BOARD GENDER DIVERSITY AND VOLUNTARY CORPORATE POLITICAL SPENDING DISCLOSURE

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ABSTRACT

As corporations have played an essential role in political funding in the U.S., stakeholders increasingly demand transparency in corporate political spending. This paper examines the relationship between board gender diversity and voluntary disclosure of corporate political spending. Consistent with the stakeholder theory and legitimacy theory, we find that gender diverse boards are positively related with enhanced political spending disclosure. Specifically, we document a positive relationship between a higher ratio of female directors and increased voluntary disclosure quality. The relationship is not statistically significant when there are fewer than three female directors while the relationship is significant when there are at least three female directors, which substantiates critical mass theory. Further analysis shows that the gender balance is a significant indicator of higher quality disclosure among less diverse boards where one gender comprises more than 70%.

Keywords: *Corporate Political Spending, Board Gender Diversity, Voluntary Disclosure*

1. INTRODUCTION

Corporations have played a significant role in political funding since the U.S. Supreme Court's 2010 decision in *Citizen United vs. Federal Election* Commission lifted the long-standing restrictions on the political use of corporate funds. While there are no disclosure requirements in place, corporate stakeholders have become increasingly concerned about the decision-making processes in political spending and demanded transparency in how shareholders' money is used and, more importantly, whether the company is using the corporate fund according to the company's core value that it publicly stands for.

During the recent hyperpolarized election cycles, companies are pressured to take a stance on political, environmental, and social issues (Lund and Strine, 2022). When companies make political contributions to support a specific bill trying to gain economic advantages, those contributions may contradict their public stance or core values. When the public discovers such inconsistency, social activists have used popular digital media to magnify public condemnation and it can often lead to a large-scale boycott. Lund and Strine (2022) report many examples in which companies received negative publicity and embarrassment for their political contributions contradicting their public stance on highly politicized issues such as climate change, racial and gender diversity, gun control, and LGBTQ rights.

To mitigate such risks associated with political spending and to respond to the stakeholders' demands, an increasing number of companies voluntarily disclose their political spending amount, the process of making contributions, and the governance oversight of the decision-making process. Naturally, the board of directors is the key player in providing proper governance oversight over the decision-making process. In this paper, we are motivated to examine the relationship between gender diverse boards and the quality of political spending disclosure.

We use the stakeholder theory and legitimacy theory to draw our hypotheses (van der Laan, 2009; An, Davey, and Eggleton, 2011). We argue that gender diverse boards are positively related with enhanced political spending disclosure. We construct a sample of 2,489 firm-year observations by merging datasets from four databases – CPA-Zicklin Index database, BoardEx, CRSP, and Compustat – and match corporate political spending disclosure, board characteristics, and financial information of S&P 500 companies from 2015 to 2020. The results support a positive relationship between a higher ratio of female directors and the