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May 2022

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Abstract

We study whether CEO political ideology affected how S&P 500 firms reacted to the Covid-19 pandemic, an exogenous shock to demand and supply. We hypothesize that conservative CEOs are more likely to adopt shareholder-friendly than employee-friendly reactions to the pandemic. Hence, they should be more likely to downsize their workforce while maintaining dividends. In contrast, other CEOs should be less likely to meet dividend expectations and less likely to downsize. We find confirmation of this hypothesis. We also find that CEOs used the dividend forecasts for 2020 as their benchmark rather than the 2019 dividends to make their dividend decision

Keywords: CEO political ideology, dividend policy, downsizing, stakeholder management, Covid-19 pandemic

JEL Classifications: G35,G34,M51

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Abstract

Using a proprietary dataset, we study whether CEO political ideology affected how S&P 500 firms reacted to the Covid-19 pandemic. We hypothesize that conservative CEOs are more likely to downsize their workforce while meeting dividend expectations. Conversely, other CEOs should be less likely to meet dividend expectations and less likely to downsize. The evidence supports this hypothesis. We also find that conservative CEOs use temporary downsizing to avoid an earnings loss, which in turn enables them meet dividend expectations. Importantly, CEOs used the dividend forecasts for 2020 as their benchmark rather than the 2019 dividends to make their dividend decision.

Keywords: CEO political ideology, dividend policy, downsizing, stakeholder management, Covid-19 pandemic

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1. Introduction

While our knowledge of how CEOs make dividend decisions in normal times is extensive (see e.g. Baker, 2011, for an overview), it is as yet not clear how CEOs make dividend decisions in extreme states of the economy (Cejnek et al., 2021). We attempt to fill this gap in the literature by focusing on how S&P 500 firms reacted to the 2020 pandemic, which caused a substantial drop in the earnings of a significant percentage of these firms. Whereas many other crises hitting firms differed in terms of the social and economic context, the Covid-19 pandemic was universal as it cut across borders. More importantly, in contrast to the 2008 financial crisis, which was preceded by warning signs (e.g., Pettifor, 2006), the pandemic was not only unexpected but the contraction of the global economy it caused was also much more sudden and severe (IMF, 2020). Hence, the ubiquity of the Covid-19 pandemic presented a unique challenge for CEO decision making. It forced CEOs of affected firms to take extreme measures to reduce costs and preserve liquidity, which could have been achieved by reducing labor costs or by cutting dividends. While CEOs who prioritized the interests of their employees would have fallen short of the expected dividend, CEOs who prioritized shareholders over employees might have met dividend expectations by downsizing their workforce. Hence, they faced a choice between two unpleasant alternatives, similar to the choice Odysseus faced when passing the Strait of Messina: His choice was between Scylla, a sea monster that ate anything her six heads could get hold of, and Charybdis, another monster who created a whirlpool that would drag under water any ship vessel that came too close to it. We argue that CEO political ideology explains the choice of monster, i.e., whether the CEO gave preference to employee interests or shareholder interests.

A major selling point of this study is that it benefits from highly granular data on how firms reduced their labor costs during the pandemic. This data was collected from Form 8-K's, the forms firms have to file with the Securities and Exchange Commission (SEC) to disclose material events (in accordance with Section 409 of the Sarbanes-Oxley Act of 2002). Hence, the data not only includes actual reductions in employee numbers, but also the nature of the reduction (e.g., temporary versus permanent downsizing) as well as

more importantly reductions in labor costs that did not result in reductions in employee numbers (e.g., reductions in wages and reductions in the number of hours worked).

We build on three strands of literature. The first strand of literature investigates the determinants of dividend policy (see e.g., Lintner, 1956; DeAngelo and DeAngelo, 1990; DeAngelo et al., 1992). This strand documents that executives are reluctant to cut dividends, unless such a change is warranted by a long-term drop in earnings. In turn, investors are averse to dividend cuts. This aversion has its roots in the hefty penalties that are meted out by capital markets for cutting the dividend, such as a drop in the share price (Healy and Palepu, 1988; Michaely et al., 1995; Benartzi et al., 1997; Jensen et al., 2010) and institutional investors voting with their feet by reducing their stock holdings (Parrino et al., 2003). Importantly, dividend cuts directly affect the CEO making the cuts by increasing the likelihood of the CEO being dismissed (Parrino et al., 2003; Schaeck et al., 2011) and lowering the CEO's future number of seats on other firms' boards (Kaplan and Reishus, 1990). The second strand of literature, which is still emerging, attempts to explain differences in dividend policy across firms by CEO characteristics (e.g.; Deshmukh et al., 2013; Caliskan and Doukas, 2015; Faulkner and García-Feijóo, 2021).[1] For example, Deshmukh et al. (2013) report that overconfident CEOs find the cost of external financing to be excessive and they therefore prefer to accumulate cash. They do so by paying lower dividends. Further, Caliskan and Doukas (2015) document that risk-averse CEOs – as proxied by inside debt and a high sensitivity of the CEO's compensation to stock price changes or a high CEO delta – are more likely to pay dividends. In contrast, risk-seeking CEOs – as evidenced by a high CEO vega – are less likely to do so. Moreover, Faulkner and García-Feijóo (2021) find that CEOs, who experienced corporate distress earlier on in their career in a non-CEO position, are much more conservative when it comes to the payout policy. They are less likely to pay a dividend in the first place. If they do pay a dividend, the dividend tends to be lower. They are also less likely to carry out stock repurchases. Last but not least, we also build on an extensive strand of the literature, which suggests that CEO political

[1] See also Friesen et al. (2022) on the link between CEO age and share repurchases.

ideology explains how CEOs prioritize shareholder and stakeholder interests. Chin et al. (2013) find that CEO political ideology explains the CEO's attitude toward stakeholders other than the shareholders, including the employees. More specifically, the initiatives of liberal CEOs targeted at such stakeholders are less affected by recent firm performance than the equivalent initiatives of conservative CEOs.[2]

The pandemic provides a perfect setting for studying whether conservative CEOs pursue more shareholder friendly policies as compared to more employee friendly policies. Most importantly, the pandemic relaxes some of the penalties associated with dividend cuts. The rigidity and the stickiness of dividends may in fact limit the ability of CEOs to imprint their managerial style on the dividend decision. However, paying a dividend below the expected level in reaction to the pandemic us unlikely to be blamed on the CEO as investors likely react differently to lower dividends caused by an exogenous event – such as the Covid-19 pandemic – compared to lower dividends that may have been caused by the CEO's bad decision making. We argue that even though lower dividends during the pandemic may not have given rise to the usual hefty penalties, conservative CEOs may nevertheless have been reluctant to reduce dividends. We conjecture that, by removing the penalties associated with dividend cuts, the pandemic would have forced the CEOs of firms that faced a loss due to the pandemic to choose between dividend cuts and downsizing of the workforce. We argue that this choice would – at least to some extent – depend on CEO political ideology.

Finally, when it comes to the type of downsizing, we expect conservative CEOs to be less reluctant to engage in more severe forms of downsizing than other CEOs. In other words, they should be less reluctant to use permanent downsizing while other CEOs may prefer to opt for temporary, i.e, reversible, downsizing. On the other hand,

[2]Conservative CEOs have also been reported to allocate a greater proportion of resources to divisions they consider to be more efficient, whereas liberal CEOs tend to favor a more equitable resource allocation across the various divisions of their organization. They also more conservative in terms of their strategic and financial decision making as evidenced by less leverage, lower research and development (R&D) expenditures, and less risky investments (Hutton et al., 2014). Further, they undertake fewer mergers and acquisitions (M&As) and the M&A transactions that they make tend to target firms in the same industry and their acquisitions tend to be paid for mainly by cash (Elnahas and Kim, 2017). Nevertheless, conservative CEOs also engage more in tax avoidance than liberal CEOs (Francis et al., 2016). Finally, they are also more likely to face litigation for possible breaches of labor rights, as well as litigation for possible breaches of equal rights and environmental protection legislation (Hutton et al., 2015).

an alternative to cutting the dividend per share would be to pay out a dividend to the shareholders, which while not being below the dividend for the previous period, is below expectations. Whereas before the start of the pandemic the market may have have expected the dividend to increase in 2020, possibly due the CEO promising a higher dividend for that year, CEOs may have decided not to meet these expectations. In what follows, we consider both actual dividend cuts as well as dividends that fall below the expected dividend levels, and may or may not coincide with an actual dividend cut.

What do we find? While we do not observe that the likelihood of an actual dividend cut depends on the CEO's political ideology, we find that conservative CEOs are more likely to meet – or possibly exceed – dividend expectations while at the same time resorting to downsizing their workforce. In other words, conservative CEOs are more likely to choose actions that result in the employees bearing all the pain from the shock caused by the pandemic while meeting investors' expectations from before the pandemic. In contrast, the remaining CEOs are more likely to opt for reactions to the pandemic that either share the pain between the shareholders and the employees or make the shareholders bear all the pain. We also find some evidence that conservative CEOs are more likely to use temporary downsizing of their workforce to avoid negative earnings per share, which in turn enables them to meet dividend expectations from prior to the pandemic.

Our paper makes three major contributions to the literature. First, it adds to an emerging literature (see e.g. Cejnek et al., 2021) on dividend behavior in extreme states of the world. We find strong evidence that conservative CEOs are more likely to meet dividend expectations and more likely to make their employees bear the exogenous shock to the firm's earnings. Conservative CEOs are also more likely to use temporary measures to reduce labor costs, such as reductions in pay or working hours, to meet dividend expectations. Second, the paper makes a major contribution to the dividend literature by highlighting that CEOs use the pre-crisis dividend forecasts to inform their dividend decision in times of crisis. In contrast, the Lintner (1956) dividend model predicts that CEOs use past dividends per share to guide their dividend decision. Finally, the paper also contributes to empirical evidence on how CEO political ideology affects corporate

decision making. What is novel is that our empirical evidence suggests that conservative CEOs as a group are different from *all other* CEOs. In contrast, extant research typically finds differences in behavior between conservative CEOs and liberal CEOs. More generally, the paper contributes to extant literature on how CEO characteristics (e.g.; Cain and McKeon, 2016; Cronqvist et al., 2012; Malmendier and Tate, 2005; Benmelech and Frydman, 2015; Malmendier and Tate, 2005; Malmendier et al., 2011; Banerjee et al., 2015; Malmendier et al., 2011; Graham et al., 2013) and the CEO's political leanings more specifically (e.g.; Hutton et al., 2014; Elnahas and Kim, 2017; Unsal et al., 2016; Francis et al., 2016; Kim et al., 2013; Gupta et al., 2018) affect corporate policies and behavior.

The remainder of this paper is organized as follows. The next section summarizes the main events around the Covid-19 pandemic, including the economic shortfall it caused. This is followed by Section 3 on the sample selection and methodology. Section 4 then focuses on the empirical analysis, including the robustness tests and further analysis. Finally, Section 5 concludes.

2. The Covid-19 Pandemic

While China reported the first identified Covid-19 case, i.e., the first case of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), which can be traced back to December 2019[3], the first American case was reported on January 20, 2020. Shortly thereafter, i.e., on January 31, the Health and Human Services Secretary Alex M. Azar declared a public health emergency.[4] The pandemic hit the U.S. particularly hard as it suffered the highest number of Covid-19 cases and Covid-19 related deaths.[5] The economic fallout from the pandemic was not only fast but also substantial (Bartik et al., 2020) as evidenced by a drop in the S&P 500 index from 3225 on January 31, 2020, to

[3]See WHO (2021).

[4]See `https://www.hhs.gov/about/news/2020/01/31/secretary-azar-declares-public-health-emergency-us-2019-novel-coronavirus.html`, accessed on February 26, 2021.

[5]Johns Hopkins Whiting School of Engineering – Center for Systems Science and Engineering, JHU CSSE Covid-19 Project, `https://systems.jhu.edu/research/public-health/ncov/`, accessed on February 26, 2021.

2237 on March, 23, 2020.[6] This was combined with an increase in the unemployment rate from 3.5% in January and February 2020 to 14.8% in April; in July 2020 the rate was still at 10.2%.[7] Finally, the effects of the pandemic varied across industries, with the retail, leisure, hospitality, and travel industries suffering the most (Chetty et al., 2020; Bartik et al., 2020).[8]

In contrast to the financial crisis of 2008, which was preceded by a number of warning signs (e.g., Pettifor, 2006) and only gradually developed into a major economic recession, the pandemic and its economic fallout were much more sudden and unexpected. Indeed, in April 2020 the International Monetary Fund expected the global economy to contract by 3% in 2020, much more than it did during the 2008 financial crisis (IMF, 2020). Given the suddenness and the severity of its economic consequences, the pandemic required a relatively quick and decisive reaction from the economic actors, including the US government and S&P 500 companies.

The US government's main response to the pandemic was the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which became effective on March 27, 2020. The CARES Act introduced a number of measures targeting individuals and small businesses but also large corporations to help them deal with the economic consequences of the Covid-19 pandemic. More specifically, the Act focused on relief measures targeting healthcare providers, manufacturers, and distributors, such as loans, tax credits, tax deductions, and tax deferrals. Such measures included steps making it easier for corporations to avoid downsizing, such as the deferral of the employers' share of social security tax for up to two years and a refundable employee retention tax credit.

[6] See `https://fred.stlouisfed.org/series/SP500`, accessed on February 26, 2021.

[7] See `https://fred.stlouisfed.org/series/UNRATE`, accessed on February 26, 2021.

[8] See Chetty et al. (2020) for a detailed study on the effects of the pandemic on consumer spending and the revenues and employment for small businesses. This study finds that consumer spending dropped the most in the In-Person Services industry sector, with the Hotels & Food and Transportation industry subsectors being hit particularly hard. See also Bartik et al. (2020); Alekseev et al. (2022).

3. Sample Selection and Methodology

We focus on S&P 500 firms as these firms are more likely to be dividend payers.[9] Given the focus of this paper, it is important that firms pay a dividend before the 2020 pandemic as we investigate whether CEO political ideology explains whether in response to the pandemic companies cut their dividend or downsized their workforce. We collect CEO data from ExecuComp and Boardex, and then match this data with firm financial and accounting data obtained from Compustat.

3.1. Sample Selection and Data Collection

We obtain the list of the S&P 500 firms from Bloomberg for the year 2020. We exclude 19 companies whose headquarters are not located in the U.S. Hence, the initial sample consists of 481 S&P 500 firms. After merging the financial and accounting data, the political donation data, and the downsizing data, as well as discarding missing observations, we finally obtain 459 firms for the regression analysis. Further details about the sample selection process can be found in Appendix A.

We measure CEO political ideology with the help of the political donations made by the CEOs during their lifetime up to and including calendar year 2020. To obtain the political donation data for each CEO, we follow a methodology similar to that adopted by previous work (see e.g. Hutton et al., 2014): For each CEO, we obtain information on political donations from the Federal Election Commission (FEC). We use a matching algorithm, combined with a manual check, to filter out CEOs from other donors with similar names, using information about donor occupation, employer, and address. For each year, we aggregate the donations to obtain the dollar value of the total contributions to each party made by each CEO. We only consider CEOs' direct contributions to the Republican and Democratic parties, and exclude the indirect donations made via a Political Action Committee (PAC) as CEOs themselves are not fully in control of the

[9]Out of the 481 US-headquartered S&P 500 firms, only 75 of them did not pay a dividend in the pre-pandemic year 2019. A total of 64 of these 75 firms did not pay a dividend in 2020 either. As a robustness check, we later drop these 75 firms from our regression analysis. We still find qualitatively similar results.

choice of recipients for the donations made by a PAC (Hutton et al., 2014). Hence, the donations made by a PAC are more likely to be a reflection of the political ideology of a firm's workforce rather than the reflection of its CEO's political leaning.

Quarterly accounting and financial data is sourced from Compustat. We collected the quarterly rather than the annual accounting data as the former provides us with more granularity. Indeed, a dividend falling below the expected levels in one quarter of 2020 could have been reversed in a subsequent quarter. While such temporary changes are reflected in the quarterly data, this may not necessarily be the case with the annual data.

The data on downsizing is obtained from the Form 8-K's published by the S&P 500 firms during the four quarters of calendar year 2020 (i.e., 7,577 reports in total). Form 8-K is the form firms have to file with the Securities and Exchange Commission (SEC) to disclose events – in accordance with Section 409 of the Sarbanes-Oxley Act of 2002 – that are likely to be material events. Using the Form 8-K's enables us to collect much more granular data, including data on the way the downsizing was performed (e.g., temporary versus permanent downsizing), than what could have been deduced by collecting data on annual employment figures. As aforementioned, our data on downsizing also includes reductions in labor (e.g., reductions in the weekly working hours), which will not be reflected in annual employee numbers.

The data on downsizing was collected via a two-step process. The first step consisted of a fuzzy search[10] to identify those Form 8-K's that contained at least one keyword related to Covid-19 as well as a number of keywords possibly referring to downsizing and applications made under the CARES Act. The selection of the keywords was informed by an initial reading of a sample of Form 8-K's. Interestingly, the choice of language varied across CEOs, with some albeit not all conservative CEOs using a more clinical language when referring to downsizing than other CEOs. For example, Paul Donahue, the CEO of Genuine Parts Company, we classed as a conservative CEO, engaged in downsizing while exceeding dividend expectations. He was quoted as follows:

[10] A fuzzy search is a text mining technique of approximate string matching that may be less than 100% perfect when finding correspondences between keywords and words in a paragraph of text (Levenshtein, 1966).

> "We are aggressively managing our company's operations through the challenges of COVID-19, both by managing the short-term dynamics and impacts and staying focused on our long-term growth initiatives."[11]

The Covid-19 downsizing and CARES keywords that we obtained from this exercise and that were used in this study are listed below.

- Covid-19 keywords: *Covid-19, coronavirus, pandemic, epidemic,* and *health crisis.*
- Downsizing keywords: *workforce, headcount, staff, employees, personnel, labor force, response, downsizing, furlough, shutdown, close, redundancy, compulsory, voluntary, temporary, shorten, early leave, forgo,* and *reduce.*
- CARES keywords: *Coronavirus aid, CARES act, relief, assistance, payroll support, loan, treasury department,* and *economic security.*[12]

The second step consisted of manually checking all the Form 8-K's that had been identified for the presence of some of the above keywords. We also cross-checked the information pertaining to applications under the CARES Act provided in the Form 8-K's with information on the website of the US Treasury Department to ensure data consistency.[13]

3.2. Methodology

3.2.1. The Regression Models and Key Variables

To test the validity of our hypothesis that CEO political ideology affects the way a CEO reacted to the 2020 pandemic, we estimate multinomial logit regressions. While the full details about the multinomial logits can be found in Appendix B, in a nutshell the various multinomial logits enable us to estimate the likelihood of a (more) conservative CEO choosing a (more) shareholder-friendly reaction to the pandemic compared to a

[11] Genuine Parts, Co., Form 8-K, filing date of July 30, 2020, `https://www.sec.gov/Archives/edgar/data/40987/000004098720000034/gpc-earnq22020.htm`

[12] For each keyword, the search also uses variations of the keyword, such as 'reducing', 'reduction', and 'reduced' for 'reduce'.

[13] `https://home.treasury.gov/policy-issues/cares`, accessed on February 28, 2021.

(more) employee-friendly reaction. We consider reactions that prioritize safeguarding the dividend – or meeting dividend expectations – over maintaining employee numbers as shareholder-friendly while reactions that avoid downsizing are considered to be employee-friendly.

The question arises as to the comparator that should be used for the quarterly dividends in calendar year 2020. On the one hand, it can be argued that the comparator should be the dividend per share for the equivalent quarter from the previous year, i.e., year 2019 (Lintner, 1956). For example, the dividend for the second quarter of 2020 should then be compared to the dividend for the second quarter of 2019. If the former happens to be lower than the latter, this would amount to a dividend cut. On the other hand, it can be argued that the counterfactual for the pandemic is not the year 2019 as before the pandemic started investors might have expected the dividend in 2020 to increase in line with earnings per share that were also expected to increase. Hence, we opted for comparing each of the quarterly dividends per share (DPS) in 2020 to the expected dividend per share for that quarter. For the latter, we use the difference between the actual DPS in a given quarter of 2020 and the arithmetic mean of analysts' forecast for the DPS in 2019.[14] This data is obtained from I/B/E/S. Adopting a slightly different perspective, in quarter q of year t, i.e., qt, the actual change in the dividend is equal to:

$$DIV_{qt} - DIV_{q,t-1}$$

whereas we compare the actual dividend to the expected dividend, i.e., the dividend forecast made in *t-1* , that is:

$$DIV_{qt} - E_{t-1}[DIV_{qt}].$$

Note that our approach is equivalent to comparing the actual change in the dividend

[14]See also Amin et al. (2015) who call this measure the "dividend surprise".

to the expected change in the dividend, that is:

$$DIV_{qt} - DIV_{q,t-1} - \{E_{t-1}[DIV_{qt}] - DIV_{q,t-1}\}.$$

Again, to test the validity of our main hypothesis that conservative CEOs are more likely to choose shareholder-friendly reactions to the economic fallout from the pandemic, we distinguish between entirely shareholder-friendly reactions, entirely employee-friendly reactions, and reactions that favor neither of the two. In what follows, we refer to these reactions as "employee pain", "shareholder pain", "shared pain", and "no pain", respectively:

- "Employee pain": Downsizing while maintaining the dividend, i.e., meeting the expected dividend, which implies that the employees are bearing all the pain;
- "Shareholder pain": No downsizing and paying out a dividend below the expected dividend, which implies that the shareholders are bearing all the pain;
- "Shared pain": Downsizing and a dividend below the expected dividend; and
- "No pain": No downsizing and paying out the expected dividend.[15]

To estimate the likelihood of the reactions to the pandemic depending on CEO political ideology, we estimate multinomial logits based on Eq. 1 below. The dependent variable of the multinomial logits is explained in detail in Appendix B.

$$\begin{aligned} Prob(Reaction\ type\ to\ pandemic) = \alpha &+ \beta_1 * CEO\ political\ ideology + \beta_2 * Loss \\ &+ \beta_3 * Loss * CEO\ political\ ideology \\ &+ \beta_4 * Control\ variables + \epsilon \end{aligned} \tag{1}$$

We run three different multinomial logits as the above pairs of alternatives require three different base cases (i.e., "shareholder pain", "shared pain", and "no pain", respec-

[15]The reader should note that in previous versions of the paper we also considered the reaction "employee pain and shareholder joy" in our analysis. This reaction consisted of downsizing the workforce while exceeding dividend expectations. However, given the relatively small number of observations for this reaction, we ultimately merged this reaction with the "employee pain" reaction.

tively). Unless otherwise stated, all variables are based on the calendar year 2020. Again, while the quarterly data for 2020 are aggregated, we still benefit from the granularity of the quarterly data. Indeed, the dividend per share (DPS) falling below expectations in the 2020 calendar year is defined as a DPS in *any of the four quarters* of 2020 below the expected DPS for the equivalent quarter. In turn, a dividend exceeding expectations in 2020 is defined as a DPS for any of the four quarters of 2020, which exceeds the expected DPS for the equivalent quarter. For firms with both dividends falling below expectations in some quarters and dividends exceeding expectations in other quarters of 2020, we class such firms as firms whose dividend fell below expectations in 2020. Given the context of the pandemic, this approach takes into account that firms may not have met dividend expectations during the first two or three quarters of 2020, and then met dividend expectations from 2019 once their earnings had recovered sufficiently.[16]

Note that the dependent variable in Eq. 1 takes into account whether the firm downsized or not. However, it does not distinguish between the various types of headcount reductions. The different types of downsizing include temporary versus permanent downsizing, and voluntary versus compulsory downsizing during at least one of the quarters of 2020. We also considered reductions in the working week and salary reductions to be compulsory downsizing. Note that some firms may have engaged in more than one type of downsizing in the same quarter, including both voluntary and compulsory redundancies. In such cases, in the regression analysis we considered the worst form of downsizing a firm used. As mentioned in Section 3.1, after identifying the Form 8-K's containing some or all of the downsizing keywords, we encode the following indicator variables to capture the occurrence of different types of downsizing:

- *Downsizing* (any of the following types of downsizing),
- *Temporary* (temporary downsizing such as furloughing),
- *Permanent* (permanent downsizing such as early retirement),
- *Voluntary* (voluntary leave),
- *Compulsory* (compulsory leave),

[16]Put differently, for each firms we focus on the *worst* 2020 dividend reaction to the pandemic.

- *Shortened* (shortened work week program),
- *Reduced salary* (a salary cut for all staff), and
- *Reduced salary board* (a salary cut for the board only).[17]

We then aggregate these indicator variables at the annual level for the calendar year 2020.[18]

As stated in Section 2, the retail, leisure, hospitality, and travel industries suffered the most from the pandemic as they were unable to operate during part of 2020 due to lockdowns and travel restrictions (Chetty et al., 2020; Bartik et al., 2020). Firms in these industries typically did not have the option to avoid downsizing. Nevertheless, the CEOs of such firms may still have had a choice between different types of downsizing. Having data on the different types of downsizing then enables us to identify the severity of the downsizing. More specifically, employees should prefer temporary downsizing over permanent downsizing. They should also prefer voluntary redundancies over compulsory redundancies. Finally, they should prefer salary reductions for the board directors only to salary reductions for all the staff. In line with our main hypothesis, we expect that conservative CEOs opt for more severe forms of downsizing. To test whether the CEO's political ideology affected the severity of downsizing for those firms engaging in downsizing, we rerun Eq. 1 by distinguishing between firms that engage in permanent downsizing and those that engage in temporary downsizing.

For both of these versions of Eq. 1, our key variable of interest is *CEO political ideology*. CEO political ideology is measured in two different ways. First, we use *CEO conservatism*. Considering the lifetime political donations of the CEO up to and including calendar year 2020 but ignoring the donations made one year before U.S. presidential elections,[19] this

[17]The encoding of the various downsizing variables was conducted by two members of the data-encoding team. Any discrepancies in the encoding between the two members were then resolved by the third member of the team. We cross-checked this information with the 2019 and 2020 employee numbers from Compustat.

[18]Earlier versions of the paper also included a variable, i.e., *Downsizing date* for each quarter, which indicates the earliest date when downsizing occurred in 2020. This date is compared with the date when the dividend per share changed. For only a few firms, the dividend (downsizing) decision preceded the downsizing (dividend) decision. Hence, in general there was no timing difference between the two decisions.

[19]Donations made during the year prior to a presidential election tend to be driven by opportunism rather than ideology. For details, see Bayat and Goergen (2020).

alternative measure is based on the total amount the CEO donated to the Conservative party divided by the sum of the total amounts donated to both the Republican party and the Democratic party. Second, we use a set of four indicator variables measuring the political leaning of the CEO: *Conservatives* who donated to the Republican party only, *Liberals* who donated to the Democratic party only, *Nonpartisans* who donated to both the Democratic and Republican parties, and *Zerodonations* who did not make donations to any political party. Note that there limitations to these indicator variables. First, we end up with relatively few conservative CEOs, i.e., 67 such CEOs. Second, a CEO who might have donated $100,000 to the GOP and $500 to the Democrats would be categorized as nonpartisan, similar to another CEO who might have donated $200,000 to the Democrats and $1,000 to the Republicans. Given these limitations, the descriptive tables that follow use the index rather than the four CEO categories to identify subsamples based on CEO political ideology. Nevertheless, in the regression analysis we use both and find qualitatively similar results.

While not a key variable of interest, we nevertheless consider the fact whether the firm makes a loss in any of the four quarters of 2020 as a key determinant of the type of its reaction to the pandemic. Hence, we include *Loss*, an indicator variable set to one if earnings per share in at least one of the four quarters of 2020 are negative, and zero otherwise, in our regressions. The use of this indicator variable is motivated by DeAngelo et al. (1992) who found that a loss is a necessary condition for firms on the New York Stock Exchange (NYSE) to reduce their dividend during 1980-1985. The majority of firms on NYSE with a loss during that period reduced their dividend compared to only 1% of firms without a loss during the same period. Interestingly, their study also implies that the proportion of firms that did not cut their dividend in the wake of a loss is just below a majority. Hence, while a loss is a *necessary* condition to cut the dividend, it does not seem to be a *sufficient* condition. We also interact *CEO political ideology* with the *Loss* indicator variable. This interaction enables us to identify possible differences in behavior based on CEO political ideology between loss-making firms and the remaining firms.

3.2.2. The Control Variables

Our first set of control variables includes measures, which have been shown to explain changes in dividends. In line with DeAngelo et al. (1992), we include *Loss* as mentioned above. As per Lintner's (1956) dividend model, we control for EPS and ΔEPS, which are earnings per share (EPS) for calendar year 2020, and the difference between EPS for calendar year 2020 and EPS for calendar year 2019. Although the following variable has not yet been used to explain changes in dividends, given the way we measure dividend changes (i.e., by comparing the actual DPS in 2020 with the expected DPS), we also include $EPSsurprise$ (i.e., the difference between the actual EPS for the fiscal year 2020 and the expected EPS for the same year). We also consider stock repurchase behavior during the calendar years t with $t = 2019, 2020$. Hence, we include the following three variables: $Repurchases_t$ is an indicator variable set to one if there were stock repurchases in calendar year t, and zero otherwise; $Shares\ repurchased_t$ is the ratio of total shares repurchased in year t to common shares outstanding in year $t-1$; and $Value\ shares\ repurchased_t$ is the product of total shares repurchased in year t and the average price per repurchased share for the same year.

Our next two control variables are measures that could affect the likelihood of downsizing. We include the two key variables that are included in the classic labor demand equation (see Nickell, 1984). They are the wage costs and labor productivity. $Wage\ costs_{2019}$ is the natural logarithm of wages, and $Productivity_{2019}$ is measured by the natural logarithm of sales, both measured for the fiscal year 2019. One limitation of the Compustat database is the lack of data for labor expenses.which is only available for 12% of the firm-year observations in our sample. To deal with this lack of data, we complement the firm-year observations available in Compustat with data obtained from the Annual Survey of Manufactures (ASM) conducted by the U.S. Census Bureau. Following Donangelo et al. (2019), we estimate the total labor costs to the employer, using data for the U.S. at the two-digit NAICS level, as the logarithm of the industry average for the sum of salaries and wages plus additional costs (for more details see Appendix C). Hence, we assume that firms with missing labor costs have the same labor costs as the average firm

in their industry.

In addition, we include $Institutional\ ownership\ ratio_{2019}$, i.e., the ratio of institutional ownership to the total number of shares outstanding, based on the calendar year end for 2019. Furthermore, the indicator variable $CARES$ is set to one if the firm applied for assistance under the CARES Act during the calendar year 2020, and zero otherwise. In turn, *Red state* is an indicator variable that is set to one if the firm's headquarters are located in a state where a majority voted for the Republicans in the 2019 elections.[20]

Finally, we include several variables measuring CEO characteristics, including $CEO\ age$, and a number of indicator variables set to one, if the CEO is male ($CEO\ gender$), the CEO also acts as the chair of the board of directors ($CEO\ duality$), and the CEO has an MBA (MBA), a PhD (PhD), a degree from an Ivy League university ($Ivy\ League$), or a professional accounting qualification ($Professional\ qualification$). We also control for CEO share ownership. All variable definitions can be found in Appendix C.

4. Empirical Analysis

4.1. Descriptive Statistics

Table 1 reports summary statistics for the variables used in this study. Table 2 documents the correlation coefficients between these variables. Both tables are based on observations for the calendar year 2020, unless otherwise specified.

Table 1 suggests that for 43.1% of the firms at least one of the actual quarterly dividends per share in calendar year 2020 is below the expected quarterly dividend. The percentage of firms conducting downsizing is lower with 28.2%. In addition, most downsizing tends to be of the compulsory type (not tabulated). Further, 8.3% of firms also reduced the salaries of the entire workforce and 13.7% of the firms reduced the remuneration of the board of directors (not tabulated). Just under 14% of firms have a CEO classed as conservative whereas 6.8% of firms have a liberal CEO. Nonpartisans, i.e., CEOs who donated to both the Democratic and Republican parties, make up 24.3% of

[20]It would not make sense to base this indicator variable on the 2020 presidential elections as the way voters voted may reflect their satisfaction with how the U.S. Government managed the pandemic.

the observations. At first sight, the low percentage of conservative CEOs might appear surprising. However, the reader should remember that the definition of a conservative CEO, which underlies the *Conservatives* indicator variable, is extremely stringent. Indeed, we only consider a CEO to be conservative if the CEO has *only ever* donated to the Conservative party. This would exclude a CEO whose donations mainly targeted the Republican party, with the odd smaller donation to the Democrats. Furthermore, in line with expectations, the average for *CEO conservatism* is above 0.5 with 0.563, suggesting that the average CEO is conservative. Still, the median is exactly 0.5. Importantly, while we use two different sets of measures for CEO political ideology, resulting in very different distributions of conservative CEOs and other CEOs, our regression results from using the two alternative sets of measures are not qualitatively different. This confirms the robustness of our key results. Further, 34.4% of the firms reported a loss, whereas on average actual earnings per share were greater than the expected ones (see *EPS surprise*). Moreover, there was a drop in the ratio of shares repurchased in 2020 compared to 2019. The same pattern applies to the value of shares repurchased. About 10% of the firms successfully applied for support under the CARES Act. Finally, the average CEO age is approximately 59 years, 37% of CEOs also act as chair of the board of directors, and slightly above 5% of CEOs are female. These values for the CEO characteristics are in line with those reported in extant studies (see e.g. De Angelis and Grinstein, 2020). Note that we confirm the continuation of the downward trend in the percentage of firms with CEO duality as highlighted by Graham et al. (2020).

Table 2 reports the correlation matrix. The table documents a significant and positive association between *CEO conservatism* and the actual dividend being above expectations. The same pattern is observed for the indicator variable *Conservatives*. In contrast, the correlation between the dividend exceeding expectations on the one side and the indicator variables *Liberals*, *Nonpartisans*, and *Zerodonations* is either negative or insignificant. Interestingly, the indicator variable *Zerodonations* also suggests that CEOs without political donations are more likely to pay a dividend, which is *below* the expected one. Nevertheless, no association between the measures of political ideology

and downsizing is found. Finally, there is no significant correlation between the *CARES* indicator variable on the one side and *CEO conservatism* or any of the four indicator variables of CEO political ideology on the other side. Hence, there is no evidence that CEO political ideology affected the likelihood of a firm applying for assistance under the CARES Act.

Insert Table 1 about here.

Insert Table 2 about here.

4.2. Univariate Analysis

Table 3 reports the types of reaction of the S&P 500 firms to the pandemic. The level of the observation is the firm. The table distinguishes between firms with conservative CEOs, i.e, firms for which *CEO conservatism* exceeds 0.5, and all other firms, i.e., firms for which *CEO conservatism* equals or is below 0.5. The main numbers in the table are the percentages of firms for a given level of *CEO conservatism* that engage in a specific combination of downsizing and dividend reaction to the pandemic, whereas the numbers in parentheses are the numbers of firms adopting a specific combination of downsizing and dividend decision.

Table 3 suggests that the percentage of firms with conservative CEOs that opt for "shareholder pain", i.e., firms that do not meet dividend expectations while staying clear of downsizing, is only 24% compared to about 30% for firms with nonconservative CEOs. In turn, there is a greater percentage of firms with conservative CEOs, i.e., 15.95% (= 8.70% + 7.25%), opting for "employee pain" compared to the equivalent percentage of all other firms (13.27% = 6.79% + 6.48%).

Table 4 reports the percentages of firms that do and do not downsize, including the different types of downsizing, while distinguishing between conservative CEOs, i.e., CEOs for which *CEO conservatism* exceeds 0.5, and all other CEOs. Note that, as some firms

engage in more than one type of downsizing, the percentages of firms engaging in the various types of downsizing exceeds 100%. While temporary downsizing includes mostly furloughing and voluntary leaves from work, again we also considered shortened working hours and salary reductions as temporary and compulsory downsizing.

The table suggests that firms with conservative CEOs are less likely to adopt temporary measures to reduce their workforce and more likely to adopt permanent measures when compared to the remaining firms. Of particular interest is the large difference in the percentage of firms with conservative CEOs that reduce the working hours, i.e., 10%, compared to 20% of the remaining firms.

Insert Table 3 about here.

Insert Table 4 about here.

4.3. Regression Analysis

Table 5 reports the results from the estimation of Eq. 1. While in Panel A the political ideology of the CEO is measured by *CEO conservatism*, Panel B uses the CEO indicator variables, i.e., *Conservatives*, *Liberals*, *Nonpartisans*, and *Zerodonations*, with the latter one being dropped to avoid perfect multicollinearity. Note that the table reports the regression coefficients rather than the marginal effects, which cannot be reported in a straightforward way for multinomial logits. Nevertheless, Figures (a) to (f) in Appendix D show the marginal effects, which we discuss below.

Panel A of Table 5 provides consistent evidence in favor of our main hypothesis. In detail, the first column suggests that greater CEO conservatism increases the likelihood that a firm opts for "employee pain", i.e., it downsizes while meeting dividend expectations, as compared to opting for "shareholder pain", i.e., paying out a dividend that is below the expected dividend while not engaging in downsizing. Similarly, the second column suggests that CEO conservatism also increases the likelihood of "employee pain"

as compared to "shared pain". In other words, a more conservative CEO is more likely to pay a dividend that meets the expected dividend while downsizing the workforce compared to the alternative of failing to meet the expected dividend while also downsizing. Finally, the last column of Panel A suggests that firms with more conservative CEOs are more likely to opt for "employee pain" as compared to "no pain", which would consist of maintaining employee numbers while paying out a dividend equal to at least the expected dividend.[21]

Concerning Panel B of Table 5, we find confirmation of the results from Panel A. First, the indicator variable for conservative CEOs is consistently positive and significant (at the 5% level or better) across all three columns of the panel. This suggests that conservative CEOs are more likely to make their employees bear the negative consequences of the pandemic than their shareholders when compared to all other CEOs. In detail, such CEOs were more likely to opt for "employee pain" rather than the alternatives of "shareholder pain", "shared pain", and "no pain". In contrast, none of the other two indicator variables of the CEO's political ideology, i.e., *Liberals* and *Nonpartisans*, are significant.

Finally, in both panels the indicator variable *Loss* is positive and significant (at the 5% level or better), except in the middle column. This suggests that firms with negative earnings per share were more likely to downsize their workforce. Interestingly, the coefficient on the interaction between *Loss* and *CEO conservatism* in Panel A is negative and significant in one regression (at the 10% level) while the coefficient on the interaction

[21] As discussed in Section 2, the CARES Act provided assistance such as loans and tax support for businesses affected by the COVID-19 pandemic. See `https://home.treasury.gov/policy-issues/coronavirus`. Firms were not permitted to conduct involuntary terminations or furloughs while receiving support under the CARES Act. For example, the Payroll Support Program to Air Carriers and Contractors published in March 2020 required applicant firms to refrain from conducting involuntary layoffs or furloughs for six months. See `https://home.treasury.gov/system/files/136/Payroll-Support-Procedures-Form-FINAL.pdf`. While the CARES Act typically limited compulsory downsizing, Panel A of Table 5 suggests that the *CARES* indicator variable increased the likelihood of the firm engaging in "employee pain" compared to "shareholder pain" at the 5% significance level. This counterintuitive relation can be explained by the observation that firms received support via the CARES Act while still conducting downsizing. There are several possible reasons for this. Some firms conducted downsizing in an earlier quarter and then applied under the CARES Act and received support in later quarters. Some firms initially had obtained support via the CARES Act, but due to the absence of additional support had to conduct downsizing. For example, American Airlines Group proceeded with furloughs to reduce its headcount absent an extension of the CARES Act Payroll Support Program (PSP). See `https://www.sec.gov/Archives/edgar/data/4515/000000620120000100/a8kerexhibit991q3-20.htm`.

between *Loss* and the indicator variable *Conservatives* in Panel B is negative and significant (at the 5% level or better) in two regressions. This would suggest that conservative CEOs may downsize to avoid an earnings loss, which in turn would then enable them to pay a dividend that meets investor expectations pre-pandemic.

Insert Table 5 about here.

Figures (a) to (f) in Appendix D show the marginal effects of the *Conservatives* indicator variable on the predicted probability for (a) "shareholder pain" and (b) "employee pain" for the entire sample. Figures (c) and (d) show the equivalent effects for the firms that made an earnings loss in at least one of the quarters of calendar year 2020 whereas figures (e) and (f) show the equivalent effects for the firms that did not make an earnings loss in any of the quarters of calendar year 2020. The marginal effects confirm the results from Table 5. In particular, conservative CEOs are less likely to engage in more employee-friendly reactions in response to the pandemic and are more likely to engage in "employee pain". These patterns are more pronounced for the loss-making firms.

Table 6 revisits the reaction labeled "employee pain" by distinguishing between temporary and permanent downsizing. First, we investigate whether (more) conservative CEOs are more likely to use temporary downsizing in order to meet dividend expectations as compared to maintaining employee numbers while paying out a dividend per share that falls below expectations (first column). Second, we investigate whether conservative CEOs are more likely to resort to permanent downsizing than to temporary downsizing as compared to all other CEOs (second column). For completeness, we also check whether (more) conservative CEOs are more likely use permanent downsizing in order to meet dividend expectations as compared to maintaining employee numbers and not meeting dividend expectations (third column). Table 6 uses *CEO conservatism* to measure CEO political ideology. Note that the use of the four indicator variables as an alternative resulted in huge standard errors on some of the coefficients, likely reflecting the relatively small number of observations for firms using temporary downsizing versus permanent downsizing while meeting dividend expectations.

The first column of Table 6 supports the argument that (more) conservative CEOs use temporary downsizing to avoid negative earnings per share, enabling them to meet dividend expectations. While, the coefficient on *CEO conservatism* is not significant, the coefficient on the indicator variable *Loss* is positive and highly significant (at the 1% level), whereas the coefficient on the interaction between *Loss* and *CEO conservatism* is negative and significant (at the 10% level). This suggests that, while firms with non-conservative CEOs are more likely to use temporary downsizing when there is a loss, the opposite observation applies for firms with conservative CEOs. Putting everything together, this confirms the argument that conservative CEOs temporarily reduce labor costs to meet dividend expectations. Still, the second column of Table 6 fails to provide evidence that conservative CEOs are more likely to use permanent rather than temporary downsizing. Similarly, the last column does not suggest that conservative CEOs are more likely to use permanent downsizing when compared to the likelihood of avoiding downsizing while paying out a dividend that is below investor expectations.

Insert Table 6 about here.

4.4. Robustness Tests

We perform a battery of robustness tests. First, we re-estimate the regressions from both Table 5 and Table 6 by dropping the 48 firms that applied under the CARES Act for government support. We find qualitatively similar results (not tabulated), albeit with the interaction between *CEO conservatism* and *Loss* being less significant[22] and one regression (i.e., the second regression of Table 6) struggling with high standard errors due to the substantial drop in observations.

Second, out of the 481 S&P 500 firms headquartered in the U.S., 75 did not pay a dividend in the pre-pandemic year 2019. A total of 64 of these 75 firms did not pay a dividend in 2020 either. When dropping these 75 firms from our regression analysis. We

[22]This result can be easily explained by the positive correlation between the *CARES* indicator variable and the *Loss* indicator variable. See Table 2.

still find qualitatively similar results.

Third, we include leverage, defined as the book value of long-term debt over the book value of total assets, as an additional control variable in our regression analysis. Indeed, one could argue that firms with more debt might be subject to more stringent debt covenants, which may limit the dividend per share to a maximum percentage of earnings per share. The results, which are not tabulated, are qualitatively similar to the results from our main regression analysis.

Fourth, we include the pre-pandemic cumulative abnormal returns (CARs) and their equivalent for the pandemic period in the regressions analysis. The pre-pandemic period covers January 2, 2017 to December 31, 2019. Similar to (Dechow et al., 2021), the pandemic period runs from January 2, 2020 to March 31, 2020. The CARs are based on the Fama-French three-factor model (Fama and French, 1993) and alternatively on the Fama-French-Carhart four-factor model (Carhart, 1997)[23] By including the CARs, the number of observations in the regression analysis in Tables 5 and 6 drops from 459 to 418. These augmented regressions, which are not tabulated, confirm our key results. As expected, the coefficients on the pre-pandemic and pandemic CARs – when significant – are negative, suggesting that firms that experienced negative CARs in either or both periods were more likely to downsize during the calendar year 2020. Note that we also now find some evidence (at the 10% level) that conservative CEOs are more likely to opt for permanent rather than temporary downsizing. Importantly, there is also evidence (again at the 10% level) that conservative CEOs may engage in permanent downsizing to meet or exceed dividend expectations.

Fifth, 20 of the 481 sample firms operate in *Investment Banking and Securities Dealing* and *Commercial Banking*. As the U.S. government imposed caps on dividends and suspended stock repurchases for bank holding companies during the pandemic (Federal Reserve, 2020), we rerun the regressions from Table 5 and Table 6 by excluding these 20 firms from our sample. We find qualitatively similar results to those in our main analysis.

Finally, we recode *CEO conservatism* by setting values of the index between 0.4 and

[23]Further details about the estimation window, etc., can be found in Appendix C.

0.6 to 0.5. The rationale behind this is that CEOs with values close to 0.5 do not have strong political leanings. When we reestimate the multinomial logits in Panel A of Table 5 (the results are not tabulated for the sake of brevity), we still find results that are qualitatively similar to our main results.

4.5. Further Analysis

The question arises whether firms that downsized during the year of the pandemic, i.e., the year 2020, did so to maintain their stock repurchase programs. Figure 1 shows the percentages of sample firms with stock repurchases during calendar years 2019, 2020, and 2021. While Figure 1 (a) is based on the entire sample, Figures 1 (b) and 1 (c) focus on the subsample of firms with *CEO conservatism* exceeding 0.5 and the subsample of firms with *CEO conservatism* being equal to or less than 0.5, respectively. Figure 2 is the equivalent figure for the (sub)sample average value of the stock repurchases in 2019, 2020, and 2021.

While Figure 1 suggests that the percentage of sample firms repurchasing their stock dropped in both 2020 and 2021, neither was the drop in the percentage substantial nor is there evidence suggesting that the drop was driven by CEO political ideology. Similarly, Figure 2 does not provide any evidence that firms with conservative CEOs were more likely to downsize their workforce to maintain their stock repurchase program. If anything, firms with both a conservative CEO and *without* downsizing in 2020 (see Figure 2 (b)) experienced a substantial drop in the value of their stock repurchases, whereas firms with a nonconservative CEO and without downsizing (see Figure 2 (c)) did not experience such a substantial drop. This suggests that conservative CEOs were more risk averse during the crisis, keeping any excess cash in the firm, rather than distributing it to their shareholders. This confirms findings from extant research (Hutton et al., 2014), documenting that conservative CEOs are more cautious than other CEOs.

Finally, we do not find a spike in stock repurchases during the second quarter of calendar year 2020 when stock prices were low. Conversely, we find that the total value of stock repurchases in the second quarter of 2020 was 3.6 times smaller than in the first

quarter of the same year. Note that in 2019 there was also a drop in the total value of stock repurchases from the first to the second quarter. However, the drop only amounted to 11%. In turn, the total value of stock repurchases in the second quarter of 2020 was 2.9 times smaller than in the equivalent quarter of the previous year. Hence, there is no evidence that CEOs of S&P 500 firms – whatever their political ideology – benefited from the relatively low stock prices to buy back their firm's shares.

Insert Fig. 1 about here.

Insert Fig. 2 about here.

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5. Discussion and Conclusion

This paper studies how the CEOs of S&P 500 firms reacted to the Covid-19 pandemic. The paper distinguishes between shareholder-friendly reactions and employee-friendly reactions. Shareholder-friendly reactions are those reactions that prioritize maintaining the dividend per share – or meeting dividend expectations – over safeguarding jobs in the firm. In contrast, employee-friendly reactions prioritize safeguarding jobs. We hypothesize that the CEO's political ideology affected the choice between shareholder-friendly reactions and employee-friendly reactions. We argue that conservative CEOs were more likely to prioritize the interests of the shareholder over those of the workers during the height of the pandemic (i.e., during calendar year 2020).

We use political donations made by the CEOs during their lifetime and up to and including the calendar year 2020 as a measure for their political ideology. Benefiting from granular data on downsizing obtained from Form 8-K's and quarterly data on actual dividends per share and expected dividends per share, we find the following. First, we consistently find that conservative CEOs favor shareholders over workers during the pandemic. Second, when deciding on the quarterly dividends for 2020, CEOs used the

consensus dividend per share for the various quarters of 2020 as forecast by financial analysts in 2019 rather than the actual quarterly dividends per share as their target dividends. Put differently, *ceteris paribus* conservative CEOs were more likely to pay out a dividend per share equal to the expected dividend per share with the workforce facing possible downsizing. Finally, we also find some evidence that conservative CEOs used temporary downsizing to reduce labor costs, thereby avoiding negative earnings per share, which in turn enabled them to meet dividend expectations.

Our paper makes an important contribution to the sparse literature on extreme events affect dividend policy. Again, we found that CEOs used the dividend forecasts for 2020 made in the pre-pandemic year as their benchmark to decide on the 2020 dividends. This contrasts with Lintner (1956) who argues that the current dividend level is guided by the past dividend levels. Our paper also makes an important contribution to the growing literature, which suggests that CEO characteristics, including CEOs' political orientation, affect firm strategy and decision making. In contrast, to most previous studies on the subject our paper makes use of the Covid-19 pandemic as an exogenous, temporary shock to firms' profitability, forcing CEOs to choose between prioritizing the interests of their shareholder and those of their employees.

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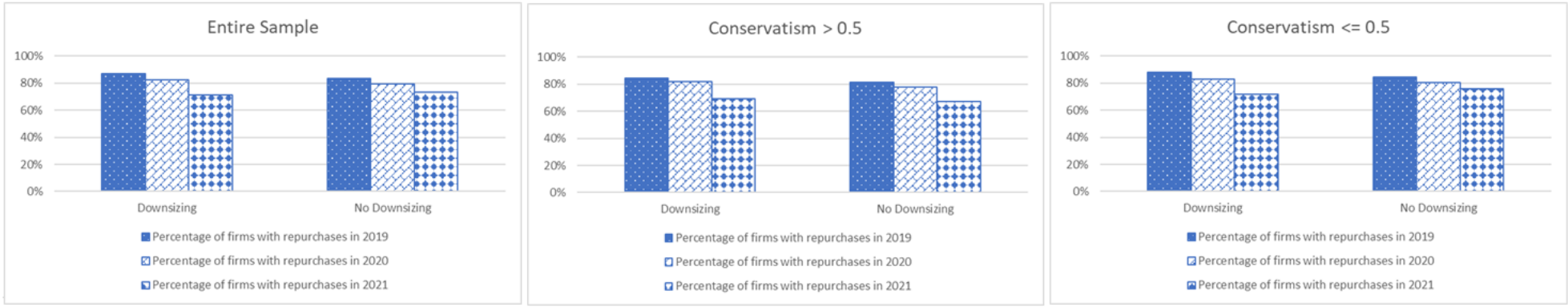
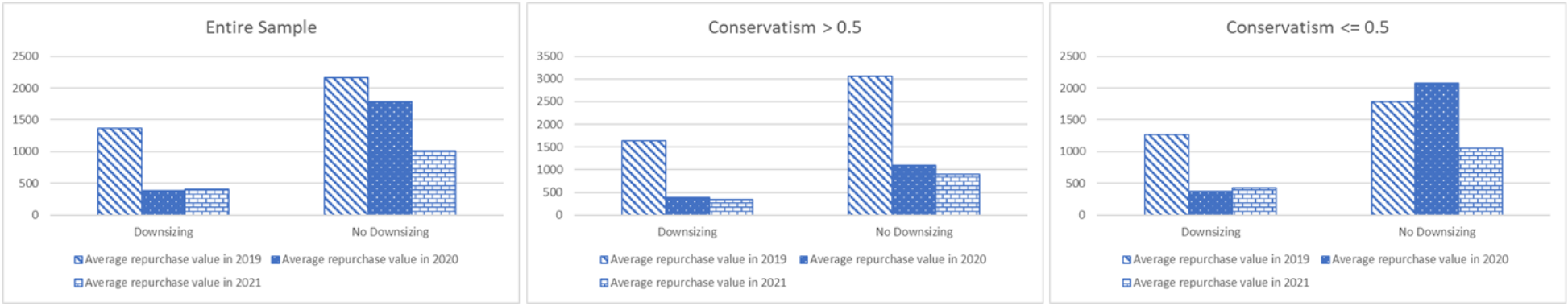
Figure 1: Percentage of firms with stock repurchases in calendar years 2019, 2020, and 2021



(a) (b) (c)

This set of three figures reports the percentages of firms that undertook a stock repurchase during the calendar years 2019, 2020, and 2021, respectively, while distinguishing between the firms that downsized their workforce during the calendar year 2020 and those that did not downsize during that same year. Figure (a) is based on all the sample firms, while figure (b) focuses on the subsample of firms with CEO conservatism > 0.5 and figure (c) focuses on the subsample of firms with CEO conservatism ≤ 0.5.

Figure 2: Sample (subsample) average value of stock repurchases in calendar years 2019, 2020, and 2021



(a) (b) (c)

This set of three figures reports the sample (subsample) average for the value of stock repurchases for firms during the calendar years 2019, 2020, and 2021, respectively, while distinguishing between the firms that downsized their workforce during the calendar year 2020 and those that did not downsize during that same year. Figure (a) is based on all the sample firms, while figure (b) focuses on the subsample of firms with CEO conservatism > 0.5 and figure (c) focuses on the subsample of firms with CEO conservatism ≤ 0.5. For each firm, we add up the values of the stock repurchases made during the four quarters of the given calendar year and then take the (sub)sample average.

Table 1: Summary statistics

Statistic	Mean	Median	St. Dev.	No. Obs.
Actual Div. Above Expectation	0.312	0	0.464	462
Actual Div. Below Expectation	0.431	0	0.496	462
Actual Div. Equals Expectation	0.257	0	0.437	462
Downsizing	0.282	0	0.450	481
Conservatives	0.139	0	0.346	481
Liberals	0.068	0	0.253	481
Nonpartisans	0.243	0	0.429	481
Zerodonations	0.548	1	0.498	481
CEO Conservatism	0.563	0.500	0.273	481
EPS	1.386	0.857	11.50	479
Δ EPS	-0.222	0.010	2.592	481
Loss	0.344	0	0.475	479
EPS Surprise	0.698	0.396	1.673	481
$\text{Repurchases}_{2019}$	0.844	1	0.363	481
$\text{Repurchases}_{2020}$	0.804	1	0.396	481
$\text{Shares Repurchased}_{2019}$	0.027	0.016	0.033	481
$\text{Shares Repurchased}_{2020}$	0.014	0.007	0.023	479
$\text{Value Shares Repurchased}_{2019}$	1933.634	365.461	5972.825	481
$\text{Value Shares Repurchased}_{2020}$	1383.461	150.032	10550.810	479
CARES	0.099	0	0.300	481
$\text{Institutional Ownership Ratio}_{2019}$	2.350	2.430	0.619	479
$\text{Productivity}_{2019}$	8.070	7.922	1.263	481
Wage Costs_{2019}	5.079	0	8.516	481
Red State	0.419	0	0.494	481
CEO Age	58.690	59	6.620	481
CEO Gender	0.946	1	0.226	481
CEO Duality	0.370	0	0.483	481
MBA	0.401	0	0.491	481
PhD	0.033	0	0.180	481
Ivy League	0.104	0	0.306	481
Professional Qualification	0.060	0	0.238	481
CEO Share Ownership	0.251	0.101	0.424	481

This table reports the mean, median, and standard deviation for the S&P 500 firms over the Covid-19 period, i.e., the calendar year 2020. The rightmost column reports the number of observations for each of the variables in our sample. We also report the repurchases indicator, the shares repurchased, the value of shares repurchased, productivity, and wage costs for 2019.

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	26	27	28	29	30	31	32
1.Actual Div. Above Expectation	1																															
2.Actual Div. Below Expectation	**-0.59**	1																														
3.Actual Div. Equals Expectation	**-0.40**	**-0.51**	1																													
4.Downsizing	**-0.11**	**0.10**	-0.01	1																												
5.Conservatives	**0.14**	**-0.12**	-0.01	-0.04	1																											
6.Liberals	0.08	**-0.08**	0.01	0.01	**-0.11**	1																										
7.Nonpartisans	-0.04	-0.01	0.04	0.04	**-0.23**	**-0.15**	1																									
8.Zerodonations	**-0.10**	**0.12**	-0.03	-0.01	**-0.44**	**-0.30**	**-0.63**	1																								
9.CEO Conservatism	**0.11**	-0.05	-0.06	-0.03	**0.61**	**-0.54**	**0.13**	**-0.26**	1																							
10.EPS	-0.02	-0.04	0.06	**-0.08**	-0.03	-0.02	-0.03	0.05	-0.02	1																						
11.ΔEPS	**0.09**	0.01	**-0.10**	**-0.10**	-0.07	-0.01	-0.03	0.07	0.01	**0.19**	1																					
12.Loss	**-0.12**	0.06	0.06	**0.29**	0.06	-0.01	0.05	**-0.08**	0.07	**-0.15**	**-0.13**	1																				
13.EPS Surprise	-0.05	-0.05	**0.11**	-0.06	0.01	**-0.08**	-0.02	0.05	0.01	**0.16**	**0.13**	**-0.16**	1																			
14.Repurchases$_{2020}$	-0.01	-0.04	0.05	0.03	-0.01	**-0.09**	-0.01	0.07	0.01	0.04	-0.02	**-0.10**	0.06	1																		
15.Repurchases$_{2019}$	-0.02	-0.03	0.06	0.04	0.04	**-0.09**	-0.06	0.07	0.01	0.03	-0.02	-0.01	0.03	**0.70**	1																	
16.Share Repurchased$_{2020}$	-0.02	**-0.14**	**0.17**	**-0.09**	-0.04	-0.02	-0.01	0.04	-0.07	0.07	-0.01	**-0.14**	**0.15**	**0.30**	**0.18**	1																
17.Share Repurchased$_{2019}$	-0.05	-0.02	0.08	0.06	0.03	-0.05	-0.02	0.02	-0.01	0.06	-0.04	-0.04	0.06	**0.30**	**0.31**	**0.47**	1															
18.Value Share Repurchased$_{2020}$	-0.04	-0.04	**0.09**	-0.06	-0.02	-0.01	0.02	-0.01	-0.04	0.02	-0.02	-0.06	0.06	0.06	-0.07	**0.45**	0.03	1														
19.Value Share Repurchased$_{2019}$	-0.05	**0.08**	-0.04	-0.06	0.04	-0.04	**0.16**	**-0.15**	-0.01	0.01	-0.04	**-0.09**	0.02	**0.13**	**0.14**	**0.12**	**0.33**	**0.20**	1													
20.CARES	0.02	-0.04	0.03	**0.19**	0.05	-0.01	0.01	-0.03	0.01	-0.04	**-0.10**	**0.15**	0.06	0.04	0.05	0.01	0.04	-0.03	-0.06	1												
21.Institutional Ownership Ratio$_{2019}$	-0.01	0.02	-0.01	0.06	-0.01	0.07	-0.07	0.03	-0.04	0.01	0.03	-0.04	-0.07	0.04	-0.04	**-0.08**	-0.01	**-0.21**	**-0.13**	-0.02	1											
22.Productivity$_{2019}$	-0.01	0.01	-0.01	0.04	0.02	**-0.08**	**0.10**	-0.06	0.03	0.03	**-0.14**	**0.13**	**0.14**	**0.12**	**0.15**	**0.09**	**0.13**	**0.19**	**0.33**	**0.13**	**-0.33**	1										
23.Wage Cost$_{2019}$	0.01	-0.01	0.01	**-0.09**	-0.05	**-0.08**	0.07	0.01	0.04	0.00	-0.02	**-0.11**	0.05	0.06	0.07	0.00	0.03	-0.02	**0.12**	-0.04	-0.02	0.01	1									
24.Red State	0.01	0.02	-0.02	0.00	**0.16**	**-0.10**	-0.04	-0.02	**0.20**	-0.06	-0.02	**0.10**	-0.05	-0.04	-0.03	-0.07	0.01	-0.06	-0.03	0.03	0.02	0.04	**-0.10**	1								
25.CEO Age	0.01	0.05	-0.07	**0.09**	-0.03	0.03	**0.08**	-0.06	0.01	0.03	-0.03	**0.12**	-0.03	0.01	-0.02	-0.03	-0.06	-0.04	0.01	0.07	-0.02	0.06	0.01	**0.08**	1							
26.CEO Gender	0.02	**-0.09**	**0.08**	-0.03	0.04	-0.04	-0.06	0.04	0.05	0.03	-0.03	-0.02	0.04	-0.05	-0.05	0.01	-0.02	0.01	0.01	-0.07	0.03	-0.05	0.07	-0.02	0.07	1						
27.CEO Duality	-0.02	0.05	-0.04	0.07	-0.04	-0.04	**0.22**	**-0.14**	**0.11**	-0.04	0.01	0.01	0.01	0.05	0.04	0.04	-0.01	-0.03	-0.04	0.05	-0.03	0.00	-0.01	0.01	**0.24**	0.06	1					
28.MBA	0.02	0.01	-0.03	0.02	**0.11**	-0.04	0.03	**-0.08**	**0.09**	**0.09**	0.02	**-0.08**	0.03	0.06	0.01	0.04	0.01	0.01	-0.01	-0.04	0.04	-0.01	**0.09**	0.02	-0.02	-0.04	-0.01	1				
29.PhD	-0.05	0.05	-0.01	**-0.12**	-0.07	0.04	0.03	0.01	-0.05	0.02	-0.01	-0.03	0.06	0.01	0.05	0.01	-0.06	-0.01	-0.01	-0.06	0.03	-0.02	0.06	**-0.11**	-0.01	0.04	-0.06	**-0.10**	1			
30.Ivy League	**-0.09**	0.03	0.06	-0.01	-0.05	0.01	0.01	0.03	-0.03	0.01	0.03	-0.01	**0.12**	0.06	0.03	0.06	-0.04	0.00	-0.03	0.01	-0.03	-0.03	0.05	-0.07	0.00	0.06	0.03	0.03	0.05	1		
31.Professional Qualification	0.02	-0.01	-0.02	0.01	0.03	-0.03	0.03	-0.03	0.02	-0.01	-0.02	0.07	-0.01	-0.04	-0.04	-0.04	**-0.08**	-0.02	-0.06	**0.10**	0.07	0.01	-0.07	-0.01	0.05	0.06	0.01	-0.01	0.01	-0.06	1	
32.CEO Share Ownership	-0.07	-0.06	**0.14**	0.04	0.01	-0.01	0.01	-0.01	0.00	**0.12**	0.04	0.03	**0.14**	0.00	-0.02	**0.15**	-0.05	-0.01	**-0.08**	0.04	-0.05	**-0.08**	-0.06	-0.01	**0.24**	0.01	**0.15**	0.02	0.06	**0.17**	-0.04	1

The table reports the Pearson correlation coefficients for the Covid-19 period, i.e., the calendar year 2020, unless otherwise specified. Numbers in bold indicate correlation coefficients that are statistically significant at 10 percent level. Appendix C provides the definitions of all variables.

Table 3: Reaction to pandemic by CEO conservatism

	Firms with CEO Conservatism > 0.5		Firms with CEO Conservatism ≤ 0.5	
	Downsizing	No Downsizing	Downsizing	No Downsizing
Actual Div. Below Expectation	11.59	23.91	16.05	30.25
	(16)	(33)	(52)	(98)
Actual Div. Equals Expectation	8.70	15.22	6.79	19.75
	(12)	(21)	(22)	(64)
Actual Div. Above Expectation	7.25	33.33	6.48	20.68
	(10)	(46)	(21)	(67)
Total	**27.54**	**72.46**	**29.32**	**70.68**

The table is based on the whole sample. The table categorizes the firms into two groups, i.e., firms with CEO conservatism > 0.5 and firms with CEO conservatism ≤ 0.5 during calendar year 2020. The main numbers are the number of firms with that particular combination of dividend and downsizing decision expressed as a percentage of the total number of CEOs with the level of CEO conservatism in question. For example, the top left cell reports the number of firms that opted for downsizing while the firm's actual dividend was below the expected one expressed as a percentage of all firms with CEO conservatism > 0.5. The sum of all the percentages for a given type of CEO may not add up to one hundred percent due to rounding errors. The numbers in parentheses are the numbers of firms that engage in specific combinations of downsizing or no downsizing and dividend decision.

Table 4: Forms of downsizing by CEO conservatism

	Firms with CEO Conservatism > 0.5	Firms with CEO Conservatism ≤ 0.5
No Downsizing	72.54	70.80
	(103)	(240)
Downsizing	27.46	29.20
	(39)	(99)
Temporary	71.79	82.83
	(28)	(82)
Permanent	51.28	41.41
	(20)	(41)
Voluntary	28.21	17.17
	(11)	(17)
Compulsory	89.74	84.85
	(35)	(84)
Shortened Working Hours	10.26	20.20
	(4)	(20)
Reduced Salary	25.64	30.30
	(10)	(30)
Reduced Salary Board	53.85	44.45
	(21)	(45)

The table divides the sample firms into two subsamples, i.e., the subsample of firms with CEO conservatism > 0.5 and the subsample of firms with CEO conservatism ≤ 0.5 during calendar year 2020. It reports the percentages of firms with and without downsizing for each subsample. In addition, it reports the number of firms in each subsample that engaged in a particular type of downsizing expressed as a percentage of the total number of subsample firms that engaged in downsizing. Note that as firms may engage in more than one type of downsizing the sum of the percentages exceeds 100%. The numbers in parentheses in the table refer to the actual numbers of firms. There are some small differences in the percentages of firms that do and do not downsize between this table and the previous table. These differences are due to missing data on the dividend decision.

Table 5: Likelihood of a shareholder-friendly reaction compared to (more) employee-friendly reactions

Panel A: Using CEO Conservatism			
	$ln\left(\frac{P_{employee\ pain}}{P_{shareholder\ pain}}\right)$	$ln\left(\frac{P_{employee\ pain}}{P_{shared\ pain}}\right)$	$ln\left(\frac{P_{employee\ pain}}{P_{no\ pain}}\right)$
Intercept	−1.292	1.478	−4.009*
	(0.624)	(0.569)	(0.086)
CEO Conservatism	2.368**	2.212**	1.824*
	(0.018)	(0.046)	(0.051)
Loss * CEO Conservatism	−2.905*	−1.149	−2.148
	(0.064)	(0.448)	(0.122)
Loss	2.517**	0.763	2.342***
	(0.017)	(0.444)	(0.014)
EPS	−0.126*	−0.071	−0.115
	(0.107)	(0.458)	(0.143)
Δ EPS	−0.041	−0.090	0.010
	(0.708)	(0.403)	(0.905)
EPS Surprise	−0.349**	−0.228	−0.113
	(0.035)	(0.189)	(0.473)
$\text{Repurchases}_{2020}$	0.220	0.180	0.478
	(0.740)	(0.775)	(0.410)
$\text{Repurchases}_{2019}$	−0.600	−0.371	−0.111
	(0.416)	(0.600)	(0.860)
$\text{Productivity}_{2019}$	−0.085	−0.111	−0.136
	(0.633)	(0.543)	(0.417)
Wage Costs_{2019}	−0.029	−0.024	−0.031
	(0.303)	(0.413)	(0.244)
$\text{Institutional Ownership Ratio}_{2019}$	0.427	0.114	0.285
	(0.212)	(0.713)	(0.341)
CARES	1.429**	0.681	1.576***
	(0.020)	(0.173)	(0.004)
Red State	−0.576	−0.446	−0.227
	(0.155)	(0.265)	(0.537)
CEO Age	−0.004	−0.049*	0.007
	(0.885)	(0.108)	(0.792)
CEO Gender	−0.448	0.820	0.892
	(0.662)	(0.306)	(0.245)
CEO Duality	0.688	0.216	0.137
	(0.119)	(0.612)	(0.722)
MBA	0.517	−0.111	0.201
	(0.227)	(0.790)	(0.599)
Ivy League	−0.393	−0.246	−0.110
	(0.622)	(0.772)	(0.892)
Professional Qualification	−1.114	−0.704	−0.708
	(0.230)	(0.446)	(0.417)
CEO Share Ownership	−0.540	−0.125	0.595
	(0.254)	(0.800)	(0.292)

Table 5 Cont'd

Consumer	1.220**	0.503	1.025**
	(0.040)	(0.356)	(0.046)
Manufacturing	0.963	0.180	0.313
	(0.111)	(0.745)	(0.530)
HiTec	−0.136	1.028	1.282**
	(0.811)	(0.128)	(0.024)
Health	−1.093	−0.451	0.078
	(0.272)	(0.659)	(0.936)
Pseudo R^2	0.143	0.143	0.143
Observations	459	459	459
Likelihood Ratio χ^2	205.300	205.300	205.300

Table 5 Cont'd

Panel B: Using Political Ideology CEO Types			
	$ln\left(\frac{P_{employee\ pain}}{P_{shareholder\ pain}}\right)$	$ln\left(\frac{P_{employee\ pain}}{P_{shared\ pain}}\right)$	$ln\left(\frac{P_{employee\ pain}}{P_{no\ pain}}\right)$
Intercept	−3.593	2.210	−0.289
	(0.122)	(0.395)	(0.912)
Liberals	0.736	1.065	0.578
	(0.435)	(0.418)	(0.564)
Conservatives	1.458**	3.148***	1.955***
	(0.026)	(0.008)	(0.010)
Nonpartisans	0.704	0.579	0.220
	(0.271)	(0.427)	(0.744)
Loss * Liberals	14.232	−0.767	−0.691
	(0.989)	(0.671)	(0.692)
Loss * Conservatives	−1.277	−2.936**	−3.046***
	(0.271)	(0.046)	(0.011)
Loss * Nonpartisans	−0.051	−1.067	−1.092
	(0.955)	(0.256)	(0.265)
Loss	1.296**	0.769	1.647***
	(0.017)	(0.193)	(0.010)
EPS	−0.135*	−0.088	−0.147*
	(0.092)	(0.368)	(0.066)
Δ EPS	0.027	−0.068	−0.028
	(0.750)	(0.529)	(0.797)
EPS Surprise	−0.097	−0.242	−0.353**
	(0.538)	(0.167)	(0.035)
$\text{Repurchases}_{2020}$	0.530	0.343	0.363
	(0.373)	(0.593)	(0.595)
$\text{Repurchases}_{2019}$	−0.172	−0.596	−0.818
	(0.788)	(0.404)	(0.282)
$\text{Productivity}_{2019}$	−0.143	−0.096	−0.063
	(0.403)	(0.600)	(0.725)
Wage Costs_{2019}	−0.025	−0.012	−0.024
	(0.334)	(0.661)	(0.411)
$\text{Institutional Ownership Ratio}_{2019}$	0.283	0.118	0.413
	(0.334)	(0.706)	(0.234)
CARES	1.525***	0.548	1.326**
	(0.006)	(0.286)	(0.032)
Red State	−0.191	−0.425	−0.552
	(0.605)	(0.291)	(0.179)
CEO Age	0.007	−0.052*	−0.006
	(0.772)	(0.094)	(0.830)
CEO Gender	1.117	0.917	−0.418
	(0.183)	(0.293)	(0.695)
CEO Duality	0.162	0.458	0.904**
	(0.682)	(0.307)	(0.049)
MBA	0.159	−0.172	0.527
	(0.682)	(0.684)	(0.227)

Table 5 Cont'd

Ivy League	−0.030	−0.128	−0.249
	(0.971)	(0.884)	(0.760)
Professional Qualification	−0.628	−0.488	−0.956
	(0.479)	(0.605)	(0.312)
CEO Share Ownership	0.567	−0.208	0.566
	(0.315)	(0.679)	(0.238)
Consumer	1.087**	0.426	1.068*
	(0.039)	(0.449)	(0.082)
Manufacturing	0.255	0.119	0.877
	(0.613)	(0.832)	(0.150)
HiTec	1.211**	0.935	−0.261
	(0.035)	(0.175)	(0.652)
Health	−0.164	−0.764	−1.242
	(0.870)	(0.470)	(0.222)
Pseudo R^2	0.158	0.158	0.158
Observations	459	459	459
Likelihood Ratio χ^2	227.79	227.79	227.79

This table reports the coefficients from estimating various multinomial logits explaining the likelihood of the firm adopting a (more) shareholder-friendly reaction to the pandemic relative to a (more) employee-friendly reaction to the pandemic. Panel A uses CEO conservatism as the key variable of interest whereas Panel B uses the indicator variables for CEO political ideology, i.e., *Conservatives*, *Liberals*, *Nonpartisans*, and *Zerodonations*. *Employee pain* refers to the firm downsizing its workforce while paying out the expected dividend in each quarter of calendar year 2020. *Shareholder pain* refers to the firm avoiding downsizing while paying out a dividend, which is below the 2020 dividend as expected in 2019. *Shared pain* refers to the firm downsizing its workforce while paying out a dividend, which is below the 2020 dividend as expected in 2019. Finally, *No pain* refers to the firm avoiding downsizing while paying out the expected dividend in each quarter of calendar year 2020. The numbers in parentheses are the p-values.*, ** and *** refer to statistical significance at the 10%, 5%, and 1% level, respectively.

Table 6: Likelihood of less employee-friendly reactions compared to more employee-friendly reactions

	$ln\left(\frac{P_{temporary\ downsizing}}{P_{shareholder\ pain}}\right)$	$ln\left(\frac{P_{permanent\ downsizing}}{P_{temporary\ downsizing}}\right)$	$ln\left(\frac{P_{permanent\ downsizing}}{P_{shareholder\ pain}}\right)$
Intercept	−3.069	0.428	−4.484
	(0.229)	(0.893)	(0.136)
CEO Conservatism	1.525	2.426	2.157
	(0.144)	(0.142)	(0.163)
Loss * CEO Conservatism	−3.028*	−0.226	−1.455
	(0.060)	(0.915)	(0.473)
Loss	2.843***	0.361	2.134
	(0.007)	(0.809)	(0.147)
EPS	0.001	−0.196*	−0.241**
	(0.998)	(0.085)	(0.016)
Δ EPS	0.003	−0.024	0.077
	(0.968)	(0.823)	(0.409)
EPS Surprise	−0.143	−0.129	−0.001
	(0.387)	(0.535)	(0.996)
$\text{Repurchases}_{2020}$	0.628	−0.018	0.606
	(0.243)	(0.491)	(0.975)
$\text{Productivity}_{2019}$	−0.063	−0.158	0.138
	(0.739)	(0.495)	(0.530)
Wage Costs_{2019}	−0.016	−0.046	−0.048
	(0.552)	(0.259)	(0.225)
$\text{Institutional Ownership Ratio}_{2019}$	0.347	0.034	0.212
	(0.321)	(0.927)	(0.565)
CARES	1.439**	0.787	1.666***
	(0.017)	(0.214)	(0.015)
CEO Age	−0.015	−0.018	0.279
	(0.603)	(0.616)	(0.417)
CEO Duality	0.034	−0.214	0.104
	(0.940)	(0.697)	(0.842)
MBA	0.111	−0.324	−0.149
	(0.800)	(0.566)	(0.978)
CEO Share Ownership	0.987*	−1.629	−0.892
	(0.082)	(0.160)	(0.449)
Manufacturing	0.095	−0.569	−0.618
	(0.851)	(0.387)	(0.325)
HiTec	1.027*	0.802	0.818
	(0.072)	(0.341)	(0.288)
Pseudo R^2	0.121	0.121	0.121
Observations	459	459	459
Likelihood Ratio χ^2	184.200	184.200	184.200

This table reports the coefficients from estimating two multinomial logits with two different base cases. The first column estimates the likelihood of the firm using temporary downsizing to meet the expected dividend ("temporary downsizing") compared to avoiding downsizing while paying out a dividend below the expected dividend ("shareholder pain"). The second column estimates the likelihood of permanent downsizing while meeting the expected dividend ("permanent downsizing") compared to "temporary downsizing". The last column estimates the likelihood of "permanent downsizing" compared to "shareholder pain". The table uses CEO conservatism as the key variable of interest. *Temporary downsizing* refers to the firm downsizing its workforce temporarily (e.g., via furloughing) in at least one of the four quarters of the 2020 calendar year whereas *Permanent downsizing* refers to the firm downsizing its workforce permanently in at least one of the four quarters of the 2020 calendar year. *Shareholder pain* refers to the firm avoiding downsizing while paying out a dividend, which is below the 2020 dividend as expected in 2019 in at least one of the 2020 quarters. The numbers in parentheses are the p-values. *, ** and *** refer to statistical significance at the 10%, 5%, and 1% level, respectively.

Appendix A. Sample Selection Process

The number of firm-year observations lost during the sample selection of the S&P firms for the period of the Covid-19 pandemic only (i.e., calendar year 2020) is:

1. We excluded 19 firms whose headquarters are not located in the U.S. The remaining number of firms is 481 out of the S&P 500 firms. We downloaded Form 8-K for each of these firms during the four quarters of calendar year 2020 and coded their downsizing variables.

2. Twenty-two firms were dropped after merging the data from ExecuComp, I/B/E/S, and the downsizing data with the data from Compustat. The final sample includes 459 firms.

Appendix B. Multinomial Logit

The first multinomial logit uses the absence of downsizing and the actual dividend being equivalent to the expected dividend as the base case. In detail, the values the dependent variable of this multinomial logit can take range from 0 to 5, and their corresponding reaction type is defined in the following table:

Dependent variable (value)	Reaction label	Reaction definition
0	No pain	The firm does not downsize in 2020 and pays out the 2020 dividend as expected in 2019 in each quarter of calendar year 2020.
1	Shareholder pain	The firm does not downsize and its actual dividend is below the expected dividend in at least one of the quarters of 2020.
2	No employee pain and shareholder joy	The firm does not downsize and its actual dividend is above the expected dividend in at least one of the quarters of 2020.
3	Employee pain	The firm downsizes but it pays out a dividend equal to a greater than the expected dividend in each quarter of 2020.
4	Shared pain	The firm downsizes and its actual dividend is below the expected dividend in at least one of the quarters of 2020.

We estimate various multinomial logits varying according to their base case, i.e, base case 0, base case 1, and base case 4, respectively. The reader should note that in previous versions of the paper we also considered the reaction "employee pain and shareholder joy" in our analysis. This reaction consisted of downsizing the workforce while exceeding dividend expectations. However, given the relatively small number of observations for this reaction, we ultimately merged this reaction with the "employee pain" reaction.

Appendix C. The Definition of Variables

Dependent Variables

See Appendix B for the definition of our main dependent variable.

Dividend measures

- **Dividend exceeds expectations**: An indicator variable that is set to one if the DPS for at least one of the four quarters of the 2020 calendar year is higher than the expected DPS for that quarter, and zero otherwise (Source: Compustat and I/B/E/S).

- **Dividend meets expectations**: An indicator variable that is set to one if the DPS for at least one of the four quarters of the 2020 calendar year is equal to the expected DPS for that quarter, and zero otherwise (Source: Compustat and I/B/E/S).

- **Dividend below expectations**: An indicator variable that is set to one if the DPS for at least one of the four quarters of the 2020 calendar year is lower than the expected DPS for that quarter, and zero otherwise (Source: Compustat and I/B/E/S).

Downsizing measures

- **Downsizing**: An indicator variable that is set to one if there was any following type of downsizing in at least one of the four quarters of the 2020 calendar year, and zero otherwise. Salary reduction is viewed as a variation of downsizing here. (Source: Form 8-K).

  - **Temporary**: An indicator variable that is set to one if there was temporary downsizing (e.g., furloughing) in at least one of the four quarters of the 2020 calendar year, and zero otherwise (Source: Form 8-K).

  - **Permanent**: An indicator variable that is set to one if there was permanent downsizing in at least one of the four quarters of the 2020 calendar year, and zero otherwise (Source: Form 8-K).

  - **Voluntary**: An indicator variable that is set to one if employees were offered voluntary leave in at least one of the four quarters of the 2020 calendar year, and zero otherwise (Source: Form 8-K).

  - **Compulsory**: An indicator variable that is set to one if there were compulsory redundancies in at least one of the four quarters of the 2020 calendar year, and zero otherwise (Source: Form 8-K and Compustat).

  - **Shortened**: An indicator variable that is set to one if the firm applied a shortened work week in at least one of the four quarters of the 2020 calendar year, and zero otherwise (Source: Form 8-K).

  - **Reduced salary**: An indicator variable that is set to one if the firm reduced salaries for all staff in at least one of the four quarters of the 2020 calendar year,

and zero otherwise (Source: Form 8-K).

  - **Reduced salary board**: An indicator variable that is set to one if the firm reduced the salaries for the board only in at least one of the four quarters of the 2020 calendar year, and zero otherwise (Source: Form 8-K).

Key Variables

- **CEO conservatism**: Considering all the donations made by a CEO during his entire lifetime up to and including calendar year 2020, but excluding the donations made one year before the U.S. presidential elections, CEO conservatism is measured as the total amount donated to the Conservative party divided by the sum of the total amounts donated to the Republican party and Democratic party. For CEOs who did not make any donations, this variable is set to 0.5 (Source: FEC).

- **CEO political ideology – CEO types**: A set of four indicator variables based on the following types of CEOs:

  - **Conservatives**: An indicator variable taking the value of one for CEOs whose donations were to the Republican party only, and zero otherwise (Source: Federal Election Commission (FEC)).

  - **Liberals**: An indicator variable taking the value of one for CEOs whose donations were to the Democratic party only, and zero otherwise (Source: FEC).

  - **Nonpartisans**: An indicator variable taking the value of one for CEOs whose donations were to both the Democratic and Republican parties, and zero otherwise (Source: FEC).

  - **Zerodonations**: An indicator variable taking the value of one for CEOs who made no donations to any political party, and zero otherwise (Source: FEC).

Control Variables

- **EPS**: Earnings per share (EPS) for fiscal year 2020 (Source: Compustat).

- **Δ EPS**: EPS_{2020} – EPS_{2019} (Source: Compustat and own calculations).

- **EPS surprise**: The difference between EPS for fiscal year 2020 and the expected EPS for the same year (Source: Compustat, I/B/E/S, and own calculations).

- **Loss**: An indicator variable that is set to one if EPS in at least one of the four quarters of calendar year 2020 is negative, and zero otherwise (Source: Compustat).

- **Repurchases$_t$**: An indicator variable that is set to one if there were stock repurchases in calendar year t (t= 2019, 2020), and zero otherwise (Source: Compustat).

- **Shares repurchased**$_t$: The ratio of total shares repurchased in calendar year t to common shares outstanding in year $t-1$ (Source: Compustat).

- **Value shares repurchased**$_t$: The product of total shares repurchased in calendar year t and the average price paid for the repurchased shares (Source: Compustat).

- **Wage costs**$_{2019}$: The natural logarithm of wages in fiscal year 2019. If the data is missing in Compustat, we use data from the Annual Survey of Manufactures (ASM) conducted by the U.S. Census Bureau. More specifically, we estimate the total cost to the employer, using data for the U.S. at the two-digit NAICS level, as the industry average of the sum of salaries and wages plus additional costs. That is the sum of the annual payroll, total fringe benefits, the employer's cost for health insurance, the employer's cost for defined benefit pension plans and the employer's cost for other fringe benefits (Source: Compustat and U.S. Census Bureau).

- **Productivity**$_{2019}$: The natural logarithm of net sales turnover in calendar year 2019 (Source: Compustat).

- **Institutional ownership ratio**$_{2019}$: The ratio of institutional ownership at the end of calendar year 2019 to the total shares outstanding at the end of the same calendar year (Source: Thomson Reuters Institutional (13f) Holdings).

- **CARES**: An indicator variable that is set to one if the firm applied for assistance under the CARES Act during calendar year 2020, and zero otherwise (Source: Form 8-K and the U.S. Department of The Treasury website).

- **CEO Age**: The age of the CEO (Source: ExecuComp and Boardex).

- **CEO Gender**: An indicator variable that is set to one if the CEO is male, and zero if female (Source: Form 8-K and the U.S. Department of The Treasury website).

- **CEO Duality**: An indicator variable that is set to one if the CEO is also the chairman, and zero otherwise (Source: Boardex).

- **MBA**: An indicator variable that is set to one if the CEO has an MBA degree, and zero otherwise (Source: Boardex).

- **PhD**: An indicator variable that is set to one if the CEO has a PhD degree, and zero otherwise (Source: Boardex).

- **Ivy League**: An indicator variable that is set to one if the CEO has graduated from an Ivy League university, and zero otherwise (Source: Boardex).

- **Professional Qualification**: An indicator variable that is set to one if the CEO has a Chartered Accountant or Certified Public Accountant qualification, and zero otherwise (Source: Boardex).

- **CEO Share Ownership**: The natural logarithm of one plus the percentage of shares outstanding held by the CEO. We set the value of the percentage of shares outstanding held by the CEO to zero for 18 observations with missing values (Source: ExecuComp).

- **Pre-pandemic CARs**: The cumulative abnormal returns (CARs) based on the Fama-French three-factor model (Fama and French, 1993) and the Fama-French-Carhart four-factor model (Carhart, 1997), respectively. The pre-pandemic period covers January 2, 2018 to December 31, 2019. The estimation window has a length of 250 trading days and it ends 50 trading days before start of the event window. A minimum number of 70 non-missing return observations within the estimation window is required (Source: CRSP).

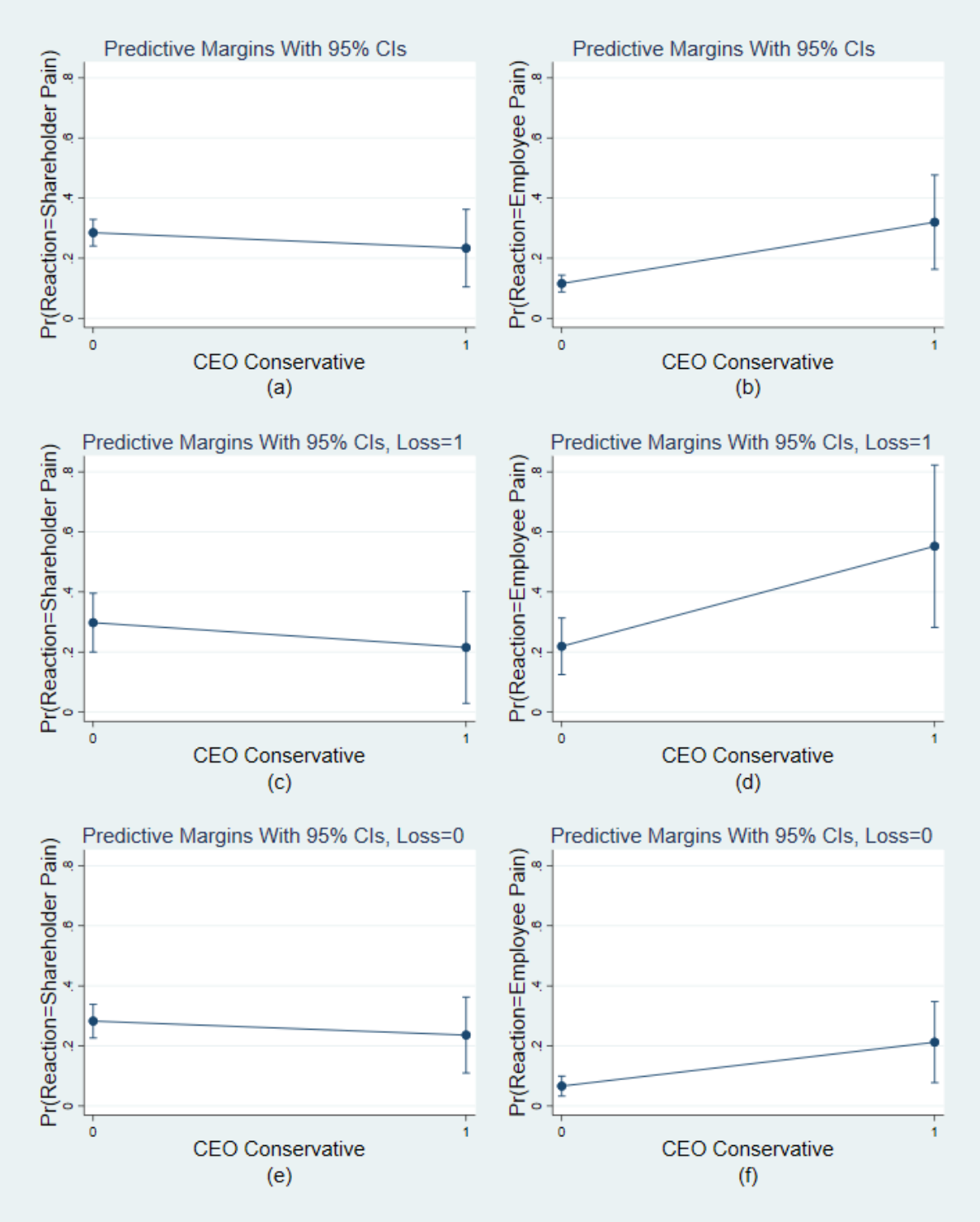
- **Pandemic CARs**: The cumulative abnormal returns (CARs) based on the Fama-French three-factor model and the Fama-French-Carhart four-factor model, respectively. The pandemic period is defined as in Dechow et al. (2021) and it runs from January 2, 2020 to March 31, 2020. The estimation window has a length of 250 trading days and it ends 50 trading days before start of the event window. A minimum number of 70 non-missing return observations within the estimation window is required (Source: CRSP).

- **Industry indicator variables**: We assign each firm to an industry based on its four-digit SIC code in 2020 based on the Fama and French 5 industries. The industries are Consumer, Manufacturing, HiTec, Health, and Other (Source: Compustat and Kenneth French's data library at `http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html`).

- **Red state**: An indicator variable that is set to one if the firm's headquarters are located in a state where a majority voted for the Republicans in the 2019 elections, and zero otherwise.

Appendix D. Marginal Effects

Figure D: Marginal effects for conservative CEOs



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