Supplementary Internet Appendix

Political Values, Culture and Corporate Litigation

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This Supplementary Appendix presents a set of robustness and supplementary tests that support the main analyses in the paper. The order of the items in this Appendix follows that of the main text.

A1. Are the Costs of the Lawsuits Significant to Defendant Firms?

There are various significant costs to the defendant firms associated with lawsuits, including the direct penalty, procedural cost, and indirect penalty, among others. In our sample, approximately 39% of lawsuits are settled and nearly 3% are lost. The penalty of an average lost lawsuit, including those with zero penalties (some of which include unreported penalties), is $0.835 million and approximately $2 million if we exclude observations with zero values. The average reported settlement amount is $1.7 million, although the data availability is sparse. The extent of unreported penalties is more difficult to estimate. For example, environmental lawsuits may generate clean-up costs and intellectual property litigation may have injunctive relief which may result in the loss of future revenues. In some cases defendants have to reimburse plaintiff's legal costs.

While monetary penalties may or may not be awarded, all firms incur at least procedural costs. Although court fees are negligible, lawyer compensation is likely to be significant. According to the Bureau of Labor Statistics, annual lawyer salaries in New York, California and Delaware are approximately $160,000. Hourly rates are approximately $80/hour and external lawyers bill corporate clients two thousand hours/year, which is consistent with the annual salary figures. It is reasonable to assume that high profile law firms are more expensive than these estimates. Considering that an average

lawsuit takes 409 days to resolve and is likely to require a legal team and support staff, the procedural fees are likely to be sizeable.

Indirect penalties are significant as well. For example, for the full sample, the cumulative abnormal return CAR(–1,1) computed using the Fama-French four-factor model is –0.077%. Since the average market value of the firm in our sample is about $6 billion, the three-day abnormal market value loss amounts to $4.6 million. Thus, litigation is expensive according to both direct and indirect measures.

A2. Political Contributions Data

Under the Federal Election Campaign Act of 1974 (FECA), interest groups such as firms, unions, trade associations, and non-profit organizations, are not allowed to contribute directly to candidate or party committees. Instead, they must create "separate and segregated funds," commonly known as Political Action Committees (PACs) to collect contributions from its members and distribute them to political candidates and party committees. Firm PACs can solicit contributions from the corporation's executives and administrative personnel, the stockholders, and the families of these groups. Company PAC contributions can capture the collective strategic political contributions of top management and shareholders. It also reflects the corporate political culture, especially when a firm contributes predominantly to a single political party.

To measure contributions by firm PACs, we follow Cooper, Gulen, and Ovtchinnikov (2010) and match the corporate sponsors of firm PACs to Compustat firms using firm names and subsidiary names. Excluding utilities and financials, we are able to identify 2,240 unique Compustat firms that sponsor 2,420 unique firm PACs during the 1979 to 2008 period. This sample is comparable to that of Cooper, Gulen, and Ovtchinnikov (2010), who identify 1,930 unique firms as PAC sponsors during the 1979 to 2004 period.

We infer the political orientation of top managers using their personal political contributions to Republican- and Democratic-affiliated senate, house, presidential candidates and party committees in political campaigns. These committees are established by candidates and political parties to collect and manage campaign funds. The Federal Election Commission (FEC) has made the political contributions by individuals and committees that are $200 or above available to the public starting from the 1979-1980 election cycle (http://www.fec.gov). The amount of contributions is available starting with the 1989-1990 cycle.

The FEC's individual contribution files record the name, address and occupation of the donor, the amount of the contribution and the contribution date. Occupation usually includes the employer name and often the position and title of the individual, which together with the contributor name serve as the key mapping information used to link ExecuComp managers and FEC donors. Specifically, we map

ExecuComp managers during a certain fiscal year to the most recent election cycle that contains the beginning of the fiscal year. For each political contribution, we use a computer-based matching algorithm to identify potential manager matches and then verify their correctness through visual inspection.

We infer the political leaning of the general employees of a firm by using the personal political contributions to Republican- and Democratic-affiliated senate, house, presidential candidates and party committees in political campaigns of all local residents in a given firm's headquarters state. The headquarters state of a firm is obtained from Compustat.

A3. Correlations Among PCI Components

We report the correlation matrix between the elements of PCI based on dollar donations and the number of candidates supported in Table A1. All correlations are significant at 1%. The strongest correlations are between the PCI (0.8) and PACREP (0.9) based on the two measures. In general, political values of top managers are less strongly correlated with political values expressed by PAC donations and political values of local residents. The correlations between these variables are very stable over time and change very little before and after 2000 in sub-sample tests.

A4. Additional Information About the Litigation Data

Civil rights litigation is the most frequent type of litigation and at least one civil lawsuit takes place in 35% of firm years as reported in Table 1 of the main text. However, on average, only 1.5 civil lawsuits per year are filed against any given corporate defendant; the range is from 0 to 93 with the 99% percentile being 20 lawsuits/year. For other types of lawsuits the average number of lawsuits is below 0.2 lawsuits per year. Moreover, the 99th percentile (max) for labor litigation is 3 lawsuits/year (14), environmental is 1 (27), securities and intellectual property is 4 (32) and 3 (14), respectively. The number of observations in our announcement return regressions provide another indication of relative lawsuit volume. However, in rare instances that make up the top 1% of the distribution, if filing returns are available, we eliminate lawsuits filed on the same day (which is typically the case) in our return regressions. We alternatively experiment with keeping only one lawsuit per month and the results remain largely unchanged.[1]

Lawsuits are costly not only for the defendant but for the plaintiff and the plaintiff's attorney as well, so most lawsuits are relatively credible. The credibility of dismissed lawsuits is harder to interpret. Some may be frivolous lawsuits while others could be either out-of-court settlements or unfortunate casualties of legal changes. One example the dismissals of securities lawsuits increased after RSPLA that tightened the pleading standards. The overall dismissal rate in out sample is 32.4%. Settlements account

[1] For example, in environmental return regression this restriction reduces the sample by 57 observations and *t*-statistic by about 0.1.

for 39.2%. Losses are 2.8% and wins are 15.9%. We conduct robustness tests of our main results with only lost and settled lawsuits and the results are similar (see Panel B of Table 5 in the main text).

A5. Differences in Firm Characteristics Between Democratic and Republican Firms

We compare differences in mean firm characteristics of Republican and Democratic firms in Table A2. Our findings suggest that Republican firms are larger, more profitable, have slightly higher leverage (even though industry-adjusted leverage is lower, as reported in Hutton, Jiang, Kumar (2013)), and lower past returns. These findings are consistent with conservative preferences of Republican firms.

A6. The Importance of Firm Size

Firm size is an important determinant of litigation likelihood. To ensure that our findings are not simply driven by firm size, we provide further analyses. In our sample, firm size measured by log(Total Assets) and PCI Index have a correlation coefficient of 0.142, significant at the 1% level. However, a regression of firm size on PCI yields an adjusted R^2 of 0.02, suggesting the PCI can only explain 2% of the variation in size. This is further illustrated in Figure A1 where we find that for each PCI level, firm size has a considerable dispersion that overlaps across different levels of PCI.

In addition, we conduct regressions to ensure that this positive correlation between size and PCI does not drive our results. First, we repeat our regression analysis in Table 3 of the text on litigation propensity using a sample of firms excluding large firms defined as above the median size of NYSE firms. Second, we add squared firm size to the set of controls in Table 3. In both cases, we continue to find that PCI has a significant influence on the propensity of lawsuit in value-relevant domains continues to hold. We present these results in Table A3.

A7. Effect of Political Culture on Financial Firms

Financial firms are typically excluded from many corporate finance papers largely because they are in a regulated industry which affects firm policies and outcomes. However, it may be important to examine the effect of political values on litigation propensity in the financial industry. We collected political contributions made by executives and PACs of financial firms and computed a new PCI measure.

Unfortunately, due to the business nature of financial firms and their operating environment, they do not engage in environmental infractions and, moreover, labor and intellectual property litigation instances are very limited for meaningful analyses. Thus, we restrict our analyses to civil rights and securities litigation in financial firms.

While the coefficient estimates have the same sign as in our prior analyses, only the coefficient estimate in the civil rights litigation regression is statistically significant. One possible explanation for the insignificant coefficient in the securities litigation regression is that securities litigation is so strongly

related to these firm's core line of business that both types of firms will strive to minimize the probability of securities litigation, which can minimize the effect of "culture" on securities litigation. In other words, this finding may be attributed to the unique nature of the financial industry. Thus, we do not include financial firms in our main analyses. We present these results in Table A4.

A8. Alternative Instrumental Variables

In our main text, we address the concerns of endogeneity by using two instrumental variables: the average education level and the average gun ownership within the state where the firm's headquarter is located. We report those results in the first and the second stage regressions in Table 6 of the main text. We further confirm this result in untabulated analyses, where we use two other related instrumental variables: the number of gun dealers rather than owners in the state in 1994 scaled by state population, and gun ownership estimates obtained from another phone survey conducted in 2001.

In addition, we also use state-level union membership as of 1990 as an instrumental variable. The data were compiled by Barry Hirsch at Georgia State University and David Macpherson at Trinity University from various government-agency databases. In the first stage regression, union membership-based IV is highly significant with the negative sign indicating that Democratic states have a higher proportion of unionization. However, in the second stage, predicted PCI is significant and has a correct sign only in civil, labor and intellectual property regressions. We report these results in Table A5. We find similar results by using alternative measures of union coverage and union membership in the private sector.

We believe that this weak second-stage result based on union membership is likely due to the industry specific nature of unions: many established industries, such as manufacturing that are unionized, often hire Republican managers possibly because Republican managers are more attracted to conventional industries (e.g., Hutton, Jiang, and Kumar 2013). As evidence, the relation between union membership and PCI is not as strong, although statistically significant, in the first stage as using other instrumental variables (education level or gun ownership). As a result, the predicted PCI does not strongly explain the differences in litigation propensities of Republican and Democrat firms in some second-stage regressions.

A9. Corporate governance and CEO legal expertise

To investigate whether weaker corporate governance allows political firm culture to affect litigation propensity in value-relevant domains, we conduct several additional tests. Specifically, we study whether our main findings are stronger in a subset of weakly governed firms where weak governance is measured using multiple approaches and characteristics.

In these additional tests, we use director ownership as a measure of governance. We find a somewhat stronger effect of political culture on litigation in the sample of firms with weaker governance that is defined as director ownership below annual sample median. We present these results in Table A6. Moreover, in untabulated analyses, when we use a measure of CEO duality as a measure of weak governance (Bhagat, Bolton, and Romano 2008) we find that our main findings are stronger in firms where the CEOs also serves as the Chairman of the Board for labor, securities and intellectual property regressions.

We do not find evidence of the governance effect if we split the sample based on other measures of governance, such as percentage of independent directors and board size, (Yermack 1996) or local institutional ownership (Chhaochharia, Niessen-Ruenzi, and Kumar 2012). This is not surprising as board independence and board size may reflect either strong or weak governance. For example, Coles, Daniel, and Naveen (2008) show that these board attributes are chosen endogenously and certain firms can benefit from larger boards or fewer independent directs while others cannot. Overall, there is some evidence based on CEO duality and director ownership suggesting that strong governance mitigates the influence of firm culture on litigation.

To test the second channel of the impact of culture on firm litigation, we explore whether the legal expertise of a CEO plays a role similar to strong corporate governance. Specifically, we split the sample based on CEO's legal expertise (i.e., a J.D. degree). We hand collect these data from CEO biographies available through several comprehensive databases such as Lexis-Nexis or other online sources. We find that the relation between political culture and litigation is strong in firms run by CEOs without legal expertise and political culture is less important in firms with CEOs with a J.D. degree. This evidence suggests that when CEOs cannot interpret or are not familiar with the law or government regulations, their preferences and corporate culture have a significant impact on litigation propensity. However, when CEOs are legal experts, culture has a smaller effect on litigation propensity. We report these results in Table A6.

A10. Media Coverage and the Market Reaction to Litigation Announcements

A possible concern is that the wealth effects are understated because the lawsuit filing dates are not the first news of the (alleged) misconduct that prompts the lawsuits. This means that the measures of economic impact are biased downward, as evidenced by the very small mean abnormal returns reported in Table 7 of the text. However, we argue that the wealth effects may not be understated in our sample for the following reasons.

Prior studies of corporate litigation usually rely on several hundred of impactful lawsuits extracted from the Wall Street Journal or other media sources. Our sample is more comprehensive. As

such, it contains a lot of lawsuits that received no media coverage and, therefore, registered little or no market reaction. To examine the economic impact of this lack of publicity, for a randomly selected subsample of about 3,000 lawsuits, we search Lexis-Nexis during the two weeks before the lawsuit filing for articles which contain the name of the corporate defendant as well as the strings "filed" and "suit," "lawsuit," or "litigation." We also verify other attributes of the lawsuit such as the lawsuit type and identity of the plaintiff or damages sought when possible. This allows us to record any mention of upcoming litigation and wrongdoing in top newspapers, local newspapers, trade journals, or newswires. Although our search covers at least two weeks before filings, we find that litigation filings are usually announced in the press on day $t = 1$, the day after the litigation filing day. Among this subsample of lawsuits, only 7.1% received media coverage prior to the lawsuit.

In this subsample, media does not appear to result in information leakage because very few lawsuits are pre-announced and the abnormal three-day reactions to the filing of lawsuits with prior media coverage are similar to the returns of lawsuits without media coverage. To confirm this, we also run regressions of abnormal returns and use media coverage indicator as one of the controls. The coefficient of media coverage has a negative sign in all three regressions but not statistically significant, which indicates that firm and lawsuit characteristics that can affect media coverage have sufficiently controlled for the effect of early information release. These results are reported in Table A7.

A11. Market Reaction Tests Based on CAR

In Table 7 of the main text, we use cumulative abnormal returns (CAR) and standardized cumulative abnormal returns (SCAR) to study market reactions to litigation filings. Specifically, we report average CAR(–1,1) and SCAR(–1,1), each estimated using the market-model and Fama-French three- and four-factor models. In the Fama-French models, the factor loadings are estimated using 17 or more daily observations in the month preceding the event month. This short estimation window for factor loadings helps to obtain more precise factor loadings if firm risk exposure changes around litigation filings. Our regression results in Table 7 of the main text are reported using FF4F SCAR(–1,1) as the dependent variable.

We report similar regression results using FF4F CAR(–1,1) in Table A8. We find a significantly negative coefficient on PCI in environmental and securities litigation as well as for the full sample.

References

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Figure A1: Distribution of Log (Total Assets) by PCI

The figure reports the distribution of firm size measured by log (Total Assets) given each level of the firm Political Culture Index (PCI). Political values of top five managers (MGRREP), firm PACs (PACREP) and home-state residents (STATEREP) are measured as relative contributions to the Republican Party. PCI is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP.

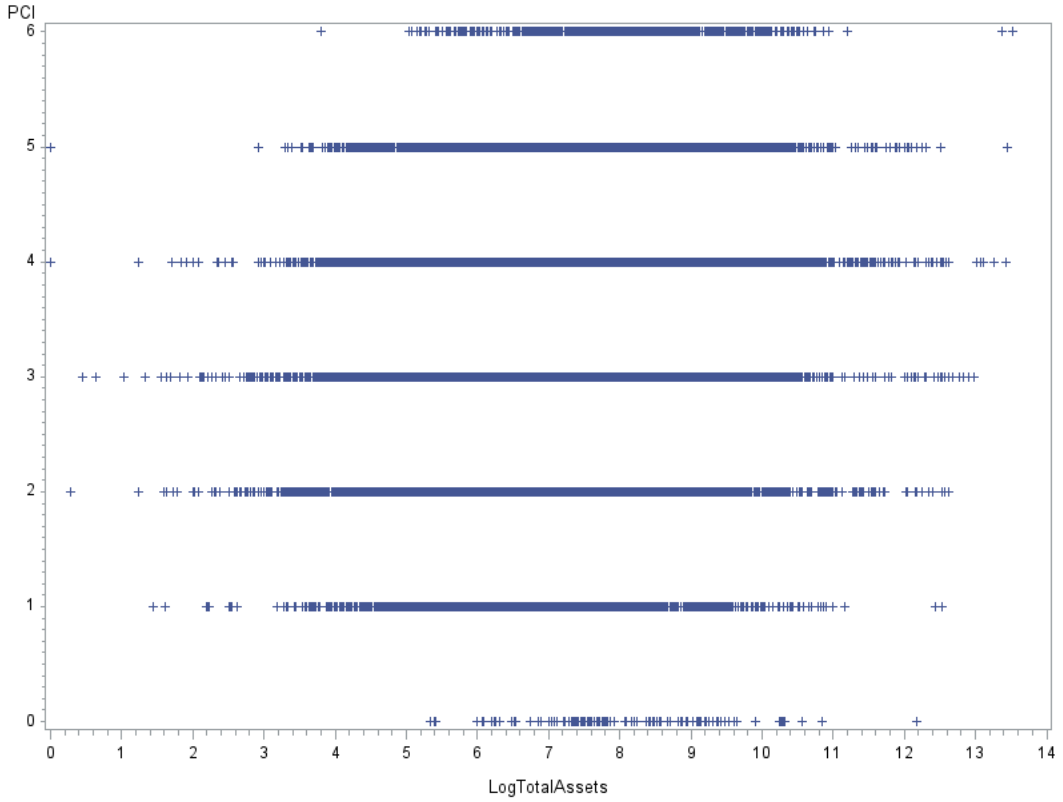

Table A1. Correlations Between Measures and Components of Political Culture

Political values of top five managers (MGRREP), firm PACs (PACREP) and home-state residents (STATEREP) are measured as relative contributions to the Republican Party. MGRREP, PACREP and STATEREP is based on the dollar amount of donations. The main firm-level political values variable is the PCI (Political Culture Index), which is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP. MGRREPcand. And PACREPcand. are based on the number of candidates supported. PCIcand. is the sum of annual tercile rankings of MGRREPcand., PACREPcand., and STATEREP. *, **, and *** indicates significance at the 10%, 5%, and 1% level, respectively.

	PCI	PCIcand.	MGRREP	MGRREPcand.	PACREP	PACREPcand	STATEREP
PCI	1.000***	0.804***	0.637***	0.252***	0.421***	0.379***	0.606***
PCIcand.	0.804***	1.000***	0.338***	0.453***	0.401***	0.414***	0.638***
MGRREP	0.637***	0.338***	1.000***	0.361***	0.179***	0.169***	0.158***
MGRREPcand.	0.252***	0.453***	0.361***	1.000***	0.091***	0.078***	0.081***
PACREP	0.421***	0.401***	0.179***	0.091***	1.000***	0.902***	0.098***
PACREPcand.	0.379***	0.414***	0.169***	0.078***	0.902***	1.000***	0.095***
STATEREP	0.606***	0.638***	0.158***	0.081***	0.098***	0.095***	1.000***

Table A2. Firm Characteristics and Political Culture

This table reports average firm characteristics for Democratic, Moderate or Republican firms based on the firm's political culture index (PCI). Political values of top five managers (MGRREP), firm PACs (PACREP) and home-state residents (STATEREP) are measured as relative contributions to the Republican Party. The main firm-level political values variable is the PCI (Political Culture Index), which is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP. Operating margin is operating income before depreciation divided by net income. Leverage is current and long-term debt divided by total assets. Market-to-book is market-to-book equity. Stock return is daily returns compounded over fiscal year. Managerial ownership is the fraction of the firm's shares owned by top-five managers.

Variable	Democrats (PCI=0,1)	Moderates (PCI=2,3,4)	Republicans (PCI=5,6)	Rep – Dem *t*-stat.
Total Assets	4107.090	4292.850	6012.850	5.1***
Operating Margin	–0.078	–0.126	0.139	2.7***
Leverage	0.214	0.223	0.245	5.8***
Market-to-Book	3.811	4.426	3.461	–0.50
Stock Return	0.222	0.235	0.189	–2.0**
Management Ownership	0.054	0.083	0.051	–1.20

Table A3. Litigation Propensity Probit Regression Estimates: The Effect of Firm Size

This table reports the estimates from Probit models in which one of the measures of litigation propensity is the dependent variable. The dependent variables are binary variables equal to one if a fiscal year contains a litigation filing related to civil rights, labor, environmental, securities, intellectual property violations, or all types of litigation. In Panel A we exclude observations with above median firm size of NYSE firms. In Panel B we add a squared term of firm size. Firm size measured by the logarithm of book total assets. Political values of top five managers (MGRREP), firm PACs (PACREP) and home-state residents (STATEREP) are measured as relative contributions to the Republican Party. The main firm-level political values variable is the PCI (Political Culture Index), which is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP. Unreported control variables include operating margin, leverage, market-to-book, stock return, managerial ownership and industry litigation activity. Operating margin is operating income before depreciation divided by net income. Leverage is current and long-term debt divided by total assets. Market-to-book is market-to-book equity. Stock return is daily returns compounded over fiscal year. Managerial ownership is the fraction of the firm's shares owned by top-five managers. Industry litigation activity is annual number of litigation filings in two-digit SIC industry scaled by total annual number of litigation filings. All control variables are lagged by one year. Marginal effects are reported in parentheses next to the estimates. Annual fixed effects are included in all models. The *z*-statistics are computed using standard errors corrected for clustering of observations by firm and are reported in parentheses below the estimates. *, **, and *** indicates significance at the 10%, 5%, and 1% level, respectively.

Panel A. Excluding firms above median NYSE log (Total Assets)

Independent Variable	Civil Rights	Labor	Environment	Securities	Int. Property	All
PCI	0.088*** (0.022)	0.073*** (0.005)	0.114*** (0.001)	–0.039* (–0.002)	–0.044* (–0.006)	0.052*** (0.017)
	(4.6)	(2.6)	(2.8)	(–1.7)	(–1.9)	(3.2)
Log (Total Assets)	0.438*** (0.112)	0.414*** (0.026)	0.394*** (0.003)	0.023 (0.001)	0.209*** (0.029)	0.390*** (0.126)
	(13.2)	(8.3)	(4.2)	(0.7)	(5.8)	(14.2)
N(Observations)	11,214	9,530	11,214	11,214	9,530	11,214
Pseudo R^2	0.098	0.074	0.098	0.039	0.047	0.091

Panel B. Including squared log (Total Assets)

Independent Variable	Civil Rights	Labor	Environment	Securities	Int. Property	All
PCI	0.075*** (0.025)	0.063*** (0.007)	0.051** (0.001)	–0.045*** (–0.003)	–0.043*** (–0.008)	0.046*** (0.018)
	(5.6)	(3.7)	(2.2)	(–3.0)	(–2.7)	(3.7)
Log (Total Assets)	0.578*** (0.205)	0.347*** (0.040)	0.573*** (0.013)	-0.214** (-0.014)	0.229** (0.044)	0.456*** (0.178)
	(4.9)	(2.8)	(3.7)	(-2.4)	(2.3)	(4.0)
Sq. Log (Total Assets)	–0.003 (–0.177)	0.003 (–0.000)	–0.010 (–0.000)	0.023*** (0.002)	0.004 (0.001)	–0.000 (–0.000)
	(–0.9)	(0.3)	(–1.1)	(3.9)	(0.58)	(–0.0)
N(Observations)	18,530	15,570	18,530	18,530	15,570	18,530
Pseudo R^2	0.226	0.208	0.271	0.068	0.129	0.210

Table A4. Litigation Propensity Probit Regression Estimates: The Financial Industry

This table reports the estimates from Probit models in which one of the measures of civil or securities litigation propensity is the dependent variable. The sample is limited to the financial industry firms. The dependent variables are binary variables equal to one if a fiscal year contains a litigation filing. Political values of top five managers (MGRREP), firm PACs (PACREP) and home-state residents (STATEREP) are measured as relative contributions to the Republican Party. The main firm-level political values variable is the PCI (Political Culture Index), which is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP. Unreported control variables include firm size, operating margin, leverage, market-to-book, stock return, managerial ownership and industry litigation activity. Firm size measured by the logarithm of book total assets. Operating margin is operating income before depreciation divided by net income. Leverage is current and long-term debt divided by total assets. Market-to-book is market-to-book equity. Stock return is daily returns compounded over fiscal year. Managerial ownership is the fraction of the firm's shares owned by top-five managers. Industry litigation activity is annual number of litigation filings in two-digit SIC industry scaled by total annual number of litigation filings. All control variables are lagged by one year. Marginal effects are reported in parentheses next to the estimates. Annual fixed effects are included in all models. The *z*-statistics are computed using standard errors corrected for clustering of observations by firm and are reported in parentheses below the estimates. *, **, and *** indicates significance at the 10%, 5%, and 1% level, respectively.

Independent Variable	Civil	Securities
PCI	0.098**	–0.047
	(2.2)	(–1.0)
Controls	YES	YES
Year FE	YES	YES
Firm Clustering	YES	YES
N(Observations)	3,634	3,634
Pseudo R^2	0.110	0.085

Table A5. Instrumental Variable Regression Estimates: Union Membership

Panel A reports results from first-stage instrumental variable OLS regression in which PCI is instrumented with home-state proportion of residents with union membership in 1990. Panel B reports a second-stage Probit regression modeling litigation using (predicted) PCI instrumented from the first stage. The dependent variables in Panel B are binary variables equal to 1 if fiscal year contains one or more litigation filings related to civil rights, labor, environmental, securities, intellectual property violations or all types of litigation. The key political values variable PCI (Political Culture Index) at the firm level is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP. Unreported control variables include firm size measured by the logarithm of book total assets. Operating margin is operating income before depreciation divided by net income. Leverage is current and long-term debt divided by total assets. Market-to-book is market-to-book equity. Stock return is daily returns compounded over fiscal year. Managerial ownership is the fraction of the firm's shares owned by top-five managers. Industry litigation activity is annual number of litigation filings in 2-digit SIC industry scaled by total annual number of litigation filings. All control variables are lagged by one year. Marginal effects are reported in parentheses next to the estimates. Annual fixed effects are included in all models. The *z*-statistics are computed using standard errors corrected for clustering of observations by firm and are reported in parentheses below the estimates. *, **, and *** indicates significance at the 10%, 5%, and 1% level, respectively.

Panel A: First Stage with % Union Membership Instrumental Variable

	Civil Rights	Labor	Environment	Securities	Int. Property	All
Independent Variable			Dependent Variable: PCI			
% Union Membership	–0.044***	–0.046***	–0.045**	–0.045***	–0.047***	–0.044***
	(–31.7)	(–31.7)	(–31.9)	(–32.0)	(–32.0)	(–31.7)
Log (Total Assets)	0.104***	0.109***	0.102***	0.110***	0.115***	0.104***
	(15.6)	(15.7)	(15.4)	(16.8)	(16.7)	(15.7)
Operating margin	0.242***	0.262***	0.238***	0.211***	0.241***	0.242***
	(5.26)	(5.4)	(5.2)	(4.6)	(5.0)	(5.3)
Leverage	0.256***	0.289***	0.251***	0.233***	0.282***	0.257***
	(4.9)	(5.3)	(4.8)	(4.4)	(5.2)	(4.9)
Market-to-Book	–0.008***	–0.007***	–0.007***	–0.008***	–0.008***	–0.008
	(–2.8)	(–2.6)	(–2.6)	(–2.9)	(–2.7)	(–2.9)
Stock Return	0.006	0.003	0.005	0.005	0.003	0.006
	(0.4)	(0.1)	(0.3)	(0.3)	(0.2)	(0.4)
Man. Ownership	–0.137	–0.147	–0.104	–0.120	–0.128	–0.135
	(–0.2)	(–1.4)	(–1.1)	(–1.2)	(–1.2)	(–1.4)
Indus. Civil Rights Lit.	0.090					
	(-1.4)					

Indus. Labor Lit.		0.651***				
		(5.2)				
Indus. Envir. Lit.			4.022***			
			(8.0)			
Indus. Securities Lit.				-0.931		
				(-3.3)		
Indus. Int. Prop. Lit.					-0.04**	
					(-0.0)	
Indus. All. Lit.						0.067***
						(5.2)
Year FE	YES	YES	YES	YES	YES	YES
N(Observations)	18,530	15,570	18,530	18,530	15,570	18,530
R^2	0.084	0.091	0.085	0.083	0.071	0.084
Weak instrument tests						
F(1, # obs)	1001.5	851.9	1015.7	1025.5	870.8	1007.0
Critical value at 10%	16.380	16.380	16.380	16.380	16.380	16.380
Endogenetity test stat.	1.8	4.2	0.0	0.9	59.3	0.2
Chi-sq(1) P-val	0.185	0.405	0.887	0.342	0.000	0.641

Panel B: Second Stage with % Union Membership Instrumental Variable

Independent Variable	Civil Rights	Labor	Environment	Securities	Int. Property	All
Predicted PCI	0.145** (0.052)	0.194** (0.023)	0.063 (0.002)	0.012(0.001)	–0.367*** (–0.070)	0.043(0.017)
	(2.1)	(2.4)	(0.6)	(0.16)	(–5.1)	(0.7)
Log (Total Assets)	0.463*** (0.165)	0.379*** (0.044)	0.395*** (0.009)	0.134*** (0.009)	0.320*** (0.061)	0.453*** (0.177)
	(23.8)	(18.6)	(16.6)	(7.4)	(17.9)	(24.3)
Operating margin	–0.527*** (–0.188)	–0.605*** (–0.070)	–0.438*** (–0.010)	–0.426*** (–0.029)	–0.102 (–0.019)	–0.505*** (–0.197)
	(–5.5)	(–5.9)	(–3.3)	(–4.9)	(–1.1)	(–5.7)
Leverage	–0.127 (–0.045)	–0.117 (–0.014)	-0.008 (-0.000)	–0.224* (–0.015)	–0.677*** (–0.129)	–0.269*** (–0.105)
	(–1.1)	(–0.8)	(-0.1)	(–1.7)	(–4.6)	(–2.6)
Market-to-Book	0.005 (0.002)	0.012* (0.001)	–0.039*** (–0.001)	0.029*** (0.002)	0.033*** (0.006)	0.017*** (0.007)
	(1.1)	(1.8)	(–3.5)	(5.4)	(6.9)	(3.8)

Stock Return	–0.060*** (–0.021)	–0.018 (–0.002)	–0.016 (–0.000)	–0.162*** (–0.011)	–0.014 (–0.003)	–0.061*** (–0.024)
	(–2.8)	(–0.5)	(–0.4)	(–3.6)	(–0.6)	(–3.0)
Man. Ownership	0.336 (0.120)	0.001 (0.000)	–1.242* (–0.030)	–0.239 (–0.016)	-0.014 (–0.003)	0.230 (0.090)
	(1.3)	(0.1)	(–1.9)	(–1.0)	(–0.1)	(1.0)
Indus. Civil Rights Lit.	0.281*** (0.100)					
	(5.6)					
Indus. Labor Lit.		1.859*** (0.216)				
		(6.7)				
Indus. Envir. Lit.			5.254*** (0.125)			
			(5.5)			
Indus. Securities Lit.				2.202*** (0.148)		
				(5.8)		
Indus. Int. Prop. Lit.					2.102*** (0.400)	
					(8.3)	
Indus. All. Lit.						0.227*** (0.089)
						(5.4)
Year FE	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES
N(Observations)	18,530	15,570	18,530	18,530	15,570	18,530
Pseudo R^2	0.223	0.207	0.269	0.062	0.133	0.209

Table A6. The Effect of Governance and CEO Legal Expertise on the Expression of Political Firm Culture

This table reports the estimates from Probit models in which one of the measures of litigation propensity is the dependent variable. The dependent variables are binary variables equal to one if a fiscal year contains a litigation filing related to civil rights, labor, environmental, securities, intellectual property violations, or all types of litigation In Panels A and B we use observations with director ownership below and above annual sample median. In Panels C and D we include and exclude firms where CEO holds a J.D. degree. Political values of top five managers (MGRREP), firm PACs (PACREP) and home-state residents (STATEREP) are measured as relative contributions to the Republican Party. The main firm-level political values variable is the PCI (Political Culture Index), which is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP. Unreported control variables include firm size, operating margin, leverage, market-to-book, stock return, managerial ownership and industry litigation activity. Firm size measured by the logarithm of book total assets. Operating margin is operating income before depreciation divided by net income. Leverage is current and long-term debt divided by total assets. Market-to-book is market-to-book equity. Stock return is daily returns compounded over fiscal year. Managerial ownership is the fraction of the firm's shares owned by top-five managers. Industry litigation activity is annual number of litigation filings in two-digit SIC industry scaled by total annual number of litigation filings. All control variables are lagged by one year. Marginal effects are reported in parentheses next to the estimates. Annual fixed effects are included in all models. The *z*-statistics are computed using bootstrapped standard errors corrected for clustering of observations by firm and are reported in parentheses below the estimates. *, **, and *** indicates significance at the 10%, 5%, and 1% level, respectively.

Panel A. Low director ownership

Independent Variable	Civil Rights	Labor	Environment	Securities	Int. Property	All
PCI	0.116***(0.045)	0.077***(0.012)	0.022 (0.001)	–0.076*** (–0.006)	–0.057** (–0.014)	0.077** (0.030)
	(5.3)	(2.9)	(0.6)	(–2.9)	(–2.3)	(3.6)
N(Observations)	4,721	4,206	4,721	4,721	4,206	4,721
Pseudo R^2	0.292	0.225	0.242	0.096	0.145	0.276

Panel B. High director ownership

Independent Variable	Civil Rights	Labor	Environment	Securities	Int. Property	All
PCI	0.076*** (0.023)	0.071*** (0.007)	-0.003 (0.001)	–0.013 (–0.001)	–0.073*** (–0.012)	0.070*** (0.016)
	(4.0)	(2.7)	(-0.1)	(–0.6)	(–3.2)	(2.6)
Year FE	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES
N(Observations)	7,381	6,534	7,381	7,381	6,534	7,381
Pseudo R^2	0.165	0.142	0.242	0.062	0.097	0.156

Panel C. CEOs with J.D. degrees						
Independent Variable	Civil Rights	Labor	Environment	Securities	Int. Property	All
PCI	0.041 (0.016)	0.047(0.007)	0.020 (0.001)	–0.055 (–0.003)	–0.043** (–0.019)	0.010 (0.004)
	(0.8)	(0.7)	(0.2)	(–1.1)	(–2.2)	(0.2)
Year FE	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES
N(Observations)	980	831	980	980	831	980
Pseudo R^2	0.273	0.230	0.261	0.064	0.167	0.253

Panel D. CEOs without J.D. degrees						
Independent Variable	Civil Rights	Labor	Environment	Securities	Int. Property	All
PCI	0.066*** (0.025)	0.057*** (0.008)	0.043* (0.001)	–0.053*** (–0.004)	–0.032* (–0.007)	0.040*** (0.016)
	(3.9)	(3.0)	(1.7)	(–2.8)	(–1.7)	(2.6)
Year FE	YES	YES	YES	YES	YES	YES
Firm Clustering	YES	YES	YES	YES	YES	YES
N(Observations)	11,516	9,882	11,516	11,516	9,882	11,516
Pseudo R^2	0.230	0.212	0.278	0.074	0.130	0.220

Table A7. The Effect of Media Coverage on Litigation Filing Returns

Panel A reports average abnormal returns CAR(–1,1) at litigation filings and their significance for lawsuits checked for media coverage within two weeks prior to the filing. The 3-day cumulative abnormal return CAR(-1,1) is estimated using the market model and Fama-French 3-factor and 4-factor models (FF3F and FF4F). Panel B reports estimates from OLS regressions in which abnormal returns serve as dependent variables. The key political values variable PCI at the firm level is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP). Controls include the following variables. Media coverage equals one if the lawsuit or initial violation received any print media coverage in the two weeks prior to the lawsuit filing. Lawsuit length is the number of years from lawsuit filing to its termination. Lost (settled) is a binary indicator equal to one if the lawsuit is subsequently lost or settled. Firm size is measured by the logarithm of book total assets. Operating margin is operating income before depreciation divided by net income. Leverage is current and long-term debt divided by total assets. Market-to-book is market-to-book equity. Stock return is daily returns compounded over fiscal year. Standard deviation of stock return is computed using daily returns over a fiscal year. Managerial ownership is the fraction of the firm's shares owned by top-five managers. Industry litigation activity is annual number of litigation filings in 2-digit SIC industry scaled by total annual number of litigation filings. All control variables are lagged by one year. Annual fixed effects are included in all models. The *t*-statistics are computed using standard errors corrected for clustering of observations by firm and are reported below the estimates. *, **, and *** indicates significance at the 10%, 5%, and 1% level, respectively.

Panel A. Average CAR(–1,1) by media coverage

Variable	Checked for Media Coverage	With Media Coverage	Without Media Coverage
MM CAR(–1,1)	–0.104%	–0.161%	–0.099%
t-stat.	(–1.4)	(–0.4)	(–1.3)
FF3F CAR(–1,1)	–0.123%	–0.123%	–0.122%
t-stat.	(–1.5)	(–0.3)	(–1.5)
FF4F CAR(–1,1)	–0.117%	–0.127%	–0.116%
t-stat.	(–1.3)	(–0.3)	(–1.3)
N(Observations)	3,124	223	2,901

Panel B. Effect of Media Coverage on Filing Returns

Independent Variable	CAR (–1,1)	FF3F CAR(–1,1)	FF4F CAR(–1,1)
PCI	–0.009	0.011	0.010
	(–0.2)	(0.2)	(0.2)
Media Coverage	–0.386	–0.243	–0.302
	(–1.0)	(–0.6)	(–0.7)
N(Observations)	2,736	2,736	2,736
R^2	0.008	0.009	0.009

Table A8. Market Reaction to Litigation Events Using Cumulative Abnormal Returns

The table reports estimates from OLS regressions in which FF4F CAR(–1,1) serve as dependent variables. CAR(–1,1) is the 3-day cumulative abnormal return computed using the Fama-French 4-factor model. Political values of top five managers (MGRREP), firm PACs (PACREP) and home-state residents (STATEREP) are measured as relative contributions to the Republican Party. The key political values variable PCI (Political Culture Index) at the firm level is the sum of annual tercile rankings of MGRREP, PACREP, and STATEREP). Lawsuit length is the number of years from lawsuit filing to its termination. Industry litigation activity is annual number of litigation filings in 2-digit SIC industry scaled by total annual number of litigation filings. Other control variables include firm size measured by the logarithm of book total assets. Operating margin is operating income before depreciation divided by net income. Leverage is current and long-term debt divided by total assets. Market-to-book is market-to-book equity. Stock return is daily returns compounded over fiscal year. Standard deviation of stock return is computed using daily returns over a fiscal year. Managerial ownership is the fraction of the firm's shares owned by top-five managers. Lost (settled) is a binary indicator equal to one if the lawsuit is subsequently lost or settled. All control variables are lagged by one year. Annual fixed effects are included in all models. The *t*-statistics are computed using standard errors corrected for clustering of observations by firm and are reported below the estimates. *, **, and *** indicates significance at the 10%, 5%, and 1% level, respectively.

FF4 CAR(–1,1) Regression Estimates						
Independent Variable	Civil Rights	Labor	Environment	Securities	Int. Property	All Litigation
PCI	–0.015	0.024	–0.181*	–0.372**	–0.047	–0.038*
	(–0.7)	(0.4)	(–1.9)	(–2.3)	(–0.8)	(–1.7)
Lawsuit Length	–0.011	–0.147	0.025	–0.095	–0.005	–0.057*
	(–0.4)	(–1.2)	(0.4)	(–0.7)	(–0.1)	(–1.7)
Lost/Settled Lawsuit	0.070	–0.003	0.144	–0.383	–0.323**	0.017
	(1.2)	(–0.0)	(0.5)	(–0.8)	(–2.0)	(0.3)
N(Observations)	25,376	2,473	833	2,365	3,271	34,318
R^2	0.001	0.001	0.029	0.024	0.012	0.002