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Friendships to Perish and Friendships to Cherish: Corporate Political Tactic and Earnings Management Method

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Critical of a literature which examines corporate political connections with scant attention to their dynamic nature, we blend political theory with inter-organizational exchange research to propose and test a framework based on which firms' earnings management (EM) method can vary predictably with their political tactic. Using hand-collected data on political money spent by US firms, we reveal an unknown dichotomy. Firms taking a transactional approach to politics tend to use the least costly EM method, substituting accruals-based EM (AEM) for real EM (REM). Conversely, firms following a relational approach, concerned that possible detection may alienate career-focused politicians, substitute REM for AEM. Consistent with the goodwill trust in the firm–politicians relationship moderating the EM trade-off, firms revert to AEM when the trust is impaired and they no longer perceive the need to insulate politicians from reputational damage. Notwithstanding the firm's political tactic, the total EM remains unaffected, suggesting perfect substitution. As a refined and dynamic lens for examining firm–politicians exchanges, our framework reconciles the conflicting evidence of prior studies on how political connections affect reported earnings and is generalizable to other third-party affiliations that may have important reputational stakes but no monitoring capacity over the production of financial information.

Introduction

Political connections between politicians and corporations can benefit both parties, but they can also bring policymakers into disrepute. WorldCom exemplifies this dynamic, as its strong political ties did not prevent its egregious earnings management (EM) from ultimately tarnishing its allies' reputations. Yet, its management persisted, treating these connections as expendable. First Solar, a US energy firm, also maintains an extensive network of politicians. However, it has barely posed any risk to their reputations, not due to a lack of EM incentives, but because it views politicians as long-term strategic partners in informing policy and advancing green technologies. Despite such real-world variation, the academic literature remains siloed, predicting that political connections invariably lead firms to either increase or constrain EM. Some argue that firms exploit political ties as a safeguard, engaging in EM under the assumption that connections shield them from adverse consequences (Ahmed, Duellman and Grady, 2022; Ben Rejeb Attia *et al.*, 2016). Others contend that politically connected firms tread carefully, aware that detection could damage their relationships with influential allies (Braam *et al.*, 2015; Khalil, Harianto and Guney, 2022). However, these opposing perspectives fail to capture the reality that both approaches coexist in practice, as demonstrated by the contrasting behaviours of WorldCom and First Solar.

Our study seeks to bridge this gap by introducing a critical yet overlooked dimension: the nature of exchange relationships between firms and their political affiliates. Since corporate political spending (CPS) underpins these interactions, we argue that firms strate-

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gically evaluate their relationships with recipient politicians to determine whom to protect and whom to leave exposed to the reputational risks tied to EM.

To conceptualize this selection process, we apply a transactional-relational framework - a contract lawbased approach widely employed in political science and in broader business research, yet largely absent from accounting. Within this framework, transactional CPS consists of short-term, issue-specific contributions, where firms provide financial support to politicians in exchange for immediate, well-defined policy benefits, such as tax abatements, regulatory exemptions or preferential access to government contracts (Hillman and Hitt, 1999). These relationships are primarily instrumental, with neither party expecting sustained engagement beyond the immediate transaction (Boddewyn and Buckley, 2017; Macneil, 1980). Given the ad hoc nature of transactional CPS, firms have little incentive to shield their political allies from reputational damage, including that stemming from associations with firms engaged in overt EM practices.

In contrast, relational CPS fosters lasting partnerships, where firms and policymakers pursue extended collaboration beyond singular transactions to achieve long-term objectives. Central to these exchanges is the development of goodwill trust, wherein both parties commit to avoiding actions that could foreseeably harm the other (Artz, 1999; Liu, Luo and Liu, 2009). Firms engaged in relational CPS internalize politicians' need to maintain their integrity, recognizing that any association with misconduct could compromise their electoral prospects (Kerr, Lincoln and Mishra, 2014; Mehta and Zhao, 2020). Consequently, these firms have a strong incentive to structure their EM practices in ways that minimize reputational risk.

We hypothesize that firms in transactional CPS, being less concerned with insulating politicians from negative publicity, tend to rely more on accruals-based earnings management (AEM). By stretching leeway in accruals recognition, AEM offers a low-cost, expedient tool for meeting reported performance targets. Although accruals are mean-reverting and eventually expose the manipulation, this is of lesser concern to transactional CPS firms, which do not anticipate long-term political engagement and are therefore less likely to substitute AEM with a more discreet EM method.

Conversely, firms in relational CPS act based on goodwill trust and the ensuing understanding that reputational setbacks alienate career-oriented politicians. As a result, they tend to substitute AEM with real earnings management (REM), which alters actual operations (e.g. adjusting discretionary spending or production schedules) rather than merely modifying financial statements. Although REM disrupts competitive strategy, driving up costs, its lower visibility makes it a more effective method for mitigating friction in political relationships. Whether a relational approach, in addition to the predicted substitution, also leads to a reduction in the total EM is an important corollary question that we leave to subsequent empirical investigation.

For the empirical analysis, we assemble a large, hand-collected dataset of US-listed firms that engage in CPS through political action committees (PACs), from 1999, when all data became publicly available, until 2021. The US setting offers an ideal testing ground for the market-based view of politics. Different from international settings wherein political ties can reflect passive connectivity due to the interlocking nature of business with politics, a 'follow-the-money' approach entails significantly less noise. Moreover, while political connections are clearly valuable when governments maintain a tight grip on economic activity, their influence remains intact in countries with exemplary checks and balances of political power (Amore and Bennedsen, 2013; Boateng *et al.*, 2021).

Our directional hypotheses map strongly to the data. Controlling for a battery of known EM determinants and mitigating endogeneity, we provide evidence that CPS systematically influences the choice of EM method: relational CPS, prolonged and uninterrupted, is associated with greater REM, whereas transactional CPS, brief and sporadic, significantly increases AEM. Moreover, we estimate the impact of the political approach on total EM and reveal perfect substitution; a decrease in AEM (REM) for relational (transactional) firms is fully offset by an increase in REM (AEM).

Our analysis next considers the heterogeneity of the suppliers and demanders of policy. On the supply side, we test whether politician fixed effects influence EM preferences. Leveraging the traceability of PAC contributions, we collect additional data and sketch detailed profiles of recipient politicians, including their partisan identity, congressional committee memberships and hierarchical rank. Our findings indicate that politicians recognized as highly powerful, as well as those serving on committees directly relevant to the donor firm's industry, are associated with a greater degree of EM method substitution. On the demand side, we examine whether firms with strong reputations or those linked to scandals moderate our results. However, we fail to find significant evidence. Together, these tests demonstrate that a firm's EM trade-off decision is driven by the politician's side of the firm-politician relationship, consistent with our main hypothesis. That is, the substitution does not arise from high-profile firms seeking to uphold their image, with politicians merely benefiting as a byproduct.

To further probe causality, we draw separate evidence from relationship dynamics and an exogenous shock. Firstly, consistent with goodwill trust in the firm– politicians relationship determining the choice of EM method, we expose an important nuance of the EM trade-off decision inherent in the termination of CPS relationships. Specifically, donor firms appear to revert to AEM when the suspension of their CPS activity is imminent, reflecting the fragile and easily eroded nature of goodwill trust. Second, we leverage a systemic crisis of confidence triggered by a CPS-related scandal – the notorious Jack Abramoff case – to conduct a quasinatural experiment, providing additional evidence that when trust in the relationship is impaired, CPS firms reverse their substitution to inexpensive AEM.

In sum, our study offers a novel and parsimonious framework for disentangling financial reporting incentives in light of political connections by showing that a pecking order of EM methods exists based on the prevailing trust type between firms and politicians. Because the development of goodwill trust – the inflection point in a CPS firm's EM trade-off decision – hinges critically on the political tactic, the latter tends to predict the EM method systematically. This enables investors, regulators and other external monitors to gauge managerial intent via observable CPS patterns, such as the frequency with which firms enter and exit the public policy market or their proclivity to forge long-lasting relationships.

Our findings contribute to three distinct streams of research. Firstly, the dynamic view of political connections serves to depolarize the debate in a literature that uniformly assigns firms either to the one or to the other EM method (Ahmed, Duellman and Grady, 2022; Braam et al., 2015). Relatedly, the variation in EM method due to the political approach casts doubt on more benign explanations of the causes of EM, such as the explanation of a lack of care from managers who grow complacent because of their political connections (Chaney, Faccio and Parsley, 2011). Our evidence also suggests caution in the interpretation of the findings relating to the accounting conservatism of politically connected firms (Guedhami, Pittman and Saffar, 2014; Jennings, Kartapanis and Yu, 2021). Specifically, although we document lower AEM for relational firms, we show that these effects tend to be fully offset by REM, a behaviour that is aligned more with CPS firms' ability to game the system and less with a long-term sobering influence of political connections on financial reporting.

Our second contribution is to demonstrate how the broader research on the EM trade-off decision (e.g. Cohen, Dey and Lys, 2008; Cunningham *et al.*, 2020; Zang, 2012) can benefit from the use of the traditional view of the firm as a nexus of contracts: the salience and length of such contracts could, analogously to political connections in our setting, reveal differences in EM practice by a range of other collaborative agreements that firms engage in (trade partnerships, strategic alliances, joint ventures, etc.) or in the context of non-market strategies.

Finally, we contribute to cross-disciplinary research on the impact of corporate political activity (Akcigit, Baslandze and Lotti, 2023; Boateng et al., 2022; Frynas, Child and Tarba, 2017), cautioning that CPS alone is a crude lens for understanding a firm's dealings with politicians. While building political connections with money in anticipation of future economic benefits aligns with the asset view of political connections, our accounting perspective reveals that some firms consider these connections expendable, while others regard them as long-term assets. We show how these divergent approaches cause variations in firm behaviour, exposing affiliated politicians to differing levels of risk. Our evidence – generalizable to non-political exchange partners with important reputational stakes but no monitoring capacity - indicates that a firm tends to disregard the impact of its actions on high-status affiliates unless the latter obtain sufficient scarcity value to be credibly recognized as relational partners.

The remainder of the paper is structured as follows: Section 2 positions our work within the literature and develops the hypotheses. We present the methodology and the dataset in Section 3. The empirical results are in Section 4. Section 5 concludes the paper.

Motivation, background and hypothesis development

The interface between political connections and EM

Theories of resource-dependence and rational choice provide complementary insights into firm–politician exchanges, especially in balancing corporate needs and political goals. Resource-dependence theory emphasizes the critical reliance organizations have on external actors for resources they cannot produce internally, fostering a relationship of mutual influence (Pfeffer and Salancik, 1978). Within the political sphere, corporations seek favourable policies and regulations, while politicians rely on corporate sponsors to fund their electoral campaigns (Blomkvist *et al.*, 2024). This interdependence fosters a symbiotic relationship with the potential to align political and corporate interests.

Rational choice theory, within the context of political economy, introduces an additional layer by defining a hierarchy of objectives, with electoral success being the top one. While fundraising is conducive to this aim, a more prominent component of politicians' objective function is the insulation of their reputation from potential harm (Sobel, 1998). Consequently, there are substantial incentives to avoid associations with corporations engaging in unethical practices, as such ties can alienate constituents and threaten re-election prospects.

EM exacerbates these incentives by presenting a slippery slope to reputational harm. Consistent with the theory of advantageous comparison, managers tend to rationalize by benchmarking against more egregious cases of EM, concluding that their actions are both innocuous and necessary (Brown, 2014). However, this can lead to a dangerous spiral of escalating practice. EM damages a firm's reputation because it undermines the fundamental trust that stakeholders place in the company's financial reporting and governance. When a firm manipulates its earnings, it signals a willingness to compromise transparency and ethics for short-term gain, raising broader concerns about possible misrepresentation or mismanagement in other areas of the business. The perceived lack of integrity erodes investor confidence, prompts divestment and lowers stock prices (Jian et al., 2024; Rodriguez-Ariza, Martínez-Ferrero and Bermejo-Sánchez, 2016). Additionally, it invites increased scrutiny from regulators and the media, which amplifies the downside potential (Prior, Surroca and Tribó, 2008). Because politicians are unable to observe ex-ante how much worse off affiliating with a firm that is descending the slippery slope of EM could leave them, a firm's demand for EM is fundamentally at odds with their own demand for an impeccable reputation.

The main EM methods differ significantly in the detection likelihood and, consequently, in the reputationtarnishing implications for a firm and its political allies. Whereas REM, by manipulating real activities (sales, inventory, discretionary expenses, etc.), conceals opportunism behind the facade of business judgement, AEM, by exploiting GAAP-accorded accounting discretion, is bound to reveal itself due to accruals' mean reversion, exposing the firm to litigation risk. CPS firms can conceivably mitigate the recurring tension in their relationships with politicians by substituting the former EM method for the latter. However, disrupting operations to boost short-term profits has real cash flow consequences and undermines business strategy, so the choice of EM method is ultimately premised on the marginal benefits exceeding the marginal costs. The possibility of CPS firms decreasing the use of an EM method to intensify the use of the other EM method attracts scant attention from the research on the CPSaccounting interface (Bhandari, Golden and Thevenot, 2020; Gross et al., 2016; Jennings, Kartapanis and Yu, 2021), which is focused on AEM and associates political connections with different levels of discretionary accruals and even conservatism. Cross-country research echoes this one-sided approach. For example, Ding, Li and Wu (2018), who examine REM but ignore AEM, caution that 'our results might underestimate the effect of political affiliation on earnings management' (p. 148).

To the best of our knowledge, two studies investigate the EM trade-off decision of politically connected firms, with each study finding the inverse substitution pattern. On the one hand, Ahmed, Duellman and Grady (2022) suggest that CPS firms prefer AEM to REM as politicians can potentially rescue financial statement preparers from negative consequences. The framing of political connections as an ex-post settling mechanism is anchored in the perceived ability of CPS to elicit less punitive behaviour from the SEC in cases of misreporting, an argument supported by Yu and Yu (2011) and Correia (2014) but not by Heese, Khan and Ramanna (2017). On the other hand, Braam et al. (2015), in a cross-country study that includes the United States and traces political connections on an interpersonal basis, show firms to substitute REM for AEM with the aim of protecting their affiliated politicians rather than seeking protection from them. While the ability of politicians in many parts of the world to influence, if not dictate, firm policy may confound these results, the motivation to report in a way that assuages the concerns of career-oriented politicians is not unknown to US firms. Ramanna and Roychowdhury (2010) identify this motivation in the 2004 US general elections, a period when US job losses due to mass outsourcing from domestic firms compounded discontent over the shrinking labour market and led firms with both political connections and outsourcing activities to manage their earnings downward, which lent support to candidates' electoral campaigns when they needed it.

Taken together, prior research shows that a firm's dealings with politicians sometimes lead to adjustments to financial reporting for the welfare of the other end of the relationship and at other times do not. A question remains: how do firms choose between approaches? The theoretical foundation needed to explore this issue is absent from the literature, wherein, according to the systematic survey by Preuss and Königsgruber (2021, p. 22), 'most of the hypotheses development ... appears rather ad hoc ... and ... tends to hypothesize simple directional effects'. In itself, the dilemma of whether to break trust is at the core of social exchange theory and regularly encountered by firms dealing with trade partners or entering into collaborative agreements such as joint ventures and strategic alliances. Addressing this issue, other business disciplines offer widespread applications of a less restrictive theoretical framework for conceptualizing dyadic relationships and making predictions for exchange partners' behaviour. Next, we explain how this framework - overlooked in accounting research - can advance our understanding of the EM trade-off decision.

The transactional–relational approach and trust: Background

In formulating contract law theory, Macneil (1980) views all exchanges that a firm develops with external parties as lying along a continuum, at one end of which are transactional exchanges and at the other end relational exchanges. At the transactional end, the understanding that, upon contract completion, each party will return to the market – rather than to the other party – to source similar services or products is implicit. The self-contained nature of the exchange creates no standards of expected behaviour or other duties beyond those explicitly stipulated in the contract. Consequently, integral to the transactional approach are a short duration and an abrupt termination.

Due to market frictions, a number of firms find it economical to expand the scope of collaboration beyond the contractual agreement. This relational approach leads to the development of idiosyncratic assets that alter the exchange partners' perceived duties to each other (Artz, 1999; Millward and Brewerton, 1999). The assets are often tangible, such as auditors opening offices in proximity to clients, but also intangible in the form of client-specific skills. Levinthal and Fichman (1988) report that auditor switching becomes significantly less probable over time following the passage of an initial 'honeymoon period' of short-lived relationships. Core to the relational approach is the exchange partners' conviction that they will suffer no intentional harm from each other, a type of trust termed goodwill trust. This emerges gradually through the development of interpersonal bonds, positive expectations and standards of acceptable behaviour. Evidence from operations research shows that embedded social controls in buyer-supplier dyads serve as a more effective deterrent to malfeasance than top-down rules set by administrative hierarchies (Liu, Luo and Liu, 2009).

Although slow to develop, goodwill trust can perish quickly. This is because new negative information about an exchange partner's behaviour has a greater impact on trust than new positive information. Emsley and Kidon (2007) use the context of joint ventures to show that a modicum of negative information can cause a venture's dissolution. Brattström and Faems (2020) report similar evidence about strategic alliances, which they refer to as 'political battlefields', concurring that the spiral of positive events that creates relationships may just as easily take an opposite turn and undo itself. Open-ended agreements are thus in constant need of reaffirmation via costly and recurring action.

In the remainder of this section, we argue that the exchanges firms have with politicians are no different from their exchanges with other business partners.

The transactional–relational approach and trust: Applicability to CPS

The representation of politics as an exchange marketplace, grounded in Buchanan's Nobel Prize-winning work (1968, 1987), replaces the notion of a universally acceptable 'public interest' with the more pragmatic view of policy as a negotiated outcome among self-interested actors. Aided by the institutional capacity of the US electoral system to monetize political support, this conceptualization of the legislative process has gained wide acceptance among political theorists, many of whom have committed to revealing more facets of the market analogy. Hillman and Keim (1995) identify the key market participants, placing organized interest groups, such as corporations, on the demand side and policy makers, such as members of the US Congress, on the supply side. Hillman and Hitt (1999) distinguish further among the demanders of policy by the duration of their presence in the market; those with brief CPS activity are viewed as following a transactional tactic, whereas those giving rise to prolonged CPS spells are associated with a *relational* tactic. The authors argue that the observable CPS patterns are indicative of the nature of the sponsoring firm's interest in politics. Specifically, they link a transactional tactic with firms that have specific issues of concern and are likely to cease spending upon the issues' settlement. By contrast, the extended CPS duration of the relational tactic is attributed to the intention to create a network of sympathetic politicians who are anticipated to be forthcoming should the need arise to defend the firm's perspective.

Kerr, Lincoln and Mishra (2014) recognize barriers to entry for firms that are new to the CPS practice in the form of idiosyncratic assets that develop over the course of these relationships. For instance, there are high set-up costs in the assembly and staffing of proprietary 'in-house' lobbying teams in Washington DC. More than any physical investment, however, the authors emphasize the returns to experience accruing to repeat CPS players through learning by doing. Over time, donor firms become better acquainted with the processes and hone their reflexes to use the CPS budget efficiently. They also come closer to gauging politicians' private dispositions, such as the relative importance that they attach to an issue, information that might not surface in politicians' public positions. With an exclusive focus on PAC contributions, Snyder (1992) arrives at a similar conclusion, further noting that the recipient side will generally tend to reciprocate any goodwill trust shown by repeat players in the CPS market.

Kroszner and Stratmann (2000) explain how transactional CPS evolves into relational CPS as follows. Initially, firms hold the 'carrot' of larger future contributions, and politicians play off all the new entrants to the public policy market against each other; because of their issue-specific pairing, both CPS providers and CPS recipients tend to overweight the probability of early relationship termination since neither party is in a position to determine the other party's type ex ante. Beyond this introductory period, however, the focus increasingly shifts from the current political agenda to the relationship per se. Given that myopic players exist on either side, prolonged interactions over multi-

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ple election cycles cause each party to assign scarcity value to the other and are conducive to developing reputations. To the extent that each party anticipates difficulties in locating another non-myopic player, as well as likely hostility from the former partner, the switching costs impose cooperative behaviour, inducing CPS providers and recipients alike to live up to their reputations. As John Boehner (2006, pp. 13–14), a former Speaker of the US House of Representatives, reports:

many of the lobbyists who enter our offices every day to represent their clients are, for all practical purposes, complete mysteries to us. Yet for the House to function, some degree of trust is necessary. Many lobbyists are of the highest integrity and feel as much of a duty to the House as a democratic institution as they do to their clients. But there's every incentive for those with more questionable ethics to shortchange us and the House. And absent our personal, longstanding relationships, there is no way for us to tell the difference between the two.

Hypothesis development

In the previous subsection, we provided the intuition for why a firm's CPS behaviour can be categorized effectively along the transactional–relational continuum. Applying this framework to EM behaviour, we expect the observable patterns of political spending to reveal systematic preferences in the way a CPS firm trades off between EM methods.

Similar to other reputable affiliations (auditors, underwriters, venture capital firms, etc.), politicians have important reputational stakes in their affiliated firms' earnings reporting, but they differ in that they lack monitoring power over the production of financial information and, consequently, over the method used to meet the demand for EM. Instead, they need to be able to trust that managers will prefer REM to AEM because the former is more likely to protect their reputational capital.

However, for a CPS firm to incur the higher cost of REM to insulate its political connections from potential harm, relationship-bound incentives must be present. Firms engaged in relational CPS have a vested interest in maintaining long-term political goodwill, as severing these ties may create significant barriers to re-entry into the political marketplace (Kerr, Lincoln and Mishra, 2014). The costs of switching political allies extend beyond merely establishing new connections; firms must rebuild trust, navigate uncertainties in securing comparable political backing, and mitigate the risk of hostility from former political partners who may actively work against them (Kroszner and Stratmann, 2000). These constraints create a form of lock-in, making REM a more effective option for relational

firms to preserve their incumbent political alliances by keeping EM discreet and minimizing its political repercussions.

Consequently, the EM trade-off decision depends on the side of the continuum on which the firm identifies its exchange with the affiliated politicians to fall. All else being equal, we expect that (1) firms taking a relational approach to CPS invest in the consolidation of their political network by systematically choosing REM; and (2) firms applying a transactional approach to CPS meet the EM demand more commonly via AEM, lacking incentives to incur costs for their political connections other than the monetary contributions. Formally, we develop a set of complementary hypotheses, in the alternative form, as follows:

- *H1a*: Firms with a relational approach to CPS are more likely to substitute REM for AEM.
- *H1b*: Firms with a transactional approach to CPS are more likely to substitute AEM for REM.

A notable exception among the majority of studies predicting a positive association between political connections and EM is that of Guedhami. Pittman and Saffar (2014). The authors show that, in Malaysia, firms with links to the local government tend to employ Big 4 auditors and recognize lower levels of discretionary accruals, without, however, including an investigation of REM in the scope of their study. The sobering effect of political connections derives from the attempt to signal the innocuous nature of connections and disprove negative connotations such as rent extraction due to preferential access to power. This interpretation parallels a relational approach in that firms are concerned with outsiders' opinions but, instead of substitution, it suggests giving up on EM. Clearly, in offering a cushion against the reputation-tarnishing implications of EM, the two courses of action could be integrated; the substitution does not need to evolve proportionately, having the net effect of reducing the total EM. However, it is also plausible that CPS firms of a relational orientation utilize REM to a magnitude that exactly offsets the respective magnitude of AEM reduction, with the aggregate level of EM remaining constant over time. For this reason, although we offer directional predictions for each EM method, we remain ambivalent about the effect of the political approach on the total EM. Our final hypothesis, stated in the null form, is as follows:

H2: There is no difference in the total EM level between firms with a relational approach to CPS and firms with a transactional approach to CPS.

Methodology and sample

Empirical model

We specify the following equation to examine how a firm's political tactic affects EM:

$$EM_{t+one \ vear} = \alpha_0 + \alpha_1 CPS_length_t + CONTROLS + \varepsilon_t$$

where each EM measure (*AEM*, *REM*, *REM_PROD*, *REM_DISEX* and *Total_EM*) is regressed on *CPS_length* and a set of control variables. *t* represents the time at the end of the *t*th 2-year US Congress election cycle, and all EM measures are taken from 1 year after the end of the *t*th cycle. We define *CPS_length* as the average duration, measured in election cycles, of uninterrupted PAC contributions from the firm to its affiliated politicians. Notationally:

$$CPS_length_{i,t} = \frac{1}{J}$$

$$\times \sum_{j=1}^{J} (Length of an uninterrupted contributions spell to politician_{j,t})$$

where *i* is the *i*th firm, *J* indicates the total number of politicians with whom the firm has maintained uninterrupted contribution periods, and *j*,*t* is the *j*th politician with whom the firm has an uninterrupted contribution period until time *t*. Appendix 4 in the Supporting Information provides a detailed overview of this measure, along with illustrative examples. Following Hypothesis 1a (Hypothesis 1b), we expect that the coefficient of *CPS_length* will be positive (negative) for *REM* (*AEM*). Following Hypothesis 2, we expect that the coefficient of *CPS_length* will be insignificant for *To-tal_EM*.

We measure *AEM* as the residuals from the modified cross-sectional Jones model (Dechow, Sloan and Sweeney, 1995). *REM* is measured by aggregating abnormal production costs and discretionary expenses, estimated as the residuals from Roychowdhury's (2006) models.

The estimation methods are OLS and IV regressions with robust standard errors clustered by firm. The IV method, aimed at mitigating the endogeneity that can arise if *CPS_length* is also affected by *EM* or if both variables correlate with firm characteristics that are omitted from the above specification, uses the instrumental variable *Industry_CPS_length*, based on the average *CPS_length* of the other US publicly listed firms at the two-digit level of the SIC code. In the spirit of the political connections literature that draws on industry CPS-related averages to satisfy the exclusion restriction (Correia, 2014; Heese, Khan and Ramanna, 2017), *Industry_CPS_length* combines two important properties: (1) a firm's CPS time horizon is likely to mimic the CPS spells of its peers; and (2) industry14678551, 0, Downloaded from https://onlinelibrary.wiley.com/doi/10.1111/1/67-8551.12931 by Welsh Assembly Government, Wiley Online Library on [1606/2025]. See the Terms and Conditions (https://onlinelibrary.wiley.com/ems-and-conditions) on Wiley Online Library for rules of use; OA articles are governed by the applicable Creative Commons License

level CPS activity is unlikely to exert an influence on firm-specific preferences for EM methods.

Our controls include variables capturing factors influencing AEM and REM, as identified in prior studies (Chan et al., 2015; Kallias, Kallias and Zhang, 2022; Yao et al., 2024; Zang, 2012). These include the leverage ratio (Leverage), return-on-assets ratio (ROA), equity market value (MV), sales growth ratio (Sales growth), sales volatility (Sales vol), cash flow volatility (CFO vol), size of audit firm (BigN). market-to-book ratio (MTB), number of analyst forecasts issued for the firm (Analysts), auditor tenure (Audit_tenure), operating cycle (Cycle), financial bankruptcy risk (Z-score), net operating assets (NOA), Institutional ownership and Firm age. We also add REM (AEM) as a control variable to the AEM (REM) regression model to account for substitution between the two methods. Detailed variable definitions are in Appendix 1 in the Supporting Information.

Data and sample

We initially select all US Compustat firm-years from 1999, beginning when all data became publicly available, to 2021. We manually scrutinize firms (excluding regulated and financial industries) in the Federal Election Commission's (FEC) archives to identify CPS donors. Our final sample includes 2016 firm-cycle observations (see Appendix 3 in the Supporting Information for details).

Table 1 presents the descriptive statistics. On average, a CPS firm supports a politician with continuous contributions for just over two election cycles. Most firms are thus shown to adopt non-transactional political strategies and form relationships. The mean value of *AEM* (*REM*) is -0.0058 (0.0187). Table 2 provides the pairwise correlations.

Empirical results

Baseline results

Tables 3–6 display our main results for the impact of the corporate political tactic on the choice of EM method. Table 3 presents the results of regressing AEM on the average duration of the firm's uninterrupted monetary support to its affiliated politicians, measured in election cycles. As shown, CPS_length – under both OLS and IV estimation – yields negative and statistically significant (at the 1% level) coefficients, which support the inverse association between the length of CPS spells and the level of discretionary accruals. Given that a transactional (relational) tactic regarding politics is characterized by sporadic and short-term (continuous and prolonged) CPS activity, the continuous nature of our length proxy confirms systematic

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Table 1. Descriptive statistics

Variable	Ν	Mean	SD	Q1	Median	Q3
Admired	2016	0.3806	0.4855	0	0	1
AEM	2016	-0.0058	0.0531	-0.0407	-0.0027	0.0331
Analysts	2016	14.9503	8.3773	8.3636	14.6515	20.0833
Audit_tenure	2016	0.5445	0.4980	0	1	1
BigN	2016	0.9695	0.1720	1	1	1
CFO_vol	2016	0.0322	0.0295	0.0131	0.0238	0.0421
Corporate_scandal	2016	0.0630	0.2430	0	0	0
CPS_length	2016	2.1520	0.8325	1.2500	1.8750	2.9556
Cycle	2016	116.32	81.36	59.80	100.66	144.27
Firm_age	2016	34.0172	20.1324	15	31	51
Industry CPS-length	2016	2.1520	0.2762	1.7875	1.9560	2.2813
Institutional ownership	2016	0.6314	0.1836	0.5335	0.6723	0.8101
Leverage	2016	0.3060	0.1800	0.1773	0.2829	0.4121
MTB	2016	3.8388	13.5543	1.5770	2.6199	4.0559
MV (in billion USD)	2016	25.2094	52.3590	1.9938	6.4596	21.3517
NOA	2016	0.5279	0.4992	0	1	1
Power	2016	273.84	346.93	43.16	118.25	361.87
Relevance	2016	0.2732	0.2839	0.1149	0.2831	0.5419
REM_PROD	2016	-0.0083	0.1563	-0.1137	-0.0102	0.0972
REM_DISEX	2016	0.0270	0.1696	-0.0872	0.0211	0.1403
REM	2016	0.0187	0.3029	-0.1873	0.0173	0.2235
ROA	2016	0.0559	0.0888	0.0244	0.0570	0.0978
Sales_growth	2016	0.1150	0.4168	-0.0081	0.0637	0.1497
Sales_vol	2016	0.1128	0.1521	0.0359	0.0699	0.1291
Total_EM	2016	0.0129	0.3208	-0.1993	0.0086	0.2278
Z-score	2016	3.4723	3.4820	1.7135	2.8101	4.2140

Note: This table presents descriptive statistics for US-listed firms with CPS activity over the period from 1999 to 2021 at firm-cycle level. The accounting and stock market data are retrieved from Compustat and CRSP, respectively. The information on PAC contributions is collected from the Federal Election Commission's electronic archive of candidate contributions. For *MV*, *Cycle* and *Power*, we use the natural logarithm of (1+ the variable) in all correlation and regression analyses. Detailed variable definitions are provided in Appendix 1 in the Supporting Information.

differences in the use of AEM by the firm's political tactic. The control variables, when significant, exhibit the theoretically predicted signs. The first stage of the IV estimation offers interesting insights: larger firms tend to establish long-term relationships with their affiliated politicians, as well as with their auditors, and attract greater analyst coverage. Moreover, the instrumental variable, Industry CPS length (significant at 1%), suggests that firms are more likely to commit to extended CPS spells when their peers prolong their own CPS activity. The post-estimation diagnostics support the validity of our inferences by providing comfort against two key challenges in IV estimation: (1) the highly significant LM statistic alleviates concerns due to underidentification; and (2) the Wald F-test statistic, well exceeding 10, denies the existence of a weak instrument problem.

Having registered a systematic influence of political tactics on AEM, we next probe their influence on REM. Table 4 presents the regressions of REM and each of its components – REM_PROD and REM_DISEX – on CPS_length . As shown, the resulting coefficients for each of these variables attain high statistical significance and display a positive sign, robust to OLS and IV estimation. Thus, a positive link exists between

uninterrupted CPS and real activities manipulation. For robustness, we rerun the regressions using accruals, production costs and discretionary expenses calculated through the single-step estimation approach outlined in Chen *et al.* (2018), lending further support to the validity of our conclusions (Table 5).

Overall, our findings echo the effect of time on the choice of EM method, which is shown to vary predictably with the firm's political tactic. As per Hypothesis 1a, the demand for the stealth nature of REM increases over time when relational effects start to develop. Also supporting Hypothesis 1b, the cost advantage of AEM weighs favourably in brief firm– politicians interactions when the two parties are known to approach each other with a transactional orientation.

The growing (abating) popularity of REM (AEM) over the course of a political relationship could simply reflect a complication of a broader sobering effect of CPS on EM. This is likely to occur if donor firms are generally reluctant to fabricate their reported performance and employ the less egregious method of REM for any residual EM demand, having a net negative effect on EM. Exploring this possibility as well as the alternative of perfect substitution that leaves the overall EM unaffected, our next set of tests, in Table 6,

9 20	1049 0.0692	1102 0.2492		1368 0.0098	1368 0.0098 0786 0.0632	1368 0.0098 0786 0.0632 2829 -0.0344	1368 0.0098 0786 0.0632 2829 -0.0344 0512 -0.1028	1368 0.0098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.0516	1368 0.0098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.0516 1283 0.01016	1368 0.0098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.6516 1583 -0.0516 1128 0.1016 2128 0.1016 2128 0.1016	1368 0.0098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.0516 1583 -0.0516 1012 0.1016 1012 0.0935 0812 0.03386	1368 0.0098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.0516 1583 -0.0516 1512 0.0935 0812 0.0336 0812 -0.0336 0812 -0.0356	1368 0.00098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.516 1583 -0.0516 2128 0.1016 0112 0.0935 1012 0.0936 0372 -0.2963 0372 -0.2963 0064 0.1259	1368 0.00098 0786 0.0632 2829 -0.0344 0512 -0.1028 0512 -0.1016 1583 -0.0516 15128 0.1016 1012 0.0935 1012 0.0936 0372 -0.2963 0054 0.1259 1862 0.3302	1368 0.00098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.1016 1583 -0.0116 1583 -0.0356 0112 0.0935 0112 0.0935 0372 -0.2963 0064 0.1259 1862 0.3302 1862 0.3302 1862 -0.0553	1368 0.00098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.116 1583 -0.0516 1583 -0.0516 1012 0.0935 0812 0.0386 0372 -0.2963 0064 0.1259 1386 -0.0553 1489 -0.0553 0124 0.0148 0124 0.0148	1368 0.00098 0786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.016 1583 -0.0516 1583 -0.0516 1012 0.0935 0812 0.0336 0372 -0.2963 0064 0.1259 13862 0.3302 1489 -0.0553 0124 0.0148 0124 -0.0334 0142 -0.0334	1368 0.00098 07786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.016 1583 -0.0516 1012 0.0935 0812 0.0336 0812 0.0336 0064 0.1259 11862 0.03303 0124 0.0148 0124 0.0148 0123 0.0334 0124 0.0148 0123 0.0334 0124 0.01348 0123 0.0334 0124 0.01348 0123 0.0334	1368 0.00098 07786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.0116 1012 0.0935 0812 0.03365 0372 -0.2963 0064 0.1259 0124 0.0142 0124 0.0142 0128 0.5596 0128 0.5596 0238 0.5596 0238 0.5596 0238 0.5596 0238 0.5596 0238 0.5596 0238 0.5596 0238 0.5596 0238 0.5596	1368 0.0098 07786 0.0632 2829 -0.0344 0512 -0.1028 1583 -0.0116 1012 0.0935 0812 0.03365 0372 -0.2963 0064 0.1259 0124 0.0142 0124 0.0142 0123 0.5596 0123 0.5596 02328 0.5596 0203 0.1104 02123 0.1104 02323 0.5596 0203 0.1104 11 -0.0563 11 -0.0563 1148 -0.0563 1148 -0.0563 1248 0.1104 0124 0.0142 0203 0.1104 0213 0.1104
18	-0.0908 -0.	-0.0158 -0.	-0.0576 - 0.		-0.0138 -0.	-0.0138 -0.	-0.0138 -0. 0.0538 0.	-0.0138 -0. 0.0538 0. 0.0175 0.	-0.0138 -0. 0.0538 0. 0.0175 0. -0.1569 -0. 0.0684 -0.	-0.0138 -0. 0.0538 0. 0.0175 0. -0.1569 -0. 0.0684 -0.	-0.0138 -0.0138 -0.0175 0.00175 0.00175 0.00175 0.001828 -0.001828 -0.001828 -0.001828 -0.001833	-0.0138 -0.0138 -0.0175 -0.01755 -0.01755 -0.01569 -0.01569 -0.01684 -0.0106828 -0.010828 -0.0010683 -0.0000 -0.0683 -0.010683 -0.0006826 -0.0000683 -0.000683 -0.000682 -0.000682 -0.0006826 -0.000	0.0138 -0.0138 -0.0138 -0.0138 -0.01338 -0.01755 0.0101755 0.0101755 0.0101755 0.010158 -0.0101583 -0.0101833 -0.0101833 -0.000183 -0.00018 -0.0000	0.01338 -0.01338 -0.01338 -0.01338 -0.01338 -0.01358 0.010538 -0.01569 -0.01569 -0.01569 -0.015833 -0.0105833 -0.0105833 -0.0105339 -0.01053999 -0.0105899 -0.010599 -0.0105999 -0.01053999 -0.0105990	0.01338 -0.0138 -0.01338 -0.01338 -0.01338 -0.01338 -0.01358 -0.01559 -0.01569 -0.01583 -0.010583 -0.010583 -0.01053 -0.01053 -0.01052 -0.	-0.0138 -0.0138 0.05338 0.0175 0.01755 0.0 0.01755 0.0 0.01755 0.0 0.01755 0.0 0.01569 -0.0 0.0583 -0.0 0.0583 -0.0 0.0583 -0.0 0.0583 -0.0 0.05339 -0.0 0.05339 -0.0 0.0672 -0.0 0.0672 -0.0 0.0624 0	-0.0138 -0.0138 0.0538 0.0175 0.01755 0.0 0.01755 0.0 0.01755 0.0 0.01569 -0.0 0.01569 -0.0 0.0583 -0.0 0.0583 -0.0 0.0583 -0.0 0.0539 -0.0 0.0672 -0.0 0.0672 -0.0 0.0672 -0.0 0.0624 0	-0.0138 -0.0138 0.0538 0. 0.01755 0. 0.01755 0. 0.01569 -0. -0.1569 -0. 0.0583 -0. 0.0583 -0. 0.0583 -0. 0.0583 -0. 0.0583 -0. 0.0533 -0. 0.0533 -0. 0.0672 -0. 0.0624 -0. 0.0624 -0. 0.0624 -0. 0.0624 -0.	-0.0138 -0.0138 0.05338 0.01755 0.01755 0.01755 -0.1569 -0.0175 -0.1569 -0.01083 -0.0533 -0.01083 -0.0533 -0.01083 -0.0533 -0.01053 -0.0533 -0.01053 -0.0533 -0.01053 -0.0533 -0.01053 -0.0533 -0.01053 -0.0533 -0.01053 -0.0543 -0.01053 -0.0543 -0.01053 -0.05633 -0.01053 -0.05633 -0.01053 -0.05634 -0.01053 -0.05643 -0.01054 -0.05649 -0.01468 -0.01468 -0.01468 -0.01468 -0.01468	-0.0138 -0.0138 -0.0135 0.01755 0.01755 0.011755 0.011111 0.011111 0.011111 0.011111 0.011111 0.011111 0.011111 0.011111 0.011111 0.0111111 0.0111111 0.0111111 0.0111111 0.0111111 0.0111111 0.010111 0.010111 0.0111111 0.0111111 0.010111 0.0111111 0.01111111 0.01111111 0.01111111 0.0101011 0.0100111 0.0100111 0.010101111111111111111111111111111111
17	0.0985	0.1486 -	0.0439 -	0.0572		-0.1485	-0.1485 -0.0237	-0.1485 -0.1485 -0.0237 0.1186 -	-0.11485 -0.0237 0.1186 -0.095	-0.1485 -0.1485 0.1186 - 0.0095 -0.0514 -	-0.1485 -0.1485 0.1186 - 0.0095 -0.0514 - 0.0824 -	-0.1485 -0.1485 0.1186 -0.095 -0.0514 -0.0824 -0.2268	-0.1485 -0.1485 0.1186 - 0.0095 -0.0514 - 0.0824 - 0.0824 - 0.0065	-0.1485 -0.1485 0.1186 - 0.1186 - 0.0095 0.00954 - 0.0824 - 0.0824 - 0.0065 0.1258 -	-0.137 -0.1485 -0.1485 -0.1485 -0.095 -0.0954 -0.0824 -0.0828 -0.0065 -0.1258 -0.0808	-0.137 -0.1485 -0.1485 -0.095 -0.0954 -0.0824 -0.0268 0.0065 0.1258 0.1258 0.1918	-0.1252 -0.0237 -0.02537 -0.0186 - 0.0095 -0.0254 - 0.0824 - 0.0055 -0.1258 - 0.0065 0.1258 - 0.0065 0.1258 - 0.0018	-0.1252 -0.0237 -0.02537 -0.0186 - 0.0955 -0.0824 - 0.0824 - 0.0055 0.1258 - 0.0055 0.1258 - 0.00808 0.0918 -0.0808 -0.0818 - -0.0818 - -0.0818 - -0.0818 - -0.0818 - -0.0818 - -0.0818 - -0.0818 - -0.0824 - -0.0854 - -0.0856 - 0.0857 - -0.0857 - -	-0.1322 -0.0237 -0.02537 -0.0254 -0.09524 -0.0824 -0.0258 -0.0055 0.1258 -0.0055 -0.0258 -0.0258 -0.0258 -0.0918 -0.0918 -0.0379 -1 -0.1324 -0.0379 -2.0380 -0.0377 -2.0377 -2.0377 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.03577 -0.035777 -0.035777 -0.0357777 -0.03577777 -0.03577777777777777777777777777777777777	-0.1337 -0.0237 -0.02537 -0.0254 -0.0954 -0.0824 -0.0258 -0.0055 0.1258 -0.0258 -0.0258 -0.0258 -0.0218 -0.0318 -0.0318 -0.0318 -0.0318 -0.0318 -0.0318 -0.0318 -0.0317 -0.0317 -0.0317 -0.0324 -0.03577 -0.03577 -0.03577 -0.03577 -0.035777 -0.035777 -0.0357777 -0.03577777777777777777777777777777777777
16	0.0483	0.1196	0.0821	0.0276	-0.0081	1000.0-	-0.0363	-0.0363 0.1342	-0.0363 -0.0363 0.1342 -0.0121	-0.0363 -0.0363 0.1342 -0.0121 0.0502	-0.0363 -0.0363 0.1342 -0.0121 0.0502 0.0868	-0.0001 -0.0363 0.1342 -0.0121 0.0502 0.0502 0.0796	-0.0363 -0.0363 0.1342 -0.0121 0.0502 0.0568 0.0796	-0.0363 -0.0363 0.1342 -0.0121 0.0502 0.0868 0.0796 0.0796 0.1318	-0.0363 -0.0363 0.1342 -0.0121 0.0502 0.0868 0.0796 -0.0025 0.1318 0.10103	-0.0363 0.1342 0.1342 0.0502 0.0568 0.0796 0.0796 0.1318 0.103 0.3192	-0.0363 0.1342 0.1342 0.0502 0.0868 0.0796 0.0796 0.0796 0.03192 0.1318 0.0103	-0.0056 0.1342 0.1342 0.0502 0.0868 0.0796 0.0796 0.1318 0.0103 0.1318 0.0103 0.0103 0.0103	-0.0363 -0.0363 0.1342 0.1342 0.0502 0.05068 0.0796 0.0796 0.1318 0.0103 0.3192 1 1 0.0918 0.0018 0.001	-0.0004 -0.0363 0.1342 0.1342 0.0502 0.0506 0.0796 0.0796 0.0103 0.0103 0.3192 1 1 0.0103 0.3192 0.0103 0.3192 0.0103 0.3192 0.01495 -0.01495 -0.0149
15	0.0329	0.0201	0.0849	0.0432	0.0092		-0.0237	-0.0237 0.1129	-0.0237 0.1129 -0.0369	-0.0237 0.1129 -0.0369 0.1196	$\begin{array}{c} -0.0237\\ 0.1129\\ -0.0369\\ 0.1196\\ 0.1034\end{array}$	$\begin{array}{c} -0.0237\\ 0.1129\\ -0.0369\\ 0.1196\\ 0.1034\\ 0.1034\end{array}$	-0.0237 0.1129 0.1126 0.1196 0.1196 0.1034 0.1279	-0.0237 0.1129 0.1126 0.1196 0.1034 0.1034 0.1279 0.1392	-0.0237 0.1129 0.1126 0.1196 0.1034 0.1034 0.1279 0.1392 0.1392	-0.0237 0.1129 0.1126 0.1196 0.1196 0.1196 0.1034 0.1279 -0.0043 0.1392 1	0.1129 0.1129 0.1129 0.1196 0.1196 0.1034 0.1279 0.1392 0.1392 0.1392 1 1	-0.0237 0.1129 0.1126 0.1196 0.1196 0.1279 0.1279 0.1392 0.1392 1 1 0.3384 0.3384 0.0826	$\begin{array}{c} -0.0237\\ 0.1129\\ 0.1126\\ 0.1196\\ 0.1196\\ 0.1279\\ 0.1279\\ 0.1279\\ 0.1332\\ 0.1332\\ 1\\ 1\\ 0.3384\\ 0.0826\\ 0.0883\\ 0.0583\end{array}$	-0.0237 0.1129 0.1196 0.1196 0.1196 0.1279 0.1279 0.1279 0.1279 0.1332 1 1 1 0.08336 0.0583 0.0583
14	0.0261	0.0493	0.0031	-0.0253	-0.1124		-0.0151	-0.0151 0.0938	-0.0151 0.0938 0.1894	-0.0151 0.0938 0.1894 0.0178	-0.0151 0.0938 0.1894 0.0178 0.0108	-0.0151 0.0938 0.1894 0.0178 0.0108 0.1662	-0.0151 0.0938 0.1894 0.178 0.0178 0.0108 0.1662 -0.1108	-0.0151 0.0938 0.1894 0.178 0.0178 0.0108 0.1662 -0.1108	-0.0151 0.0938 0.1894 0.178 0.0178 0.0108 0.1662 0.1662 0.1108 0.0196	-0.0151 0.0938 0.1894 0.0178 0.0108 0.0108 0.1662 0.0196 0.0196 1 1	-0.0151 0.0938 0.1894 0.1894 0.0178 0.0108 0.0196 1 1 0.0198 0.0198 0.0198 0.0198 0.0198 0.0198 0.0198 0.0118	-0.0151 0.0938 0.1894 0.1894 0.0178 0.0108 0.1662 0.1662 0.1662 0.1008 1 1 -0.0387 0.00118	-0.0151 0.0938 0.1894 0.1894 0.0178 0.0108 0.1662 0.1008 0.1662 0.0196 1 1 0.01387 0.0118 0.0531	-0.0151 0.0938 0.1894 0.11894 0.0178 0.0196 0.1662 0.1108 0.0196 1 1 -0.0387 0.0118 0.0118 0.0531
13	0.2841	0.6592	0.1649	0.1446	-0.2196	0.0475	21000	0.2426	0.2426	0.2426 0.2426 0.0239 0.0816	0.2426 0.2426 0.0239 0.0816 0.1127	0.0239 0.2426 0.0239 0.0816 0.1127 -0.1914	0.0239 0.0239 0.0816 0.1127 0.1127 0.0732	0.0732 0.0239 0.0816 0.1127 0.1127 0.0732 1	0.2426 0.2426 0.0816 0.1127 0.1914 0.0732 1 0.0118	0.0118 0.01127 0.01127 0.01127 0.01127 0.0732 1 0.0118 0.0118	0.2426 0.2426 0.0316 0.1127 0.1127 0.0732 1 0.0732 0.0118 0.1408	0.0732 0.0239 0.0239 0.0816 0.1127 0.0114 0.0732 0.118 0.118 0.1619 0.1836	0.2426 0.2426 0.0239 0.0816 0.1127 0.1127 1 1 0.0732 0.1619 0.1619 0.1619	0.0426 0.2426 0.0239 0.0816 0.1127 0.0118 0.0732 0.1180 0.1619 0.1619 0.1836 0.1586
12	0.0264	0.0332	-0.0075	0.0712	0.0102 -	0.0313 -		0.0058	0.0058 0.0089	0.0058 0.0089 0.0108	0.0058 0.0089 0.0108 0.0054	0.0058 0.0089 0.0108 0.0054	0.0058 0.0089 0.0108 0.0054 0.00385 -	0.0058 0.0089 0.0108 0.0108 0.0054 0.0385 1 1 0.3276	0.0058 0.0089 0.0108 0.0054 0.0385 1 1 0.3276 0.3276	0.0058 0.0089 0.0108 0.0054 0.03 35 - 0.03 35 - 0.03 35 - 0.03 35 - 0.03 35 - 0.0124	0.0058 0.0089 0.0108 0.0054 0.0385 1 1 0.3276 0.3276 0.0124 0.0128	0.0058 0.0089 0.0108 0.0054 0.0054 0.0054 1 1 0.3276 0.3276 0.0124 0.0128 0.0128	0.0058 0.0089 0.0084 0.0054 0.0054 1 1 0.3276 0.3276 0.0128 0.0128 0.0128 0.1286	0.0058 0.0089 0.0108 0.0054 0.0054 1 1 0.3276 0.0385 0.03285 0.0128 0.0128 0.0128 0.0128 0.0128
11	0.0099	0.1763	0.0249 -	-0.0816	-0.0101	0.0093		0.1205	0.1205	0.1205 -0.1528 0.0569	0.1205 -0.1528 0.0569 -0.0682	0.1205 -0.1528 0.0569 -0.0682 1 -	0.1205 0.1528 0.0569 0.0682 1 - 0.0024	0.1205 0.1528 0.0569 0.0682 1 - 1 0.0024 0.1869	0.1205 0.1528 0.0569 0.0682 1 - 0.0024 0.1869 0.1532 -	0.1205 0.1528 0.0569 0.0682 1 - 0.0024 0.1869 0.1332 - 0.1364 - 0.1364 - 0.1364 - 0.1364	0.1205 0.1528 0.1528 0.0569 0.0682 1 1 0.0024 0.1869 0.1532 0.1532 0.1364 0.0823	0.1205 0.1528 0.0569 0.0682 1 0.0824 0.1532 - 0.1364 - 0.1364 - 0.1364 - 0.1364 - 0.1364 - 0.1386 - 0.1483	0.1205 0.1528 0.0569 0.0569 0.0682 1 0.0889 0.1869 0.1364 - 0.1869 0.1364 - 0.1863 0.1364 - 0.1483 0.0652	0.1205 0.1528 0.0569 0.0569 0.0682 0.1689 0.1532 0.1869 0.1532 0.1364 0.1364 0.0523 0.0652
10	0.2129	0.1736 -	0.0068 -	0.1602 -	0.1374 -	0.0324		0.1728	0.1728 0.0106 -	0.1728 0.0106 - 0.2136	0.1728 0.0106 - 0.2136 1 -	0.1728 0.0106 - 0.2136 1 - 0.0560	0.1728 0.0106 - 0.2136 1 - 0.0560 0.062	0.1728 0.0106 - 0.2136 1 - 0.0560 0.0062 0.1395 -	0.1728 0.0106 - 0.2136 0.2136 0.0560 0.062 0.1395 - 0.0134	0.1728 0.0106 - 0.2136 0.2136 0.0560 0.062 0.062 0.1395 - 0.0134 0.1129	0.1728 - 0.0106 - 0.0106 - 0.2136 - 0.2136 - 0.2136 - 0.0560 - 0.062 - 0.0062 - 0.1395 - 0.0134 - 0.0134 - 0.0134 - 0.0134 - 0.0134 - 0.0134 - 0.0106 - 0.0134 - 0.0106 - 0.0134 - 0.0106 - 0.0106 - 0.0106 - 0.0106 - 0.0106 - 0.0106 - 0.0106 - 0.0106 - 0.0106 - 0.00	0.1728 0.0106 - 0.2136 0.2136 0.2136 0.0560 0.0062 0.1395 - 0.0134 0.1129 0.0906 0.0736 - 0.0736 - 0.0736	0.1728 0.0106 - 0.2136 0.2136 0.2136 0.0560 0.0062 0.1395 - 0.0134 0.1129 0.0136 - 0.0736 - 0.0736 - 0.0736	0.1728 0.0106 - 0.2136 0.2136 - 0.2136 0.0560 0.0560 0.0056 0.1139 0.1129 0.0134 0.0134 0.0136 - 0.0736 - 0.0736 0.0739 - 0.0579
6	0.1508	0.0725	0.1268	0.0326	0.1142 -	0.0433 -		0.0116	0.0116 0.0328 -	0.0116 0.0328 - 1	0.0116 0.0328 - 1 0.2281	0.0116 0.0328 - 1 0.2281 0.0618 -	0.0116 0.0328 - 1 0.2281 0.0618 - 0.0032	0.0116 0.0328 - 1 0.2281 0.0618 - 0.0032 0.0629	0.0116 0.0328 - 1 0.2281 0.0618 - 0.0629 0.0126	0.0116 0.0328 - 1 0.2281 0.0618 - 0.0618 - 0.0629 0.0126 0.1258	0.0116 0.0328 - 1 0.2281 0.0618 - 0.0629 0.0629 0.1258 0.0531	0.0116 0.0328 - 0.0328 - 1 0.0618 - 0.0618 - 0.0618 - 0.0629 0.0629 0.0126 0.1258 0.0531 0.0436	0.0116 0.0328 - 0.0328 - 0.0328 0.0518 - 0.0618 - 0.0618 - 0.0032 0.0629 0.0126 0.1258 0.0531 0.0436 0.0792 - 0.0792 - 0.0126	0.0116 0.0328 - 0.0328 - 0.0328 0.0518 - 0.0618 - 0.0618 - 0.0618 - 0.0032 0.0629 0.0126 0.0126 0.0436 - 0.0983 - 0.0983 - 0.0983 - 0.0983 - 0.0983 - 0.00983 -
8	0.0682	0.0108	0.0066	0.0118	0.0593 -	0.0372 -		0.0102	0.0102	0.0409	0.0102 1 0.0409 0.0128	0.0102 1 0.0409 0.1342	0.0102 1 0.0409 0.1342 0.0462	0.0102 1 0.0409 0.1342 0.0462 0.0104	0.0102 1 0.0409 0.1342 0.01642 0.0104	0.0102 1 0.0409 0.0128 0.1342 0.0462 0.0104 0.1840 0.0421	0.0102 1 0.0409 0.1342 0.0164 0.1840 0.1840 0.1840 0.0204	0.0102 1 0.0409 0.0462 0.0462 0.0461 0.0421 0.0126 0.0126 0.0126	0.0102 1 0.0409 0.0128 0.0128 0.0128 0.0128 0.0128 0.0126 0.0126 0.0126 0.0126 0.0126 0.0126 0.0126 0.0128 0.0	0.0102 1 0.0409 0.0128 0.0128 0.0128 0.0128 0.0128 0.0126 0.0126 0.0126 0.0126 0.0126 0.0126 0.0126 0.0126 0.0126 0.0126 0.0128 0.0
7	.0427 –(0127 (.2925 (.1892 (.0880	0275		1	1 –(1 –(0.022	1	1	1	1 1 -(0022 0025 0 1903 -(1636 -(10004 0 .2381 0	1 1 -(00220025	1 1 -(0022 0025 00 11903 -(11636 -(1.1678 -(1.1678 -(1 1	1	1	1
9) 2690.	.0419 (.0362 (.0592 (.0729 –(1 –(.0316	.0316 .0434 –(.0316 .0434 -(.0379 (.0316 .0434 -(.0379 (.0371 (.0316 .0434 -(.0379 (.0371 (.0316 .0434 -(.0379 (.0371 (.0118 (.0251 -(.0316 .0434 .0434 .0379 .0371 .0371 .0118 .0118 .0118 .0138 .0251 .0438	.0316 .0434 .0434 .0379 .0371 .0371 .0118 .0118 .0138 .0139	.0316 .0434 .0379 .0379 .0371 .0371 .0371 .0371 .0118 .0118 .0139 .0139 .0139	.0316 .0434 -(.0379 (.0371 (.0371 (.0371 (.0371 (.0371 (.0371 (.0371 (.0371 (.0118 (.0139 (.0139 (.0139 (.0258 (.0316 (.0316 .0316 .0434 -(.0379 (.0371 (.0371 (.0371 (.0118 (.0118 (.0118 (.0118 (.0118 (.0251 -(.0253 (.0139 (.0258 (.02579 (.0316 .0316 .0434 .0379 .0371 .0371 .0371 .0371 .0118 .0118 .0371 .0316 .03316 .0279 .0273 .0273 .0273 .0213	.0316 .0434 .0434 .0379 .0379 .0371 .0371 .0371 .0371 .0371 .0371 .0371 .0316 .0316 .0316 .0279 .0273 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .0213 .03142 .03142 .0429 .0429 .0429 .0429 .0429 .0429 .0429 .0429 .0429 .0429 .0429 .0429 .0429 .0429 .0429
5	.1431 –0	.1593 -0	.0764 -0	.0853 -0	1 0	.0653		0- 9860.	.0986 -0 .0452 0	.0986 -0 .0452 0 .1231 -0	.0986 -0 .0452 0 .1231 -0 .1582 -0	.0986 -0 .0452 0 .1231 -0 .1582 -0 .0138 -0		.0986 -0 .0452 0 .1231 -0 .1232 -0 .1582 -0 .1582 -0 .0138 -0 .0118 0 .0118 0	.0986 -0 .0452 0 .1231 -0 .1582 -0 .1582 -0 .0138 -0 .01118 0 .0118 0 .0118 0 .0118 0 .0118 0 .0118 0	.0986 -0 .0452 0 .1231 -0 .1582 -0 .0138 -0 .0118 0 .0118 0 .0118 -0 .0118 -0 .0113 -0 .0113 -0 .0113 -0	.0986 -0 .0452 0 .0452 0 .1231 -0 .1231 -0 .1231 -0 .1332 -0 .0138 -0 .0118 0 .0118 0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0101 -0	0.0986 -0 0452 0 1231 -0 1231 -0 0138 -0 0118 0 2018 -0 00113 -0 00113 -0 00113 -0 00113 -0 00113 -0 00113 -0 1276 -0 2078 -0 20778 -0 2078 -0	.0986 -0 .0986 -0 .0452 0 .1231 -0 .1235 -0 .1582 -0 .0118 -0 .0118 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0114 -0 .0101 -0 .0276 -0 .03672 -0	.0986 -0 .0452 0 .0452 1 .1231 -0 .1582 -0 .1582 -0 .1582 -0 .1582 -0 .1582 -0 .1582 -0 .1318 -0 .0113 -0 .0113 -0 .0113 -0 .0113 -0 .0111 -0 .0111 -0 .0111 -0 .0111 -0 .0111 -0 .0101 -0 .05776 0
4	1806 -0	0641 -0	0028 -0	1 -0	0792	0637 0		.1936 -0	.0103 0	1936 -0 0103 0 0249 -0	1936 -0 .0103 0 .0249 -0 .1585 -0	1936 -0 0103 0 0249 -0 1585 -0 0783 -0	1936 -0 0103 0 0249 -0 1585 -0 0783 -0 0008 0	1936 -0 0103 0 01249 -0 1585 -0 .0783 -0 .0783 -0 .0008 0 .1449 -0	1936 -0 0103 0 0249 -0 0249 -0 0783 -0 00008 0 01249 -0 01256 -0	1936 -0 0103 0 01249 -0 0249 -0 0783 -0 0783 -0 01249 -0 01285 -0 01286 -0 0126 -0 0126 -0	1936 -0 1936 -0 0103 0 0249 -0 0783 -0 0783 -0 11449 -0 0126 -0 0338 0 0334 -0	1936 -0 1936 0 0103 0 0249 -0 0743 -0 0743 -0 07149 -0 0126 -0 0126 -0 0126 -0 01338 0 03304 -0 03304 -0	1936 -0 0103 0 0103 0 0249 -0 0758 -0 07149 -0 07338 0 03334 -0 03334 -0 03334 -0 03334 -0 03334 -0 03334 -0 03334 -0 03334 -0 0334 -0 0334 -0 0334 -0	1936 -0 0103 0 0103 0 0249 -0 07148 -0 07149 -0 07338 -0 0126 -0 0126 -0 03334 -0 0126 -0 0127 -0 0128 -0 0129 -0 0122 -0 0123 -0 0122 -0 0123 -0 0128 -0 0129 -0 0122 -0 0122 -0 0122 -0 0122 -0 0122 -0 0122 -0
3	1296 0	1352 0	1 -0	0044	0886 -0	0431 -0		3028 0	3028 0	3028 0 0037 0 01342 0	3028 0 0037 0 0124 0	3028 0 0037 0 0037 0 1342 0 0 0124 0 0 0134 -0 0134 -0 0 0134 -0 0 0134 -0 0 0 0134 -0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	3028 0 0037 0 0037 0 11342 0 0 0124 0 01134 -0 01334 0 0 0334 0 0	3028 0 3037 0 0037 0 1342 0 0124 0 0134 0 0334 0 1327 0	3028 0 0037 0 0037 0 11342 0 0124 0 01124 0 01134 -0 01134 -0 01334 0 03334 0 00334 -0 0 00334 -0 0 00334 -0 0 00334 -0 0 00334 -0 0 0034 -0 0 0034 -0 0 0034 -0 0 0034 -0 0 0034 -0 0 0034 -0 0 0 0034 -0 0 0 0034 -0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	3028 0 0037 0 11342 0 11342 0 01124 0 01334 -0 01334 0 01334 -0 01334 0 07334 0 0781 0	3028 0 3037 0 0037 0 1342 0 0124 0 0134 0 0334 0 0334 0 0781 0 0682 0	3028 0 3027 0 0037 0 1342 0 0124 0 01334 0 0124 0 0124 0 01334 0 03334 0 03334 0 03334 0 03334 0 03334 0 03334 0 03334 0 03334 0 03334 0 0.038 0	3028 0 0037 0 0037 0 0037 0 00124 0 0 0124 0 0 0124 0 0 0134 - 0 0 0134 - 0 0 0134 - 0 0034 - 0 0034 - 0 0038 0 0 0038 0 0 0038 0 0 00385 0 0000000000	3028 0 0037 0 0037 0 0037 0 00124 0 0 0124 0 0 0124 0 0 0134 0 0134 - 0 0134 - 0 0034 - 0 0034 - 0 0034 - 0 0038 0 0 00385 0 0 00385 - 0 0 0385 - 0 0 0385 - 0 0 0385 - 0 0 0385 - 0 0 0385 - 0 0 0385 - 0 0 0 0385 - 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0
2	1591 0.	1 0.	1196	0767 -0.	1726 -0.	0513 -0.		0361 0.	0361 0. 0035 0.	0361 0. 0035 0. 0035	0361 0. 0035 0. 8561 0. 1865 0.	0361 0. 0035 0. 8561 0. 1865 0. 1597 -0	0361 0. 0035 0. 8561 0. 1865 0. 1597 -0. 1216 0	0361 0. 0035 0. 8561 0. 1865 0. 11297 -0. 1216 0. 6824 0.	0361 0. 0035 0. 8561 0. 1865 0. 1597 -0. 1216 0. 6824 0. 0341 0.	0361 0. 0035 0. 8561 0. 1865 0. 1597 -0. 1216 0. 1216 0. 0341 0. 0329 0.	0361 0. 0351 0. 8561 0. 8561 0. 11865 0. 11216 0. 6824 0. 03329 0. 03329 0. 1428 0.	0361 0. 0355 0. 8561 0. 8565 0. 11865 0. 11216 0. 11216 0. 0341 0. 0342 0. 0343 0. 1428 0. 1428 0.	0.361 0. 0.355 0. 0.355 0. 8561 0. 11865 0. 1297 -0. 12165 0. 03239 0. 1216 0. 03239 0. 03329 0. 03239 0. 03237 0. 03237 0. 03237 0. 1428 0. 03237 0. 03237 0.	0.361 0. 0335 0. 8861 0. 8856 0. 11865 0. 12166 0. 03239 0. 03239 0. 03239 0. 03239 0. 03239 0. 03239 0. 11428 0. 12927 0. 12929 0. 12926 0. 02377 0.
	0.	483	173 0.	982 0.	382 -0.	0.0 - 0.0		308 0.0	308 0.1 1439 0.1	308 0.0 1439 0.0 1812 0.0	(308 0.0 (439 0.0 (812 0.0 (2316 0.0	(308 0.0) (439 0.0) (812 0.0) (316 0.0) (147 -0.0)	308 0.0 1439 0.1 1439 0.1 2316 0.2 1147 -0 0668 0.0	308 0.0 1439 0.0 812 0.3 316 0.3 1147 -0 0068 0 2592 0	308 0.0 1439 0.0 1439 0.0 1147 -0 1068 0 2592 0 214 0	308 0.0 4439 0.0 812 0.1 812 0.1 812 0.1 8147 -0 01648 0 0068 0 0214 0 0214 0	308 0.0 439 0.0 4439 0.0 812 0.3 316 0.3 3147 -0.3 3259 0.0 2335 0.3 3325 0.3 3392 0.3	308 0.0 439 0.0 312 0.1 316 0. 3167 0. 3068 0. 3214 0. 3213 0. 332 0. 392 0. 392 0. 392 0.	308 0.0 439 0.0 812 0.1 1147 -0. 1068 0. 1214 0. 1213 0. 1392 0. 1392 0. 1392 0. 1392 0. 1392 0. 1393 -0.	308 0.0 439 0.0 812 0.1 1147 -0. 1068 0. 1235 0. 1214 0. 1213 0. 1235 0. 1235 0. 1235 0. 1235 0. 12235 0. 12225 0. 12255 0. 12555 0. 12555 0. 125555 0. 125555 0. 125555 0. 12555550000000000000
1	1	0.1	0.1	0.1	-0.1	-0.0		0.0	0.0	0.0 -0.0 0.1	0.0 -0.0 0.1 0.1 <i>hip</i> 0.2	0.0 -0.0- 0.1 0.1 0.0 0.0	0.0 -0.0 0.1 0.1 0.1 0.2 0.0	0.0 - 0.0 0.1. 0.1 0.2 0.0 -0.0	0.0 -0.0 0.1 0.1 0.1 0.1 0.0 0.0 0.0	0.0 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0.1 0	0.0 0.1 0.1 0.1 0.2 0.0 0.0 0.0 0.0 0.0 0.0 0.0	0.0 -0.0 0.1 0.1 0.2 0.0 0.0 0.0 0.0 0.0 0.0 0.0	0.0 -0.0 0.1 0.1 0.2 0.0 0.0 0.0 0.0 0.0 0.0 0.0	0.0 -0.0 0.1 0.1 0.1 0.0 0.0 0.0 0.0
Variables	Admired	Analysts	Audit_tenure	BigN	CFO_vol	Corporate_scandal		CPS_length	CPS_length Cycle	CPS_length Cycle Firm_age	CPS_length Cycle Firm_age Institutional owners ¹	CPS_length Cycle Firm_age Institutional owners	CPS_length Cycle Firm_age Institutional ownersh MTB	CPS_length Cycle Firm_age Institutional owners ¹ Leverage MTB	CPS_length Cycle Firm_age Institutional owners MTB MT NOA	CPS_length Cycle Firm_age Institutional ownersh MrtB MV NOA Power	CPS_length Cycle Firm_age Institutional ownersh MrtB MV NOA Power Relevance	CPS_length Cycle Firm_gge Institutional ownersh MrtB MV NOA Power Relevance ROA	CPS_length Cycle Firm_gge Institutional ownersh MrtB MTB MV NOA Power Relevance ROA Sales_growth	CPS_length Cycle Firm_age Institutional ownersh MrtB Mr MV NOA Power Relevance ROA Sales_growth Sales_vol
	1	7	3	4	5	9	1	7	8	6	7 8 10	7 8 9 11	7 8 9 11 12	7 8 9 11 11 13 13	7 9 8 8 10 10 11 11 11 11 11 11 11 11 11 11 11	7 8 11 11 12 13 13 15	7 8 8 9 9 9 111 111 112 112 112 112 112 112 1	7 8 9 11 11 13 13 15 11 15 11 17	7 8 9 111 112 113 113 115 116 116 117	7 8 8 9 9 9 11 11 11 11 11 11 11 11 11 11 11

'n appearing in bold denote statistical significance at the 10% level or higher. Detailed variable definitions are provided in Appendix 1 in the Supporting Information.

Table 2. Correlations

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Table 3. AEM regressions on CPS length

	OLS	IV	
	Model 1	Model 2	
		1st stage	2nd stage
CPS_length	-0.0139***		-0.0144***
_ 0	(0.0047)		(0.0051)
REM	0.0119	0.0904	0.0127
	(0.0136)	(0.0631)	(0.0132)
Leverage	0.0431***	0.0354	0.0424***
	(0.0124)	(0.0268)	(0.0115)
ROA	0.0348*	-0.0141	0.0341*
	(0.0205)	(0.0101)	(0.0197)
MV	-0.0011	0.3215***	-0.0014
	(0.0026)	(0.0374)	(0.0029)
Sales_growth	0.0008	-0.0655	0.0010
	(0.0016)	(0.0598)	(0.0017)
Sales_vol	-0.0109	-0.0327*	-0.0113
	(0.0111)	(0.0191)	(0.0108)
CFO_vol	-0.0034	-0.0031	-0.0033
	(0.0031)	(0.0023)	(0.0030)
BigN	-0.0042	0.0391***	-0.0038
-	(0.0045)	(0.0145)	(0.0039)
MTB	-0.0000	-0.0058	-0.0000
	(0.0000)	(0.0059)	(0.0000)
Analysts	-0.0000	0.1275**	-0.0000
-	(0.0003)	(0.0612)	(0.0002)
Audit_tenure	0.0002	0.1750***	0.0002
	(0.0026)	(0.0315)	(0.0021)
Cycle	-0.0232***	-0.2167	-0.0221***
•	(0.0068)	(0.2285)	(0.0070)
Z-score	-0.0006	-0.2506***	-0.0005
	(0.0005)	(0.0601)	(0.0005)
NOA	-0.0074***	0.0494**	-0.0070**
	(0.0025)	(0.0237)	(0.0028)
Institutional ownership	-0.0039	0.0420*	-0.0037
-	(0.0034)	(0.0241)	(0.0032)
Firm_age	0.0007***	0.0615	0.0007***
	(0.0001)	(0.0418)	(0.0001)
Industry CPS_length		0.1572***	
		(0.0540)	
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Observations	2016	2016	2016
Adj. R ²	0.163		
Kleibergen–Paap rk LM statistic		20.60***	
Kleibergen–Paap rk Wald F statistic		64.23	
Endogeneity test ^a of endogenous regressor (χ^2)		8.26***	

Note: This table presents the results of regressing *AEM*, measured 1 year after each election cycle, on *CPS_length*, measured at the end of the corresponding election cycle. The estimation methods include both OLS and instrumental variable (IV) regressions with robust standard errors clustered by firm. The OLS regression is reported in model 1; the IV regression, including its first stage regression, is reported in model 2. The robust standard errors are in parentheses. Detailed variable definitions are provided in Appendix 1 in the Supporting Information.

^a Null Hypothesis: The designated endogenous regressor can be considered exogenous. And this Null Hypothesis can be applied to the same tests across all other regression tables.

*, ** and *** indicate the statistical significance levels of 10%, 5% and 1%, respectively.

empirically reveals whether the observed substitution complements CPS firms' EM behaviour or comprises the essence of it as a self-sufficient story. Regressing *Total_EM* on *CPS_length*, we obtain coefficients that are statistically indistinguishable from zero, suggesting that CPS firms are unlikely to change their total EM with a prolonged political relationship. The OLS estimates conclude similarly to those of IV, with the latter method, once again, providing a strong indication of endogeneity. Overall, the differences in CPS duration, and thereby the side of the transactional–relational continuum on which a firm's political tactic falls, are shown to cause variation in the EM method but not in the EM level. We thus fail to reject Hypothesis 2.

		REM			REM_PROD			REM_DISEX	
	Model 1	Mc	del 2	Model 3	Mo	del 4	Model 5	Moo	lel 6
	OLS		IV	SIO		IV	SIO	I	Λ
		1 st stage	2nd stage		1st stage	2nd stage		1st stage	2nd stage
CPS_length	0.0156***		0.0152***	0.0110^{***}		0.0106^{***}	0.0044^{**}		0.0041^{**}
AFM	(0.0056) 0.0225	0.0156	(0.0054) 0.0219	(0.0036) 0.0360***	0.0156	(0.0038)	(0.0019) 0.0120	0 0156	(0.0017)
INTERV	0.0222)	(0.0139)	(0.0233)	(0.0121)	(0.0139)	(0.0116)	(0.0150)	(0.0139)	(0.0142)
Leverage	-0.0304	0.0353	-0.0319	-0.0432	0.0353	-0.0417	0.0121	0.0353	0.0112
I	(0.0452)	(0.0269)	(0.0438)	(0.0284)	(0.0269)	(0.0301)	(0.0346)	(0.0269)	(0.0317)
ROA	-0.0172^{**}	-0.0142	-0.0175^{**}	-0.0281^{***}	-0.0142	-0.0279^{***}	0.0112*	-0.0142	0.0113^{**}
	(0.0076)	(0.0106)	(0.0078)	(0.0045)	(0.0106)	(0.0042)	(0.0059)	(0.0106)	(0.0056)
MV	0.0061	0.3215***	0.0064	0.0037	0.3215***	0.0031	0.0018	0.3215^{***}	0.0022
	(0.0065)	(0.0374)	(0.0067)	(0.0056)	(0.0374)	(0.0049)	(0.0053)	(0.0374)	(0.0047)
Sales_growth	-0.0321^{***}	-0.0653	-0.0301^{***}	-0.0113^{***}	-0.0653	-0.0101^{***}	-0.0212^{***}	-0.0653	-0.0197^{***}
	(0.0108)	(0.0596)	(0.008)	(0.0037)	(0.0596)	(0.0031)	(0.0044)	(0.0596)	(0.0049)
Sales_vol	0.0098	-0.0327*	0.0100	0.0043	-0.0327*	0.0041	0.0049	-0.0327*	0.0045
	(0.0082)	(0.0189)	(0.0083)	(0.0058)	(0.0189)	(0.0061)	(0.0038)	(0.0189)	(0.0037)
CFO_vol	0.0021	-0.0031	0.0022	0.0003	-0.0031	0.0003	0.0018	-0.0031	0.0018
	(0.0031)	(0.0023)	(0.0030)	(0.0018)	(0.0023)	(0.0017)	(0.0019)	(0.0023)	(0.0019)
BigN	-0.0058	0.0390^{***}	-0.0052	-0.0024	0.0390^{***}	-0.0021	-0.0037	0.0390^{***}	-0.0034
	(0.0202)	(0.0144)	(0.0187)	(0.0099)	(0.0144)	(0.0092)	(0.0146)	(0.0144)	(0.0132)
MTB	-0.0002*	-0.0061	-0.0002*	-0.0001*	-0.0061	-0.0001*	-0.0001^{*}	-0.0061	-0.0001^{*}
	(0.0001)	(0.0060)	(0.001)	(0.0001)	(0.0060)	(0.0001)	(0.0001)	(0.0060)	(0.0001)
Analysts	-0.0020	0.1211**	-0.0022*	-0.0015^{**}	0.1211^{**}	-0.0013*	-0.0003	0.1211^{**}	-0.0003
	(0.0014)	(0.0549)	(0.0013)	(0.0006)	(0.0549)	(0.0007)	(0.0008)	(0.0549)	(0.0007)
Audit_tenure	0.0216^{*}	0.1745***	0.0223*	0.0083	0.1745***	0.0078	0.0136^{*}	0.1745***	0.0142^{**}
	(0.0124)	(0.0312)	(0.0121)	(0.0065)	(0.0312)	(0.0061)	(0.0073)	(0.0312)	(0.0068)
Cycle	-0.0383^{**}	-0.2076	-0.0378*	-0.0293^{**}	-0.2076	-0.0281^{**}	-0.0099	-0.2076	-0.0087
	(0.0187)	(0.2210)	(0.0196)	(0.0112)	(0.2210)	(0.0104)	(0.009)	(0.2210)	(0.0094)

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Model 1							KEM_DISEA	
	Mod	lel 2	Model 3	Moc	lel 4	Model 5	Moc	lel 6
OLS	NI		OLS	Γ	>	OLS	I	~
	1st stage	2nd stage		1st stage	2nd stage		1st stage	2nd stage
Z-score -0.0112***	-0.2451^{***}	-0.0108^{***}	-0.0062^{***}	-0.2451^{***}	-0.0058^{***}	-0.0053^{***}	-0.2451^{***}	-0.0059^{***}
(0.0028)	(0.0578)	(0.0025)	(0.0010)	(0.0578)	(0.0011)	(0.0020)	(0.0578)	(0.0022)
NOA 0.0143***	0.0472^{**}	0.0140^{***}	0.0059***	0.0472^{**}	0.0056***	0.0086^{***}	0.0472^{**}	0.0085^{***}
(0.0032)	(0.0225)	(0.0030)	(0.0015)	(0.0225)	(0.0014)	(0.0020)	(0.0225)	(0.0019)
Institutional ownership -0.0035***	0.0419*	-0.0036^{***}	-0.0018^{***}	0.0419*	-0.0017^{***}	-0.0016^{***}	0.0419*	-0.0017^{***}
(0.0006)	(0.0239)	(0.0006)	(0.0003)	(0.0239)	(0.0003)	(0.0004)	(0.0239)	(0.0005)
Firm_age -0.0010**	0.0597	-0.0011^{**}	0.0003	0.0597	0.0003	-0.0013^{***}	0.0597	-0.0012^{***}
(0.0005)	(0.0402)	(0.0005)	(0.0004)	(0.0402)	(0.0004)	(0.0003)	(0.0402)	(0.0003)
Industry CPS_length	0.1559^{***}			0.1559^{***}			0.1559^{***}	
	(0.0435)			(0.0435)			(0.0435)	
Firm fixed effects Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects Yea	Yes							
Observations 2016	2016	2016	2016	2016	2016	2016	2016	2016
Adj. R ² 0.194			0.203			0.189		
Kleibergen-Paap rk LM statistic	20.56^{***}			20.56^{***}			20.56^{***}	
Kleibergen-Paap rk Wald F statistic	64.81			64.81			64.81	
Endogeneity test of endogenous regressor (χ^2)	8.51***			8.22***			8.93***	

6). The robust standard errors are in parentheses. Detailed variable definitions are provided in Appendix 1 in the Supporting Information.

Table 4. (Continued)

Table 5. Single-step EM regressions

	Model 1 Accruals	Model 2 Production costs	Model 3 Discretionary expenses
CPS_length	-0.0164***	0.0119***	-0.0056**
-	(0.0059)	(0.0038)	(0.0027)
Control variables	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Industry-year indicators and first step regressors interactions	Yes	Yes	Yes
Observations	2016	2016	2016
Adj. R ²	0.686	0.752	0.647

Note: This table presents single-step EM regressions following Chen *et al.* (2018). The dependent variables are *Accruals, Production costs* and *Discretionary expenses*, measured one year after each election cycle. *Accruals* refer to the earnings before extraordinary items, reduced by operating cash flows, and then adjusted by scaling with lagged total assets. *Production costs* refer to the total of cost of sales and change in inventory, adjusted by scaling with lagged total assets. *Discretionary expenses* refer to the discretionary expenditures, calculated as the sum of selling, general, and administrative expenses and R&D expenses. The variable of interest is *CPS_length*, measured at the end of each corresponding election cycle. In line with Ahmed, Duellman and Grady (2022), we have included the industry-year indicators and their interactions with the regressors appearing in the first step of the traditional EM regression estimations. The robust standard errors are reported in parentheses.

*, ** and *** indicate the statistical significance levels of 10%, 5% and 1%, respectively.

The moderating influence of CPS actors: Donors and recipients

If switching to REM in the presence of long-lived political connections manifests an effort to insulate them from potential reputational damage, the willingness to incur the associated cost is likely moderated by heterogeneity of the sponsored politicians. Politicians can be associated with value through two primary conduits. Some derive importance when their legislative duties intersect with the company's vested interests; others are universally revered because of their ranking in congressional hierarchies. To the extent that firms attribute greater scarcity value to these types of connections, an association with either category should intensify the observed substitution between EM methods. However, heterogeneity also resides at the donor end of the relationship. If the substitution is mainly driven by high-profile firms seeking to maintain their own image. politicians become passive beneficiaries, rather than, as we hypothesized, first-order determinants of the substitution.

To examine whether and how the choice of EM method varies with the who's who of political exchanges, we gather additional information on PAC recipients' profiles and construct the variables *Relevance*, based on the affinity between politicians' legislative purview and the firm's scope of operations, and *Power*, which, as in Cooper, Gulen and Ovtchinnikov (2010), captures overall political standing. From the donor's perspective, we use the binary variable *Admired* to indicate whether a firm appears on Fortune's Most Admired Companies list. Conversely, we use a *Corporate_scandal* indicator to capture reputational damage resulting from the firm's involvement in scandals substantial enough to be reported by Bloomberg News. Augmenting our baseline specifications with the interactions between these

variables and *CPS_length*, we observe, in Table 7, that the importance of recipients significantly outweighs that of donors. Both *Relevance* and *Power* lead to pronounced substitution of AEM with REM, inferring that the relational (transactional) effects emerge strongest when the political connections are internal (external) to the firm's sector or have a higher (lower) hierarchical rank, respectively. However, the interactions based on *Admired* and *Corporate_scandal* fail all conventional levels of significance, confirming that managers sacrifice value through REM to preserve the firm's political capital primarily, rather than its broader reputational capital.

Goodwill trust as the root cause of differences in EM methods

If, as we have posited, goodwill trust (or a lack thereof) in firm–politicians exchanges dictates the EM method, a differing trust level, either because of factors intrinsic to CPS relationships or systemic crises in the market for public policy, should have the effect of altering the EM trade-off decision. Based on this intuition, we next examine the role of goodwill trust as a driver of the observed effects through the analysis of CPS relationship dynamics and an exogenous shock.

CPS relationship dynamics. We first evaluate the capacity of goodwill trust to influence the EM method within a relational setting. Central to our analysis is a pivotal point in firm–politician exchanges – specifically, when a firm decides to let its political relationships perish by suspending CPS. The imminent end of contributions to sponsored politicians is expected to weaken the firm's incentives to protect their reputations compared to what would normally be expected based on the duration of the contribution spells.

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Table 6. Total EM regressions on CPS length

	OLS	IV	
	Model 1	Model 2	
		1st stage	2nd stage
CPS_length	0.0020		0.0022
-	(0.0073)		(0.0078)
Leverage	0.0134	0.0352	0.0121
	(0.0553)	(0.0269)	(0.0565)
ROA	0.0172	-0.0140	0.0177
	(0.0287)	(0.0109)	(0.0291)
MV	0.0049	0.3199***	0.0045
	(0.0089)	(0.0364)	(0.0082)
Sales_growth	-0.0311	-0.0645	-0.0319*
	(0.0195)	(0.0586)	(0.0188)
Sales_vol	0.0278	-0.0328*	0.0268
	(0.0354)	(0.0189)	(0.0342)
CFO_vol	-0.0013	-0.0032	-0.0014
	(0.0036)	(0.0024)	(0.0038)
BigN	-0.0105	0.0394***	-0.0112
	(0.0225)	(0.0141)	(0.0218)
MTB	-0.0002*	-0.0059	-0.0002*
	(0.0001)	(0.0061)	(0.0001)
Analysts	-0.0021	0.1301**	-0.0020
	(0.0016)	(0.0636)	(0.0015)
Audit_tenure	0.0224*	0.1747***	0.0215*
	(0.0128)	(0.0310)	(0.0119)
Cycle	-0.0631**	-0.2064	-0.0634**
	(0.0261)	(0.2196)	(0.0257)
Z-score	-0.0143***	-0.2482***	-0.0139***
	(0.0029)	(0.0602)	(0.0033)
NOA	0.0070**	0.0475**	0.0072**
	(0.0033)	(0.0229)	(0.0034)
Institutional ownership	-0.0074**	0.0419*	-0.0076***
-	(0.0036)	(0.0240)	(0.0035)
Firm_age	-0.0004	0.0578	-0.0005
	(0.0006)	(0.0411)	(0.0006)
Industry CPS_length		0.1568***	
		(0.0451)	
Firm fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Observations	2016	2016	2016
Adj. R ²	0.173		
Kleibergen–Paap rk LM statistic		20.18***	
Kleibergen–Paap rk Wald F statistic		64.58	
Endogeneity test of endogenous regressor (χ^2)		4.01**	

Note: This table presents the results of regressing *Total_EM*, measured one year after each election cycle, on *CPS_length*, measured at the end of the corresponding election cycle. The estimation methods include both OLS and instrumental variable (IV) regressions with robust standard errors clustered by firm. The OLS regression is reported in model 1; the IV regression, including its 1st stage regression, is reported in model 2. The robust standard errors are in parentheses. Detailed variable definitions are provided in Appendix 1 in the Supporting Information.

 * , ** and *** indicate the statistical significance levels of 10%, 5% and 1%, respectively.

To examine these effects, in Table 8, we specify the binary variable *CPS_suspension*, equal to one for firms that are in the final year of an election cycle and do not disburse contributions to any politician in the following election cycle. Note that only firm-cycle observations with a *CPS_length* of two election cycles or more are included in this analysis. We find significantly positive (negative) *CPS_suspension* coefficients in the *AEM* (*REM*) regressions, with the imminent termination shown to cause firms to revert to accruals manipu-

lation, unwilling to bear the cost of REM for relationships that have reached their conclusion. Jointly, these results reinforce the role of goodwill trust as a critical factor shaping the choice of EM method during the lifecycle of political relationships.

Quasi-natural experiment: The Jack Abramoff case. Next, we examine the corruption scandal involving high-profile lobbyist Jack Abramoff (JA) on 3 January 2006. Contrasting the general stability of the US political scene, Abramoff's guilty plea to bribing members

Table 7. E	EM regr	essions	with	interactions	terms
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	Model 1 AEM	Model 2 REM	Model 3 AEM	Model 4 REM	Model 5 AEM	Model 6 REM	Model 7 AEM	Model 8 REM
CPS_length	-0.0083^{***} (0.0030)	0.0089***	-0.0113^{***} (0.0038)	0.0128*** (0.0041)	-0.0147*** (0.0044)	0.0168***	-0.0162^{***} (0.0049)	0.0177***
Power	0.0029* (0.0016)	-0.0031 (0.0020)	()	()		()		()
Relevance			0.0197* (0.0109)	0.0171 (0.0115)				
Admired					-0.0083** (0.0040)	0.0083 (0.0059)		
Corporate_scandal							-0.0632** (0.0278)	0.0597** (0.0269)
CPS_length \times Power	-0.0013*** (0.0004)	0.0014*** (0.0005)						
CPS_length \times Relevance			-0.0090*** (0.0031)	0.0096*** (0.0032)				
CPS_length \times Admired					0.0037 (0.0029)	-0.0038 (0.0031)		
$CPS_length \times Corporate_scandal$							-0.0313 (0.0211)	0.0275 (0.0189)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations Adj. R ²	2016 0.191	2016 0.216	2016 0.186	2016 0.210	2016 0.179	2016 0.202	2016 0.181	2016 0.196

Note: This table presents the results of regressing *AEM* and *REM*, both measured one year after each election cycle, on *CPS_length* and interaction terms, measured at the end of the corresponding election cycle. The interactions are based on the variables *Power* (models 1 and 2), *Relevance* (models 3 and 4), *Admired* (models 5 and 6) and *Corporate_scandal* (models 7 and 8). The dependent variable in models 1, 3, 5 and 7 (models 2, 4, 6 and 8) is *AEM* (*REM*). The estimation method is OLS regression with robust standard errors clustered by firm. The robust standard errors are in parentheses. Detailed variable definitions are provided in Appendix 1 in the Supporting Information.

*, ** and *** indicate the statistical significance levels of 10%, 5% and 1%, respectively.

of the government sent shockwaves through the CPS market and caused politicians to actively distance themselves from their corporate sponsors (Borisov, Goldman and Gupta, 2016). Fundamentally a crisis of confidence, the JA scandal offers a unique setting in which to test the choice of EM method when a firm's trust in its political connections is impaired. We leverage this setting to implement a matched-sample difference-in-differences (DID) analysis including observations from three election cycles ending before and two ending after the JA scandal.

We begin by classifying firm-cycle observations with a *CPS_length* of two or more as 'relational', indicating that, on average, the firm maintains uninterrupted relationships with politicians across at least two election cycles. We then trace these firms in the OpenSecrets database to identify any that employed members of Abramoff's team as lobbyists. The firm-cycle observations meeting these criteria form our treated group, which we term *Relational_scandal*. Our next step is to compare these firms with those that have shorter CPS lengths (fewer than two election cycles) and no ties to the lobbyists involved in the scandal. To address potential self-selection bias, we follow Ahmed, Duellman and Grady (2022) and match the control group observations with the treated group sample based on firm size and performance. This process results in a treated group (control group) of 105 (208) firm-cycle observations. Additionally, we create a *Post_JA_scandal* indicator variable, coded as one for firm-cycle observations from the end of 2006 onward and zero otherwise. Consequently, in our DID design, the main variable of interest is the interaction term *Relational_scandal x Post_JA_scandal*.

Table 9 (Panel A) presents a substitution pattern whereby *Relational_scandal* firms significantly decrease (increase) REM (AEM) in response to the JA incident. In panel B, the parallel trend analysis confirms the validity of these results. As such, the substitution is shown to evolve inversely to the one suggested by our baseline results, and, tying in with the results of Table 8, we continue to find evidence that, when goodwill trust wanes, relational firms become unwilling to incur the cost of REM.

Alternative explanations and sampling

The possibility of a diminishing EM cost over the CPS spell. Political connections confer a range of benefits on firms. Compounded over time, these benefits may

Table 8. EM regressions on CPS suspension

		AEM			REM	
	Model 1	Mod	el 2	Model 3	Moo	del 4
	OLS	IV	/	OLS	Γ	V
		1st stage	2nd stage		1st stage	2nd stage
CPS_suspension	0.0233*** (0.0076)		0.0227*** (0.0073)	-0.0251^{***} (0.0086)		-0.0256^{***} (0.0088)
Industry CPS_length		-0.1283^{***} (0.0448)			-0.1279^{***} (0.0450)	
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	736	736	736	736	736	736
Adj. R ²	0.153			0.185		
Kleibergen–Paap rk LM statistic		16.06**			17.71***	
Kleibergen-Paap rk Wald F statistic		45.99			47.65	
Endogeneity test of endogenous regressor (χ^2)		8.75***			8.34***	

Note: This table presents the results of regressing *AEM* and *REM*, both measured one year after each election cycle, on *CPS_suspension*, measured at the end of the corresponding election cycle. The sample used for this analysis is restricted to firm-cycle observations with a *CPS_length* of two election cycles or more. The estimation methods include both OLS and instrumental variable (IV) regressions with robust standard errors clustered by firm. The OLS regressions are reported in Model 1 for *AEM*; in Model 3 for *REM*. The IV regressions, including their 1st stage regression, are reported in Model 2 for *AEM*; in Model 4 for *REM*. The robust standard errors are reported in parentheses. Detailed variable definitions are provided in Appendix 1 in the Supporting Information.

*, ** and *** indicate the statistical significance levels of 10%, 5% and 1%, respectively.

dampen the cost of REM over the duration of a CPS spell; in the same way, a reduction in R&D, selling or advertising expenses becomes less harmful when politically connected firms can rely on government procurement contracts as a steady source of revenue (Goldman, Rocholl and So, 2013). Thus, contrary to CPS firms acquiescing to the cost of REM for the sake of the relationship, an alternative perspective suggests that the cost of REM could shrink because of the relationship.

To investigate this alternative, we regress future performance, measured as ROA_{t+1} , on the interactions of *AEM* and *REM* with *CPS_length*. The results show that *AEM* and *REM*, as standalone variables, yield negative coefficients (significant at the 5% level), confirming that EM captures managerial opportunism rather than business activity. The interaction terms, however, generate insignificant coefficients, casting doubt on the ability of uninterrupted CPS to mitigate or alter the cost of EM.¹

The possibility of partisan and state effects dictating the EM choice. Other studies link partisan preferences with accruals choices (Bhandari, Golden and Thevenot, 2020; Notbohm *et al.*, 2019). A shared finding in these studies is that the conservatism ingrained in the values of the Republican party influences financial reporting via a less aggressive recognition of accruals. By contrast, the principles of the Democratic party, more often linked to risk tolerance, are associated with higher accruals. This logic could extend to our setting if Republican-leaning firms, because of an innate aversion to change, forge longer-lasting relationships and Democratic-leaning firms, which are more open to change, take a more flexible approach to initiating and suspending CPS. To ensure that our tests do not falsely attribute EM choices driven by partisan preferences to the political tactic, we specify: (1) a *Red firm dummy*, capturing PAC donors spending more on Republicans; and (2) a *Red state dummy*, flagging headquarters located in states where the majority of the population, uninterruptedly since 1996, votes for Republican presidential candidates. Controlling for both variables in the baseline models leaves the *CPS_length* coefficients unaffected.¹

The possibility of discriminating by CPS size rather than CPS length. Another possibility is that our results could reflect the heterogeneity in CPS amounts. That is, political connections substantiated by a larger monetary base serve as a more compelling inducement to engage in costly action than political connections that have come more cheaply, predicting REM for heavy spenders irrespective of the CPS duration. We address this possibility by reducing the sample to different percentiles of the CPS amount (i.e. 80th, 90th, 95th and 99th). Our results continue to hold, suggesting that CPS size alone is unlikely to predict the EM method.¹

Subsampling. In Table 10, we divide our sample based on *CPS_length* below two (Panel A) and two or higher

¹All results are available on request.

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Table 9. The impact of CPS length on EM based on a matched-sample DID design

Panel A: DID analysis				
	Model 1 AEM	Model 2 REM	Model 3 REM_PROD	Model 4 REM_DISEX
Post_JA_scandal × Relational_scandal	0.0325***	-0.0337***	-0.0235***	-0.0093***
	(0.0107)	(0.0111)	(0.0072)	(0.0034)
Control variables	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	313	313	313	313
Adj. R ²	0.307	0.346	0.364	0.339
Panel B: Parallel trends tests				
	Model 5	Model 6	Model 7	Model 8
	AEM	REM	REM_PROD	REM_DISEX
Year_2002×Relational_scandal (β_1)	-0.0057	0.0069	0.0039	0.0021
	(0.0079)	(0.0085)	(0.0061)	(0.0024)
Year_2004×Relational_scandal (β_2)	-0.0062	0.0070	0.0048	0.0029
	(0.0085)	(0.0082)	(0.0052)	(0.0031)
Year_2006 \times Relational_scandal (β_3)	0.0352***	-0.0347***	-0.0242***	-0.0103***
	(0.0098)	(0.0096)	(0.0063)	(0.0036)
Year_2008 \times Relational_scandal (β_4)	0.0323***	-0.0319***	-0.0233***	-0.0095***
	(0.0110)	(0.0112)	(0.0072)	(0.0034)
Control variables	Yes	Yes	Yes	Yes
Firm fixed effect	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes
F-test [H ₀ : β_1 and β_2 are jointly zero]	1.03	1.12	1.23	1.26
Observations	313	313	313	313
Adi R ²	0.316	0 353	0.373	0 346

Note: Following Ahmed, Duellman and Grady (2022), this table presents the matched-sample DID analysis results of regressing EM measures, calculated one year after each election cycle, on the interaction term *Post_JA_scandal × Relational_scandal*, calculated at the end of the corresponding election cycle. The analysis includes data from the end of each election cycle (2000, 2002, 2004, 2006 and 2008), with the corresponding EM variables measured one year after each cycle (2001, 2003, 2005, 2007 and 2009). As the JA scandal broke out on 3 January 2006, this results in three cycles' data pre-scandal and two cycles' data post-scandal. Due to our matching approach, the dummy variable *Relational_scandal* becomes time-invariant in our analysis, with a value of one for all the firm-cycles in the treated group (relational and scandal) and a value of zero in the control group (non-relational and non-scandal). Panel A presents the DID analysis using OLS regressions with firm fixed effects. The dependent variables for the regression models 1, 2, 3 and 4 are *AEM*, *REM*, *REM_PROD* and *REM_DISEX* respectively. Panel B shows the parallel trends tests. The variables Year_2002, Year_2004, Year_2006 and Year_2008 are dummy variables, each coded as 1 for their respective years and 0 otherwise. OLS regressions with firm fixed effects are employed. The dependent variables for the regression models 5, 6, 7 and 8 are *AEM*, *REM_PROD* and *REM_DISEX*, respectively. The coefficients of the interaction terms β_1 and β_2 are insignificant, ensuring that no differential trend exists before the JA scandal (3 January 2006). This confirms the validity of our parallel trends analysis. Additionally, we performed F-tests to test the null hypothesis that β_1 and β_2 are jointly equal to zero, and the results indicate that the null hypothesis cannot be rejected. Combined with the 1% significance level for β_3 and β_4 , this further confirms that the differential trend emerged only after the JA scandal and did not exist prior t

(Panel B) and rerun our regression analyses using both OLS and IV estimation. Overall, we find no qualitative differences compared to the results of our full-sample analyses.

Conclusion

Our study introduces a novel perspective on how firms' EM methods align with their political approach. Transactional firms, indifferent to the reputational impact on politicians, favour the lower-cost AEM, whereas relational firms, more sensitive to reputational concerns, opt for REM, which is harder to detect. Over time, transactional firms evolve into relational ones as trust develops, while relational firms revert to transactional tactics when trust erodes. This dynamic is reflected in our data, which shows a significant negative (positive) association between the length of firms' political contribution spells and AEM (REM). We also observe a perfect substitution effect, where adjustments in one EM method are fully offset by changes in the other, leaving total EM unchanged.

We leverage resource dependence and rational choice theories to explain firms' strategic positioning along the relational-transactional spectrum. Resource dependence theory suggests that firms cultivate political relationships to secure essential resources, with long-

		AEM			REM			REM_PROD		ł	KEM_DISEX	
1	Model 1	Mod	lel 2	Model 3	Modé	el 4	Model 5	Moc	lel 6	Model 7	Mod	el 8
	OLS	IV 1st stage	2nd stage	SIO	IV 1st stage	2nd stage	SIO	IV 1st stage	2nd stage	SIO	IV 1st stage	2nd stage
CPS_length	-0.0124** (0.0051)	0.1528***	-0.0131^{**} (0.0053)	0.0148** (0.0059)	0.1545***	0.0143** (0.0057)	0.0102^{***} (0.0037)	0.1545***	0.0098^{***} (0.0034)	0.0042^{**} (0.0017)	0.1545***	0.0038** (0.0016)
Control variables Firm fixed effects Year fixed effects Observations	Yes Yes Yes 1152	(0.0540) Yes Yes 1152	Yes Yes Yes 1152	Yes Yes Yes 1152	(1ccu.u) Yes Yes 1152	Yes Yes Yes 1152	Yes Yes 1152	(1cc0.0) Yes Yes Yes 1152	Yes Yes Yes 1152	Yes Yes Yes 1152	(ICCUU) Yes Yes Yes 1152	Yes Yes Yes 1152
Adj. K^2 Kleibergen-Paap rk LM statistic Kleibergen-Paap rk Wald F statistic Endogeneity test of endogenous regressor (χ^2)	661.0	20.88 62. 9.16	3*** 21 ***	191.0	21.02 [:] 61.8 9.02*	*** 33 **	861.0	21.0. 61. 9.27	2*** 83 ***	0.183	21.02 61.8 8.89	*** 33 ***
Panel B (Subsample for $CPS_length \ge 2$)												
		AEM			REM			REM_PROD		R	EM_DISEX	
I	Model 9	Mod	el 10	Model 11	Mod	lel 12	Model 13	Mod	el 14	Model 15	Mode	il 16
	SIO	Γ	Λ	SIO	NI	N	SIO	Γ	N	SIO	IV	
		1st Stage	2 nd Stage		1st Stage	2 nd Stage		1st Stage	2nd Stage		1st Stage	2 nd Stage
CPS_length –	0.0146***		-0.0152^{***}	0.0161***		0.0159*** (0.0054)	0.0118^{***}		0.0115*** (0.0038)	0.0050 ***		0.0047***
Industry CPS_length	~	0.1537*** (0.0531)	~	~	0.1553*** (0.0545)	~		0.1553*** (0.0545)	~	~	0.1553*** (0.0545)	~
Control variables Eirm fixed effects	Yes	Yes	Yes	Yes Ves	Yes	Yes	Yes	Yes	Yes Ves	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations Adi. R ²	864 0.171	864	864	864 0.197	864	864	864 0.207	864	864	864 0.194	864	864
Kleibergen–Paap rk LM statistic Kleibergen–Paap rk Wald F statistic Endogeneity test of endogenous regressor (χ^2)		20.7. 62. 8.89	2*** 34 ***		21.17 62. 8.93	7*** 95 ***		21.1 ⁷ 62. 9.14	7*** 95 ***		21.17 62.9 9.05*	***)5 :**

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in models 2, 4, 6 and 8. The AEM regressions (model 1 and 2) are presented alongside the REM regressions based on REM (models 3 and 4), REM_PROD (models 5 and 6), and REM_DISEX (models 7 and 8). In Panel B, the OLS regressions are reported in models 9, 11, 13 and 15; the IV regressions are reported in models 10, 12, 14 and 16. The AEM regressions (model 9 and 10) are

presented alongside the REM regressions based on REM (models 11 and 12), REM_PROD (models 13 and 14), and REM_DISEX (models 15 and 16). The robust standard errors are in parentheses.

Detailed variable definitions are provided in Appendix 1 in the Supporting Information.

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Table 10. Subsample analysis based on CPS length

term ties fostering greater reliance on political support. Complementing this, rational choice theory emphasizes that politicians, driven by electoral incentives, indirectly shape firms' EM decisions by pushing them to align with political considerations. Integrating both perspectives, our findings show that firms forging sustained political connections favour REM to protect their affiliates' reputations and ensure a steady flow of expected resources. In contrast, transactional firms, focused on extracting one-off political advantages, engage in AEM despite reputational risks, anticipating that they can obtain these benefits before any negative consequences materialize.

The innovation of our paper lies in the disaggregation of the political connections construct, based on the nature of firm–politician exchanges and the degree of goodwill trust involved. This refined lens allows us to understand how firms with political connections can exhibit diverse behaviours, even within the same firm over the lifecycle of its relationships with politicians. By identifying political tactics as a key determinant of the EM trade-off decision, we pinpoint the conditions that help preserve or threaten politicians' reputations.

Additional evidence supports our theoretical framework, showing that firms abandon costly REM for AEM when goodwill trust erodes. Specifically, firms planning to terminate political contributions revert to AEM, as do those affected by external shocks that disrupt political alliances, such as the Jack Abramoff scandal. These patterns underscore the dynamic nature of the EM method decision and confirm that shifts between transactional and relational approaches are driven by qualitative changes in political relationships.

Our findings hold significant implications for a diverse body of stakeholders. Investors seeking stable, long-term relationships with policymakers must recognize that the associated costs exceed the monetary value of contributions. While these ties can offer strategic advantages, their sustainability - especially through REM - demands careful evaluation against expected utility. Regulators could enhance transparency by mandating firms to disclose their political contributions and objectives, akin to the disclosure requirements for other key risk factors. Such disclosures are necessary to enable stakeholders to assess both the accounting and real effects of the company's political tactics. For management, a shift to REM should be driven by the goal of maximizing shareholder returns rather than personal political affiliations. Given the real cash flow consequences of this method, overriding economic rationale with political favouritism to entrench directors would heighten agency conflicts by amplifying the misalignment between principal and manager interests.

Beyond financial reporting, the implications of our findings extend to several other sources of reputational risk. Namely, controversy in tax reporting, environmental practices and labour policies could all form the basis of similar trade-offs. In extrapolating that relational (transactional) firms engage in these practices via less (more) easily detectable means, a caveat is in order. While EM offers an expedient buffer in the form of REM, other organizational decisions may present managers with a more restrictive menu of options, devoid of the possibility of covering up socially undesirable practices, even at a higher cost. In these cases, the level of goodwill trust in exchange relationships can also be key to revealing the exchange partner that is more likely to bear the consequences of such activities as well as the broader societal impact.

A limitation of this study is its US-centric focus, which constrains its applicability to political systems with weaker institutional oversight and less transparency. The influence of political connections on corporate behaviour varies across jurisdictions, shaped by differences in governance structures, regulatory frameworks and cultural attitudes toward corporate-political engagement. Outside the United States, less stringent disclosure requirements and lax oversight may allow firms to leverage political ties in ways that are harder to track. Future research should assess whether these effects hold across diverse institutional settings, elucidating whether unique political structures give rise to unique EM method substitution patterns.

We hope that future research will investigate these issues by relying less on stylized predictions about uniform effects and by attending more closely – both theoretically and empirically – to the changing dynamics of relationships.

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Supporting Information

Additional supporting information can be found online in the Supporting Information section at the end of the article.