CEO Political Ideology, Shareholder Primacy and Dividend Policy

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Abstract

This paper argues for the importance of CEO personal preferences for firm policy. It relates the CEO political ideology to CEO attitude toward the shareholders. We hypothesise that Conservative CEOs should adopt strategies that favour the shareholders. To test our hypothesis, we exploit a measure of CEO ideologies constructed based on political donations. We study the CEOs of S&P 1500 firms between 1996-2014 and find that the dividend payout of conservative CEOs, as compared to their liberal counterparts, is consistently higher. To establish the causal effect of CEO political ideology on dividend payout, we employ a fixed-effect model and study the changes in dividend payout around CEO appointment.

Keywords: CEO Political Ideology, Stakeholder Theory, Corporate Social Responsibility, Corporate Governance

1. introduction

In 1919, when Henry Ford the founder of Ford Motor Company refused to distribute a portion of company's enormous profit in the form of Dividend, John and Horace Dodge - two minority investors in the firm - brought a lawsuit against him. Taking the Dodge brothers' side, The Michigan Supreme Court went against Ford's provocative claim that the money could be used for making cheaper cars for the customers and paying better wages to the employees. The court puts that the primary objective of a business corporation should be around making a profit for its stockholders. From a managerial perspective, this classic case addresses three compelling points worth considering. First, business executives can have a different perception and attitude toward firm's stakeholders; second, these attitudes can directly impact firm policies; third, the executive perception and behaviour can go against the societal norms and regulations (i.e. there can be heterogeneity among executives under the same regulatory regime). These observations can be explained using an array of existing theories but on the empirical side, our knowledge is limited to a few studies. For example, we do not have enough evidence on what might shape the perception of the executives toward a specific group of stakeholder and how that can lead to various corporate outcomes. This paper examines the role of CEOs' political ideology, aiming to shed light on the effect of CEO conservatism vis-a-vis liberalism on the firm dividend payout.

Our research is inspired by the views that a firm is a nexus of contracts between different parties (Coase, 1937), the CEO makes strategic decisions at the centre of the nexus Mitroff (1983); Hill and Jones (1992) and his role demands him to be more like "a juggler of constituencies than a pilot at the helm of a great corporate ship." (Agle, Mitchell, and Sonnenfeld, 1999). Any strategic decision made by him is puzzled by a degree of stakeholders expectations and the priority he gives to the competing stakeholder claims (Ansoff, 1984). Central to the CEO's decision is "the principle of who or what really counts" (Freeman, 1994, p. 4). Who catches his attention while making an important decision depends not only on the relative power of stakeholder groups and the legitimacy and urgency of their claims, but it also depends on CEO's perception of the relative importance of various stakeholder groups (Mitchell, Agle, and Wood, 1997).

In this context, understanding the CEO's perception toward stakeholders and why a CEO prefers a group of stakeholders over the other is critical in shedding light on CEO strategic decisions. Why should a CEO prioritize shareholders' interest and not the interest of other stakeholders? The prevailing shareholder-stakeholder debate in the corporate governance literature has tried to explain the rise and persistence of these preferences relying more on macro-level and comparative approaches. With regard to the employees and the shareholders, evidence suggests that there is substantial cross-country variation on the conception of a firm. In a country like Japan the employees' interests take the precedence over shareholders' interests. The codetermination law in some countries such as Germany ensures that both the employee and the shareholder have a voice in the way the firm is managed. In the US and the UK, the shareholder-centric view prevails. These differences can explain the CEO preferences because CEOs in each country are expected to conform to the societal norms and regulations and take corporate actions that are in line with the general expectations. For example, CEOs in the US should have more incentive to adopt the shareholders concerns and choose policies that maximise shareholder value while paying less attention to the employees.

However, this explanation does not account for within-country variation in CEO preferences. The relative emphasis on the shareholders compared to the stakeholders is also expected to vary within a country and at the individual level among the top echelon decision-makers within a firm (as seen in the Dodge versus Ford Case). CEOs can vary in their preferences toward the stakeholders. There is only a small body of literature that points to the origins of these preferences focusing at the specific personal attributes of the decision makers. Sturdivant (1979) compares and finds fundamental differences between the values of executives and a group of stakeholders (namely activists). He observes that executives of the best socially performing firms had higher liberal scores and were more sensitive to the stakeholder concerns. Sonnenfeld (1981) investigates the perception of executives toward different stakeholders. He examines the quality and quantity of interactions between the functional departments and the key stakeholders in firms in the forest industry. In particular, he finds that executives responsible for a particular stakeholder group were more critical and less tolerant of that group. On the contrary, executives with relatively little interaction time with a stakeholder group were more sympathetic to stakeholder concerns. For example, Human resources managers were more open to financial stakeholders' concern than were finance executvies. Adams, Licht, and Sagiv (2011) study the personal values of board members and CEOs in Sweden and find that these values have predictive power over how much emphasis the CEOs put on the shareholders relative to the stakeholders. Specifically, they find that the directors and CEOs that endorse higher achievement, power, and self-direction values and lower universalism values tend to be pro-shareholder. [1]

More recently studies go beyond the sole investigation of the origins of CEO perception and provide evidence that link CEO personal values, his perception toward different stake-

[1] They utilise the personal value measures developed by Schwartz (1992). Achievement is related to Personal success through demonstrating competence according to social standards; Power refers to social status and prestige; Self-Direction refers to Independent thought and action-choosing; and Universalism points to understanding, appreciation, tolerance and protection for the welfare of all people and for nature. For a full list of values and their definitions see Adams et al. (2011).

holders and CEO decision. Chin, Hambrick, and Treviño (2013) find that liberal CEOs have greater advances on corporate social responsibility and thus give greater attention to broader stakeholder when making decision. Briscoe, Chin, and Hambrick (2014) focus on the CEO attention to activists within the firm and provide evidence that the political liberalism of a CEO influences the likelihood of activism in a corporation.

Building on these contributions, we study the political ideology of the CEO focusing on dividend policy in relation to the CEO attitude toward the shareholders. Shareholders provide the firm with the necessary capital and expect a return on their investment. The dividend is a mechanism through which the CEO can respond to the shareholders' claim. The importance of capital (as opposed to labour) has always been a point of debate to those of a leftward and rightward political leaning and we expect this to have implications for the shareholders in the corporate world. Precisely, CEOs with conservative views are expected to put more emphasis on capital and subsequently one can expect a right-wing CEO to pay more attention to the shareholders. We expect that this attention will reflect itself on CEO's dividend policy. If true, conservative CEOs are expected to pay more dividends.

The corporate governance literature is not unfamiliar with the idea that right-wing politics favours the shareholders (at least at the macro-level). Specifically, while studying the origins of ownership concentration, Roe (2003) puts the concept of ownership concentration into a political spectrum and centres the question around the investors-employees conflict. He argues that, unlike left-wing nations, right-wing countries prefer investors over employees and this preference reflects itself in the policies and regulations. In conservative countries, the corporate managers play an important role as they favour policies that serve the interests of shareholders and give the employees a short shrift. In Roe's Work, the political orientation is the central determinant of the degree of attention given to the investors. We follow the same logic in studying the dividend policy of conservative and liberal CEOs.

We exploit a dataset that comprises CEOs of S&P 1500 firms and covers the period of 1996 to 2014. We use the political donations of each individual CEO to the Republican and Democratic parties to measure the CEO's level of conservatism and liberalism. This measure is used by other management and finance scholars (Elnahas and Kim, 2017; Hutton, Jiang, and Kumar, 2014; Briscoe et al., 2014) and its robustness and accuracy is examined and discussed in the literature. To check the robustness of our result, we use a new scaling measure based on the political donations of the CEOs. Our analysis starts with OLS models with industry and year effects examining the effect of CEO political ideology on the dividend payout. We find that conservetive CEOs pay more dividends. The results are robust when we use a firm fixed effects model and when we monitor the dividend decision of the CEOs around CEO appointments.

This work relates to several strands of research. First, our work contributes to the strand of the strategic management literature that studies the relationship between the management and stakeholders by providing evidence that CEOs vary in their attitudes towards stakeholders (Hill and Jones, 1992; Mitchell et al., 1997). Second, this research complements previous findings that point to the importance of CEOs for firm policies (Hambrick and Mason, 1984; Bertrand and Schoar, 2003). More specifically, this paper adds to the growing literature that investigates the effect of the political ideology of the CEOs on various firm actions (Elnahas and Kim, 2017; Hutton et al., 2014; Briscoe et al., 2014; Chin et al., 2013; Unsal, Hassan, and Zirek, 2016; Francis, Hasan, Sun, and Wu, 2016). And finally, this research contributes to the literature that studies how CEOs might affect dividend policy (Deshmukh, Goel, and Howe, 2013; Caliskan and Doukas, 2015).

The rest of the paper is organised as follows. Section 2 highlights related works and elaborates on the empirical prediction. Section 3 comments on the sample and the measures. Section 4 presents the empirical specifications and the results of the analysis. Section 5 contains the discussion and ends with a concluding remark.

2. Related Works and Empirical Prediction

2.1. CEO Effect and Firm Policy

The effect that managers can possibly have on firm behaviour and performance has long been debated by organisational theorists and has recently received considerable empirical support in the finance and management literature (Chandler, 1966; Hannan and Freeman, 1977; Hambrick and Mason, 1984; Hambrick and Finkelstein, 1987; Bertrand and Schoar, 2003; Mackey, 2008; Quigley and Hambrick, 2015). An increasing amount of research has explored the magnitude and nature of this effect. The earliest discussions comprised a sketch of two antagonistic views: one arguing for the importance of managerial effects for corporate performance (Child, 1972; Hambrick and Mason, 1984) and the other defending the negligiblility of the managerial effect, and the importance of structure and environmental factors (Hannan and Freeman, 1977; DiMaggio and Powell, 1983). Not surprisingly, the empirical voyage in this area begins with research aiming at quantifying the fraction of the variance in the firm performance explained by executives (e.g., Lieberson and O'Connor (1972)). [2] In a way of synthesising this apparent polarity, the focus of future research evolved from the question of whether and to what extent managers matter to the question that when

[2]Discussions and empirical enquiries around this unsettled debate is still developing in the literature. For examples see, Hambrick and Quigley (2014); Fitza (2014); Quigley and Graffin (2017) and Quigley and Hambrick (2015).

and under what circumstances managers matter (Finkelstein and Hambrick, 1990; Hambrick and Abrahamson, 1995; Crossland and Hambrick, 2007; Adams, Almeida, and Ferreira, 2005; Crossland and Hambrick, 2011). The effect of managers on firm performance is thought to be moderated by factors such as managerial discretion and executive job demand (Hambrick, 2007).

This literature has changed ever since to accommodate two other promising and related directions. The first direction emerged from the realisation that managers cannot be regarded as perfect substitutes for one another (Bertrand and Schoar, 2003). Contrary to the main assumption of the neoclassical theory of the firm, managers have idiosyncratic styles and have distinct characteristics. These differences are predicted to translate into heterogeneous strategic actions. Second, the focus shifted partly from the direct emphasis on firm performance to specific firm policies (e.g. Cain and McKeon, 2016; Benmelech and Frydman, 2015; Chin et al., 2013; Kaplan, Klebanov, and Sorensen, 2012; Graham, Harvey, and Puri, 2013; Malmendier and Nagel, 2011; Malmendier and Tate, 2005).

Even though the research on the effect of the CEOs on firm policies has passed the infancy stage, we have a limited amount of empirical work on how CEO attitudes towards different stakeholders may shape the firms policies. This work is directed towards that end. Bertrand and Schoar (2003) provide evidence that seven percent of the variation in dividend policy can be explained by CEO fixed effects; however, the black box of CEO fixed effects is less explored when it comes to the focus this paper pursues.

2.2. Political Ideology of CEOs and firm policies

There has been a surge in the number of works focusing on the political ideology of CEOs and board members. Evidence supports the view that conservative and liberal CEOs behave differently and have different styles. Republican CEOs who maintain conservative views are more likely to have conservative policies. They have lower levels of corporate debt, invest less in research and development and pursue less risky investments; these behaviours are shown to be more responsive to uncertainty-increasing events (Hutton et al., 2014). Republican CEOs are also found to engage in a fewer mergers and acquisitions and, when they do, they are more likely to acquire public firms within the same industry and use cash as the method of payment Elnahas and Kim (2017). Unsal et al. (2016)find that the effects of lobbying on firm performance vary across firms with different managerial political orientations and excess lobbying fails to create value for firms with conservative managers. Francis et al. (2016) associate Republican CEOs with more corporate tax sheltering even when their wealth is not tied with that of shareholders and when the corporate governance is weak, arguing that tax sheltering can stem from idiosyncratic factors such as CEO political ideology. At the board level, Kim, Pantzalis, and Park (2013) finds evidence that the monitoring effect of outside directors is more likely to be improved when the political views of outside directors are distinct from those of management. Further, ideologically diverse boards are associated with better firm performance and lower agency costs.

As mentioned earlier, there are only two papers that investigate the political ideology of the CEO with regards to CEO attitude towards different stakeholders (Chin et al., 2013; Briscoe et al., 2014). Building on the research that investigates CEO political ideology in general and these two works in particular, this paper focuses on the implications of CEO political preferences for attention to shareholders by studying corporate dividend policy. We argue that conservative CEOs cater to the shareholders by paying more dividends. We formulate our hypothesis as follows:

Hypothesis 1: *Conservative CEOs pay more attention to shareholders and, as a result, firms led by conservative CEOs pay more dividends.*

3. Sample Description

We collect CEO data from ExecuComp and match it with firm financial data obtained from Compustat. The sample spans the period from 1997 to 2014. We combine this data with data on political donations of executives obtained from the Database on Ideology, Money in Politics, and Elections (DIME). The dataset provides detailed information on political campaign financing in the United States covering the period 1979-2014 and comprises over 130 million political contributions made by individuals and organizations to local, state, and federal elections. We obtain cleaned data from a dataset available in this database containing information on the political donations of the CEOs and directors of Fortune 500 firms (Bonica, 2017). The advantage of using this dataset is that it provides two measures for assessing the political ideology using political contributions of each executive. The first measure is the money spent on the Republican campaigns as a fraction of the total amount of money spent on both Republican and Democratic parties. The value of the measure ranges from zero (most liberal) to one (most conservative). The second measure is the CFscore developed by (Bonica, 2014), a measure based on an innovative scaling methodology for measuring political ideology. This measure allows for direct distance comparisons of the ideology of a wide range of contributors to political campaigns. With a mean value equal to zero and a standard deviation equal to one, it situates individuals on an ideological scale, from liberal (negative values) to conservative (positive values). The two measures are strongly correlated (with a Pearson correlation coefficient of 0.91), suggesting consistency between them. We consider the first measure in our main analysis and use the second one for robustness checks. Overall, the dataset has 31,387 CEO-year data with 6,487 CEO-years having complete records for our first measure of political ideology.

The dependent variable in this study is the dividend measured as the common dividend (item 21) divided by total assets (item 6). We use a number of firm-related controls commonly used in studies on dividend payouts (Chen, Leung, and Goergen, 2017). These include firm size, measured by the natural logarithm of total assets. Tobin's q is considered as the market value of assets to the book value of assets (item 6). The market value of assets is the book value of assets plus the market value of common equity less the sum of the book value of common equity (COMPUSTAT item 60) and deferred taxes (COMPUSTAT item 74). Leverage is the sum of short- and long-term debt (item 34 + item 142) normalised by total assets. Cash holdings equals cash and marketable securities divided by total assets. Return on assets (ROA) is the ratio of earnings before interest, taxes, depreciation, and amortization (item18) over total assets. Asset tangibility is net property, plant and equipment (item 8) normalised by total assets. R&D spending is considered as research and development expenses (item 46) over total assets . In order to mitigate the potential effects of outliers, we winsorize the dependent and the control variables at the 1st and 99th percentiles.

We also control for a number of board-level and CEO-level variables, namely, board size, the fraction of independent directors on the board, CEO duality, CEO tenure and the fraction of outstanding shares owned by the CEO. Table 1 provides summary statistics and Table 2 presents the correlation between these variables.

4. Analysis

4.1. CEO Political Ideology and Dividend Payout

The aim of this analysis is to check if there is a relationship between CEO political ideology and the dividend payout. We begin by estimating the following baseline model:

$$(1)\quad Dividend_{it} = \alpha + \beta_1 PoliticalConservatism_i + X_{it-1}\gamma + Industry_i + Year_t + \epsilon_i$$

Dividend is dividend payout for firm i at time t. *PoliticalConservatism* measures the level of political ideology of the CEO at firm i and takes a value between zero and one, with

Table 1: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Max
Year	31,387	2,005.386	4.969	1,997	2,014
Total assets (Million)	31,358	10,752.930	31,807.660	45.306	247,498.500
Total sales (Million	29,060	4,872.759	10,735.460	18.656	73,392.430
Dividend	28,129	0.012	0.020	0.000	0.115
Tobin's q	23,579	1.940	1.376	0.703	8.854
R&D	13,343	0.056	0.075	0.000	0.411
Cash holding	24,745	0.279	0.523	0.001	3.442
Cash flow	24,524	0.086	0.110	−0.371	0.394
ROA	23,058	0.144	0.116	−0.225	0.528
Firm size	28,223	7.617	1.806	−6.908	15.000
Leverage	25,048	0.253	0.229	0.000	1.151
Asset tangibility	24,650	0.277	0.260	0.000	1.099
Political conservatism	6,487	0.676	0.313	0.000	1.000
Political conservatism.CFscore	6,595	0.337	0.576	−1.562	2.395
CEO share ownership	18,052	3.504	7.459	0.000	100.000
CEO tenure	27,563	6.767	7.465	−17	61
CEO duality	17,983	0.568	0.495	0	1
Board independence	17,978	0.719	0.161	0.000	1.000
Board size	17,983	9.418	2.664	1	34

Table 2: Correlation Table

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.Dividend	1															
2.Tobin's q	0.08	1														
3.R&D	-0.02	0.5	1													
4.Cash holding	-0.07	0.39	0.51	1												
5.Cash flow	0.23	0.44	0.19	0.08	1											
6.ROA	0.21	0.54	0.22	0.1	0.88	1										
7.Firm size	0.32	-0.09	-0.02	-0.05	0.06	-0.03	1									
8.Leverage	0.01	-0.17	-0.13	-0.24	-0.2	-0.12	0.12	1								
9.Asset tangibility	0.1	-0.02	-0.28	-0.26	0.2	0.19	-0.01	0.24	1							
10.Conservatism	0.12	-0.2	-0.09	-0.08	-0.14	-0.17	0.09	0.08	0.08	1						
11.Conservatism-CFscore	0.09	-0.23	-0.14	-0.12	-0.13	-0.17	0.03	0.09	0.13	0.91	1					
12.CEO share ownership	-0.08	0.28	0.14	0.24	0.01	0.07	-0.08	0	-0.02	-0.1	-0.15	1				
13.CEO tenure	-0.15	0.06	0	0.03	0.05	0.08	-0.08	0.02	-0.06	-0.09	-0.07	0.39	1			
14.CEO duality	0.09	-0.12	-0.07	-0.16	-0.1	-0.11	0.11	0.06	0.08	0.19	0.2	0.05	0.18	1		
15.Board independence	0.18	-0.22	0.02	-0.07	-0.06	-0.14	0.31	0.1	-0.05	0.21	0.18	-0.29	-0.24	0.14	1	
16.Board size	0.29	-0.23	-0.19	-0.2	-0.01	-0.08	0.54	0.11	0	0.03	0.01	-0.16	-0.11	0.06	0.23	1

zero being the most liberal and one being the most conservative. X is a vector of firm-level, board-level and CEO-level controls as described in the previous section. $Industry$ and $Year$ are industry and year fixed effects. The first three columns in Table 3 report the results of our regression analysis. In the first column, we do not include any controls, except for the year and industry fixed effect. In the second column, we add the firm-level controls and, finally, in the third column we include all the controls. Consistent with our prediction, the coefficient on $PoliticalConservatism$ is positive and significant in all the three columns, suggesting that firms led by more conservative CEOs tend to have higher dividend payouts.

CEOs might self-select themselves into firms that pay higher dividends. To mitigate the possible effect of time-invariant firm-related omitted variables, we run the same analysis replacing the industry effects with firm fixed effects. Column 4 presents the results for this regression. The results are similar to the results from the previous models: firms led my more conservative CEOs pay more dividends.

To check to robustness of the results, we replace the first political conservatism measure used in the regression with the second measure for political ideology (CFscore). As mentioned earlier, a higher value for this variable suggests more conservative ideology. The last column in Table 3 presents the results. Consistent with the previous results, the coefficient for the second measure of political conservatism is positive and significant. Again, it lends support to the validity of our results that firm led by CEOs that have more conservative ideologies tend to pay more dividend to their shareholders.

4.2. Dividend Payout Around CEO Appointment

Even though our fixed-effects model partially deals with the effect of omitted variable bias, there are still concerns that the pattern we observe is that of the firm rather than the CEO. Put differently, a higher dividend payout is about the firms that the conservative CEOs work in, conservative CEOs self-select themselves into these firms. To deal with this potential issue, we investigate changes in dividend payouts when companies appoint a new CEO. [3]

We select firm-years with non-missing values for our measure of political ideology. We then select all the firm-years for firms that had at least one new CEO appointment during the sample period, requiring that each firm has at least three years of data available for each CEO. The result is a dataset with 2,609 firm-year records based on 148 cases of CEO appointments. We define a CEO as conservative if the CEO gave more than 70 percent of

[3] A proper methodology for investigating the changes in the dividend payout around a CEO appointment is the implementation of a difference-in-differences estimator. However, because we have only a limited number of cases in the treatment group, we could not apply this empirical strategy.

Table 3: Regression Models with Standard Errors clustered at firm-level

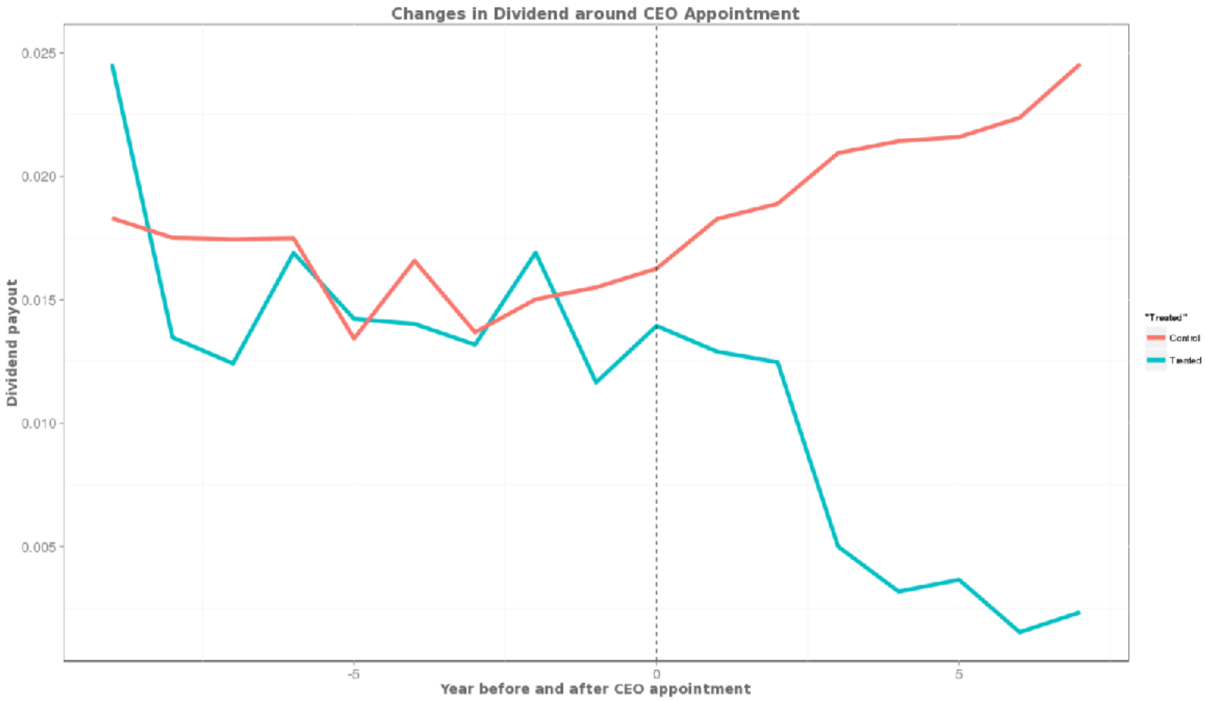
	(1)	(2)	(3)	(4)	(5)
(Intercept)	0.011^{*}	-0.035^{***}	-0.040^{***}		
	(0.005)	(0.009)	(0.010)		
Conservatism	0.005^{**}	0.008^{**}	0.006^{*}	0.008^{*}	
	(0.002)	(0.003)	(0.003)	(0.003)	
Conservatism-CFScore					0.004^{*}
					(0.002)
Cash flow		0.012	-0.001	0.010	0.010
		(0.008)	(0.012)	(0.010)	(0.010)
Firm size		0.003^{***}	0.002^{**}	-0.003	-0.003^{*}
		(0.001)	(0.001)	(0.002)	(0.001)
Tobin's q		0.001	0.001	-0.000	-0.000
		(0.001)	(0.001)	(0.001)	(0.001)
ROA		0.071^{***}	0.090^{***}	0.027^{*}	0.027^{*}
		(0.013)	(0.016)	(0.013)	(0.013)
Cash holding		-0.002	-0.002	0.002	0.002
		(0.002)	(0.003)	(0.002)	(0.002)
Leverage		-0.005	-0.004	-0.005	-0.005
		(0.005)	(0.006)	(0.005)	(0.005)
R&D		0.010	0.028	0.021	0.024
		(0.024)	(0.030)	(0.024)	(0.023)
Asset tangibility		0.004	0.005	0.003	0.005
		(0.005)	(0.005)	(0.010)	(0.010)
CEO share ownership			-0.000	0.000	0.000
			(0.000)	(0.000)	(0.000)
CEO tenure			-0.000	0.000	0.000
			(0.000)	(0.000)	(0.000)
CEO duality			0.002	0.000	0.001
			(0.001)	(0.001)	(0.001)
Board independence			0.006	-0.004	-0.005
			(0.004)	(0.004)	(0.004)
Board size			0.001^{***}	0.001^{*}	0.001^{*}
			(0.000)	(0.000)	(0.000)
Industry fixed effect	Yes	Yes	Yes	No	No
Firm fixed effect	No	No	No	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes
R^2	0.221	0.416	0.492	0.072	0.071
Adj. R^2	0.212	0.401	0.474	0.061	0.060
Num. obs.	6455	2656	2110	2110	2136

$^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$

his total donations to the Republicans and identify a CEO as liberal if more than 70 percent of his donations were to the Democratic party. Because for a majority of the appointments the incumbent CEO was conservative, we decided to consider the transition of a non-liberal CEO to a liberal CEO as our treatment group and the transition of a non-liberal CEO to non-liberal CEO as our control groups.

We made two more adjustments to make sure we accurately select the right cases for the treatment and control groups. First, it is possible that we identify a case for our treatment group for which both the incumbent and the new CEO made a similar amount of donations to the Democratic party but because we set a cutoff at 70 percent, we categorise this transition as non-liberal to liberal. For example, an incumbent CEO with a 68 percent donation to the Democrats is identified as non-liberal and the CEO who replaces him and had a 71 percent donation to the Democrats is identified as liberal. To make sure this does not affect our classification, we impose the restriction that the difference between the contribution of non-liberals to liberals must be more than 20 percent. This ensures that CEOs with similar patterns in donations (near the cut-off) are not misclassified, potentially biasing our results. Second, we do not want a lot of variation in our control group. We limit our control group to transitions where the differences in the donation score of the non-liberal incumbent and the new non-liberal CEO does not exceed 10 percent. For example, we include a transition where the incumbent CEO makes a 50 percent donation to the Republicans and the new CEO makes a 55 percent donation to Republicans into our control group. In total, we have 13 cases of non-liberal to liberal CEO appointments (treatment group) and 50 cases of non-liberal to non-liberal CEO appointments (control group).

Graph 1 illustrates the changes in the dividend payout around the CEO appointment for the treatment group and control group. When a non-liberal CEO is replaced with a liberal CEO, the dividend payout drops substantially in the following years after the appointment. This lends support to our argument that the political preferences of a CEO matter for the dividend payout and the pattern we observe in the regressions are not completely due to the nature of the firm.



5. Discussion and Concluding Remarks

This research provides evidence that the political preferences of a CEO can affect dividend policy. In all the tests, we find strong support for our conjecture that conservative CEOs pay more dividends to their shareholders. The cornerstone of our analysis is built upon the view that CEOs may have different attitudes towards the firms stakeholders and these differences are likely to shape the firms policies. In our case, conservative CEOs are likely to pay more attention to the shareholders as compared to other stakeholders and they reveal their preferences when making decisions on the dividend. This work has an important implication for corporate boards. While the attention of the board is on aligning the interests of the managers to that of shareholders, this research reveals that CEOs, apart from pursuing their own self interest, may treat the firm's stakeholders differently and may pursue the interests of a specific stakeholder group in the firm. This may result in the CEO framing strategies and making policy decisions that may or may not result in increasing shareholder wealth. At least in the case of conservative CEOs, one might expect that their decisions are more likely to favour shareholders and increase their wealth in the short run if not the long run. One area of further research is the study of the dynamics between the CEO's self interest, his attention to the firms stakeholders and the consequences for corporate performance. Further research may also be conducted to examine whether the changes in a policy as a result of catering to a group of stakeholders lead to destroying the wealth of other groups of stakeholders. Do

CEOs pursue a policy in favour of a group at the cost of the other groups? Such questions may be used as a guide to help stimulate further debate on this area.

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