around the event. The investigation of Cumulative Average Abnormal Returns and Cumulative Abnormal Returns, using the event study method, showed that the event of signing the declaration *We are still in*, as the example of CPA against a government’s decision, did not have a significant influence on stock prices. The results revealed that, independently of companies’ characteristics, even if the majority of companies experienced negative returns, CPA against a government’s decision is not an import factor for investors, whether it is measured in a shorter or longer event window. The findings of prior research suggest that non-market strategies, especially CPA, are still unexplored, therefore their effects are not easily predictable. In this paper, the proposed hypotheses and usage of variables related to company’s characteristics have been developed after thorough investigation of existing literature. Nevertheless, the results demonstrated that neither the market reacted as expected, nor the characteristics of the company had an influence on this reaction.

Attempting to reveal possible reasons which might explain the lack of expected market reaction to the studied event, several points need to be considered. First of all, according to the Article 28 of the Paris Agreement (United Nations, 2015), the earliest possible date when a country may officially notice its withdrawal is 3 years after the agreement, therefore the effective withdrawal date for the United States cannot be before 4th November 2020, and until then the United States is obligated to maintain the Agreement's commitments. Consequently, the investors focused on short-term, might do not treat the presidential announcement as a formal decision, neither companies' engagement in CPA against the government's decision as an important factor, which would affect their evaluation and consequently the stock prices. Secondly, the attention should be raised to the fact that the studied CPA was companies' answer to the government's decision regarding environmental protection. Companies signing the declaration underlined their willingness to continue the good practices leading to decrease negative influence on climate change, which were likely to be previously implemented as a part of CSR strategy. Moreover, the declaration has been signed not only by firms, but also by various stakeholders, including investors. As the market prices depend on their evaluation of a company and its actions, one could argue that the expected negative market reaction was muted by the fact that they indeed support the open letter. Last but not least, the act of signing the declaration did not involve any monetary expenses. Investors who mainly focus on current earnings (Houge & Loughran, 2000) are likely to have a stronger reaction to other types of CPA which involve monetary spending or which could have a direct visible impact on profits.

Additionally, Cooper, Gulen and Ovtchinnikov, (2010) argue that according to the Federal Election Commission (FEC) data, Republican candidates usually receive higher total contributions from a larger number of firms than Democrats. Surprisingly, for all companies in the sample for which PAC contributions have been reported and identified as supporting the specific party, all were made to endorse the Democratic Party. Likewise, only 3 companies in the sample are based in states in which the Republican Party got a majority of the votes during the last election in 2016, which means that more than 92% of sample firms are based in states where the majority voted for Democratic Party. Despite earlier research findings pointing a positive relationship between businesses and Republican parties, in this case, since companies have been already supporting the opposite party through PAC contributions, the declaration as the sign of disagreement with the incumbent government would be in line with previously implemented strategy, explaining the lack of expected negative market reaction to the studied event.

Although the results of the analyses were not significant, the findings of this research make several contributions to the literature on non-market strategy. So far, the literature has been largely concentrated on other non-market strategies, such as direct corporate lobbying, business campaigns in civil society, engagement in electoral politics, political aspects of CSR or collective action through coalitions and associations (Walker & Rea, 2014), which are usually used as a support to political action. As for my knowledge, this study is the first one investigating market reaction to CPA against a government's decision, which is important due to increasing interest in companies' role in a society and in the relationship between businesses and politics. Furthermore, the paper adds to the research on the outcomes of CPA. While earlier researchers have focused almost exclusively on the influence on specific political regulations or decisions or on firm financial performance, this study underlined the importance of better understanding of different effects of CPA. The fact that, against the expectations based on theoretical background, the market reflected neither positive nor negative investors reaction accentuates the need for further investigation of the topic.

2. Limitations

Firstly, as for any event study, one of the limitations is that the results address only a short-term reaction, thus it is unclear if similar results could be observed over a longer period of time. However, covering longer event windows could be difficult due to confounding events, which could further narrow the number of firms in the sample. Secondly, to measure the reaction of investors observing the market returns, the sample consisted of publicly traded firms. Using the sample of only large, public companies is likely to provide a biased picture of CPA (Drope & Hansen, 2006), as such sample cannot fully represent the broad notion of the business environment in general. Thirdly, the research regarded only US-based companies, thus interpretation of the results is somehow limited to the particular type of institutional environment, and the effects of CPA against government's decision might differ across countries. Moreover, due to the small sample, recognizing "a trade-off between causal inference and learning from sample of one or fewer" (Werner, 2017, p. 17), the empirical conclusions are limited in terms of their representatives.

Finally, the event, in this paper analysed as an example of CPA, might be also perceived as CSR initiative of companies preoccupied with an environmental protection. For a number of firms which have adhered to the concepts of Paris Agreement signing the declaration was aligned to the already implemented strategy concerning their climate footprint and covering activities aimed to decrease their negative influence on environmental changes. The interesting point of this specific issue is that companies might still have followed their policies without expressing their demur to government activity. In other words, communicating the disagreement was not a necessary action for companies in order to follow their previously implemented strategy regarding environmental protection. Consequently, signing the letter was a clear manifestation of the disagreement against the government's decision, which is an example of CPA defined as "corporate attempts to shape government policy" (Hillman, Keim, & Schuler, 2004, p. 837). Following the underlined need to integrate CSR and CPA to analyse non-market strategies, and due to the nature of this event, the lack of information regarding other CSR activities implemented by studied companies might be seen as a limitation.

3. Future Research

Despite a wide body of literature regarding CSR and growing interests in CPA, the association and interconnection between them is still not clear. The results of this paper suggest that the market did not react to CPA against the government's decision. However, due to the nature of the event and the fact that investors might have considered the activity as part of CSR, it is possible that the effects might be different for companies which use CPA against a government's decision in different environment or context. As formerly suggested by Mellahi, Frynas, Sun, and Siegel (2016), the future investigation could consider how CSR and CPA complementarity differ among various types of CSR and CPA used by companies. While this paper considered a less known CPA against a government's decision, which in this case could be perceived as part of CSR, future research could investigate CPA not directly connected with CSR engagement or different CPA types, also associated with CSR engagement. Although the main focus of this paper was to investigate the effect of CPA on market reaction, the broader framework presented in the literature review poses interesting opportunities for future research to better understand the effects of non-market strategies, not only on companies or on business environment in which they operate, but also on the perception of such actions by different stakeholders.

4. Managerial Implications

“Fast changing business environments and recently developing and emerging countries (...) create new opportunities, as well [as] new requirements for business management”

Anna Pierz, 2015

Regulatory agencies, legislatures and courts have control power over written policy, therefore their actions are relevant to managers who need to understand regulatory environment (Funk & Hirschman, 2017). “Although state authorities create the policies that govern particular fields, the firms that occupy those fields collectively determine the fields' boundaries, the relevant actors, their motivations, and their activities, and they, therefore, have significant influence over the practical effects of policies” (p. 47). The research suggests that non-market strategy is becoming a more and more important aspect for companies (e.g. Baron, 2003; Hillman, Schuler, & Keim, 2014), but Hadani et al. (2016, p. 339) argue that “existing studies offer a confusing picture regarding how firms use CPA to achieve their objectives and improve their performance”. As the primary goal of the business is to create and maintain value (Conner, 1991) companies need to accumulate and exploit available resources (Sirmon & Hitt, 2003). “Top-level managers should view their firm as a system of resources and capabilities developing leveraging strategies that match their capabilities to the market and environmental context in order to create value” (Sirmon & Hitt, 2007, p. 287). For that reason, managers deciding on the usage of CPA need to understand and evaluate the business environment, properly manage limited resources and choose the most appropriate action which will help to create value and reach desired objectives. To assess the benefits and costs of such engagement, managers need to estimate its effects not only on the regarded policy but even more on the company performance and the perception of such action by investors. The results of this study suggest that firm's engagement in CPA may not necessarily lead to a change in market returns, therefore other outcomes such as customers' perception, company's legitimacy or the specific change in regulatory environment might be considered as more important when deciding on CPA engagement.

5. Conclusions

Researchers examining non-market strategy have underlined the importance of understanding different types of CPA and its possible outcomes. In this paper, I attempted to better understand the influence which CPA has on company's returns. In order to go beyond existing research mainly covering better known CPA types such as lobbying or PAC contributions, I decided to present the effects of CPA against (instead of supporting) politics and government. I found that, contrary to the expectations derived from literature review, after the event, returns were not significantly different from expected returns, independently of company's characteristics such as company's size, reputation, industry regulation or previous CPA.

Through different types of CPA companies are trying to influence their business environments, which is closely followed and evaluated by the stakeholders. This research extends the literature by exploring how CPA against a government's decision influences investors' evaluation of a company. The research does not provide a clear conclusion whether or not CPA against government's decision leads to a market reaction reflected in abnormal stock prices.

VI. Appendices

1. Statement by President Trump on the Paris Climate Accord

“Thank you very much. Thank you. I would like to begin by addressing the terrorist attack in Manila. We’re closely monitoring the situation, and I will continue to give updates if anything happens during this period of time. But it is really very sad as to what’s going on throughout the world with terror. Our thoughts and our prayers are with all of those affected.

Before we discuss the Paris Accord, I’d like to begin with an update on our tremendous -- absolutely tremendous -- economic progress since Election Day on November 8th. The economy is starting to come back, and very, very rapidly. We’ve added \$3.3 trillion in stock market value to our economy, and more than a million private sector jobs.

I have just returned from a trip overseas where we concluded nearly \$350 billion of military and economic development for the United States, creating hundreds of thousands of jobs. It was a very, very successful trip, believe me. Thank you. Thank you.

In my meetings at the G7, we have taken historic steps to demand fair and reciprocal trade that gives Americans a level playing field against other nations. We’re also working very hard for peace in the Middle East, and perhaps even peace between the Israelis and the Palestinians. Our attacks on terrorism are greatly stepped up -- and you see that, you see it all over -- from the previous administration, including getting many other countries to make major contributions to the fight against terror. Big, big contributions are being made by countries that weren’t doing so much in the form of contribution.

One by one, we are keeping the promises I made to the American people during my campaign for President -- whether it’s cutting job-killing regulations; appointing and confirming a tremendous Supreme Court justice; putting in place tough new ethics rules; achieving a record reduction in illegal immigration on our southern border; or bringing jobs, plants, and factories back into the United States at numbers which no one until this point thought even possible. And believe me, we’ve just begun. The fruits of our labor will be seen very shortly even more so.

On these issues and so many more, we're following through on our commitments. And I don't want anything to get in our way. I am fighting every day for the great people of this country. Therefore, in order to fulfill my solemn duty to protect America and its citizens, the United States will withdraw from the Paris Climate Accord -- () -- thank you, thank you -- but begin negotiations to reenter either the Paris Accord or a really entirely new transaction on terms that are fair to the United States, its businesses, its workers, its people, its taxpayers. So we're getting out. But we will start to negotiate, and we will see if we can make a deal that's fair. And if we can, that's great. And if we can't, that's fine. (.)

As President, I can put no other consideration before the wellbeing of American citizens. The Paris Climate Accord is simply the latest example of Washington entering into an agreement that disadvantages the United States to the exclusive benefit of other countries, leaving American workers -- who I love -- and taxpayers to absorb the cost in terms of lost jobs, lower wages, shuttered factories, and vastly diminished economic production.

Thus, as of today, the United States will cease all implementation of the non-binding Paris Accord and the draconian financial and economic burdens the agreement imposes on our country. This includes ending the implementation of the nationally determined contribution and, very importantly, the Green Climate Fund which is costing the United States a vast fortune.

Compliance with the terms of the Paris Accord and the onerous energy restrictions it has placed on the United States could cost America as much as 2.7 million lost jobs by 2025 according to the National Economic Research Associates. This includes 440,000 fewer manufacturing jobs -- not what we need -- believe me, this is not what we need -- including automobile jobs, and the further decimation of vital American industries on which countless communities rely. They rely for so much, and we would be giving them so little.

According to this same study, by 2040, compliance with the commitments put into place by the previous administration would cut production for the following sectors: paper down 12 percent; cement down 23 percent; iron and steel down 38 percent; coal -- and I happen to love the coal miners -- down 86 percent; natural gas down 31 percent. The cost to the economy at this time would be close to \$3 trillion in lost GDP and 6.5 million industrial jobs, while households would have \$7,000 less income and, in many cases, much worse than that.

Not only does this deal subject our citizens to harsh economic restrictions, it fails to live up to our environmental ideals. As someone who cares deeply about the environment, which I do, I cannot in good conscience support a deal that punishes the United States -- which is what it does -- the world's leader in environmental protection, while imposing no meaningful obligations on the world's leading polluters.

E.g., under the agreement, China will be able to increase these emissions by a staggering number of years -- 13. They can do whatever they want for 13 years. Not us. India makes its participation contingent on receiving billions and billions and billions of dollars in foreign aid from developed countries. There are many other examples. But the bottom line is that the Paris Accord is very unfair, at the highest level, to the United States.

Further, while the current agreement effectively blocks the development of clean coal in America -- which it does, and the mines are starting to open up. We're having a big opening in two weeks. Pennsylvania, Ohio, West Virginia, so many places. A big opening of a brand-new mine. It's unheard of. For many, many years, that hasn't happened. They asked me if I'd go. I'm going to try.

China will be allowed to build hundreds of additional coal plants. So we can't build the plants, but they can, according to this agreement. India will be allowed to double its coal production by 2020. Think of it: India can double their coal production. We're supposed to get rid of ours. Even Europe is allowed to continue construction of coal plants.

In short, the agreement doesn't eliminate coal jobs, it just transfers those jobs out of America and the United States, and ships them to foreign countries.

This agreement is less about the climate and more about other countries gaining a financial advantage over the United States. The rest of the world applauded when we signed the Paris Agreement -- they went wild; they were so happy -- for the simple reason that it put our country, the United States of America, which we all love, at a very, very big economic disadvantage. A cynic would say the obvious reason for economic competitors and their wish to see us remain in the agreement is so that we continue to suffer this self-inflicted major economic wound. We would find it very hard to compete with other countries from other parts of the world.

We have among the most abundant energy reserves on the planet, sufficient to lift millions of America's poorest workers out of poverty. Yet, under this agreement, we are effectively putting these reserves under lock and key, taking away the great wealth of our nation -- it's great wealth, it's phenomenal wealth; not so long ago, we had no idea we had such wealth -- and leaving millions and millions of families trapped in poverty and joblessness.

The agreement is a massive redistribution of United States wealth to other countries. At 1 percent growth, renewable sources of energy can meet some of our domestic demand, but at 3 or 4 percent growth, which I expect, we need all forms of available American energy, or our country -- () -- will be at grave risk of brownouts and blackouts, our businesses will come to a halt in many cases, and the American family will suffer the consequences in the form of lost jobs and a very diminished quality of life.

Even if the Paris Agreement were implemented in full, with total compliance from all nations, it is estimated it would only produce a two-tenths of one degree -- think of that; this much -- Celsius reduction in global temperature by the year 2100. Tiny, tiny amount. In fact, 14 days of carbon emissions from China alone would wipe out the gains from America -- and this is an incredible statistic -- would totally wipe out the gains from America's expected reductions in the year 2030, after we have had to spend billions and billions of dollars, lost jobs, closed factories, and suffered much higher energy costs for our businesses and for our homes.

As the Wall Street Journal wrote this morning: "The reality is that withdrawing is in America's economic interest and won't matter much to the climate." The United States, under the Trump administration, will continue to be the cleanest and most environmentally friendly country on Earth. We'll be the cleanest. We're going to have the cleanest air. We're going to have the cleanest water. We will be environmentally friendly, but we're not going to put our businesses out of work and we're not going to lose our jobs. We're going to grow; we're going to grow rapidly. (.)

And I think you just read -- it just came out minutes ago, the small business report -- small businesses as of just now are booming, hiring people. One of the best reports they've seen in many years.

I'm willing to immediately work with Democratic leaders to either negotiate our way back into Paris, under the terms that are fair to the United States and its workers, or to negotiate a new deal that protects our country and its taxpayers. (.)

So if the obstructionists want to get together with me, let's make them non-obstructionists. We will all sit down, and we will get back into the deal. And we'll make it good, and we won't be closing up our factories, and we won't be losing our jobs. And we'll sit down with the Democrats and all of the people that represent either the Paris Accord or something that we can do that's much better than the Paris Accord. And I think the people of our country will be thrilled, and I think then the people of the world will be thrilled. But until we do that, we're out of the agreement.

I will work to ensure that America remains the world's leader on environmental issues, but under a framework that is fair and where the burdens and responsibilities are equally shared among the many nations all around the world.

No responsible leader can put the workers -- and the people -- of their country at this debilitating and tremendous disadvantage. The fact that the Paris deal hamstringing the United States, while empowering some of the world's top polluting countries, should dispel any doubt as to the real reason why foreign lobbyists wish to keep our magnificent country tied up and bound down by this agreement: It's to give their country an economic edge over the United States. That's not going to happen while I'm President. I'm sorry. (.)

My job as President is to do everything within my power to give America a level playing field and to create the economic, regulatory and tax structures that make America the most prosperous and productive country on Earth, and with the highest standard of living and the highest standard of environmental protection.

Our tax bill is moving along in Congress, and I believe it's doing very well. I think a lot of people will be very pleasantly surprised. The Republicans are working very, very hard. We'd love to have support from the Democrats, but we may have to go it alone. But it's going very well.

The Paris Agreement handicaps the United States economy in order to win praise from the very foreign capitals and global activists that have long sought to gain wealth at our country's expense. They don't put America first. I do, and I always will. (.)

The same nations asking us to stay in the agreement are the countries that have collectively cost America trillions of dollars through tough trade practices and, in many cases, lax contributions to our critical military alliance. You see what's happening. It's pretty obvious to those that want to keep an open mind.

At what point does America get demeaned? At what point do they start laughing at us as a country? We want fair treatment for its citizens, and we want fair treatment for our taxpayers. We don't want other leaders and other countries laughing at us anymore. And they won't be. They won't be.

I was elected to represent the citizens of Pittsburgh, not Paris. (.) I promised I would exit or renegotiate any deal which fails to serve America's interests. Many trade deals will soon be under renegotiation. Very rarely do we have a deal that works for this country, but they'll soon be under renegotiation. The process has begun from day one. But now we're down to business.

Beyond the severe energy restrictions inflicted by the Paris Accord, it includes yet another scheme to redistribute wealth out of the United States through the so-called Green Climate Fund -- nice name -- which calls for developed countries to send \$100 billion to developing countries all on top of America's existing and massive foreign aid payments. So we're going to be paying billions and billions and billions of dollars, and we're already way ahead of anybody else. Many of the other countries haven't spent anything, and many of them will never pay one dime.

The Green Fund would likely obligate the United States to commit potentially tens of billions of dollars of which the United States has already handed over \$1 billion -- nobody else is even close; most of them haven't even paid anything -- including funds raided out of America's budget for the war against terrorism. That's where they came. Believe me, they didn't come from me. They came just before I came into office. Not good. And not good the way they took the money.

In 2015, the United Nation's departing top climate officials reportedly described the \$100 billion per year as "peanuts," and stated that "the \$100 billion is the tail that wags the dog." In 2015, the Green Climate Fund's executive director reportedly stated that estimated funding needed would increase to \$450 billion per year after 2020. And nobody even knows where the money is going to. Nobody has been able to say, where is it going to?

Of course, the world's top polluters have no affirmative obligations under the Green Fund, which we terminated. America is \$20 trillion in debt. Cash-strapped cities cannot hire enough police officers or fix vital infrastructure. Millions of our citizens are out of work. And yet, under the Paris Accord, billions of dollars that ought to be invested right here in America will be sent to the very countries that have taken our factories and our jobs away from us. So think of that.

There are serious legal and constitutional issues as well. Foreign leaders in Europe, Asia, and across the world should not have more to say with respect to the U.S. economy than our own citizens and their elected representatives. Thus, our withdrawal from the agreement represents a reassertion of America's sovereignty. (.) Our Constitution is unique among all the nations of the world, and it is my highest obligation and greatest honor to protect it. And I will.

Staying in the agreement could also pose serious obstacles for the United States as we begin the process of unlocking the restrictions on America's abundant energy reserves, which we have started very strongly. It would once have been unthinkable that an international agreement could prevent the United States from conducting its own domestic economic affairs, but this is the new reality we face if we do not leave the agreement or if we do not negotiate a far better deal.

The risks grow as historically these agreements only tend to become more and more ambitious over time. In other words, the Paris framework is a starting point -- as bad as it is -- not an end point. And exiting the agreement protects the United States from future intrusions on the United States' sovereignty and massive future legal liability. Believe me, we have massive legal liability if we stay in.

As President, I have one obligation, and that obligation is to the American people. The Paris Accord would undermine our economy, hamstring our workers, weaken our sovereignty, impose unacceptable legal risks, and put us at a permanent disadvantage to the other countries of the world. It is time to exit the Paris Accord -- () -- and time to pursue a new deal that protects the environment, our companies, our citizens, and our country.

It is time to put Youngstown, Ohio, Detroit, Michigan, and Pittsburgh, Pennsylvania -- along with many, many other locations within our great country -- before Paris, France. It is time to make America great again. (.) Thank you. Thank you. Thank you very much.

Thank you very much. Very important. I'd like to ask Scott Pruitt, who most of you know and respect, as I do, just to say a few words.

Scott, please. “

Source: Office of the Press Secretary (2017)

2. The text if the Open Letter *We are still in:*

FOR IMMEDIATE RELEASE

Leaders in U.S. Economy Say “We Are Still In’ on Paris Climate Agreement Climate Declaration Represents 120 Million Americans and \$6.2 Trillion of the U.S. Economy

Washington DC - A grand total of 1,219 governors, mayors, businesses, investors, and colleges and universities from across the U.S. or with significant operations in the U.S., representing the broadest cross section of the American economy yet assembled in pursuit of climate action, today [declared](#) their intent to continue to ensure the U.S. remains a global leader in reducing carbon emissions.

Together, these leaders are sending a strong signal to the international community and the 194 other parties to the Paris Agreement about the continued commitment of the U.S. to ambitious action on climate change absent leadership at the federal level. In the aggregate, the signatories are delivering concrete emissions reductions that will help meet America's emissions pledge under the Paris Agreement.

Signatories include leaders from 125 cities, 9 states, 902 businesses and investors, and 183 colleges and universities. Participating cities and states represent 120 million Americans and contribute \$6.2 trillion to the U.S. economy, and include Oregon and cities like New York, Los Angeles, and Houston as well as smaller cities like Pittsburgh, Pennsylvania and Dubuque, Iowa. A mixture of private universities, state schools and community colleges, both small and large, have added their institutions to the statement. In total the undersigned businesses and investors account for a total annual revenue of \$1.4 trillion and include over 20 Fortune 500 companies, including Apple, eBay, Gap Inc., Google, Intel, Microsoft, and Nike, in addition to hundreds of small businesses, have also signed the statement.

The statement calls “The Trump administration’s announcement [one that] undermines a key pillar in the fight against climate change [and a move which is] out of step with what is happening in the United States.” The signers all understand that the Paris Agreement is a blueprint for job creation, stability and global prosperity and that accelerating the United States’ clean energy transition is an opportunity - not a liability - to create jobs, spur innovation, promote trade and ensure American competitiveness. By declaring that “we are still in,” the signatories are putting the best interests of their constituents, customers, students and communities first while assuring the rest of the world that American leadership on climate change extends well beyond the federal government.

In addition to this statement, since President Trump’s announcement to withdraw from the Paris Agreement, 211 [Climate Mayors have adopted](#) the Paris Agreement goals for their cities, 13 Governors have formed the bipartisan U.S. Climate Alliance, and 17 governors have released [individual statements](#) standing by Paris. Today’s statement embraces this rapidly growing movement of subnational and civil society leaders, by announcing that not only are these leaders stepping forward, they are stepping forward together.

To view the full statement, quotes and list of signatories, visit: www.WeAreStillIn.com

Source: “We Are Still In” Declaration (2017)

3. Full results of cross- sectional variations analysis

Table 5 Model 1 Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.661 ^a	.437	.340	.0226026	.437	4.507	5	29	.004
2	.673 ^b	.453	.335	.0226877	.015	.783	1	28	.384

a. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth

b. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth, Log Total Assets

c. Dependent Variable: CAR for event window [0,1]

Table 6 Model 2 Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.661 ^a	.437	.340	.0226026	.437	4.507	5	29	.004
2	.664 ^b	.441	.321	.0229265	.004	.186	1	28	.669

a. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth

b. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth, Reputation

c. Dependent Variable: CAR for event window [0,1]

Table 7 Model 3 Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.661 ^a	.437	.340	.0226026	.437	4.507	5	29	.004
2	.661 ^b	.437	.317	.0230023	.000	.001	1	28	.976

a. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth

b. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth, Regulated

c. Dependent Variable: CAR for event window [0,1]

Table 8 Model 4 Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.661 ^a	.437	.333	.0227254	.437	4.196	5	27	.006
2	.679 ^b	.461	.310	.0231146	.024	.549	2	25	.584

a. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth

b. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth, Log Lobbying, Log PAC

c. Dependent Variable: CAR for event window [0,1]

Table 9 Model 5 Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.661 ^a	.437	.333	.0227254	.437	4.196	5	27	.006
2	.675 ^b	.455	.329	.0227898	.018	.848	1	26	.366

a. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth

b. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth, Log PAC

c. Dependent Variable: CAR for event window [0,1]

Table 10 Model 6 Summary

Model Summary^c

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.661 ^a	.437	.333	.0227254	.437	4.196	5	27	.006
2	.676 ^b	.457	.332	.0227470	.020	.949	1	26	.339

a. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth

b. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth, Log Lobbying

c. Dependent Variable: CAR for event window [0,1]

Table 11 Model 7 Summary

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.661 ^a	.437	.340	.0226026	.437	4.507	5	29	.004

a. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth

b. Dependent Variable: CAR for event window [0,1]

Table 12 Model 8 Summary

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.686 ^a	.471	.230	.0244164	.471	1.956	10	22	.091

a. Predictors: (Constant), Current Ratio, Return On Equity- Total(%), Log Total Assets, Regulated, Dividend Yield, Net Debt, Total Assets 5-Year Annual Growth, Reputation, Log PAC, Log Lobbying

b. Dependent Variable: CAR for event window [0,1]

Source: own research

VII. References

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