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CEO Political Ideology, Shareholder Primacy and Payout Policy

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We would like to thank participants at the 6th Annual International Corporate Governance Society Conference at Strome College of Business, Old Dominion University, in November 2020, the 2020 Annual Meeting of the Academy of Management, and the Workshop on Corporate Governance and Investment at Copenhagen Business School in 2022 for helpful comments and suggestions. We are particularly grateful to Hossein Asgharian. Research reported in this paper was partially funded by the Spanish State Research Agency (AEI) /10.13039/501100011033) Grant No. PID2020115982RBC22.

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Abstract

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Keywords: CEO Political Ideology, Payout Policy, Dividend Policy, Share Repurchases, Corporate Governance, Stakeholders

JEL Classifications: G35, G34

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Abstract

This study investigates how CEO political ideology affects payout policy. We argue that CEO political ideology determines how CEOs prioritize the interests of shareholders and employees. We hypothesize that conservative CEOs are more likely to pay dividends, to pay higher dividends, and to conduct share repurchases. Studying the CEOs of S&P 500 firms during 1997-2019 and measuring CEO political ideology by CEO political donations, we can confirm our hypothesis. Nevertheless, we do not find that firms with conservative CEOs perform differently; nor are they less likely to cut dividends. We provide possible reasons for this pattern.

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1 INTRODUCTION

Starting with Lintner's (1956) seminal paper, an extensive literature has investigated the determinants of payout policy. This literature has sought to identify the determinants of both differences in dividend payouts and differences in the flexibility of dividends, typically by focusing on firm and country characteristics. For example, La Porta et al. (2000), who study approximately 4000 firms from 33 different countries, find that firms from countries with strong investor protection pay higher dividends than those from countries with weaker investor protection. Furthermore, while US firms are reluctant to cut or omit their dividend (DeAngelo and DeAngelo, 1990), firms from other countries are much less reluctant to do so (see e.g., Dewenter and Warther, 1998, for Japan; Goergen et al., 2005, for Germany; Chemmanur et al., 2010, for Hong Kong; and Hail et al., 2014, for a cross-country study). Finally, Chen et al. (2017) report that US firms with female non-executives pay higher dividends, suggesting that female directors put more emphasis on dividends to mitigate principal-agency problems (Rozeff, 1982; Easterbrook, 1984).

In contrast, the literature explaining differences in payout policy by CEO characteristics and attributes (e.g.; Deshmukh et al., 2013; Caliskan and Doukas, 2015; Faulkner and García-Feijóo, 2021) is still marginal. This is somewhat surprising given that there is a sizeable body of the literature, which suggests that CEO preferences and attitudes – including CEO political ideology – affect corporate policies and decision making. To the best of our knowledge, the present study is the first study that examines the effects of CEO political ideology on payout policy.

Why would there be a link between payout policy and CEO political ideology? The literature suggests that CEO political ideology affects how the CEO prioritizes the interests of various corporate stakeholders. Based on a survey, Sturdivant and Ginter (1977) find that the best (worst) socially performing firms, as identified by the media, are led by executives who maintain liberal (conservative) attitudes toward business and social issues while promoting (demoting) corporate responsiveness to ecological matters, employee welfare, consumerism, and the like. Further, Sturdivant (1979) observes fundamental differences between the values of executives and a group of

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stakeholders (namely activists). He finds that the executives, including the CEOs, of the best socially performing firms have higher liberal scores and are more sensitive to stakeholder concerns.[1] Similarly, Adams et al. (2011) study the personal values of CEOs in Sweden. They find that these values predict how much emphasis the CEO puts on shareholder interests relative to the interests of other stakeholders. Specifically, they find that CEOs who hold greater achievement, power, and self-direction values and lower universalism values – values typically associated with conservatism – tend to focus on shareholder interests.[2] Using the same value constructs, Licht and Adams (2019) examine 900 directors from over 50 countries of origin and confirm the association between the attention the directors give to their shareholders (what they refer to as "shareholderism") and the directors' personal values.

Building on these contributions, we study how the political ideology of the CEO as a key determinant of the CEO's attitudes toward the shareholders and other stakeholders affects payout policy. Shareholders provide the firm with the necessary capital and in turn expect a return on their investment (La Porta et al., 2000). Dividend and share repurchases are then mechanisms through which the CEO returns money to the shareholders. The relative importance accorded to shareholder interests and worker interests has since long ago been the subject of a debate between individuals of a left political leaning and those of a right political leaning. More precisely, CEOs with conservative views are expected to pay more attention to shareholders. We hypothesize that this focus of their attention is reflected in the firm's payout policy. If this hypothesis is valid, conservative CEOs are more likely to pay dividends, more likely to pay higher dividend, and more likely to make share repurchases.

[1] Sturdivant (1979) uses the management attitude survey developed by Sturdivant and Ginter (1977). He attributes a score to each respondent ranging from a "broad" (i.e., liberal) to a "narrow" (i.e., conservative) view on business and social issues. A high liberal score means that the respondent has a broad view of business and promotes corporate responsiveness to social issues.

[2] They utilize the personal value measures developed by Schwartz et al. (2001). Achievement is related to personal success through demonstrating competence according to social standards; power refers to social status and prestige; self-direction refers to independent thought and action-choosing; and universalism equates to understanding, appreciation, tolerance, and protection of the welfare of all people and of nature. For a more detailed list of values and their definitions, see Adams et al. (2011).

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We exploit a dataset that comprises CEOs of S&P 500 firms and covers the period of 1997 to 2019. A number of extant studies (e.g.; Elnahas and Kim, 2017; Hutton et al., 2014; Briscoe et al., 2014) use data on CEO political donations to measure the political ideology of the CEO. Similar to these studies, we use the political donations to the Republican and Democratic parties made by each individual CEO to measure the CEO's level of conservatism. We find that conservative CEOs are more likely to be at the helm of dividend paying firms as well as firms with consistently higher dividend payouts and those making share repurchases. Firms with conservative CEOs are also more likely to make asset divestments, which then result in an increase in the dividend payout. However, and contrary to expectations, we do not observe differences between conservative CEOs and all other CEOs in the flexibility of dividend policy as evidenced by differences in the likelihood of dividend cuts, initiations, and re-initiations. This might suggest, that while CEOs have some discretion about dividend policy, they are also constrained by the capital market, which tends to penalize CEOs and other executives heavily for dividend cuts (e.g., Kaplan and Reishus, 1990).

This paper makes two major contributions to the literature. First, to the best of our knowledge this is the only study investigating the effect of CEO political ideology on payout policy. By filling this gap, this paper contributes to the literature that examines how CEO attributes affect payout policy (e.g.; Deshmukh et al., 2013; Caliskan and Doukas, 2015; Onali et al., 2016; Faulkner and García-Feijóo, 2021). Second, this paper adds to the literature that investigates the effects of executives' political preferences on corporate decisions (e.g.; Elnahas and Kim, 2017; Hutton et al., 2014; Briscoe et al., 2014; Chin et al., 2013; Unsal et al., 2016; Francis et al., 2016; Cohen et al., 2019). Hence, this paper also contributes to cross-disciplinary research that links decision-making of corporate executives to their personal attributes (Hambrick and Mason, 1984; Bertrand and Schoar, 2003) and more specifically to the attention the executives accord to the shareholders and other stakeholders (Hill and Jones, 1992; Mitchell et al., 1997; Adams et al., 2011; Licht and Adams, 2019).

[2]See Swigart et al. (2020) for a discussion about the conceptualization of political ideology.

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The rest of this paper is organized as follows. Section 2 reviews related work and develops the hypotheses. The next section explains the sample selection and methodology. This is followed by Section 4, which discusses the results from the empirical analysis. Section 5 then focuses on the identification strategy whereas Section 6 provides further analysis and a battery of robustness tests. The final section contains the discussion and ends with concluding remarks.

2 RELATED WORK AND HYPOTHESIS DEVELOPMENT

2.1 CEO Political Ideology and Corporate Decision Making

An extensive body of empirical research examines the nature and magnitude of the overall CEO effect as well as the importance of specific CEO characteristics and personal values for firm behavior and decision making. More recently, there has been a surge in the number of studies focusing on the political ideology of CEOs (see Swigart et al. (2020) for a review). Evidence supports the view that conservative and liberal CEOs behave differently and have different management styles. In detail, right-leaning CEOs are more likely to follow conservative corporate policies. For example, they raise lower levels of corporate debt, invest less in research and development (R&D), and undertake less risky investments (Hutton et al., 2014). Republican CEOs also engage in fewer mergers & acquisitions (M&As), and, when they do, they are more likely to acquire public firms within the same industry and use cash as the method of payment (Elnahas and Kim, 2017). Further, Unsal et al. (2016) find that the effects of lobbying on firm performance vary across firms with different managerial political orientations. Importantly, they find that greater lobbying expenditure as well as lobbying a larger number of bills fail to create value for firms with conservative managers. Francis et al. (2016) associate Republican CEOs with more corporate tax sheltering, even when their wealth is not tied to that of the shareholders and when corporate governance is weak. Finally, Gupta et al. (2018) use CEO political ideology as an explanation for even-handedness in resource allocation, defined as the degree to which every unit in an organization receives the same capital allocation. They observe that liberal CEOs favor even-handedness, while conservative CEOs sup-

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port the view that resources should flow to their most efficient users, and hence tolerating greater disparity.

Adding to this body of work, we explore the link between CEO political ideology and dividend policy. We argue that the political ideology of the CEO influences the attention that the CEO accords to various corporate stakeholders. More specifically, does payout policy, including the maintenance of a stable dividend and buying back shares, deserve priority or do employees and their job security deserve priority? In the remaining part of this section, we review the existing empirical research on the link between CEO political preferences and their attitudes toward the two main corporate stakeholders, i.e., the shareholders and the employees. We also develop our hypotheses.

2.2 CEO Political Preferences and Attitudes Toward Corporate Stakeholders

In their review of political ideology in organizations, Swigart et al. (2020) argue that political ideology represents a set of linked values (Jost, 2006) or beliefs that certain behaviors are to be preferred to others (Rokeach, 1973). These values range from left or liberal to right or conservative. Liberal values tend to include social justice and economic equality, which would require regulated markets and government-led changes to society (Jost, 2006). In contrast, conservative values tend to emphasize free markets and individualism, while respecting authority and tolerating wealth inequalities (McClosky and Zaller, 1984). Importantly, previous research on CEOs (and other corporate board members) has highlighted that a key difference between conservative and liberal values is the level of attention accorded to various stakeholder groups (Adams et al., 2011; Licht and Adams, 2019; Gamache et al., 2020). More specifically, CEOs with a conservative ideology have been shown to side with the shareholders rather than the employees.

Still, why should the political view of the CEO explain the level of attention he or she accords to the shareholders and employees (as well as potentially other stakeholders)? We theorize that this relation is conditioned by how a boundedly rational CEO filters and interprets information. We argue that one's political ideology has psychological roots and stems from one's social-cognitive motives

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(Jost et al., 2003). One of the key social-cognitive motives is the epistemic needs. Knowledge acquisition is costly as it demands the availability of various knowledge structures about different scenarios as well as using considerable cognitive and mental resources. As a result, individuals tend to adhere to a political ideology to overcome these costs. Given the emphasis of right-wing ideology on uncertainty avoidance, it is expected that individuals that embrace such an ideology value actions that reduce uncertainty and the anxiety associated with it. In a corporate system where shareholder primacy is still the dominant view, and where there may only be one single objective to pursue, i.e., the maximization of shareholder value, the CEO's decisions may be less impacted by the preferences of the firm's other stakeholders. In addition, as these preferences are often not easily observable they could be ambiguous. Pursuing a single objective is hence associated with less uncertainty and should be the choice of a conservative CEO.

Hence, we argue that conservative CEOs pay more attention to shareholder interests (as compared to employee interests) and make decisions that correlate with that prioritization. In support of this argument, Gupta et al. (2019) report that conservative CEOs are more likely to cut their workforce. We argue that this increased attention for shareholder concerns translates into a greater likelihood of paying dividends and repurchasing shares as well as paying greater dividend payouts. Accordingly, we formulate our hypotheses as follows:

Hypothesis 1: *Firms with conservative CEOs are more likely to pay dividends and repurchase shares.*

Hypothesis 2: *Firms with conservative CEOs have significantly higher dividend payouts.*

Finally, given the hypothesized focus on shareholders for conservative CEOs, we anticipate that conservative CEOs, when compared to all other CEOs, focus on shareholder concerns, even in the short run and even when such a focus may be detrimental to the employees of the firm. Downsizing and asset divestments may then be seen as legitimate options for increasing the amount of free cash flow available.[3] In turn, this newly created free cash flow could be used to maintain or

[3] In support of our argument, Gupta et al. (2019) find that conservative CEOs are more likely to downsize their workforce.

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increase dividends. Put differently, asset divestments and employee downsizing may be seen as a legitimate strategy by conservative CEOs to maintain the dividend given that paying attention to the interests of their employees is not their number one priority. Previous studies confirm that a shift from a stakeholder orientation toward a shareholder orientation is a key determinant of asset divestitures and employee downsizing both at the country level and the managerial level (Ahmadjian and Robbins, 2005; Lazonick and O'Sullivan, 2000; Jung, 2014; Bettinazzi and Feldman, 2021).

Hypothesis 3: *Firms with conservative CEOs pay more dividends, even if this requires redundancies or asset divestments.*

3 SAMPLE SELECTION AND METHODOLOGY

3.1 Sample Selection

We collect CEO data from ExecuComp and match it with firm financial data obtained from Compustat. The sample includes all the CEOs of S&P 500 firms who served as CEO for at least three consecutive years between 1997 and 2019. This sample is then merged with board data obtained from the Institutional Shareholder Services (ISS) Director database. After constructing the dependent and control variables and discarding missing observations, the final sample contains 827 unique CEOs and 3986 CEO-year observations.

For each CEO in the sample, we obtain the political donations data from the Federal Election Commission (FEC). The FEC is an independent regulatory agency and has jurisdiction over the financing of political campaigns in the United States. Since 1979, it has been publicly disclosing detailed information about all financial contributions above $200 made by individuals to the federal election campaigns. We scrape the data directly from the FEC web page using its OpenAPI platform. We manually check the harvested data and filter out CEOs from other donors with similar names, using information about occupation, employer, and address.

The CEO donations recorded by the FEC consist of direct donations, which are the contributions made by the CEO individually to candidates or party committees, as well as indirect donations,

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which are the donations made via a Political Action Committee (PAC). The direct and indirect donations differ in two ways. First, for the direct contributions the CEO has complete control over which politician or political party receives the donation. In contrast, donations made by the CEO indirectly via a PAC passes through a third party, which determines the ultimate candidate and political party recipients (Fremeth et al., 2013). Second, the aggregate direct donations made by executives have been shown to be consistently partisan across election cycles, a pattern similar to that of ordinary donors but in contrast to the donation patterns of corporate PACs (e.g.; Cooper et al., 2010; Bonica, 2016). Given these differences and in line with previous studies (e.g.; Hutton et al., 2014), we only consider CEOs' *direct* contributions to the Republican and Democratic parties.

As it is not uncommon for CEOs to make more than one donation to a party in the same year, we aggregate the donations for each year to obtain the dollar value of the total contributions to each party for each CEO. The median for total political donations during the entire period covered by the FEC (i.e., 1979-2019) is $38,436 for individuals who were CEOs of S&P 500 firms during our period of study (i.e., 1997-2019). The median is $6,500 if we only consider donations made by the donors when they were the CEOs of S&P 500 firms. As we discuss in the following sub-sections, we construct our measure of political ideology considering the donations made by the CEO during the CEO's tenure of an S&P 500 firm (i.e., the years when the CEO was a CEO of an S&P 500 firm during our period of study) *only*, while excluding the donations made a year before presidential elections. However, the results are robust to the use of life-time donations of the CEOs as well as to the inclusion of the donations made a year before presidential elections. Applying these criteria, we identified 501 out of the 827 CEOs with at least one donation to the Republican or Democratic party.

3.2 Measuring the Political Ideology of the CEO

A growing body of work has reported the emergence and persistence of the polarization of US politics since the 1970s when the Republicans and the Democrats became more divided along ide-

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ological lines, with the Democrats moving to consistently liberal positions and the Republicans to exclusively conservative ones (e.g.; Poole and Rosenthal, 1984; McCarty, 2006; Poole and Rosenthal, 1997; Johnston et al., 2020; Swigart et al., 2020). Evidence also suggests that both voters and political activists (including those who contribute money to candidates or parties) have also become much more separated across party lines and that their partisanship is increasingly aligned with their ideological preferences (Hetherington, 2001; Levendusky, 2009; Layman et al., 2010; Layman and Carsey, 2002; McCartney et al., 2021). As such, it is highly likely that the political donations to each party reflect the political ideology of the donor, and therefore these donations can be used to construct a proxy for the political ideology of the donor.

However, constructing a measure of political ideology for CEOs based on their donations to political parties is not straightforward for the following two reasons. First, as CEOs pursue strategic objectives for their firm, any donations made by a CEO may be regarded as strategic or opportunistic giving rather than being a reflection of his or her personal political ideology. In fact, the patterns in executive political giving have been shown to be consistent with both ideological intent (Fremeth et al., 2013; Bonica, 2016) and strategic considerations (Gordon et al., 2007; Richter and Werner, 2017). Second, if the political ideology of the CEO does not remain constant over time, then using CEO donations across years to compute an aggregate, time-invariant measure of ideology is subject to bias. In what follows, we discuss and address these two concerns to construct a valid measure of CEO political ideology.

Evidence suggests that, unlike corporate PAC contributions, the direct donations made by CEOs are more partisan, tend to go to the non-incumbents, and are less likely to target powerful legislators. Hence, it is highly likely that CEO political donations reflect CEO rather than corporate ideology (Bonica, 2016; Hibbing et al., 2014). In the same vein, the fact that CEO political donations are relatively small suggests that they are more likely a reflection of CEO political ideology rather than money for favors. Nevertheless, there also exists evidence supporting the competing view that donations made by CEOs are strategic. For example, Gordon et al. (2007) find support for the view that the donations reflect strategic intent by documenting a positive association between

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the level of CEO wealth linked to the firm and CEO political donations. Given these conflicting empirical findings, it is essential to examine this issue in more detail.

We conduct two tests to examine whether CEOs donate because of strategic considerations. First, we examine whether CEO share ownership varies across CEOs who donate to the Republican party, the Democratic party, or both. We find that CEOs who donate to both parties own a slightly higher stake in their firm (the average is 1.251%) compared to CEOs donating to the Republican party only (1.174%), CEOs donating to the Democratic party only (1.063%), and CEOs with no political donations (0.607%). Second, we plot the fraction of CEOs who donated to the Republican party, the Democratic party, or to both parties for each year. To be able to cover as many years as possible we focus on all the donations made by the CEO since 1979. Figure 1 presents the results. The plot reveals that the number of CEOs donating to both parties peaks just before presidential elections, suggesting that some CEOs donate strategically. To minimize the potential effects of opportunistic donations, we ignore the donations made a year before each presidential election when constructing our political ideology measure. Nevertheless, as a robustness check we find that including the donations made in the year before a presidential election does not change our results materially.[4]

Insert FIGURE 1 about here.

Even if a CEO's political donations are a true reflection of that CEO's ideology, the assumption that ideology remains constant over time needs to be validated. Indeed, CEO political ideology could potentially be determined by time variant factors such as age, income, and wealth. Therefore, we evaluate the association between the fraction of total CEO donations to the Republican party on the one side and CEO age, income, and wealth on the other side. We use the CEO's cash compensation as a proxy for the CEO's income, and CEO share ownership as a proxy for CEO wealth.

[4]To further minimize the impact of opportunistic political donations, we also control for CEO share ownership in our regression analysis.

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Figure 2 contains three scatter plots illustrating the relationship between the fraction of total donations given to the Republicans on the vertical axis and CEO age (Plot (a)), the logarithm of one plus CEO cash compensation (Plot(b)), and CEO share ownership (Plot (c)), respectively, on the horizontal axis. For any given year, each data point represents the combination of CEO political donations on the one side and age, cash compensation, and share ownership, respectively, on the other side, for each CEO. Plot (a) documents a low, yet significantly positive correlation (at the 1% level) between donations to the Republicans and CEO age (correlation coefficient of 0.07). In turn, Plot (b) does not reveal a significant correlation between CEO political donations to the Republicans and income (correlation coefficient of -0.02). Finally, Plot (c) reports a positive and significant correlation (at the 10% level) between donations to the Republicans and CEO share ownership (correlation coefficient of 0.04). Overall, these patterns confirm the view that the political ideology of a CEO is consistent over time and at worst is weakly correlated with time-varying CEO characteristics.

Insert FIGURE 2 about here.

However, to mitigate the effects of CEO age and other potential time-varying factors on CEO political ideology, we construct a political ideology measure based on the donations made by the CEOs during their *tenure* as CEO of an S&P 500 firm (i.e., the years when they were CEO of an S&P 500 firm during our period of study). It should be noted that the average and median CEO age is 57 years (see Table 1). If we only focus on the donations made by the donors when they were CEO of an S&P 500, as expected the correlation coefficient in Plot (a) of Figure 2 is no longer significant and equals 0.01. Nevertheless, to be consistent with prior studies that construct a measure of CEO ideology considering CEO donations during the CEO's *entire life-time* (e.g.; Briscoe et al., 2014; Chin and Semadeni, 2017; Gupta et al., 2018), in the robustness section, we also use a CEO political ideology measure based on the CEO's life-time donations (i.e., considering all the donations made by the CEO in the period 1979-2019). The results do not change materially when

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using this alternative measure. After excluding all the donations made by the CEOs a year before the presidential elections and focusing on the donations made by the CEOs during their tenure as CEO, we construct $CEO\ conservatism$ as the fraction of total donations given to the Republican party (see e.g.; Elnahas and Kim (2017); Unsal et al. (2016); Chin et al. (2013). Therefore, we formulate our measure of political ideology, i.e., $CEO\ conservatism$, as:

$$CEO\ conservatism = \frac{Total\ amount\ donated\ to\ Republican\ party\ during\ tenure}{Total\ amount\ donated\ to\ Republican\ party\ and\ Democratic\ party\ during\ tenure}$$

This measure potentially ranges from zero (indicating a purely liberal CEO) to one (indicating a purely conservative CEO). We set the measure to 0.5 for CEOs who did not make any political donations (see e.g., Chin et al. (2013)). Therefore, the center point of 0.5 captures CEOs without political donations (i.e., 318 CEOs) as well as CEOs who during their tenure donate an equal amount to both parties (i.e., 266 CEOs). Using the same criteria, we construct an alternative measure of CEO political ideology consisting of the following three indicator variables: 1) $Conservatives$ takes the value of one if $CEO\ conservatism$ is above 0.5, and zero otherwise; 2) $Liberals$ takes the value of one if $CEO\ conservatism$ is below 0.5, and zero otherwise; and 3) $NonPartisans$ takes the value of one if $CEO\ conservatism$ equals 0.5, and zero otherwise.

3.3 Empirical Specifications

To test the validity of our first hypothesis, we examine the likelihood of the firm being a dividend-paying firm given the category of its CEO. We estimate the following logit model:

$$Prob\ (Firm\ pays\ dividend\ in\ year\ t) = f\ (CEO\ political\ ideology_i;\ X;\ \epsilon) \qquad (1)$$

The dependent variable is an indicator variable taking the value of one if the firm payed a dividend in year *t*, and zero otherwise. The main variable used to measure CEO political ideology is $CEO\ conservatism$. As a robustness check, we replace $CEO\ conservatism$ with the three

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indicator variables of CEO political ideology, i.e., $NonPartisans$, $Liberals$, and $Conservatives$. When we use the three indicator variables, conservative CEOs form the base case.

The focus of Eq. 1 is on dividends. However, e.g., Michaely and Moin (2022) argue that there has been a cross-sectional substitution effect whereby firms have substituted share repurchases for dividends. Hence, we also examine whether CEO political ideology affects the probability of a firm paying a dividend, repurchasing shares, or doing both. We classify a firm as a share repurchasing firm in a given year if we observe an increase in the firm's common treasury stock, or if the value of common treasury stock is zero, but the difference between stock purchases and stock issuances is positive. The equation we estimate is identical to equation 1. However, the dependent variable is now different. It is $Payout\ type$, which can take the following four possible values: *"No repurchase, no dividend"* for firm-year observations with neither a dividend per share nor share repurchases, *"Repurchase only"* for firm-year observations with stock repurchases only, *"Dividend only"* for firm-year observations with a non-zero dividend per share only, and *"Both"* for firm-year-observations with both a dividend per share and share repurchases. We use the *"No repurchase, no dividend"* case as the base case. Except for the dependent variable, the specification used to run the regressions is identical to Eq. 1. Given the nature of the dependent variable, this equation is estimated as a multinomial logit.

In order to test the validity of hypothesis 2, we estimate the following baseline model:

$$Dividend/NI_{it} = \alpha + \beta CEO\ political\ ideology_i + \gamma X_{it-1} + \sum_{j=1} Industry_{ij} + \sum_{t=1} Year_{it} + \epsilon_i \tag{2}$$

$Dividend/NI_{it}$ is the dependent variable. It is the dividend payout for firm i in year t. It is defined as common dividends over net income (Dividend/NI). In the robustness section, we also consider common dividends over beginning of the year total assets (Dividend/TA), common dividends over sales (Dividend/Sales), the dividend yield, and the dividend per share. $Political\ ideology_i$ measures the political preference of the CEO of firm i and is measured as explained above.

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X_{it-1} is a vector of firm-level, board-level, and CEO-level controls as described below. The $Industry_j$'s are the industry-fixed effects, based on the Fama-French 12-industry classification. The $Year_t$'s represent the year-fixed effects.

We include a number of firm-specific controls commonly used in studies explaining dividend payouts (e.g.; Chen et al., 2017). These include the following. Firm size is measured by the logarithm of total assets. Firm age is the number of years since the firm first appeared in the CRSP database. Tobin's q is the ratio of the market value of assets to the book value of assets. The market value of assets is defined as the book value of assets plus the market value of common equity minus the sum of the book value of common equity and deferred taxes. Leverage is the sum of short-term and long-term debt. Cash holdings equal cash and marketable securities. Return on assets (ROA) is earnings before interest, tax, depreciation, and amortization (EBITDA). Asset tangibility is net property, plant, and equipment (PPE). R&D spending is research and development expenses. As firms with missing R&D expenses in their 10-K do not have material R&D expenses, we replace the missing R&D values with zero (e.g.; Brown and Petersen, 2011; He and Wintoki, 2016). We normalize leverage, cash holdings, ROA, asset tangibility, and R&D by the beginning of year total assets. To mitigate the potential effects of outliers, we winsorize the dependent variable and the aforementioned control variables at the 1st and 99th percentiles. Finally, when using common dividends over net income as the measure for the dividend payout, we exclude firm-year observations with negative net income.

In addition, we control for a number of board-level and CEO-level variables. They comprise board size, the fraction of independent directors on the board, an indicator variable for CEO duality, CEO age, CEO tenure, and CEO share ownership.[5] Finally, we include Bebchuk et al.'s (2009) E-index to measure board entrenchment. The definitions of all the variables are reported in the Appendix.

[5]See Onali et al. (2016) who use CEO tenure and CEO share ownership as a proxy for CEO power in a sample of European banks. They find that more powerful CEOs pay lower dividends and are associated with lower financial performance.

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To provide further support for hypothesis 2 and to test the validity of hypothesis 3, we focus on CEO appointments, perform a difference-in-differences (DiD) analysis, and estimate the following three equations. The rationale for the DiD analysis is that newly appointed CEOs are likely to imprint their managerial style on the firm, which may be substantially different from that of their predecessor, and this likely causes a change in firm strategy. As such, studying the changes in payout policy in relation to divestments and downsizing may be relevant within the context of the firm appointing a new CEO. Eq. 3a is used to test the validity of hypothesis 2. We use Eq. 3b and 3c to test the validity of hypothesis 3.

As to the CEO appointments, we are interested in transitions where a relatively liberal CEO is replaced by a relatively conservative one, and vice-versa. Following such transitions, we expect to observe a change in strategy from what Lazonick and O'Sullivan (2000) call "retain and reinvest" where the firm chooses to retain both the capital and the employees, and reinvest in physical capital and complementary human resources, to what they call "downsize and distribute" where the top management downsizes the corporation and cuts the size of the labor force, in an attempt to increase the return on equity. According to hypothesis 3, conservative CEOs sustain or increase their dividend payout if needed using the proceeds they raise from shedding labor and divesting assets. If valid, increases in the dividend per share of firms, which replace their liberal CEO with a conservative one should be associated with downsizing and divestments (Bennedsen et al., 2020). Finally, note that examining CEO transitions has an additional benefit. Even though not perfect, it provides an identification strategy (Bhandari and Golden, 2021).

We estimate the following equations:

$$Dividend_{a+k} - Dividend_{a-1} = \alpha + \beta Treated + \gamma X + \sum_{j=1} Industry_j + \epsilon_i \tag{3a}$$

$$Dividend_{a+k} - Dividend_{a-1} = \alpha + \beta_1 Treated + \beta_2 (Treated * Downsizing) + \gamma X + \sum_{j=1} Industry_j + \epsilon_i \tag{3b}$$

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$$Dividend_{a+k} - Dividend_{a-1} = \alpha + \beta_1 Treated + \beta_2(Treated * Divestment) + \gamma X + \sum_{j=1} Industry_j + \epsilon_i \tag{3c}$$

We consider the firm-year observations one year before and one, two, and three years, respectively, after the CEO appointment (i.e., *k* taking on the value of 1, 2, and 3, respectively). $Treated$, the explanatory variable of interest, is the difference between the value of $CEO\ conservatism$ for the new and the equivalent value for the departing CEO. $Treated$ will be positive if the new CEO is more conservative than the departing CEO, and vice-versa. The dependent variable is the change in the dividend per share. Index a denotes the year of the appointment and index j denotes the firm.

$Downsizing$ is the reduction in the number of employees, which is measured as the number of employees one year before the appointment minus the number of employees one, two, and three years, respectively, after the appointment. A positive value would signify downsizing while a negative value would be akin to an increase in employment. $Divestment$ is the reduction in the firm's total assets measured as the logarithm of one plus total assets one year before the appointment minus the logarithm of one plus total assets one, two, and three years, respectively, after the appointment. A positive value would signify divestment.[6]

In equations 3a, 3b, and 3c, X represents the vector of control variables. Following the spirit of Lintner (1956) (see also Brav et al., 2005), we include net income (normalized by the lagged value of total assets) one year before the appointment, the change in net income (net income one, two, and three years, respectively, after the appointment minus net income one year before the appointment), and the dividend per share one and two years, respectively, prior to the appointment. Finally, all three models include industry-fixed effects.

[6] As a robustness test, which we do not tabulate, we also use the logarithm of $Downsizing$ and $Divestment$ (after adding a positive constant to each observation to get rid of negative values). We find qualitatively similar results.

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4 EMPIRICAL ANALYSIS

4.1 CEO Political Ideology, the Dividend Payout, and Share Repurchases

Table 1 provides the summary statistics for all the CEOs as well as for conservative, liberal, and nonpartisan CEOs. The asterisks in Columns (7) and (10) denote the significance level of the t-test comparing the mean differences for each variable between conservative CEOs on the one hand, and liberal and nonpartisan CEOs on the other hand, respectively. The table suggests that firms with conservative CEOs are significantly more likely (at the 1% level) to pay a dividend than firms run by liberal and nonpartisan CEOs. This provides support for hypothesis 1. Firms run by conservative CEOs also pay significantly higher dividends than firms run by liberal and nonpartisan CEOs. This is the case for all five (four) measures of the dividend payout for firms run by liberal (nonpartisan) CEOs. This supports hypothesis 2. There is some weak evidence that conservative CEOs are more likely to re-initiate or initiate the dividend than all other CEOs. Moreover, firm led by Conservative CEOs are not different from those led by liberal CEOs when it comes to dividend cuts, but they are more likely to cut dividends (at the 5% level) as compared to firm led by nonpartisan CEOs.

Finally, firms run by conservative CEOs have a significantly lower Tobin's q, have lower cash holdings, invest less in R&D, but have higher asset tangibility, and are more likely to combine the posts of CEO and chair of the board (all these differences are significant at the 1% level) than firms led by liberal and nonpartisan CEOs.

Table 2 presents the correlation matrix. Apart from the correlation between R&D and cash holdings (0.56) as well as the correlations between the various measures for the dividend payout, the correlations for all of the other pairs of variables are relatively low.

Insert TABLE 1 about here.

Insert TABLE 2 about here.

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Table 3 contains the results from estimating our baseline regression models. We first explain the likelihood of a firm paying a dividend using our conservatism index, as well as using the liberals, conservatives, and nonpartisans indicator variables (again, we consider the conservatives category as the base case), based on Eq. 1. We argue that CEO political ideology determines the likelihood of a firm paying a dividend: A conservative CEO should be more likely to pay a dividend (hypothesis 1). Columns (1) and (2) in Table 3 present the results, i.e., the marginal effects for the logit regressions. In the first column, the marginal effect for the conservatism index is positive and significant (at the 5% level). In the second column, the marginal effects for nonpartisans and liberals are negative and significant (at the 5% level), indicating that these two categories of CEOs are less likely to pay a dividend when compared to conservative CEOs.[7] The results lend support to hypothesis 1 that a conservative CEO increases the likelihood of the firm paying a dividend. The effects of the control variables on the likelihood of the firm paying a dividend are in line with expectations. In detail, more profitable firms (as measured by ROA), larger firms, older firms, firms with less leverage and R&D expenditure, and those with older CEOs are more likely to pay a dividend. However, there is no significant effect of cash holdings on the likelihood of a firm paying a dividend.

The last two columns of Table 3 report the results of OLS regressions following the specification in Eq. 2 and explaining the size of the dividend payout. Consistent with hypothesis 2, the coefficient on the conservatism index is positive and significant (at the 1% level) in Column (3), suggesting that firms led by conservative CEOs have higher dividend payouts compared to firms led by liberal or nonpartisan CEOs. Further, the coefficients on $Liberals$ and $NonPartisans$ are negative and significant (at the 1% level) in Column (4), providing further support for hypothesis 2.[8] The effects of the control variables on the dividend payout are in line with expectations. More

[7] Using a Wald test, which we do not tabulate, we can confirm that there is no significant difference in the likelihood of paying a dividend between nonpartisan and liberal CEOs.

[8] A Wald test, which we do not tabulate, suggests that there is no significant difference in the likelihood of paying a dividend between nonpartisan and liberal CEOs. In addition, the analysis yields similar results when we only compare conservative CEOs to liberal CEOs (i.e., when we drop the observations for the nonpartisan CEOs): We find that firms with conservative CEOs tend to have higher dividend payouts than firms with liberal CEOs.

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specifically, larger firms, older firms, firms with greater leverage, those with an older CEO and better corporate governance (i.e., those with a *lower* E-index) have higher dividend payouts.

Insert TABLE 3 about here.

As Michaely and Moin (2022) argue that there has been a cross-sectional substitution effect whereby firms have substituted share repurchases for dividends, we proceed by examining whether CEO political ideology affects the probability of a firm paying a dividend, repurchasing shares, or doing both. Similar to the logits from Table 3, we run two different types of multinomial logit in Table 4. The first type contains the main political ideology measure (Columns (1) to (3)) and the second one contains the indicator variables for CEO political ideology (Columns (4) to (6)).[9]

The coefficient on $CEO\ conservatism$ is not significant in Column (1), suggesting that conservative CEOs are not more likely to make share repurchases only. This makes sense given the evidence from Table 3, which suggested that conservative CEOs are more likely to pay a dividend. In turn, the coefficient on $CEO\ conservatism$ is significant in Columns (2) and (3), implying that conservative CEOs are more likely to pay a dividend or pay a dividend combined with share repurchases (as compared to neither paying dividend nor repurchasing shares). Given that the coefficients on the liberal and nonpartisan categories of CEOs are negative and significant in Columns (5) and (6), conservatives are more likely to return cash to the shareholders via dividends or via both dividends and stock repurchases.

To conclude, conservative CEOs prefer (regular) dividends over stock repurchases, and high dividends and stock repurchases are complements for conservative CEOs rather than substitutes. However, we do not find any evidence of a substitution effect between dividends and share repurchases, including for liberal or nonpartisan CEOs. All in all, these results provide further support for hypothesis 1.

[9] As stated in Section 3.3, the dependent variable, i.e., $Payout\ type$, is set to *"No repurchase, no dividend"* for firm-year observations with neither a dividend per share nor share repurchases, *"Repurchase only"* for firm-year observations with stock repurchases only, *"Dividend only"* for firm-year observations with a non-zero dividend per share only, and *"Both"* for firm-year-observations with both a dividend per share and share repurchases. The "no repurchase, no dividend" case is used as the base case.

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Insert TABLE 4 about here.

4.2 Dividend Payouts, Asset Divestments, and Downsizing

Table 5 reports the results of the DiD analysis around CEO appointments. Panel A is based on all CEO appointments during the sample period. There are 326 CEO appointments. Columns (1), (2), and (3) in Panel A of Table 5 report the results of DiD regressions based on Eq. 3a. The dependent variable is the dividend per share one year (Column (1)), two years (Column (2)), and three years (Column (3)), respectively, after the CEO appointment minus the dividend per share one year before the appointment. In line with expectations, the results suggest that if a more conservative CEO replaces the departing CEO ($Treated > 0$), this is followed by a significant increase in the dividend per share in the years after the appointment. Overall, these results lend further support to hypotheses 1 and 2 that the political preferences of the CEO matter for dividend policy.

The final six columns of the table test the validity of hypothesis 3 that newly appointed conservative CEOs engage in downsizing and/or divestments following their appointment to increase the dividend payout. The interaction between $Treated$ and $Downsizing$ is not significant in any of Columns (4), (5), and (6). However, there is some evidence that more conservative CEOs engage in divestments, which then leads to an increase in the dividend payout. This is the case in year 3 following the CEO appointment (Column (9)), but not for year 1 (Column (7)) and year 2 (Column (8)) after the appointment.

One concern about the focus on CEO appointments might be that some of these appointments may be motivated by the poor performance of the departing CEO. However, it is unlikely that CEO political ideology is (perfectly) correlated with CEO performance. Hence, it is unlikely that (i) all departing CEOs have the same political ideology (e.g., all departing CEOs are conservatives) and (ii) all departing CEOs performed badly. We test the validity of these two assertions to make sure our analysis remains valid. We find no significant difference between the mean and median of

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CEO conservatism for the departing CEOs (mean conservatism of 0.63 and median conservatism of 0.50) and all the CEOs in our sample (mean conservatism of 0.60 and median conservatism of 0.50). Importantly, the standard deviation of CEO conservatism for the departing CEOs is very similar to the standard deviation for the entire sample (0.298 versus 0.312).[10] This confirms the statement that not all departing CEOs are of the same political ideology, i.e., there is no evidence of a (perfect) correlation between CEO political ideology and CEO turnover. Moreover, we find that the average ROA of firms in the year preceding the new CEO appointment (mean ROA = 0.175) is exactly the same as the average performance of the sample (mean ROA = 0.175). In addition, the standard deviation of ROA is similar for the departing CEOs compared to the entire sample (0.087 versus 0.106). This confirms the above statement that not all the departing CEOs underperformed when compared to all the CEOs in the sample.

Nevertheless, in Panel B of Table 5, we repeat the same analysis as in Panel A while considering only those CEO appointments where the departing CEO is 60 years or older as such departures are less likely driven by bad performance. Note that this is in line with Parrino (1997) who argues that the turnover of CEOs of less than 60 years of age should be treated with care. In contrast, departures of CEOs of age 60 or more are more likely due to retirement. $Treated$ in Panel B is significant and positive only in the regressions relating to the change in dividend per share between three years after the CEO appointment and one year before the appointment (i.e., Columns (3), (6), and (9)). However, this is not surprising as focusing on departing CEOs aged 60 or older likely reduces the significance of $Treated$ by getting rid of CEO appointments driven by the bad performance of the departing CEO and where consequently a relatively fast improvement in performance, coupled with a higher dividend, is more likely. Similar to Panel A, there is some evidence from Column (9) that conservative CEOs engage in divestments in year 3 after their appointment to boost the dividend payout. However, there is no such evidence when downsizing is considered. Taken together, Panels A and B of Table 5 provide some support for hypothesis 3.

[10] In addition, the ranges are identical with a minimum of zero and a maximum of one.

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Insert TABLE 5 about here.

5 IDENTIFICATION STRATEGY

This section addresses the following endogeneity concerns. First, there might be reverse causality whereby CEOs prefer to work for firms with specific characteristics, which in turn would result in a specific payout policy, which may be more in line with their political ideology. Hence, we perform propensity score matching (PSM) (Rosenbaum and Rubin, 1983) to match firm-year observations with conservative CEOs with firm-year observations with liberal CEOs. Even though the PSM does not account for unobserved heterogeneity across firms, it is still a worthwhile exercise as it helps compare the dividend policy of firms with similar observable characteristics (Chen et al., 2018). Second, we adopt an instrumental variable (IV) approach to instrumentalize $CEO\ conservatism$. The IV approach uses three different instruments, including all possible combinations of two of these instruments as well as all of these instruments at once. Furthermore, we introduce an exogenous source of variation in our CEO political ideology measure that potentially strengthens the validity of our IV analysis. Finally, note that the DiD analysis from Section 4 potentially addresses some of the endogeneity concerns (Bhandari and Golden, 2021).[11]

5.1 Propensity Score Matching

As stated above, it might be the case that CEOs select the firms they want to work for based on how well firm characteristics, including the past payout policy, are aligned with their own political ideology. For example, conservative CEOs may prefer to work for firms with consistently high dividend payouts, even if such dividend policy from time to time requires downsizing and/or asset divestments. In contrast, other CEOs may prefer not to work for such firms. Therefore, we use

[11] The DiD analysis could address the endogeneity concerns comprehensively if the appointment of the new CEO were truly exogenous. However, given that it was not possible to find a sufficiently large number of exogenous CEO changes (for example those due to the sudden death of the incumbent CEO), the DiD analysis does a less than perfect job in addressing endogeneity concerns.

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PSM to compare the dividend policy of firms with similar observable characteristics (Chen et al., 2018).

As a first step, we estimate a logit regression, which predicts the probability that the firm has a conservative CEO in year *t*. This probability or propensity score is obtained by estimating a logit regression with the same right-hand-side variables (measured in year *t*-1) as in the regression in Column (3) of Table 3, except that we drop the indicator variables for CEO political ideology. The dependent variable of the logit equals one if the CEO is conservative, and zero for all other CEOs (i.e., liberal and nonpartisan CEOs).

The results from estimating this logit are reported in Column (1) of Panel A of Table 6. The table suggests that the logit has good predictive power as reflected by a pseudo R-square of 0.129. Conservative CEOs are more likely to work for firms with good past performance (ROA), larger and older firms, those with lower cash holdings, and those with CEO duality. This confirms extant literature suggesting that conservative CEOs are more risk averse than liberal CEOs (e.g., Hutton et al., 2014). In the second step, we use the propensity score to match firm-year observations with conservative CEOs with firm-year observations with all other CEOs. To perform the matching, we use nearest neighbor matching without replacement, with a caliper of 0.05. We are able to match 1289 firm-year observations with conservative CEOs with the equivalent number of firm-year observations with all other CEOs.

To ensure that the matching is of sufficient quality, we perform two tests. First, we re-estimate the logit underlying the PSM using the post-match observations. The results of this logit are reported in Column (2) of Panel A of Table 6. In contrast to the pre-match logit (Column (1)), the post-match logit has little or no predictive power as reflected by the very low pseudo R-square (0.003) and the absence of statistical significance for all the explanatory variables. This suggests that the matching successfully removes significant differences in firm-level, CEO-level, and board-level characteristics between the firm-year observations with conservative CEOs and those with all other CEOs.

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Second, Panel B of the same table compares the characteristics of the firm-year observations with conservative CEOs with those of the matched firm-year observations with all other CEOs (i.e., liberal and nonpartisan CEOs). All of the differences in means are insignificant (the lowest p-value being 0.20), further confirming the quality of the matching.

Finally, Panel C reports the average treatment effect on treated (ATT). The results suggest that after the PSM, there are still statistically significant differences (with the highest p-value being 0.001) in the dividend payout (this is the case for all five measures of the dividend payout) between firm-year observations with conservative CEOs and those with all other CEOs. This test provides further support for hypothesis 2.

Insert TABLE 6 about here.

5.2 Instrumental Variable Approach

In line with extant literature, we employ three instrumental variables that capture the level of conservatism in the firm's home state (Gupta and Wowak, 2016) and the level of conservatism in the firm's industry (Bhandari and Golden, 2021). Specifically, to measure conservatism in the firm's home state we introduce two instruments, one indicating whether the state is a red state, and the other one capturing the density of Evangelical Protestants in that state. The third instrument, i.e., the level of conservatism in the firm's industry is measured by the average value of CEO conservatism in the firm's industry.[12] The rationale for all three instruments is that the level of conservatism in the firm's state or industry influences the decision of the firm to pay higher dividends only through its influence on the supply of more conservative CEOs. In other words, the level of conservatism in the firm's state or industry is unlikely to affect the dividend policy of *individual* firms. This argument is consistent with Bhandari and Golden (2021).

Table 7 reports the results from the instrumental variable (IV) approach. The first-stage regressions in Panel A use one or a combination of the above three instruments to instrumentalize

[12] The industries are based on the Fama-French 12-industry classification.

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$CEO\ conservatism$. $Red\ state$ is an indicator variable set to one if the state where the firm is headquartered voted for the Republican party in the last presidential election, and zero otherwise. $Evangelical\ percent$ is the percentage for the year 2010 of Evangelical Protestants in the state where the firm is headquartered. Finally, $Industry\ conservatism$ is the mean value of $CEO\ conservatism$ in the firm's industry.[13] We expect all three instruments to affect the level of $CEO\ conservatism$ positively. Put differently, we expect CEOs to be more conservative in red states, in states with higher percentages of Evangelical Protestants, and in more conservative industries.

Panel A of Table 7 shows a positive relation between $CEO\ conservatism$ and the three instruments. The coefficients on all three instruments are positive and significant (at the 1% level) in all seven regressions. This is the case for the regressions including just one of the three instruments as well as for the regressions including any combination of two instruments or all three instruments at once. The Cragg-Donald statistic (Cragg and Donald, 1993) exceeds the Stock and Yogo (2002) critical value for all seven regressions, rejecting the null of weak instruments. Still, as the first stage contains a long list of control variables including year and industry fixed effects, these control variables may mask the low predictive power of our instruments. As such, a way of examining the relevance and power of our instruments is to check their marginal contribution to the R-squared (Jiang, 2017). Therefore, we report the residual R-squared, which reflects the marginal contribution of the instruments to the R-squared after all other variables have been included in the regression. The values of the residual R-squared reported in Columns (1) to (3) of Table 7 suggest that our instruments make a sizable contribution to the overall R-squared by explaining a significant share of the additional variation in CEO conservatism. Specifically, two (for $Red\ state$) to three (for $Evangelical\ percent$ and $Industry\ conservatism$) percentage points of the variation in CEO political ideology can be explained by the instruments when keeping all other variables included in the regression constant. Therefore, all three instrumental variables meet the relevance assumption, i.e., the instruments are good predictors of the endogenous variable. Importantly, Panel B confirms

[13] Further details about the three instruments can be found in the Appendix.

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that when using the predicted values of $CEO\ conservatism$, the latter variable still has a positive effect on the dividend payout, providing further support for hypothesis 2.

Insert TABLE 7 about here.

A key insight from our IV analysis is that there is a considerable difference between the magnitude of the estimate for CEO conservatism from the baseline OLS (see Column (3) of Table 3) and that of the IV regression (see Panel B of Table 7), with the latter being roughly twice the size of the former. A possible explanation for this is that omitted variable bias has pushed the OLS regression estimate downward. Put differently, an unobserved factor positively influences the decision of the firm to pay a dividend and this influence is more pronounced for firms with less conservative CEOs. As the instrumental variable regression has effectively dealt with the omitted variable bias, the higher estimate for CEO conservatism from the IV regression is closer to the population average treatment effect.

Another explanation for the increased $CEO\ conservatism$ estimate from the IV regression may be due to the violation of the relevance or exclusion restriction assumption. While it is possible to conduct an empirical test of the validity of the relevance assumption, testing the validity of the exclusion restriction assumption is not straightforward. Nevertheless, all the results from the tests for weak instruments are favorable, making it less likely for the relevance assumption to be violated.[14] Yet, concerning the potential violation of the exclusion restriction assumption, one argument would be that the geographical support for the conservative ideology (i.e., a red state and the percentage of Evangelical Protestants) explains not only CEO conservatism, but also corporate decision making, such as the payout decision. This would then explain the higher CEO conservatism estimates in the IV regressions. Again, testing whether this is indeed the case is not

[14] Additionally, we estimated a limited information maximum likelihood (LIML) regression. It is expected that the LIML regression generates a less biased estimate as compared to the 2SLS regression. As we observe no significant difference between the estimate generated by the LIML regression and the one generated by the 2SLS regression, we reject the possibility of having weak instruments (see Angrist and Pischke (2009) for a detailed discussion of this type analysis). This provides further support that the higher 2SLS estimates are not due to the violation of the relevance assumption.

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empirically feasible. However, in the next subsection, we provide one additional test that benefits from exogenous variation in CEO political donations. This test has the potential to alleviate concerns about the violation of the exclusion restriction.

5.3 Exogenous Variation in CEO Political Donations

In this section, we attempt to further address potential endogeneity concerns by utilizing an exogenous source of variation in CEO political donations. Specifically, we use the Bipartisan Campaign Reform Act of 2002 as an exogenous shock to CEO conservatism. The Act increased the total amount an individual can donate in a given year from $25,000 – this limit was in place from 1976 to 2002 – to a biennial limit of $95,000, which then increased in line with inflation during the subsequent years.

Note that we can only benefit from the setting the Act provides if the pre-2003 limit was binding and if lifting the limit caused considerable variation in CEO political donations. In addition, the variation caused by the Act would need to be asymmetric (i.e., one of the Republican and Democratic parties received a disproportionate amount of donations above $25,000). We find empirical support that this was the case. Indeed, during 1997 and 2001, i.e., the early part of our sample period, there were only two total CEO annual donations exceeding $25,000.[15] From 2003 to 2019, this number increased to 327 such donations. The median for donations above $25,000 is $30,000 in 2003 and it increases to $43,400 in 2019. Moreover, the pace of the increase in the fraction of the donations above $25,000 to the Republican party is faster when compared to the increase in the equivalent fraction for the Democratic party. More specifically, the fraction of such donations to the Republican (Democratic) party, i.e., the number of donations exceeding $25,000 over the total number of donations, is 0.006 (0.002) in 2003 and it increases to 0.140 (0.008) in 2019. Put differently, 95% of such large donations went to the Republican party in 2019.

Again, the rationale for using the 2002 Act is that pre-2002 changes in the $CEO\ conservatism$ index and the three political ideology indicator variables (i.e., $Conservatives$, $Liberals$, and

[15] Note that there were no such large donations in 2002. Still, in what follows we treat the year 2002 as the event year or year 0, and therefore omit all donations in this year from the computation of the key independent variables.

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$NonPartisans$) would have been bounded given the upper limit of $25,000 on the total annual donations per individual CEO. In contrast, post-2002 CEO political ideology, as measured by CEO political donations, would have been able to switch more freely. In support of this argument, we find that of the total of 3986 CEO observations post-2002 and focusing solely on total annual donations that exceed $25,000 after 2002, 207 (166) CEO-year observations relate to a switch from the CEO being conservative (nonconservative) to being nonconservative (conservative). Another 101 (30) CEO-year observations correspond to a switch from the CEO being liberal (nonliberal) to being nonliberal (liberal).[16]

To assess the effect of this exogenous shock on CEO political donations, and ultimately on our measure of CEO political ideology, we re-estimate the regressions from Table 3 using *CEO conservatism pre-2002* computed based on the CEOs' donations during their tenure up to 2001 and *CEO conservatism difference*, which is the difference between $CEO\ conservatism$ based on CEO total annual donations above $25,000 after 2002 and *CEO conservatism pre-2002* as defined above.

The results are reported in Table 8. The first two columns contain the results from logits explaining the likelihood of a firm paying a dividend while the last two columns contain OLS regressions explaining the size of the dividend payout. We find that both *CEO conservatism pre-2002* and *CEO conservatism difference* are positive and significant (at the 5% level or better) in both regressions that include these variables (i.e., Columns (1) and (3)), confirming the results from Table 3 that firms with more conservative CEOs are more likely to pay a dividend and that such firms have a higher dividend payout. As *CEO conservatism difference* is entirely based on the exogenous shock caused by the 2002 Act, the significance of this variable alleviates possible endogeneity concerns. Further support is provided by the results from Columns (2) and (4), which suggest that firms with liberal and nonpartisan CEOs are less likely to pay a dividend and have a lower divi-

[16]There is only one (one) CEO-year observation that relates to a switch from the CEO being partisan (nonpartisan) to being nonpartisan (partisan).

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dend payout if they pay a dividend.[17] All in all, the results from Table 8 provide further support for hypotheses 1 and 2, while mitigating any remaining endogeneity concerns.

Insert TABLE 8 about here.

6 FURTHER ANALYSIS AND ROBUSTNESS TESTS

6.1 Further Analysis

6.1.1 Future Performance of Firms With Conservative and Liberal CEOs Hutton et al. (2014) find that CEO political ideology affects corporate performance. Conservative CEOs – via their more conservative financial and investment policies – perform better, at least in the short term. Furthermore, Elnahas and Kim (2017) also find that conservative CEOs perform better given their more conservative approach to M&As. Similarly, we expect that as conservative CEOs prioritize shareholder interests over employee interests, firms with such CEOs perform better. Therefore, in this sub-section we investigate whether conservative CEOs differ significantly from all other CEOs when it comes to future corporate performance.

We proceed by regressing ROA and Tobin's q in year *t*, respectively, on CEO political ideology as per the following two dynamic models:

$$ROA_{it} = \beta_1 ROA_{it-1} + \beta_2 CEO\ political\ ideology_i + \gamma X_{it-1} + \epsilon_i \tag{4a}$$

$$Tobin's\ q_{it} = \beta_1 Tobin's\ q_{it-1} + \beta_2 CEO\ political\ ideology_i + \gamma X_{it-1} + \epsilon_i \tag{4b}$$

ROA_{it}, the dependent variable in Eq. 4a, measures the performance of firm i in year t, whereas $Tobin's\ q_{it}$, the dependent variable in Eq. 4b, is the value of firm i in year t. Both models contain

[17]Note that the nonsignificance of *NonPartisans* and *NonPartisans difference* in Column (2) may be due to there being just two post-2002 CEO-year observations relating to a CEO switching from being nonpartisan to partisan or vice-versa.

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the lagged dependent variable on the right-hand side, hence taking the form of a dynamic panel data equation. $Political\ Ideology_i$ is the political ideology of the CEO of firm i and X represents the vector of firm, CEO, and board level control variables.

Using Eq. 4a as the basis, we start by estimating an OLS regression. In order to mitigate the potential effects of unobserved time-invariant factors, we proceed by estimating a firm-fixed effects (FE) regression. We also estimate a system generalized method-of-moments (System GMM) regression to control for possible omitted variable bias and to deal with the potential presence of simultaneous and dynamic endogeneity (Blundell and Bond, 1998; Wintoki et al., 2012). Subsequently, we repeat the same analysis using Eq. 4b.

The results are presented in Table 9. Columns (1), (2), and (3) present the results of the OLS, FE, and System GMM regressions, respectively, estimated using Eq. 4a, whereas Columns (4), (5) and (6) present the results of the equivalent regressions estimated using Eq. 4b. As reported in the first two columns, the relatively large difference between the coefficient on the lagged dependent variable in the OLS regression (0.767) and the equivalent coefficient in the FE regression (0.589) indicates that the OLS estimate is likely upward biased whereas the FE estimate is likely downward biased. Further and as expected, the same coefficient for the System GMM regression (Column (3)) is somewhere in between the lower bound formed by the equivalent FE estimate and the higher bound formed by the equivalent OLS estimate (Bond, 2002). A similar observation applies to the regressions from the last three columns.

The coefficient on CEO political ideology is only positive and statistically significant (at the 10% level) in one of the six regression, i.e., in the OLS regression using $Tobin's\ q$ (Column (4)). Note also that the sign on the coefficient is negative rather than positive. This suggests that there is no consistent evidence of differences in performance or firm value across firms led by CEOs with varying degrees of conservatism.

To extend this analysis, we run the same regressions replacing the dependent variables, i.e., ROA and Tobin's q in year t, with ROA or Tobin's q measured in year $t+1$, $t+2$, $t+3$, $t+4$, and $t+5$, respectively. This helps examine the performance of firms led by conservative CEOs over

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the subsequent four years. The results from these regressions, which we do not tabulate, do not unveil significant differences in the future performance of the firms led by conservative CEOs as compared to the firms led by other CEOs. While the decision of conservative CEOs to cater to their shareholders by paying higher dividends could potentially affect the firm's future performance and value, we find no evidence supporting this conjecture.

Insert TABLE 9 about here.

6.1.2 Dividend Cuts, Initiations, and Re-initiations The main results so far suggest that firms with conservative CEOs are more likely to be dividend payers and, if they pay dividends, they tend to pay higher dividends. Such firms are also more likely to make share repurchases in addition to paying a cash dividend. The question arises whether CEO political ideology determines the likelihood of dividend cuts, initiations, and re-initiations. It can be argued that conservative CEOs are less likely to cut dividends whereas they are more likely to initiate or re-initiate dividends.

To test the validity of this argument, we construct two measures: 1) $Dividend\ initiation/re\text{-}initiation$, which is an indicator variable taking the value of one if a non-dividend paying firm initiates or re-initiates its dividend, and zero if the firm remains a non-dividend paying firm; and 2) $Dividend\ cut$, which is an indicator variable taking the value of one if a dividend-paying firm cuts the dividend, and zero if it maintains the same dividend as in the preceding year or it increases its dividend. We find 42 out of 288 non-dividend paying firms initiating or re-initiating the dividend whereas 282 out of 2923 dividend-paying firms cut the dividend. Due to the low number of observations, we are not able to run meaningful regressions predicting the probability of dividend initiations or re-initiations. However, we are able to estimate the probability of a dividend cut using a two-step Heckman model. Specifically, for any given year, we estimate the probability of a firm being a dividend-paying firm in the first stage, and then estimate the probability of the firm cutting the dividend in the following year. We use the same measures of political ideology and the same

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set of control variables as in 3. We find that conservative CEOs are not significantly different with respect to their propensity to cut the dividend. The results are presented in Table 10.

Insert TABLE 10 about here.

The absence of significant differences in the propensity to cut dividends across the different categories of CEOs is not consistent with the above argument. However, it is in line with the Lintner (1956) stylized fact about the stickiness of dividends (see also Brav et al., 2005). It seems that the deterrent of being penalized for dividend cuts[18] is such that, regardless of their political views, CEOs are extremely reluctant to reduce the dividend.

6.2 Robustness Analysis

6.2.1 Alternative Measures for The Dividend Payout We replace the main dividend payout measure (i.e., common dividends over net income) in the baseline regression with four alternative measures, i.e., dividends over beginning of the year total assets, dividends over total sales, the dividend yield, and the dividend per share. The results are reported in Table 11. The coefficient on $CEO\ conservatism$ is positive and significant (at the 1% level) for each of the four alternative measures for the dividend payout. In turn, the coefficient on the $Liberals$ and $NonPartisans$ indicator variables are negative and significant (at the 5% level or better), regardless of the way we measure the dividend payout. To sum up, the dividend paid by firms led by conservative CEOs is higher than the dividend paid by firms led by all other CEOs. This provides further support for hypothesis 2.

Insert TABLE 11 about here.

[18]Extant literature suggests the following penalties for reducing dividends: negative stock price reactions (Healy and Palepu, 1988; Michaely et al., 1995; Jensen et al., 2010), substantial reductions in institutional ownership (Parrino et al., 2003), an increased likelihood of CEO dismissal (Parrino et al., 2003; Schaeck et al., 2011), and fewer future external board seats for the top executives of the firms in question (Kaplan and Reishus, 1990).

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6.2.2 Alternative Measure for CEO Political Ideology In addition to the two different measures of political ideology (i.e., the index and the set of three indicator variables) used in our regression analysis, we use alternative measures of political ideology. Instead of focusing on the political donations made by the CEOs during their tenure as an S&P 500 CEO, this measure takes into account all the donations that a CEO made during their life-time up to 2019. We then recalculate our measure of political ideology and reclassify CEOs as conservative, liberal, and nonpartisan. Moreover, we construct a more prudent set of political ideology indicator variables by defining conservatives as those CEOs whose contributions during their tenure were to the Republican party only, liberals as those CEOs whose contributions during their tenure were to the Democratic party only, and nonpartisans as those CEOs whose contributions during their tenure were to both parties. Our key results do not change qualitatively when considering life-time donations or the new set of indicator variables. These results are not tabulated, but are available from the authors upon request.

7 DISCUSSION AND CONCLUDING REMARKS

An emerging literature provides evidence that payout policy is not only affected by firm and country characteristics, but also by CEO characteristics (e.g.; Deshmukh et al., 2013; Caliskan and Doukas, 2015; Faulkner and García-Feijóo, 2021). This might seem surprising as Lintner's (1956) seminal paper suggests that executives take their dividend decision along similar lines.

Contributing to this emerging literature, we propose the CEO's political ideology as a new determinant of dividend policy. Why would there be a link between the two? We argue that the CEO's political ideology determines how the CEO prioritizes the interests of the shareholders relative to the interests of the employees. Specifically, we hypothesize that conservative CEOs pay more attention to shareholder interests and this is reflected in a greater propensity to pay dividends and to make share repurchases as well as paying higher dividend payouts if the firm pays dividends. We find strong and consistent support for this hypothesis. In addition, we find that some support that conservative CEOs afford paying more dividends via asset divestments. Nevertheless, we do not find any systematic differences in performance between conservative and other CEOs.

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This study has important implications for investors and other corporate stakeholders. Indeed, it suggests that dividend policy is driven by whether CEOs prioritize shareholder interests over employee interests, or vice-versa. One expects that conservative CEOs are more likely to favor the shareholders in their decision making, even in the short run and even if such prioritization results in negative consequences for the employees. Hence, potential investors and employees of a firm may use the CEO's political ideology as a determinant of future dividend policy and divestments. When hiring a CEO, the board of directors may also consider, alongside other CEO characteristics, the CEO's political ideology as a key influence on the CEO's approach to dividends and share repurchases.

To conclude, this paper provides novel empirical evidence on how the CEO's political ideology affects the payout policy. The channel whereby political ideology affects payout policy is the relative prioritization of shareholder and employee interests. Importantly, this study finds no significant differences between conservative and other CEOs with respect to their propensity to cut the dividend. We explain these findings by the well-documented rigidity and the stickiness of dividends and the penalties associated with dividend cuts. Last but not least, we do not find any evidence that a specific category of CEO political ideology affects future firm value and firm performance more than any other category of CEO political ideology.

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APPENDIX THE DEFINITIONS OF THE VARIABLES

Payout Measures

- **Dividend/NI**: Dividends on common stock over net income (Compustat: dvc / ni).
- **Dividend/TA**: Dividends on common stock over beginning of the year total assets. This variable is only calculated for firm-year observations with positive net income (Compustat: dvc / lag of at).
- **Dividend/Sales**: Dividends on common stock over total sales (Compustat: dvc / $sale$).
- **Dividend yield**: Dividend per share over the fiscal year-end share price (Compustat: $dvpsp_f$ / $prcc_f$).
- **Dividend per share**: Dividend per share (Compustat: $dvpsp_f$).
- **Dividend cut/omission**: An indicator variable taking the value of one if a dividend paying firm has reduced its dividend compared to the previous year, and zero otherwise (data from Compustat).
- **Dividend initiation/re-initiations**: An indicator variable taking the value of one for the year when the firm has paid a dividend for the first time since its inclusion in the CRSP database or the first year when the firm re-initiates its dividend after a dividend omission. It is set to zero for the years before the dividend initiation and set to missing for the years after the dividend initiation (data from Compustat and CRSP).
- **Dividend-paying firm**: An indicator variable taking the value of one if the firm is a dividend-paying firm, and zero otherwise (data from Compustat).
- **Share repurchasing firm**: First, the value of share repurchase is measured as the increase in common treasury stock (item 226). When the value of common treasury stock is zero, repurchases is measured as the difference between stock purchases (item 115) and stock issuances (item 118). We set repurchases to zero for negative or missing values of change in treasury stock, or the difference between stock purchases and stock issuances. Share repurchasing firm is an indicator variable with value of one for firms with positive value of share repurchase and zero otherwise. [-2.8ex]
- **Payout type**: A categorical variable taking one of the following values:

    1. **No repurchase, no dividend**: If the firm pays a dividend and the value of the shares repurchased equals zero (data from Compustat).
    2. **Repurchase only**: If the dividend per share is zero and the value of the shares repurchased is greater than zero.
    3. **Dividend only**: If the dividend per share is greater than zero but the value of the shares repurchased is zero.
    4. **Both**: If both the dividend per share and the value of the shares repurchased are greater than zero.

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Political Ideology

- **CEO conservatism:** A measure considering all the donations made by a CEO during their tenure as CEO of an S&P 500 firm but excluding the donations made one year before the US presidential elections, CEO conservatism is measured as the total amount donated to the Republican party divided by the sum of the total amounts donated to the Republican party and Democratic party. If the CEO did not make any political donations, the value of the measure is set to 0.5 (data from Federal Election Commission (FEC)).
- **CEO conservatism pre-2002:** CEO conservatism constructed based on the donations made by the CEOs during their tenure prior to 2002 (data from Federal Election Commission (FEC)).
- **CEO conservatism difference:** CEO conservatism constructed based on donations above $25000 made after 2002 minus CEO conservatism pre-2002 (data from Federal Election Commission (FEC)).
- **Political ideology (CEO types):** A set of indicator variables based on the following three categories of CEOs:

  1. **Conservatives**: An indicator variable taking the value of one for CEOs whose contributions during their tenure as a CEO of an S&P 500 firm to the Republican party exceeded their contributions to the Democratic party, and zero otherwise (data from FEC).
  2. **Liberals**: An indicator variable taking the value of one for CEOs whose contributions during their tenure as a CEO of an S&P 500 firm to the Democratic party exceeded their contributions to the Republican party, and zero otherwise (data from FEC).
  3. **NonPartisans**: An indicator variable taking the value of one for CEOs without political donations and CEOs whose contributions during their tenure as CEO of an S&P 500 firm was equally divided between the Democratic and Republican parties, and zero otherwise (data from FEC).
  4. **Political ideology (CEO types) pre 2002:** CEO type indicator variables constructed based on donations made by the CEOs during their tenure pre-2002.
  5. **Political ideology (CEO types) difference:** The difference between each post-2002 indicator variable and its pre-2002 equivalent. These variables can take on the values of -1, 0, and 1.

Control Variables

- **Firm size**: Logarithm of total assets (Compustat: log(at)).
- **Firm age**: This is calculated based on the year when the firm first appeared in the Center for Research in Security Prices (CRSP) database. As firm age is highly correlated with the main measure of political ideology, we regressed firm age on political ideology and replaced its value with the residuals obtained from this regression (data from CRSP).

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- **Tobin's q**: The market value of assets plus the book value of debt divided by the book value of assets. The market value of assets is defined as the book value of assets plus the market value of common equity minus the sum of the book value of common equity and deferred taxes. (Compustat: ((at + $mequity$) - (ceq + $txdb$)) / at).
- **ROA**: Return on assets measured as earnings before interest, taxes, depreciation, and amortization (EBIDTA) divided by beginning of year total assets (Compustat: $ebitda$ / lag of at).
- **Asset tangibility**: Net property, plant and equipment divided by beginning of year total assets. (Compustat: $ppent$ / lag of at).
- **Cash holdings**: The sum of cash and marketable securities divided by the sum of beginning of year total assets minus cash and marketable securities (Compustat: ($che + msa$) / (lag of at - ($che + msa$))).
- **Leverage**: The sum of short-term and long-term debts over beginning of year total assets (Compustat: ($dltt$ + dlc) / lag of at).
- **R&D**: Research and development expenditure divided by beginning of year total assets (Compustat: xrd/ lag of at).
- **Board size**: The total number of directors on the board (data from RiskMetrics).
- **Board independence**: The ratio of independent directors on the board (RiskMetrics: Independent directors / total number of directors).
- **CEO duality**: An indicator variable taking the value of one if the CEO is the chairman, and zero otherwise (data from ExecuComp).
- **CEO age**: CEO age as reported in ExecuComp.
- **CEO tenure**: The number of years the CEO has been with the firm as CEO (data from Compustat).
- **E-Index**: The measure of board entrenchment developed by Bebchuk et al. (2009). The index takes a value between 0 to 6, counting the number of six anti-takeover provisions in place. A higher value suggests a more entrenched board or lower shareholder rights (data from Bebchuk et al. (2009)).
- **CEO share ownership**: The percentage of the firm's shares outstanding owned by the CEO (Kim and Lu, 2011) (ExecuComp & Compustat: (sharown / (csho * 1000)) * 100. If the value is above 100, it is replaced by $shrown_excl_opts_pct$).
- **Downsizing**: The reduction in the number of employees, which is measured as the number of employees one year before the appointment of a new CEO minus the number of employees one, two or three years after the appointment. (Compustat: $emp_{one\ year\ before\ the\ appointment} - emp_{one,\ two\ or\ three\ years\ after\ the\ appointment}$).
- **Divestment**: The reduction in the firm's total assets measured as the logarithm of one plus total assets one year before the appointment of a new CEO minus the logarithm of one plus total assets one, two or three years after the appointment. (Compustat: $log(1 + at_{one\ year\ before\ the\ appointment}) - log(1 + at_{one,\ two\ or\ three\ years\ after\ the\ appointment})$).
- **Industry**: The industries are based on Fama-French 12-industry classification (data from Compustat).

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Instrumental Variables

- **Red state**: An indicator variable taking the value of one if the state where the firm is headquartered voted for the Republican party in the last presidential election, and zero otherwise. The data is from MIT Election Data and Science Lab (2017) and covers the period 1976-2020.
- **Evangelical percent**: The percentage of Evangelical Protestants in the state where firm is headquartered in 2010 (data from Williams et al. (2018)).
- **Industry conservatism**: The mean value of CEO conservatism in the firm's industry. The industries are based on the Fama-French 12-industry classification (data from FEC and Compustat).

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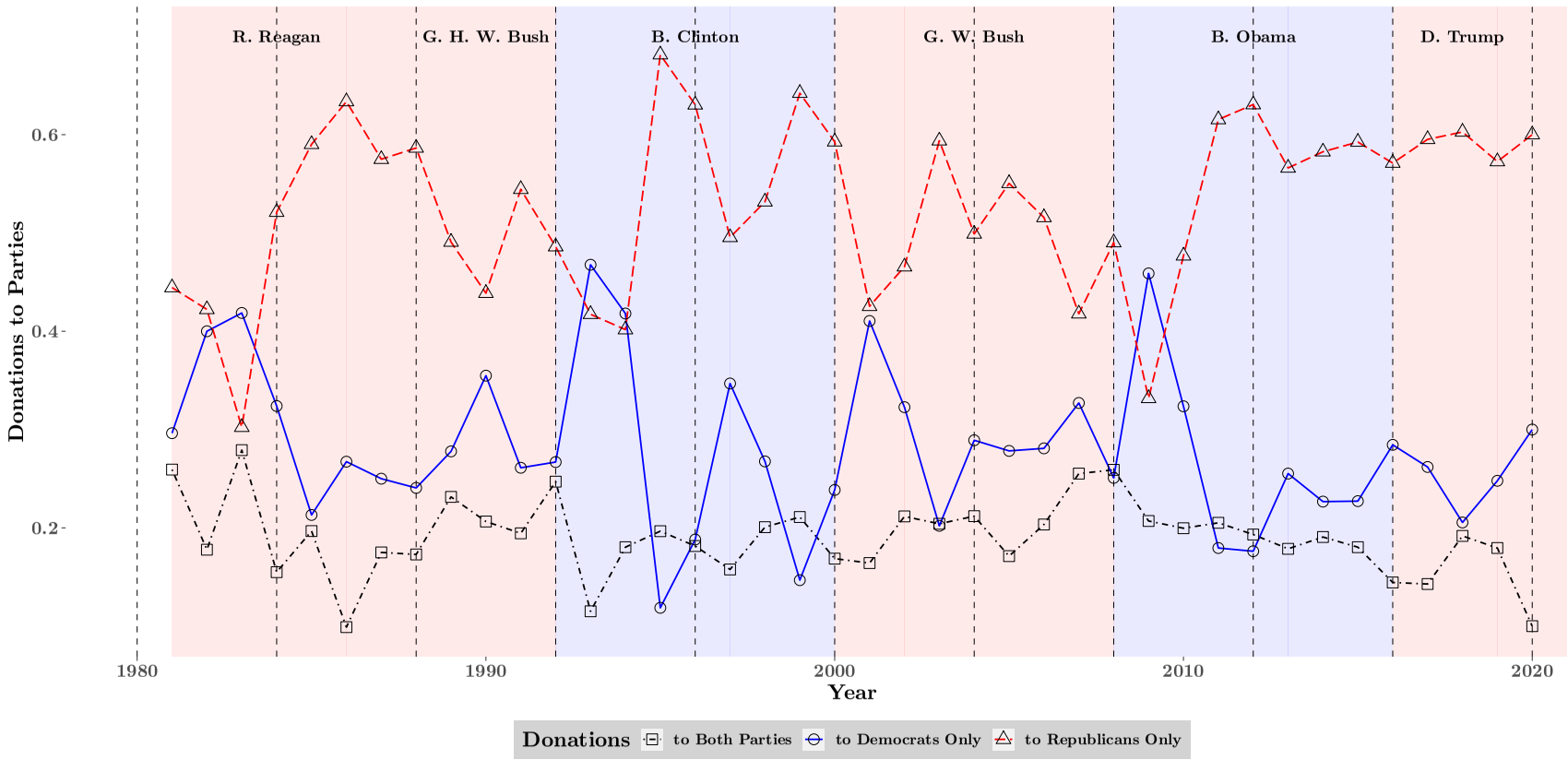
Figure 1: The fraction of CEOs donating to the Republicans, Democrats, or both parties each year



This figure presents the fraction of the total donations made by the CEOs of S&P 500 firms to the Republicans, Democrats, and both parties, respectively in a given year. This figure uses all CEO donations recorded by Federal Election Commission since 1979. The distance between each adjacent pair of dashed vertical lines represents a four-year presidency period. The periods marked by blue (red) indicate periods with a Democratic (Republican) president in office.

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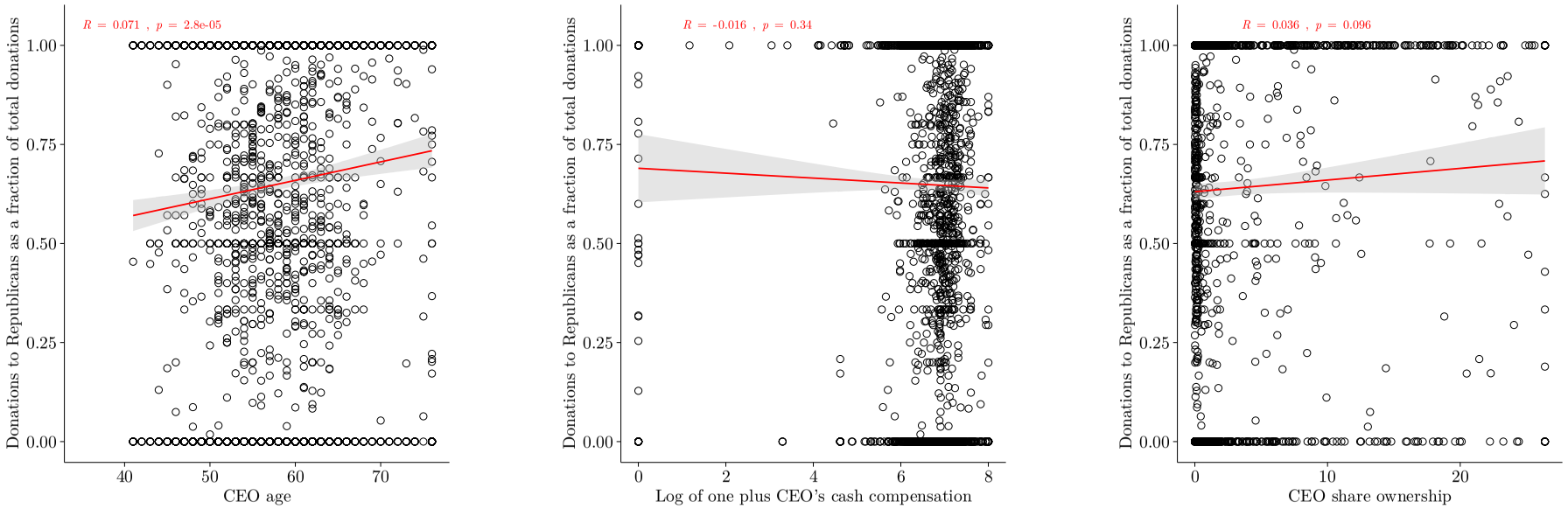
Figure 2: Fraction of CEO donations to Republicans by CEO age, CEO cash compensation, and CEO share ownership



(a) (b) (c)

Plot (a) presents the relationship between the fraction of a CEO's total political donations given to the Republicans in a given year and CEO age in that year. Plot (b) illustrates the relationship between the fraction of a CEO's total political donations given to the Republicans and CEO salary for the pooled data. Plot (c) demonstrates the relationship between the fraction of a CEO's total political donations given to the Republicans and the percentage of total shares outstanding held by the CEO for the pooled data.

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TABLE 1: Summary statistics for CEOs with different political ideologies.

	Whole Sample			Conservatives			Liberals			NonPartisans		
Variable name	Mean	Median	SD	Mean	Median	SD	Mean	Median	SD	Mean	Median	SD
Dividend-paying firm	0.814	1.000	0.389	0.892	1.000	0.311	0.752***	1.000	0.432	0.767***	1.000	0.423
Dividend/NI	0.402	0.304	0.483	0.463	0.359	0.510	0.339***	0.251	0.425	0.372***	0.285	0.475
Dividend/TA	0.025	0.019	0.025	0.027	0.021	0.025	0.019***	0.015	0.020	0.026	0.018	0.027
Dividend/Sales	0.037	0.025	0.042	0.040	0.029	0.041	0.031***	0.020	0.036	0.037*	0.023	0.046
Dividend yield	0.018	0.017	0.016	0.021	0.020	0.016	0.016***	0.014	0.015	0.016***	0.015	0.014
Dividend per share	1.084	0.870	1.046	1.200	1.020	1.022	0.913***	0.760	0.886	1.049***	0.720	1.122
Dividend initiaition/re-initiate	0.063	0.000	0.243	0.107	0.000	0.310	0.056*	0.000	0.230	0.045**	0.000	0.208
Dividend cut/omission	0.088	0.000	0.283	0.098	0.000	0.297	0.096	0.000	0.295	0.073**	0.000	0.260
Tobin's q	2.269	1.829	1.429	2.055	1.638	1.293	2.291***	1.830	1.531	2.469***	2.056	1.476
ROA	0.175	0.158	0.090	0.175	0.158	0.089	0.165**	0.150	0.086	0.179	0.164	0.092
Firm size	9.427	9.406	1.379	9.609	9.707	1.420	9.586	9.585	1.360	9.173***	9.038	1.307
Firm age	5.567	6.952	18.790	6.150	11.952	18.263	4.180**	1.716	19.364	5.639	2.611	19.007
Cash holdings	0.136	0.077	0.158	0.102	0.055	0.125	0.162***	0.101	0.177	0.158***	0.093	0.170
Leverage	0.288	0.270	0.195	0.297	0.280	0.183	0.265***	0.251	0.181	0.289	0.268	0.211
R&D	0.026	0.001	0.049	0.018	0.000	0.038	0.032***	0.000	0.058	0.031***	0.009	0.054
Asset tangibility	0.312	0.220	0.258	0.368	0.295	0.275	0.281***	0.183	0.242	0.270***	0.189	0.235
Board independence	0.791	0.818	0.129	0.794	0.833	0.129	0.774***	0.818	0.141	0.797	0.818	0.122
Board size	10.597	11.000	2.152	10.795	11.000	2.164	10.806	11.000	2.297	10.306***	10.000	2.034
CEO duality	0.568	1.000	0.498	0.705	1.000	0.460	0.518***	1.000	0.505	0.458***	0.000	0.498
CEO age	56.850	57.000	6.041	57.774	58.000	5.849	56.421***	57.000	6.114	56.142***	56.000	6.078
CEO tenure	10.664	10.000	5.065	11.739	11.000	5.088	11.122***	11.000	4.563	9.396***	8.000	4.986
E-index	3.033	3.000	1.150	3.043	3.000	1.251	2.976	3.000	1.148	3.049	3.000	1.042
CEO share ownership	0.988	0.237	2.906	1.295	0.264	3.515	0.977**	0.273	2.815	0.692***	0.195	2.163
Divestment	-0.083	-0.055	0.175	-0.078	-0.052	0.167	-0.094**	-0.061	0.185	-0.083	-0.056	0.178
Downsizing	-1.382	-0.336	12.989	-1.314	-0.297	8.108	-1.952	-0.500	10.478	-1.182	-0.323	17.238
CEO conservatism	0.599	0.500	0.298	0.902	1.000	0.135	0.174***	0.089	0.184	0.500***	0.500	0.000

The table reports the summary statistics for the whole sample and the sub-samples of conservative, liberal, and nonpartisan CEOs. The whole sample consists of 3986 observations. The Conservatives, Liberals, and NonPartisans sub-samples contain 1599, 757, and 1630 observations, respectively. *, **, and *** denote the significance level of the t-test comparing the mean differences for each variable between the conservative CEOs on the one side and liberal CEOs or nonpartisan CEOs on the other side at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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TABLE 2: Correlation matrix.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
1.Dividend/NI	1																								
2.Dividend/TA	**0.42**	1																							
3.Dividend/Sales	**0.56**	**0.70**	1																						
4.Dividend yield	**0.64**	**0.51**	**0.62**	1																					
5.Dividend per share	**0.49**	**0.57**	**0.60**	**0.65**	1																				
6.Dividend initiation/re-initiation	**0.44**	**0.64**	**0.52**	**0.61**	**0.56**	1																			
7.Dividend cuts	**-0.04**	**-0.05**	**-0.07**	**-0.09**	**-0.16**	1	1																		
8.Tobin's q	**-0.16**	**0.30**	0.02	**-0.30**	**-0.13**	**-0.13**	**0.04**	1																	
9.ROA	**-0.16**	**0.35**	-0.02	**-0.20**	**-0.06**	-0.05	0.02	**0.66**	1																
10.Firm size	**0.27**	**0.07**	**0.32**	**0.41**	**0.41**	**0.15**	**-0.06**	**-0.38**	**-0.34**	1															
11.Firm age	**0.25**	**0.21**	**0.25**	**0.42**	**0.40**	0.03	**-0.05**	**-0.25**	**-0.23**	**0.43**	1														
12.Cash holdings	**-0.14**	0.01	-0.03	**-0.26**	**-0.21**	-0.03	-0.02	**0.45**	**0.27**	**-0.17**	**-0.30**	1													
13.Leverage	**0.18**	0.03	**0.14**	**0.18**	**0.18**	0.02	0.01	**-0.18**	**-0.06**	**0.17**	**0.11**	**-0.23**	1												
14.R&D	**-0.14**	-0.02	**-0.03**	**-0.22**	**-0.18**	**-0.08**	-0.02	**0.41**	**0.18**	**-0.16**	**-0.16**	**0.56**	**-0.18**	1											
15.Asset tangibility	**0.14**	**-0.05**	**0.05**	**0.23**	**0.13**	0.03	0.03	**-0.23**	0.02	**0.09**	**0.11**	**-0.36**	**0.22**	**-0.28**	1										
16.Board independence	**0.14**	**0.09**	**0.16**	**0.21**	**0.27**	0.02	**-0.09**	**-0.13**	**-0.16**	**0.31**	**0.31**	-0.03	**0.11**	0.00	-0.01	1									
17.Board size	**0.19**	**0.10**	**0.17**	**0.31**	**0.29**	**0.07**	0.01	**-0.24**	**-0.19**	**0.53**	**0.36**	**-0.25**	**0.14**	**-0.18**	**0.07**	**0.11**	1								
18.CEO duality	**0.05**	0.00	0.02	**0.12**	**0.13**	0.01	0.01	**-0.11**	**-0.08**	**0.12**	**0.17**	**-0.15**	0.02	**-0.09**	**0.12**	**0.12**	**0.06**	1							
19.CEO age	**0.09**	**0.09**	**0.07**	**0.13**	**0.16**	**0.08**	0.01	**-0.06**	-0.01	**0.10**	**0.13**	**-0.11**	**0.05**	**-0.11**	**0.11**	0.02	**0.07**	**0.24**	1						
20.CEO tenure	**-0.12**	**-0.13**	**-0.15**	**-0.19**	**-0.22**	-0.03	0.02	**0.06**	**0.06**	**-0.13**	**-0.20**	**0.11**	**-0.09**	**0.06**	**-0.06**	**-0.12**	**-0.14**	**0.21**	**0.13**	1					
21.E-index	**-0.03**	**-0.08**	**-0.07**	-0.02	-0.01	0.02	0.00	**-0.11**	**-0.10**	**-0.13**	0.02	**-0.06**	**0.07**	-0.03	0.00	**0.22**	-0.01	-0.01	**0.03**	0.01	1				
22.CEO share ownership	**-0.07**	**-0.08**	**-0.07**	**-0.13**	**-0.12**	0.00	0.03	**0.09**	**0.07**	**-0.12**	**-0.19**	**0.11**	**-0.03**	**0.06**	-0.01	**-0.24**	**-0.13**	**0.04**	**0.14**	**0.31**	**-0.10**	1			
23.Divestment	**0.11**	**0.15**	**0.12**	**0.18**	**0.11**	0.04	-0.02	**-0.11**	**-0.31**	**0.08**	**0.16**	**-0.23**	**-0.27**	**-0.18**	**-0.08**	**0.12**	**0.11**	0.02	0.02	**-0.07**	0.00	**-0.08**	1		
24.Downsizing	**0.05**	**0.05**	**0.08**	**0.08**	**0.05**	0.00	0.03	-0.03	**-0.10**	**-0.06**	**0.04**	**-0.05**	-0.02	**-0.04**	**-0.04**	**0.04**	0.00	-0.02	-0.01	**-0.07**	**0.03**	**-0.09**	**0.32**	1	
25.CEO conservatism	**0.09**	**0.11**	**0.07**	**0.14**	**0.10**	0.05	0.02	**-0.08**	**0.04**	0.01	**0.03**	**-0.18**	**0.05**	**-0.13**	**0.14**	**0.03**	0.00	**0.18**	**0.11**	**0.08**	0.02	**0.07**	0.03	0.01	1

The table reports the Pearson correlation coefficients. Numbers in bold indicate correlation coefficients that are statistically significant at the 5% level or better. The Appendix contains the definitions of all the variables.

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TABLE 3: CEO political ideology, likelihood of being a dividend payer, and dividend payout.

Models	**Logit**		**OLS**	
Dependent variable	**Dividend-paying firm**		**Dividend/NI**	
	(1)	(2)	(3)	(4)
CEO conservatism	0.056**		0.156***	
	(0.025)		(0.039)	
Liberals		−0.059**		−0.113***
		(0.030)		(0.031)
NonPartisans		−0.054**		−0.082***
		(0.023)		(0.026)
Tobin's q_{t-1}	−0.012*	−0.011*	0.007	0.008
	(0.006)	(0.006)	(0.010)	(0.010)
ROA_{t-1}	0.400***	0.387***	−0.163	−0.158
	(0.121)	(0.121)	(0.155)	(0.156)
Firm $size_{t-1}$	0.031***	0.030***	0.042***	0.041***
	(0.010)	(0.010)	(0.015)	(0.015)
Firm age_{t-1}	0.003***	0.003***	0.002**	0.002***
	(0.001)	(0.001)	(0.001)	(0.001)
Cash $holdings_{t-1}$	−0.068	−0.066	0.104	0.095
	(0.055)	(0.054)	(0.113)	(0.112)
$Leverage_{t-1}$	−0.080**	−0.075**	0.175**	0.177**
	(0.037)	(0.036)	(0.084)	(0.084)
$R\&D_{t-1}$	−0.489**	−0.493**	−0.336	−0.345
	(0.209)	(0.212)	(0.280)	(0.275)
Asset $tangibility_{t-1}$	−0.057	−0.054	0.061	0.062
	(0.042)	(0.042)	(0.083)	(0.083)
Board $independence_{t-1}$	0.029	0.031	0.124	0.123
	(0.059)	(0.057)	(0.092)	(0.092)
Board $size_{t-1}$	−0.000	−0.001	0.006	0.005
	(0.004)	(0.004)	(0.006)	(0.006)
CEO $duality_{t-1}$	0.013	0.009	−0.013	−0.014
	(0.016)	(0.016)	(0.022)	(0.022)
CEO age_{t-1}	0.002**	0.002**	0.004**	0.004**
	(0.001)	(0.001)	(0.002)	(0.002)
CEO $tenure_{t-1}$	−0.002	−0.002	−0.004	−0.005
	(0.002)	(0.002)	(0.003)	(0.004)
E-$Index_{t-1}$	0.005	0.005	−0.020*	−0.020*
	(0.007)	(0.007)	(0.011)	(0.011)
CEO share $ownership_{t-1}$	−0.001	−0.001	−0.002	−0.002
	(0.002)	(0.002)	(0.005)	(0.005)
Intercept			−0.061	0.104
			(0.163)	(0.167)
Industry effects	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes
AIC	2411.942	2395.918		
Log Likelihood	−1159.971	−1150.959		
Num. obs.	3986	3986	3986	3986
R^2			0.172	0.172
F statistic			18.192	17.775

Columns (1) and (2) report the estimated marginal effects from logit models predicting the probability of the firm being a dividend-payer. The dependent variable is an indicator variable, which takes the value of one if the firm pays a dividend, and zero otherwise. The first column uses the conservatism index, whereas the second column uses the indicator variables for liberals and nonpartisans; the base case is conservative CEOs. Columns (3) and (4) report the results of the OLS regressions examining the relationship between CEO political ideology and dividend payout as per Eq. 2. The dependent variable is the dividend payout measured as common dividends over net income. Similar to the first two columns, the third column uses the conservatism index whereas the fourth column uses the indicator variables for liberals and nonpartisans. Heteroskedasticity robust and firm-clustered standard errors are reported in parentheses. *, **, and *** indicate the significance of the coefficient estimate at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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TABLE 4: Likelihood of repurchasing shares, paying a dividend, and both.

Models	**Multinomial logit**			**Multinomial logit**		
Dependent variable	**Repurchase only**	**Dividend only**	**Both**	**Repurchase only**	**Dividend only**	**Both**
	(1)	(2)	(3)	(4)	(5)	(6)
CEO conservatism	0.222	1.269***	1.001***			
	(0.296)	(0.296)	(0.277)			
Liberals				−0.044	−1.037***	−0.731***
				(0.252)	(0.246)	(0.230)
NonPartisans				0.225	−0.674***	−0.698***
				(0.227)	(0.217)	(0.207)
Tobin's q_{t-1}	−0.092	−0.277***	−0.263***	−0.098	−0.278***	−0.261***
	(0.075)	(0.093)	(0.079)	(0.075)	(0.093)	(0.079)
ROA_{t-1}	6.271***	7.512***	12.188***	6.503***	7.585***	12.264***
	(1.276)	(1.454)	(1.338)	(1.281)	(1.456)	(1.340)
Firm $size_{t-1}$	−0.348***	0.227**	0.317***	−0.347***	0.209**	0.297***
	(0.100)	(0.098)	(0.093)	(0.100)	(0.098)	(0.093)
Firm age_{t-1}	−0.008	0.051***	0.052***	−0.009	0.052***	0.053***
	(0.008)	(0.007)	(0.007)	(0.008)	(0.007)	(0.007)
Cash $holdings_{t-1}$	0.459	−0.543	−0.856	0.400	−0.580	−0.873
	(0.617)	(0.704)	(0.628)	(0.617)	(0.706)	(0.630)
$Leverage_{t-1}$	−1.484***	−1.167***	−2.747***	−1.504***	−1.143**	−2.708***
	(0.450)	(0.452)	(0.426)	(0.450)	(0.452)	(0.426)
$R\&D_{t-1}$	−5.053***	−10.750***	−12.185***	−5.008***	−10.975***	−12.382***
	(1.576)	(2.343)	(1.914)	(1.582)	(2.362)	(1.933)
Asset $tangibility_{t-1}$	−0.723	−1.012**	−1.653***	−0.766	−0.995**	−1.641***
	(0.497)	(0.468)	(0.444)	(0.499)	(0.469)	(0.446)
Board $independence_{t-1}$	0.708	0.603	1.195*	0.736	0.643	1.223*
	(0.703)	(0.713)	(0.663)	(0.704)	(0.713)	(0.664)
Board $size_{t-1}$	0.289***	0.167***	0.201***	0.298***	0.160***	0.191***
	(0.056)	(0.054)	(0.051)	(0.056)	(0.054)	(0.052)
CEO $duality_{t-1}$	−0.240	−0.006	0.082	−0.214	−0.047	0.039
	(0.187)	(0.187)	(0.176)	(0.189)	(0.189)	(0.177)
CEO age_{t-1}	0.037***	0.068***	0.067***	0.037***	0.068***	0.067***
	(0.014)	(0.014)	(0.013)	(0.014)	(0.014)	(0.013)
CEO $tenure_{t-1}$	0.029	−0.019	−0.006	0.032*	−0.026	−0.014
	(0.018)	(0.019)	(0.018)	(0.018)	(0.019)	(0.018)
E-$Index_{t-1}$	0.014	0.091	0.087	−0.000	0.090	0.087
	(0.086)	(0.084)	(0.079)	(0.087)	(0.084)	(0.080)
CEO share $ownership_{t-1}$	−0.033	−0.048*	−0.030	−0.026	−0.045	−0.028
	(0.026)	(0.027)	(0.024)	(0.026)	(0.027)	(0.024)
Intercept	−5.425***	−3.793***	−4.020***	−5.597***	−2.456**	−2.848***
	(1.112)	(1.139)	(1.054)	(1.142)	(1.165)	(1.077)
AIC	6707.596	6707.596	6707.596	6689.083	6689.083	6689.083
BIC	7575.691	7575.691	7575.691	7576.050	7576.050	7576.050
Log Likelihood	−3215.798	−3215.798	−3215.798	−3203.542	−3203.542	−3203.542
Num. obs.	3986	3986	3986	3986	3986	3986

This table reports the coefficients from two multinomial logit regressions (Columns (1) to (3), and Columns (4) to (6)). The regressions in Columns (1) to (3) differ from those in Columns (4) to (6) only in terms of the independent variable used in the regression. The dependent variable can take four possible values, 1 = "No repurchase, no dividend", if the firm neither pays a dividend nor repurchases shares; 2 = "Repurchase only", if the firm pays no dividend but repurchases shares; 3 = "Dividend only", if the firm pays a dividend but does not repurchase shares; and 4 = "Both", if the firm pays a dividend and repurchases shares. The base case in all regressions is "No dividend, no repurchase". Heteroskedasticity robust and standard errors clustered by firm are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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TABLE 5: Changes in the dividend around CEO appointments.

Dependent variable: Change in dividend per share									
	a-1 to a+1	a-1 to a+2	a-1 to a+3	a-1 to a+1	a-1 to a+2	a-1 to a+3	a-1 to a+1	a-1 to a+2	a-1 to a+3
Panel A: Difference-in-differences regressions based on all CEO transitions.									
Intercept	0.086	0.001	0.084	0.084	0.001	0.085	0.076	0.015	0.069
	(0.089)	(0.068)	(0.064)	(0.089)	(0.068)	(0.065)	(0.075)	(0.065)	(0.063)
Treated	0.137**	0.117***	0.132*	0.127**	0.112**	0.144**	0.125*	0.128**	0.204**
	(0.066)	(0.045)	(0.069)	(0.064)	(0.047)	(0.066)	(0.071)	(0.059)	(0.090)
Net Income$_{a-1}$	0.551**	0.973**	0.695*	0.580**	0.979*	0.631	0.526**	1.020**	0.587
	(0.256)	(0.492)	(0.398)	(0.263)	(0.499)	(0.402)	(0.247)	(0.514)	(0.410)
Change in net income	−0.089	0.829	0.727*	−0.054	0.830	0.689*	−0.093	0.836	0.673*
	(0.420)	(0.632)	(0.406)	(0.427)	(0.635)	(0.411)	(0.431)	(0.641)	(0.395)
Dividend per share$_{a-1}$	0.075	0.206**	0.145	0.076	0.206**	0.147	0.077	0.202**	0.148
	(0.097)	(0.102)	(0.116)	(0.098)	(0.101)	(0.116)	(0.096)	(0.102)	(0.113)
Dividend per share$_{a-2}$	−0.082	−0.126	−0.055	−0.084	−0.127	−0.060	−0.083	−0.124	−0.055
	(0.080)	(0.094)	(0.101)	(0.081)	(0.095)	(0.099)	(0.080)	(0.094)	(0.098)
Downsizing				0.000	0.000	−0.002			
				(0.002)	(0.001)	(0.001)			
Treated * Downsizing				−0.002	−0.001	0.002			
				(0.004)	(0.002)	(0.002)			
Divestment							−0.047	0.051	−0.075
							(0.125)	(0.070)	(0.063)
Treated * Divestment							−0.067	0.035	0.211*
							(0.198)	(0.140)	(0.124)
R^2	0.068	0.122	0.075	0.069	0.122	0.079	0.068	0.123	0.081
Num. obs.	326	323	298	324	320	296	326	323	298
F statistic	1.405	2.645	1.415	1.251	2.323	1.321	1.254	2.364	1.359
Panel B: Difference-in-differences regressions based on transitions with the departing CEO being 60 years or older.									
Intercept	0.079	−0.006	0.079	0.074	−0.003	0.085	0.107	0.033	0.066
	(0.076)	(0.097)	(0.091)	(0.078)	(0.098)	(0.092)	(0.086)	(0.097)	(0.093)
Treated	0.118	0.063	0.205**	0.121	0.063	0.235**	0.175	0.050	0.373**
	(0.082)	(0.070)	(0.102)	(0.085)	(0.079)	(0.110)	(0.107)	(0.118)	(0.157)
Net Income$_{a-1}$	0.388	1.221	1.070*	0.478	1.253*	0.952*	0.482	1.311*	1.077*
	(0.536)	(0.749)	(0.596)	(0.533)	(0.754)	(0.576)	(0.516)	(0.774)	(0.594)
Change in net income	0.267	1.200	1.625***	0.326	1.219	1.542***	0.296	1.235	1.560***
	(0.579)	(0.981)	(0.485)	(0.580)	(0.985)	(0.470)	(0.569)	(1.007)	(0.488)
Dividend per share$_{a-1}$	0.016	0.088	0.251	0.011	0.088	0.254	0.014	0.094	0.252
	(0.164)	(0.169)	(0.163)	(0.164)	(0.171)	(0.163)	(0.162)	(0.168)	(0.164)
Dividend per share$_{a-2}$	−0.064	0.000	−0.184	−0.063	−0.006	−0.182	−0.066	−0.023	−0.172
	(0.163)	(0.174)	(0.171)	(0.162)	(0.178)	(0.171)	(0.159)	(0.172)	(0.172)
Downsizing				0.001	0.002	−0.002			
				(0.004)	(0.004)	(0.002)			
Treated * Downsizing				−0.000	−0.003	0.004			
				(0.008)	(0.008)	(0.003)			
Divestment							0.115	0.164	−0.083
							(0.128)	(0.120)	(0.079)
Treated * Divestment							0.371	−0.163	0.536**
							(0.333)	(0.348)	(0.247)
R^2	0.077	0.103	0.111	0.080	0.104	0.118	0.086	0.111	0.132
Num. obs.	267	264	235	265	261	233	267	264	235
F statistic	1.309	1.773	1.709	1.182	1.563	1.589	1.294	1.697	1.833

$Treated$ is the difference between the value of $CEO\ conservatism$ for the new and the value of $CEO\ conservatism$ for the departing CEO. Panel A reports regressions based on all CEO transitions whereas Panel B focuses on the CEO transitions where the departing CEO is 60 years or older. Columns (1), (2), and (3) present the results of difference-in-differences (DiD) regressions explaining the change in the dividend per share from one year prior to the new CEO appointment (a-1) to one (a+1), two (a+2), and three years (a+3), respectively, after the appointment. Columns (4) to (6) are similar to Columns (1) to (3) but also contain $Downsizing$ and the interaction between $Treated$ and $Downsizing$. Columns (7) to (9) are equivalent to Columns (4) to (6) but they replace $Downsizing$ with $Divestment$. Downsizing is the number of employees one year before the appointment minus the number of employees one year (Column (4)), two years (Column (5)), and three years (Column (6)), respectively, after the appointment. A positive value corresponds to a reduction in the workforce. Divestment is the logarithm of one plus total assets one year before the appointment minus the logarithm of one plus total assets one year (Column (7)), two years (Column (8)), and three years (Column (9)), respectively, after the appointment. A positive value corresponds to a reduction in total assets. Standard errors clustered by firm are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

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TABLE 6: Propensity score matching.

Panel A: Pre- and post-match logits.

Dependent variable: An indicator variable (1 = conservative CEO, 0 = other CEO)		
	(1)	**(2)**
	Before matching	After matching
Tobin's q_{t-1}	-0.023	0.005
	(0.022)	(0.022)
ROA_{t-1}	0.981***	-0.105
	(0.349)	(0.356)
Firm $size_{t-1}$	0.067***	0.004
	(0.024)	(0.025)
Firm age_{t-1}	-0.003*	-0.000
	(0.002)	(0.002)
Cash $holdings_{t-1}$	-0.435**	-0.080
	(0.177)	(0.201)
$Leverage_{t-1}$	-0.028	-0.054
	(0.118)	(0.138)
$R\&D_{t-1}$	-0.723	0.181
	(0.599)	(0.704)
Asset $tangibility_{t-1}$	0.078	0.009
	(0.127)	(0.141)
Board $independence_{t-1}$	0.193	0.015
	(0.168)	(0.183)
Board $size_{t-1}$	0.003	0.000
	(0.010)	(0.011)
CEO $duality_{t-1}$	0.121***	0.001
	(0.042)	(0.047)
CEO age_{t-1}	0.003	0.001
	(0.003)	(0.004)
CEO $tenure_{t-1}$	0.016***	-0.001
	(0.005)	(0.006)
E-$Index_{t-1}$	0.022	0.012
	(0.020)	(0.021)
CEO share $ownership_{t-1}$	0.013*	0.002
	(0.007)	(0.008)
$Divestment_{t-1}$	0.118	-0.060
	(0.098)	(0.117)
$Downsizing_{t-1}$	0.001	0.000
	(0.001)	(0.001)
Industry effects	Yes	Yes
Year effects	Yes	Yes
Num. obs.	3971	2578
Pseudo R^2	0.129	0.003

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TABLE 6 – continued from previous page

Panel B: Comparing treatment and control groups after matching.

Variable	Means treated	Means control	Mean diff.	t-stat	p-value
Tobin's q_{t-1}	2.14	2.15	-0.004	-0.08	0.93
ROA_{t-1}	0.17	0.17	-0.002	-0.49	0.63
Firm $size_{t-1}$	9.51	9.52	-0.01	-0.22	0.83
Firm age_{t-1}	6.96	7.45	-0.49	-0.66	0.51
Cash $holdings_{t-1}$	0.11	0.11	0.002	0.50	0.62
$Leverage_{t-1}$	0.29	0.30	-0.003	-0.36	0.72
$R\&D_{t-1}$	0.02	0.02	0.001	0.75	0.45
Asset $tangibility_{t-1}$	0.33	0.33	0.001	0.12	0.90
Board $independence_{t-1}$	0.79	0.79	0.001	0.12	0.90
Board $size_{t-1}$	10.76	10.73	0.02	0.29	0.77
CEO $duality_{t-1}$	0.66	0.65	0.01	0.45	0.65
CEO age_{t-1}	57.27	57.43	-0.15	-0.68	0.49
CEO $tenure_{t-1}$	11.02	10.95	0.07	0.35	0.73
E-$Index_{t-1}$	3.04	2.98	0.06	1.27	0.20
CEO share $ownership_{t-1}$	0.99	0.89	0.09	0.85	0.40
$Divestment_{t-1}$	-0.08	-0.08	0.002	0.33	0.74
$Downsizing_{t-1}$	-1.19	-1.39	0.20	0.43	0.67

Panel C: Average treatment effect on treated (ATT).

Variable	Estimate	t-stat	p-value
Dividend/NI	0.108	5.902	0.000
Dividend/TA	0.005	5.482	0.000
Dividend/Sales	0.007	4.265	0.000
Dividend yield	0.003	5.745	0.000
Dividend per share	0.141	3.446	0.001

The table presents the results from the propensity score matching (PSM). Panel A reports the results from the pre-matching logit (Column (1)) and the post-matching logit (Column (2)). Panel B presents the differences in the observables between the treatment group (i.e., firm-year observations with conservative CEOs) and the control group (i.e., firm-year observations with all other CEOs). Panel C reports the average treatment effect on treated (ATT) using the five different measures of the dividend payout. *, **, and *** indicate the significance of the coefficient estimate at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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TABLE 7: Instrumental variable two-stage least squares (2SLS) estimation.

Panel A: First-stage 2SLS estimation.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Red state	0.101***			0.064***	0.097***		0.060***
	(0.011)			(0.011)	(0.010)		(0.011)
Evangelical percent		0.007***		0.006***		0.007***	0.006***
		(0.001)		(0.001)		(0.001)	(0.001)
Industry conservatism			0.995***		0.969***	0.998***	0.981***
			(0.089)		(0.089)	(0.088)	(0.088)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.135	0.141	0.141	0.147	0.159	0.166	0.171
Num. obs.	3908	3908	3908	3908	3908	3908	3908
Stock and Yogo critical value	16.380	16.380	16.380	19.930	19.930	19.930	22.300
Cragg-Donald statistic	87.524	112.391	112.199	71.281	99.178	115.909	86.481
Partial R^2 (Red state)	0.022						
Partial R^2 (Evangelical percent)		0.028					
Partial R^2 (Industry conservatism)			0.028				

Panel B: Second-stage 2SLS estimation.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO conservatism (predicted)	0.351*	0.292*	0.308*	0.315**	0.327***	0.300**	0.311***
	(0.179)	(0.163)	(0.169)	(0.140)	(0.119)	(0.125)	(0.112)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.164	0.170	0.169	0.168	0.167	0.170	0.168
Num. obs.	3908	3908	3908	3908	3908	3908	3908

Panel A reports the first-stage 2SLS estimation using all or various combinations of three instrumental variables. The dependent variable in all the first stage regressions is $CEO\ conservatism$. The Cragg-Donald test is used to test for weak instruments. A value for the test above the Stock and Yogo critical value rejects the null hypothesis that the instruments are weak. Panel B reports the corresponding second-stage 2SLS regressions. The dependent variable in the second stage regressions is dividends over net income. Heteroskedasticity robust standard errors are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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TABLE 8: The 2002 Bipartisan Campaign Reform Act, likelihood of being a dividend payer, and dividend payout.

Models	**Logit**		**OLS**	
Dependent variable	**Dividend-paying firm**		**Dividend/NI**	
	(1)	(2)	(3)	(4)
CEO conservatism pre-2002	3.358**		0.638***	
	(1.543)		(0.171)	
CEO conservatism difference	2.533**		0.488***	
	(1.209)		(0.147)	
Liberals pre-2002		−2.810**		−0.473***
		(1.414)		(0.149)
NonPartisans pre-2002		−1.030		−0.296***
		(0.910)		(0.101)
Liberals difference		−2.134*		−0.358***
		(1.121)		(0.113)
Nonpartisans difference		−0.930		−0.234***
		(0.636)		(0.082)
Tobin's q_{t-1}	−0.209**	−0.212**	0.006	0.006
	(0.102)	(0.101)	(0.010)	(0.010)
ROA_{t-1}	6.704***	6.759***	−0.181	−0.167
	(1.786)	(1.785)	(0.158)	(0.158)
Firm $size_{t-1}$	0.514***	0.514***	0.039***	0.038**
	(0.145)	(0.144)	(0.015)	(0.015)
Firm age_{t-1}	0.056***	0.057***	0.002**	0.002**
	(0.012)	(0.012)	(0.001)	(0.001)
Cash $holdings_{t-1}$	−1.386	−1.357	0.081	0.073
	(0.894)	(0.895)	(0.110)	(0.111)
$Leverage_{t-1}$	−1.389**	−1.396**	0.173**	0.174**
	(0.588)	(0.587)	(0.081)	(0.082)
$R\&D_{t-1}$	−8.052**	−7.958**	−0.269	−0.292
	(3.236)	(3.227)	(0.273)	(0.270)
Asset $tangibility_{t-1}$	−0.879	−0.867	0.078	0.078
	(0.710)	(0.713)	(0.083)	(0.082)
Board $independence_{t-1}$	0.656	0.645	0.141	0.142
	(0.990)	(0.988)	(0.090)	(0.090)
Board $size_{t-1}$	−0.025	−0.024	0.004	0.004
	(0.074)	(0.075)	(0.006)	(0.006)
CEO $duality_{t-1}$	0.231	0.249	−0.006	−0.007
	(0.254)	(0.257)	(0.022)	(0.022)
CEO age_{t-1}	0.039**	0.040**	0.004**	0.004**
	(0.018)	(0.018)	(0.002)	(0.002)
CEO $tenure_{t-1}$	−0.030	−0.030	−0.005	−0.005
	(0.030)	(0.030)	(0.004)	(0.004)
E-$Index_{t-1}$	0.080	0.081	−0.018	−0.018*
	(0.125)	(0.125)	(0.011)	(0.011)
CEO share $ownership_{t-1}$	−0.008	−0.007	−0.003	−0.003
	(0.031)	(0.032)	(0.004)	(0.004)
Intercept	−1.393	1.281	−0.293	0.324*
	(1.624)	(1.929)	(0.181)	(0.186)
Industry effects	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes
AIC	2418.219	2426.586		
Log Likelihood	−1162.110	−1164.293		
Num. obs.	3986	3986	3986	3986
R^2			0.175	0.174
F statistic			18.169	17.251

Using the 2002 Bipartisan Campaign Reform Act as an exogenous shock, Columns (1) and (2) report the estimated marginal effects of logit regressions predicting the probability of the firm being a dividend-payer. The dependent variable is an indicator variable, which takes the value of one if the firm pays a dividend, and zero otherwise. Columns (3) and (4) report the results of the OLS regressions examining the relationship between CEO political ideology and the dividend payout as per Eq. 2. The dependent variable in these two columns is the dividend payout measured as common dividends over net income. The key independent variables in Columns (1) and (3) are $CEO\ conservatism\ pre$-2002, which is the CEO conservatism index constructed based on the donations made by the CEO during their tenure as a CEO before 2002, and $CEO\ conservatism\ difference$, which is the CEO conservatism index constructed based on donations above $25000 made after 2002 minus $CEO\ conservatism\ pre$-2002. Columns (2) and (4) include the two political ideology indicator variables (i.e., $Liberals$ and $NonPartisans$) constructed based on pre-2002 donations ($Conservatives$ being the base case), and three variables measuring the difference between each post-2002 indicator variable and its pre-2002 equivalent for each CEO type. The latter three variables can take on the values of -1, 0, and 1. Heteroskedasticity robust and firm-clustered standard errors are reported in parentheses. *, **, and *** indicate the significance of the coefficient estimate at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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TABLE 9: Dynamic panel data models estimating the effects of CEO political ideology on firm performance and firm value.

Dependent variable	**ROA**			**Tobin's q**		
	OLS	**FE**	**System GMM**	**OLS**	**FE**	**System GMM**
	(1)	(2)	(3)	(4)	(5)	(6)
ROA_{t-1}	0.767***	0.589***	0.708***			
	(0.021)	(0.035)	(0.105)			
Tobin's q_{t-1}				0.860***	0.676***	0.789***
				(0.019)	(0.034)	(0.100)
CEO conservatism	0.001	0.003	-0.009	-0.069*	-0.006	0.227
	(0.003)	(0.004)	(0.020)	(0.036)	(0.064)	(0.577)
Firm $size_{t-1}$	-0.008***	-0.043***	-0.013	-0.073***	-0.234***	-0.237
	(0.001)	(0.004)	(0.024)	(0.013)	(0.058)	(0.232)
Firm age_{t-1}	-0.000	0.003***	0.001	0.001	0.026***	0.0192
	(0.000)	(0.000)	(0.002)	(0.008)	(0.004)	(0.012)
Cash $holdings_{t-1}$	-0.001	-0.059***	-0.050	0.243*	-0.086	-0.219
	(0.008)	(0.014)	(0.057)	(0.141)	(0.249)	(0.854)
$Leverage_{t-1}$	-0.034***	-0.042***	-0.020	0.220***	0.306**	0.343
	(0.007)	(0.009)	(0.045)	(0.073)	(0.132)	(0.586)
$R\&D_{t-1}$	0.050	-0.147	-0.249	1.689***	2.312	-2.988
	(0.037)	(0.095)	(0.307)	(0.549)	(1.510)	(7.664)
Asset $tangibility_{t-1}$	0.005	-0.063***	-0.117	-0.126**	-0.361*	-1.574*
	(0.005)	(0.014)	(0.176)	(0.054)	(0.216)	(0.931)
Board $independence_{t-1}$	0.038***	0.0157	0.096*	0.317***	0.002	0.611
	(0.007)	(0.010)	(0.056)	(0.089)	(0.147)	(0.728)
Board $size_{t-1}$	0.001*	0.002***	0.005	-0.003	0.016*	0.082**
	(0.000)	(0.001)	(0.003)	(0.006)	(0.009)	(0.034)
CEO $duality_{t-1}$	-0.003	-0.000	0.015	0.012	0.049	0.124
	(0.002)	(0.002)	(0.016)	(0.023)	(0.031)	(0.192)
CEO age_{t-1}	0.000***	0.000***	-0.001	0.002*	0.007**	0.002
	(0.000)	(0.000)	(0.001)	(0.001)	(0.003)	(0.016)
CEO $tenure_{t-1}$	0.000	0.000	-0.000	-0.000	-0.001	-0.008
	(0.000)	(0.000)	(0.001)	(0.002)	(0.004)	(0.030)
E-$Index_{t-1}$	-0.003***	-0.001	-0.004	-0.027***	-0.048***	-0.109**
	(0.001)	(0.001)	(0.005)	(0.010)	(0.015)	(0.048)
CEO share $ownership_{t-1}$	-0.000	-0.001***	0.002	-0.003	-0.010	0.005
	(0.000)	(0.001)	(0.003)	(0.004)	(0.010)	(0.039)
Year effects	Yes	Yes	Yes	Yes	Yes	Yes
Num. obs.	3986	3986	3986	3938	3938	3938
R^2	0.955	0.971		0.950	0.960	
No. of instruments			41			88
AR1 (p-value)			0.000			0.000
AR2 (p-value)			0.754			0.898
Hansen-J (p-value)			0.502			0.112

This table reports the results from OLS, firm-fixed effects (FE), and system generalized method-of-moments (System GMM) regressions estimating the effect of CEO political ideology on firm performance and firm value, respectively. The key independent variable is CEO conservatism. The dependent variable in the first three columns is firm performance as measured by ROA in year *t*. The dependent variable in the last three columns is firm value as measured by Tobin's q in year *t*. All the independent variables, except for CEO conservatism which is time-invariant, are measured in year *t*–1. Firm-clustered standard errors are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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TABLE 10: Likelihood of dividend cuts.

Models	**First-step Heckman**		**Second-step Heckman**	
Dependent variable	**Dividend-paying firm**		**Dividend cut**	
	(1)	(2)	(3)	(4)
CEO conservatism	0.607***		0.029	
	(0.096)		(0.129)	
Liberals		−0.458***		0.022
		(0.081)		(0.100)
NonPartisans		−0.438***		−0.099
		(0.069)		(0.085)
Tobin's q_{t-1}	−0.088***	−0.084***	0.110***	0.111***
	(0.027)	(0.027)	(0.041)	(0.041)
ROA_{t-1}	2.018***	2.006***	−1.176*	−1.170*
	(0.423)	(0.423)	(0.628)	(0.630)
Firm $size_{t-1}$	0.204***	0.197***	−0.062	−0.064*
	(0.029)	(0.029)	(0.038)	(0.038)
Firm age_{t-1}	0.032***	0.032***	−0.006	−0.006
	(0.002)	(0.002)	(0.004)	(0.004)
Cash $holdings_{t-1}$	−0.526**	−0.531**	−0.224	−0.196
	(0.208)	(0.208)	(0.349)	(0.351)
$Leverage_{t-1}$	−0.573***	−0.547***	0.197	0.210
	(0.139)	(0.139)	(0.190)	(0.190)
$R\&D_{t-1}$	−5.466***	−5.523***	0.125	0.054
	(0.658)	(0.663)	(1.382)	(1.379)
Asset $tangibility_{t-1}$	0.059	0.034	0.214	0.190
	(0.131)	(0.131)	(0.138)	(0.139)
Board $independence_{t-1}$	0.448**	0.513**	−1.019***	−1.007***
	(0.228)	(0.227)	(0.279)	(0.280)
Board $size_{t-1}$	0.018	0.009	0.033*	0.031*
	(0.016)	(0.016)	(0.018)	(0.018)
CEO $duality_{t-1}$	0.132**	0.108*	0.091	0.083
	(0.060)	(0.060)	(0.071)	(0.071)
CEO age_{t-1}	0.020***	0.020***	−0.002	−0.002
	(0.005)	(0.005)	(0.006)	(0.006)
CEO $tenure_{t-1}$	−0.017***	−0.021***	−0.000	−0.002
	(0.006)	(0.006)	(0.007)	(0.007)
E-$Index_{t-1}$	0.010	0.011	0.031	0.031
	(0.026)	(0.026)	(0.030)	(0.030)
CEO share $ownership_{t-1}$	−0.009	−0.010	0.004	0.004
	(0.009)	(0.009)	(0.012)	(0.012)
Intercept	−0.740**	−0.025	−0.982*	−0.899*
	(0.356)	(0.360)	(0.561)	(0.533)
Inverse Mill Ratio			−0.200	−0.207
			(0.328)	(0.331)
Num. obs.	3986	3986	3205	3205
AIC	2652.032	2644.237	1894.765	1894.200
Log Likelihood	−1309.016	−1304.118	−929.382	−928.100

Columns (1) and (2) present the marginal effects of two first-step Heckman logit models predicting the probability of the firm being a dividend paying firm. The dependent variable is an indicator variable, which takes the value of one if the firm is a dividend paying firm in the year prior to the year when the dividend cut or omission is examined, and zero otherwise. Columns (3) and (4) report the marginal effects of two second-step Heckman logit models predicting the probability of the firm cutting its dividend. The dependent variable is an indicator variable, which takes the value of one if the firm cuts its dividend, and zero otherwise. The key independent variables are CEO conservatism (Columns (1) and (3)) and two CEO political ideology indicator variables, distinguishing between liberal and and nonpartisan CEOs (with conservative CEOs being the base case). Heteroskedasticity robust and firm-clustered standard errors are reported in parentheses. *, **, and *** indicate the significance of the coefficient estimate at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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TABLE 11: Robustness of the results using four alternative measures of the dividend payout.

Dependent variable	Dividend/TA		Dividend/Sales		Dividend yield		Dividend per share	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(9)	(10)	(11)	(12)					
CEO conservatism	0.011***		0.015***		0.006***		0.275***	
	(0.002)		(0.003)		(0.002)		(0.096)	
Liberals		−0.008***		−0.010***		−0.004***		−0.179**
		(0.002)		(0.003)		(0.001)		(0.077)
NonPartisans		−0.005***		−0.007**		−0.003***		−0.181**
		(0.002)		(0.003)		(0.001)		(0.073)
Tobin's q_{t-1}	0.004***	0.004***	0.004**	0.004**	−0.001***	−0.001***	−0.002	−0.001
	(0.001)	(0.001)	(0.002)	(0.002)	(0.000)	(0.000)	(0.029)	(0.029)
ROA_{t-1}	0.096***	0.097***	0.053***	0.054***	0.018***	0.018***	2.064***	2.074***
	(0.013)	(0.013)	(0.019)	(0.018)	(0.006)	(0.006)	(0.431)	(0.431)
Firm $size_{t-1}$	0.002**	0.002**	0.008***	0.008***	0.002***	0.002***	0.182***	0.180***
	(0.001)	(0.001)	(0.002)	(0.002)	(0.000)	(0.000)	(0.037)	(0.037)
Firm age_{t-1}	0.000***	0.000***	0.000*	0.000*	0.000***	0.000***	0.006**	0.007**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.003)	(0.003)
Cash $holdings_{t-1}$	−0.010	−0.011	−0.002	−0.002	−0.000	−0.001	−0.347	−0.362
	(0.009)	(0.009)	(0.016)	(0.016)	(0.004)	(0.004)	(0.275)	(0.275)
$Leverage_{t-1}$	−0.000	−0.000	0.010	0.010	0.001	0.001	0.060	0.067
	(0.005)	(0.005)	(0.009)	(0.009)	(0.003)	(0.003)	(0.198)	(0.196)
$R\&D_{t-1}$	−0.025	−0.026	−0.018	−0.019	0.003	0.003	−0.718	−0.732
	(0.027)	(0.027)	(0.039)	(0.039)	(0.010)	(0.010)	(0.717)	(0.702)
Asset $tangibility_{t-1}$	−0.008*	−0.008*	0.005	0.005	−0.002	−0.002	−0.005	−0.002
	(0.005)	(0.005)	(0.010)	(0.010)	(0.003)	(0.003)	(0.197)	(0.198)
Board $independence_{t-1}$	0.003	0.003	−0.003	−0.003	0.005*	0.005*	0.158	0.155
	(0.006)	(0.006)	(0.009)	(0.009)	(0.003)	(0.003)	(0.243)	(0.243)
Board $size_{t-1}$	0.000	0.000	−0.000	−0.000	0.000	0.000	0.037**	0.034**
	(0.000)	(0.000)	(0.001)	(0.001)	(0.000)	(0.000)	(0.016)	(0.016)
CEO $duality_{t-1}$	−0.000	−0.000	0.000	0.000	0.001	0.000	0.204***	0.200***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)	(0.063)	(0.062)
CEO age_{t-1}	0.000**	0.000**	0.000	0.000	0.000***	0.000***	0.009*	0.009*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.005)	(0.005)
CEO $tenure_{t-1}$	−0.000*	−0.000*	−0.001*	−0.001*	−0.000**	−0.000**	−0.020***	−0.022***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.007)	(0.007)
E-$Index_{t-1}$	−0.001**	−0.001**	−0.002**	−0.002**	−0.001	−0.001	−0.025	−0.026
	(0.001)	(0.001)	(0.001)	(0.001)	(0.000)	(0.000)	(0.027)	(0.027)
CEO share $ownership_{t-1}$	−0.001*	−0.000*	−0.000	−0.000	−0.000	−0.000	−0.002	−0.002
	(0.000)	(0.000)	(0.001)	(0.001)	(0.000)	(0.000)	(0.012)	(0.012)
Intercept	−0.026**	−0.016	0.001	0.016	−0.003	0.004	−0.728*	−0.408
	(0.012)	(0.012)	(0.020)	(0.020)	(0.006)	(0.006)	(0.384)	(0.393)
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.329	0.329	0.259	0.258	0.423	0.422	0.384	0.384
Num. obs.	3986	3986	3986	3986	3986	3986	3986	3986
F statistic	42.999	42.003	30.675	29.798	64.059	62.539	54.531	53.482

This table reports the results of OLS regressions examining the effect of CEO political ideology on dividend policy, using four alternative measures for the dividend payout. $Dividend/TA$ is common dividends over the beginning of the year total assets. $Dividend/Sales$ is common dividends divided by total sales. $Dividend\ yield$ is the dividend per share over the fiscal year-end share price. $Dividend\ per\ share$ is the dividend per common stock. The key independent variables are $CEO\ conservatism$ and the indicator variables distinguishing between liberal and nonpartisan CEOs (conservative CEOs being the base case). Heteroskedasticity robust and standard errors clustered by firm are reported in parentheses. *, ** and *** indicate significance at the 10%, 5%, and 1% level, respectively. The Appendix contains the definitions of all the variables.

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