Risky Business?
Disclosure and Shareholder Approval of
Corporate Political Spending†

Saumya Prabhat∗
Indian School of Business

David M. Primo**
University of Rochester

February 2015 v.2

Abstract
We utilize a quasi-natural experiment to examine whether mandating greater disclosure and shareholder approval of political expenditures reduces shareholder risk. In particular, we examine the Neill Committee Report (NCR), which led to the passage of the United Kingdom’s Political Parties, Elections and Referendums Act 2000 (PPERA) and strengthened disclosure of and required shareholder approval for campaign contributions. Using a differences-in-differences methodology, we find that politically active firms saw an increase in stock price volatility after the NCR’s release. These results present a challenge to arguments for mandating greater disclosure and shareholder oversight of corporate political activities.

† We thank Shunlan Fang and Hariom Manchiraju for helpful comments. We thank Neil Moister and the Labour Research Department for providing us with political contributions data, and Satish Sahoo and Nehali Jain for research assistance.

∗ Assistant Professor of Finance, Indian School of Business, Hyderabad 500032; email: saumya_prabhat@isb.edu.

** Ani and Mark Gabrellian Professor and Associate Professor of Political Science and Business Administration, University of Rochester, Rochester, NY 14627; email: david.primo@rochester.edu.