"Liberal Elite" CEOs and Corporate Social Activism*

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Abstract

Why do companies engage in the culture war, taking stances on the most controversial issues of the day? Most political science scholarship assumes that corporations are unitary actors that respond to their environment and seek to maximize profits. This conventional wisdom misses the role of CEOs, who often use the economic power of their firms to advance their own personal moral policy agendas. Using two-way fixed effects dynamic panel analysis with a sample of S&P 500 companies, I demonstrate that when corporations transition from a conservative CEO to a liberal CEO, they engage in more social activism. Furthermore, the effect of CEO ideology is strongest among firms with an economic incentive to engage in activism—specifically consumer-oriented companies and those with diverse employee bases. Therefore, liberal CEOs are constrained in their ability to use their corporation as a tool to advance their moral policy preferences.

Keywords: CEOs, economic inequality, moral policy, corporate political activity

Supplemental materials available at https://corymaks.com/research/.

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Recent political science scholarship has established a bias in the American public policy process toward the interests of the affluent class. This bias even exists for non-economic, social issues—like abortion, civil rights, and the death penalty—where the rich tend to be more liberal than the poor (e.g., Flavin 2012; L. M. Bartels 2009; Gilens 2012), especially among Democrats (Maks-Solomon and Rigby 2019). Since executives at large corporations are members of this affluent class, a substantial number of CEOs should have policy preferences that aren't resolutely conservative in the moral policy domain.[1] In support of this notion, survey evidence from Broockman, Ferenstein, and Malhotra (2019) indicate that Silicon Valley technology entrepreneurs tend to be liberal on social issues.

In recent years, corporations have begun to engage with the culture war, taking liberal policy positions on social issues like LGBT rights, immigration, and racial justice. The nuanced moral policy preferences of rich CEOs raise the question of to what extent CEO ideology can explain this recent trend of corporate political activity on social issues (or *corporate activism*). Treating corporations as a black box, political scientists tend to see businesses as unitary actors in the single-minded pursuit of profit. This conventional wisdom overlooks the importance of top executives, who aren't simply fulfilling a role they're expected to play within their organizations and maximizing corporate profits by rote. Instead, I argue that CEO ideology shapes firm political engagement and CEOs use the political-economic power of their corporation to advance their private moral policy preferences. However, economic interest constrains the options available to CEOs: "Liberal elite" CEOs only engage their firms in activism when there is an existing economic incentive that provides CEOs with the cover to justify activism by pointing to a potential gain in corporate profits.

To test this theory, I build an original dataset of corporate political activity on identity-based social issues by S&P 500 corporations from 2008 to 2017 that includes Supreme Court *amicus* briefs, congressional lobbying disclosures, and financial contributions to PACs

[1] Nearly all of the S&P 500 CEOs in my sample are in the top 1% of the income distribution in the United States. The first percentile of total CEO compensation (including stock options granted) is \$464,011, while the 99th percentile is \$45.7 million.

and interest groups. In particular, I investigate corporate political activities on issues relating to race, immigration, and LGBT rights. I find that there has been a dramatic increase in corporate activism since 2008; and each year, more corporations make the decision to engage with social issues for the first time. Surprisingly, nearly half of the companies in the sample engaged in liberal social activism at least once during the time series. Using estimates of CEO ideology from Bonica (2019b), I first employ two-way fixed effects dynamic panel models to demonstrate that CEO ideology has an effect on the incidence of corporate political activity on social issues. In an exploratory second analysis, I then demonstrate that this effect is conditional upon firm economic incentives: The effect of CEO ideology on corporate activism is strongest for consumer-oriented firms trying to court liberal customers and firms with a diverse employee base trying to recruit and maintain a diverse workforce.

THE ORIGINS OF CORPORATE POLITICAL ACTIVITY

Corporate political activity (CPA) encompasses any effort by businesses to influence public policy outcomes. Such efforts in the past have included public relations, lobbying politicians and bureaucrats, submitting *amicus* briefs to the courts, and making financial contributions to think tanks, political parties, interest groups, and candidates for elected office. Political science research and theory has been preoccupied with the *consequences* of CPA but have almost entirely ignored the *origins* of CPA.[2]

When political scientists do study CPA, they typically consider business to be a powerful and important interest group. The classic political science approach to business is Schattschneider's (1975) *Semi-Sovereign People*, which treats businesses as an asymmetrically-powerful player in a pressure system of diverse interests. However, as Lindblom (1977, 1982) argues, the economic might of businesses gives them a "privileged position" within the political economy. Businesses are therefore not just any other interest

[2] Of course, there is a large political science literature debating the objectives of campaign contributions and lobbying. These debates are more about *what* corporations are doing—i.e., buying votes vs. buying access—than *why* they are doing it. Adopting the standard economic view of the firm, this literature still tacitly assumes that the motivations of corporate political activity are grounded in the firm's economic interest to maximize profit.

group; they have both economic and political roles in American society. These classic studies are emblematic of political science scholarship on corporate political activity: They focus almost exclusively on business engagement on economic policy rather than moral issues.

While many political science studies have empirically assessed the consequences of corporate political activity (e.g., Gray et al. 2004; Witko 2005; Gilens and Page 2014), other disciplines have been more interested in the question of the origins of CPA. Sociologists, economists, and management scholars alike have advanced several theoretical frameworks for understanding the motivations of corporate political activity. Here, I focus on three broad explanations for CPA: responsiveness to shareholders, responsiveness to stakeholders, and the ideology of top managers. These explanations should not necessarily be seen as mutually exclusive; evidence suggests that each can explain different variation in CPA.

Corporations respond to economic forces like shareholders. Based on Mancur Olson's (1971) insights into interest group activity, many theories of CPA are based upon the notion that firms are unitary, rational actors seeking to maximize profits. Evidence from the 1990s suggests that firm stock market value decreases when corporations take stands on social issues (Hillman and Keim 2001); therefore, it is not in the economic interest of a corporation to engage in CPA on social issues. However in recent years, corporations might not actually end up paying a penalty for social activism, because liberals are more likely than conservatives to engage in political consumerism, varying their consumption of a company's products on account of its social stances (Chatterji and Toffel 2019; Endres and Panagopoulos 2017; Newman and Bartels 2011). Experimental evidence also demonstrates that in-partisans are rewarded more than out-partisans are punished during economic transactions (McConnell et al. 2018). Therefore, corporate activism on moral policy—always supporting the liberal side of the issue, as I demonstrate below—should lead to a net positive gain in customers, thus pleasing shareholders.

Corporations respond to stakeholders, not just shareholders. Insights from the management discipline offer an alternative motivation for firm behavior: Corporate actions can be explained by responsiveness to stakeholders—not just shareholders. Strategic management scholars argue that businesses strategically cultivate relationships with stakeholders—such as employees, customers, and local communities—and in doing so, they improve corporate profits (Freeman 1984; Berman et al. 1999). Specifically regarding corporate political activity, one important stakeholder is employees. Li (2018) finds that corporate PACs receive less money from their Democratic employees when they contribute more to Republicans (and vice-versa). Therefore, as Li argues, the ability of access-seeking corporate PACs to contribute to campaigns and influence policy is constrained by the ideology of its employees. Furthermore, internal pressure by LGBT employee groups has been linked to corporate activism on LGBT rights (Maks-Solomon and Drewry 2019).

Corporate behavior is shaped by top executives. Sociologists studying economic power have advanced class-based theories of CPA. Such theories suggest that shared preferences and norms of a social class—either managers specifically or elites more generally—lead to similar patterns of political behavior among corporations (Useem 1982; Clawson and Neustadtl 1989; Burris 2001). Relatedly, the upper echelons theory from the management literature argues that the perceptions and experiences of managers are important for understanding organizational outcomes (Hambrick and Mason 1984; Hambrick 2007). Both approaches are predated by the *Behavioral Theory of the Firm*, wherein Cyert and March (1963) advance a theory of corporate behavior based upon the notion that the firm is a coalition of internal groups acting under conditions of bounded rationality.

From a political science perspective, Bonica (2016, 396) finds that "increased ideological diversity among a firm's executives and directors presents a barrier to" campaign spending by a corporation's PAC. Therefore, the ideological distribution in corporate boardrooms can explain at least one form of CPA—campaign spending. Although ample evidence suggests that managers matter for firm outcomes, unlike the two other theories discussed in this section, scholars have yet to extensively explore the role that managers' preferences play in CPA, and CPA on social issues more specifically.

CEOS AND CORPORATE MORAL POLICY POSITION TAKING

Before describing the theory and hypotheses, it is necessary to make a distinction between CEOs and their companies. Evidence from campaign finance suggests that CEOs and corporations take different approaches to politics: CEOs have values while corporations want access. Examining campaign contributions during the 1980 presidential election, Burris (2001) finds that business PACs are bipartisan while corporate executives are ideological, usually contributing to Republicans. More recently, examining a wider span of elections, Bonica (2016) concludes that corporate executives are more ideological, less likely to support incumbents, and less likely to exhibit an access-seeking strategy when compared with corporate PACs. These studies of campaign contributions suggest that CEOs *do* have distinct preferences that cannot be solely attributed to the profit-seeking motives of their firms.

To develop a theory of CEOs and CPA on social issues, I rely upon upper echelons theory, which argues that corporate executives are the key to understanding organizational outcomes. Previous research has demonstrated that upper echelons theory can explain internal corporate policies like corporate social responsibility (Chin, Hambrick, and Treviño 2013; Di Giuli and Kostovetsky 2014; Hong and Kostovetsky 2012), but it has yet to be demonstrated that upper echelons can explain CPA on moral policy, where corporations are using substantial resources to advance social causes in the public sphere and actively attempt to shape public policy outcomes.

Upper echelons theory argues that "If we want to understand why organizations do the things they do, or why they perform the way they do, we must consider the biases and dispositions of their most powerful actors—their top executives" (Hambrick 2007, 334). There are two tenets to upper echelons: "(1) executives act on the basis of their personalized interpretations of the strategic situations they face, and (2) these personalized construals are a function of the executives' experiences, values, and personalities" (Hambrick 2007, 334). The effect of top managers on corporate behavior is therefore conditional upon a high level of discretion. Indeed, comparative analysis by Crossland and Hambrick (2007) suggests that U.S. CEOs are given a uniquely high degree of flexibility. Thus, corporate activism should be a phenomenon that is most prevalent in the United States (just like CEO activism is [Chatterji and Toffel 2018]).

With the rise of stakeholder capitalism, employees, customers, local communities, and external pressure groups all want a say in corporate affairs, and the contemporary CEO must navigate this landscape under growing scrutiny (Murray 2009). But CEOs' unease over stakeholder backlash should be asymmetrical. Christensen et al. (2015) demonstrate that liberal CEOs are more likely than conservative CEOs to take business risks, and that finding has consequences for corporate activism. On the one hand, liberal CEOs will engage their firms in activism even if it could risk some backlash from stakeholder groups. On the other hand, risk averse conservative CEOs won't use their firms to advance conservative positions on social issues because they are more wary of stakeholder backlash.

Adopting the upper echelons perspective can help to explain the increase in corporate activism during the past decade. CEOs of the largest American companies have become increasingly diverse, both demographically and ideologically. One study of CEOs' campaign finance records found that, since 2000, S&P 500 CEOs have become increasingly bipartisan and less likely to contribute primarily to Republicans (Cohen et al. 2019). Another study found that ethnic, racial, and gender diversity among Fortune 500 CEOs has also increased (Zweigenhaft and Domhoff 2011). Nearly all of these minority CEOs were appointed since 1999, and on balance, they are more likely to contribute to Democrats than Republicans (Zweigenhaft and Domhoff 2011). Non-white, non-male, non-Republican CEOs, increasing in their number, bring with them new ideas, values, and experiences. With unique perspectives, these new CEOs challenge the status quo, and make their corporations more likely to speak out on social issues.

Therefore, adapting upper echelons theory, I posit that corporations with more liberal CEOs should engage in more (liberal) corporate activism:

Hypothesis 1 *When a corporation transitions from a conservative CEO to a liberal CEO, it will engage in more activism.*

Managers' values affect corporate behavior both directly and indirectly (Hambrick and Mason 1984). Directly, CEOs' values affect the decisions they make for their firm. Liberal CEOs should be more likely to direct their subordinates to engage in corporate activism; and when a subordinate proposes that the company engage in activism, a liberal CEO should be more likely to agree. Through the indirect pathway, values also affect assessments of situations. A CEO that perceives greater benefits to activism should then be more likely to engage their firm in it. Thus, liberal CEOs should use their corporations as tools to advance their socially-liberal agenda when doing so aligns with their firm's economic incentives.

As suggested by the first framework for understanding the origins of corporate behavior, the market landscape has changed in recent years. On balance, corporations now likely see an increase in customers as a result of their social activism since liberals respond positively to activism while conservatives have weakly negative or neutral reactions to it (Chatterji and Toffel 2019; Endres and Panagopoulos 2017; Newman and Bartels 2011). Because ideology shapes CEOs' perceptions of situations, liberal CEOs should be more likely to *believe* that activism will benefit the company by leading to a net increase in customers (regardless of whether or not this is actually true).

Not all firms face the same incentives as many do not rely upon American consumers for their sales revenue. Instead, a great number of companies have little contact with consumers and rely upon other businesses or the government for revenue, such as customer relations software developer Salesforce or defense contractor Lockheed Martin. Without relying heavily upon consumers, non-consumer-oriented companies have minimal market-based incentive to engage in activism. Thus, a liberal CEO should be more likely to engage in activism when they lead a consumer-oriented company than when they lead a non-consumer-oriented company. Put differently, the effect of CEO ideology on corporate activism will be strongest for consumer-oriented companies.[3]

Hypothesis 2 *The effect of CEO ideology on corporate activism is stronger for consumer-oriented companies than it is for non-consumer-oriented companies.*

The second framework for understanding the origins of corporate behavior points to the role of stakeholders other than shareholders. A key finding is that companies are more profitable when they have better relationships with each of their stakeholders (Berman et al. 1999). Especially as it relates to corporate social practices, one important stakeholder is employees. Corporate social responsibility has been shown to improve employee recruitment, retention, and productivity (Bode, Singh, and Rogan 2015; Burbano 2016; Carnahan, Kryscynski, and Olson 2017; Flammer and Luo 2017; Turban and Greening 1997).

Corporate activism should have similar consequences for employee relations. Therefore, firms in an industry with a more diverse workforce have an economic incentive to support marginalized communities through their activism—to promote employee recruitment, retention, and productivity among that diverse workforce. Due to that greater economic incentive, liberal CEOs should be more likely to engage their firms in activism when they lead firms with a diverse workforce; and the effect of CEO ideology on activism should increase with workforce diversity.

Hypothesis 3 *The effect of CEO ideology on corporate activism is stronger for companies with more diverse workforces.*

DATA AND METHODS

To test my hypotheses about corporate activism, I gathered an original dataset of social issue CPA from S&P 500 corporations between 2008 and 2017. For the treatment

[3] I acknowledge that there should be heterogeneity in this hypothesized effect. Not every consumer-oriented firm is trying to engage the same customer base. Nonetheless, research on political consumerism suggests that—on average across the population of large companies—those that are consumer-oriented frequently have an incentive to engage in activism.

variable, I use ideology scores from Bonica's (2014, 2019b) Database on Ideology, Money in Politics, and Elections. The primary modeling strategy relies upon dynamic panel analysis.

Measuring Corporate Activism

Using the Standard & Poor's Compustat North America database (2018), I collected data on all S&P 500 companies between 2008 and 2017.[4] In total, the S&P 500 index encompasses 80% of the market capitalization (stock market value) in the U.S. economy (S&P Dow Jones Indices 2019). The index is designed to be representative of the national economy and as such, includes companies across every economic sector. From the S&P 500, I only include companies headquartered inside of the United States that are currently active, leaving 476 companies. Furthermore, I drop companies with incomplete panels: Companies that were founded within the time series, had major mergers or acquisitions, or had initial public offerings were omitted from the final sample. IPOs, mergers, and acquisitions are exogenous shocks that could affect the propensity for corporate activism. After all of these exclusions, the sample size is 403 companies across 10 years, for a total of 4,030 observations. Although, the sample size in regression analyses is smaller, due to missing CEO ideology data.

What I refer to as identity-based cultural or social issues fall under the broader umbrella of moral policy (K. B. Smith 2002), which taps core ethical beliefs as opposed to issue-specific preferences that rely upon technical policy details. These are inherently matters of right or wrong on which voters are unlikely to change their views or be willing to compromise. They include some of the most polarizing issues of the day, and typically generate significant single-issue interest group activity.

To determine which types of moral issues receive attention from businesses, I first examined Supreme Court cases for any issue with moral content. During the decade under

[4] I also searched for activism among the S&P 400, an index of mid-sized companies. Only 17 out of 378 companies were ever active. When they were active, they engaged in many fewer activism events than the S&P 500. Because of the lack of substantial activism among the S&P 400, I limit my sample to the S&P 500.

study, the Supreme Court heard cases related to abortion, the death penalty, censorship, gun control, immigration, and discrimination against racial and ethnic minorities, religious minorities, and the LGBT community. While business associations frequently file briefs on these cases to urge the Court to reject government intervention, it is rarer for briefs to be filed on behalf of corporations themselves, where their names appear as *amici*. Among all of these moral issues, only on identity-based issues did individual businesses appear as an amici. Companies were individual amici on cases related to affirmative action in higher education, immigration, and LGBT rights.

Federal congressional and executive branch lobbying disclosures revealed a similar pattern. The only moral issues that received any significant attention from multiple individual businesses were those with an identity-based component: immigration and LGBT rights. However, there was no lobbying on racial issues since they were largely off the congressional agenda during this time period.

Since these are the only issue areas where individual businesses were active in lobbying the federal judicial, legislative, or executive branches, I narrow my focus to the issue areas of racial justice, immigration, and LGBT rights. As previously noted, these issues all share a strong identity component to them, since policies in these issue areas are designed to protect the rights of minority groups. Policy solutions include—but are not limited to—affirmative action in higher education, legislative solutions to the Deferred Action for Childhood Arrivals program, same-sex marriage, and the LGBT non-discrimination Equality Act.

Online Appendix A discusses public opinion related to each of the issues where businesses were active as well as culture war issues where businesses were not active, like gun control and abortion. The issues under examination in this study vary in their public support, with some being more controversial than others. Because of this, public opinion cannot be the only explanation for why corporations decide to engage with an issue.

In my dataset of corporate activism, I only include corporate political activities that signify that the company is making a strong statement in support of one of the three identity-based moral issues. I searched for instances where the corporation signed an *amicus curie* brief before the Supreme Court, lobbied Congress or the executive branch, contributed to a political action committee, or sponsored an interest group. PAC contributions and interest group sponosorships were only counted once per year per company. Engaging in these forms of activism signify that the company is making a strong investment in the advancement of a social issue—and "putting its money where its mouth is," as the saying goes. As such, the CEO would usually be involved in the decision-making process (Foundation for Public Affairs 2008, cited in Rudy and Johnson 2019). Data sources and further details on data collection are available in Online Appendix A.

In total, I identified 1,434 instances of activism. Sixteen percent of activism events were in the form of Supreme Court briefs, 7% were lobbying, 21% were PAC contributions, and 56% were interest group sponsorships. Regarding the issues on which companies were active, 33% was on immigration, 42% was on LGBT rights, and 25% was on racial issues. A striking portion of companies within the sample were involved in activism supporting the liberal side of social issues, with 44% of companies engaging in activism at least once. No companies engaged in conservative moral policy activism during the time series.[5] A table displaying the distribution of activism form by issue is presented in Online Appendix A.

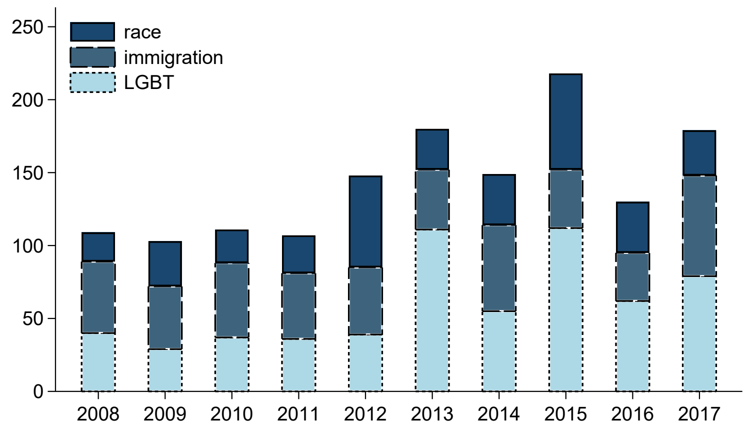
Figure 1a presents the number of activism events in each year between 2008 and 2017. During the first half of the time series there were around 110 events per year, while there were about 175 events per year in the second half of the time series. The trend is clear: activism has been increasing over time. LGBT rights and racial justice saw the greatest increase in activism events throughout the time series. Alternatively, immigration activism

[5] Gender pay inequity was also on the agenda during the time series and 19 corporations within the sample supported the conservative side of this issue, by opposing the Lily Ledbetter Fairy Pay Act and/or supporting Walmart in *Wal-Mart v. Dukes*. Since these policies relate to the specific, technical issue of class action lawsuits, they are dissimilar from the other issues in the dataset that are clearer examples of core values and first principles. Nonetheless, if I use a more relaxed definition of moral policies that includes gender pay inequity, results are similar with net liberal activism as the outcome variable. See Online Appendix B for more details.

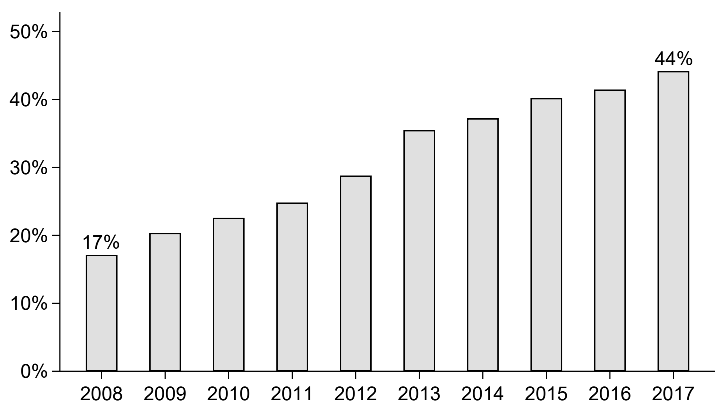
was relatively constant until it spiked in 2017, when corporations spoke out against the Trump Muslim travel ban and in support of the DACA program.

FIGURE 1. Corporate activism has become more common over time

(a) **Yearly activism events**



(b) **Cumulative activism**



Source: original dataset compiled by the author.

Figure 1b presents the *cumulative* percent of corporations active in each year. In every year, individual corporations make the decision to begin engaging in social activism for the first time. In 2008, 17% of the corporations within the sample engaged in activism, but by 2017 fully 44% of corporations had ever engaged in activism. With the caveat that this study only includes 10 years, both panels in Figure 1 show strong evidence of a trend over time; the S&P 500 is becoming increasingly socially-liberal.

To test my hypotheses about the intensity of activism, the outcome variable is the annual count of activism events engaged in by a given corporation. Annual activism ranges from 0 to 8. Figures showing the distribution of the outcome variable are available in Online Appendix A. Online Appendix C explores several alternative modeling strategies that use different formulations of the outcome variable including dichotomous outcome variables, survival analysis, two-stage models, and a outcome variables derived from item response theory.

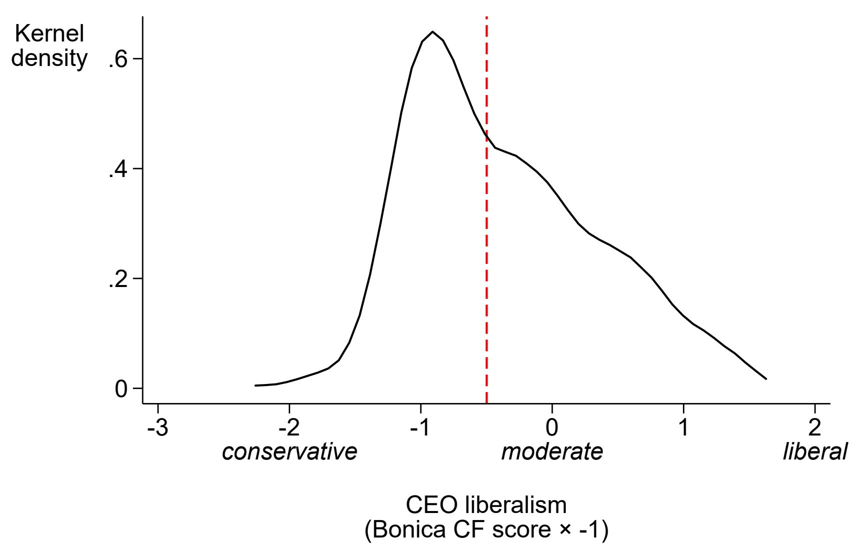
CEO Ideology

For a measure of CEO ideology, I use Bonica's (2014, 2019b) campaign finance common space scores (commonly referred to as CF scores). The Database on Ideology, Money in Politics, and Elections (DIME) is a collection of local, state, and federal campaign finance records from the 1980 through 2018 election cycles. Using correspondence analysis for all contributions in the database, Bonica generates scores that approximate ideal points, and are normalized to a mean of zero and standard deviation of one. This measure is preferable to simply using the percent of total contributions that the CEO made to Democrats (or Republicans), since such a crude measure has no way of differentiating between moderate and extreme politicians within the same political party. Furthermore, the DIME database also includes contributions to PACs, not just candidates for political office.

In a related article, Bonica (2019a) demonstrates that CF scores are a powerful predictor of 30 individual policy preferences and CF scores are a better predictor of policy preferences than party identification alone. While it is possible that the policy space is multidimensional, an ideal point that forces ideology to one dimension is sufficient for the present study. Across political parties and income groups, rich Democrats are the most liberal on social issues and rich Republicans are the most conservative on social issues (Maks-Solomon and Rigby 2019). Social issue preferences also tend to be a stronger predictor of the partisanship of the rich than it is for the poor (Gelman 2009).

I was able to identify CF scores for 79% of the CEOs in the sample, a match rate comparable to the match rate Bonica (2016) achieved in his analysis of Fortune 500 CEOs and directors (83%). I multiply CF scores by -1 to obtain my measure of CEO liberalism. This simple manipulation makes it easier to interpret results, since the main hypothesis predicts a positive relationship between CEO liberalism (the treatment variable) and corporate activism (the outcome of interest). An individual CEO's ideology is constant throughout the time series, so within-company variation in CEO ideology exists when there are CEO transitions and the company selects a new CEO to lead the firm. Seventy percent of corporations experience at least one CEO transition during the time series.

FIGURE 2. On balance, CEOs are moderate-to-conservative



Kernel density plot shows distribution of CEO ideology (with one observation per CEO). Dashed red line represents the median CEO.

Figure 2 is a kernel density plot of CEO liberalism. As it shows, the median CEO is -0.5 on the CEO liberalism scale. Thus, the median CEO is moderate-to-conservative, only about half of a standard deviation more conservative than the average donor or candidate. Values on the CEO liberalism variable have face validity and provide *prima facie* support for Hypothesis 1. Former CEO of Exxon, Rex Tillerson, has a CEO liberalism score of -1.12 (he's more than one standard deviation below the average liberalism). Former CEO of Starbucks, Howard Schultz, has a CEO liberalism score of 0.52 (he's half of a standard deviation more liberal than average). As expected, the company led by a conservative CEO was inactive on social issues, while the company led by a liberal CEO frequently engaged in corporate activism. On the one hand, Exxon engaged in no corporate activism during Tillerson's tenure. On the other hand, Starbucks engaged in one to three activism events each year during Schultz's tenure.

Modeling CPA on Social Issues

To model the data-generating process that gives rise to corporate activism, I primarily rely upon dynamic panel models, which have become the standard method in political science for estimating the causal effect of a treatment variable in a time-series cross-sectional (TSCS) analysis (e.g., Beck and Katz 2011).[6] Dynamic panel models include a lagged outcome variable and unit fixed effects. Researchers also typically include year fixed effects in their model, thereby approximating the difference-in-difference estimator. The lagged outcome variable accounts for autocorrelation and, in this instance, explicitly models a data-generating process where prior activism can predict future activism. Firm fixed effects absorb all time-invariant differences between companies like the fact that—on average—some firms engage in more activism than others, some companies hire more liberal CEOs than others, and some companies may have a greater incentive to engage in activism. Year fixed effects absorb any systematic differences between years, like changes in the national agenda.

It is important to note that dynamic panel models can sometimes produce biased estimates (Nickell 1981), where the bias is large for analyses with 2 or 3 time periods but is no longer a concern with 20 or more time periods (Beck and Katz 2011). The present analysis has nine time periods (ten years in the overall sample but nine after adding in the lagged outcome variable), so it is plausible that Nickell bias is a concern—although the bias should only be small. One strategy is to separately estimate (1) a model with only a lagged

[6] Imai and Kim (2019) have proposed panel matching as an alternative modeling strategy for TSCS analysis. Unfortunately, panel matching cannot be used with this dataset because it requires a longer time series to estimate multiple lags of the outcome and covariates.

dependent variable and (2) a model with only unit fixed effects. The treatment effects from the two of these models can serve as a lower and upper bound for the true causal effect of interest (Angrist and Pischke 2008, 245–246).

Therefore, to test the primary hypothesis that CEO ideology is motivating corporate activity on social issues (Hypothesis 1), I employ six different models. Each one includes year fixed effects. All models also cluster standard errors by firm and are robust to autocorrelation. The first model is a basic OLS model regressing corporate activism on the treatment variable. To obtain a bounded estimate of the effect of CEO liberalism, Model 2 is a fixed effects model and Model 3 is an OLS model with a lagged outcome variable. Model 4 is a dynamic panel model that includes both a lagged outcome and firm fixed effects. Models 5 and 6 are dynamic panel models that add a set of additional covariates, since not every difference between firms is time-invariant.

One plausibility is that companies are conforming to the isometric pressure of peers within their industry (DiMaggio and Powell 1983), so they may be more liberal on social issues when their peers are more liberal on social issues. To account for this, I include an additional covariate for the ***average industry-level activism*** among other S&P 900 companies within the firm's Global Industry Classification System (GICS) sub-industry.[7] I also control for ***log lobbying expenditure*** (calculated using data from the Lobbyview database [Kim 2018]). The firm's market share, profit, and market value are all also included as additional covariates, each obtained through the Compustat database. ***Market share*** is the share of all GICS sub-industry revenue made by the company, which accounts for the degree of competition it faces. Market share is calculated using the entire *Compustat* database of U.S. companies. ***Log profit*** and ***log market value*** (market cap) are measures of firm

[7] To use a broad definition of peer companies, industry-level activism includes all activism within the S&P 900 (the S&P 500 plus the S&P mid-sized 400). The variable is 0 if the company is the only one within its sub-industry. Since the activism of the company itself is not included in the *average industry-level activism* variable, this covariate is not endogenous to the outcome variable. However, if this variable is excluded from the analyses in Models 5 and 6, the coefficient and standard error for CEO ideology are virtually identical.

financial performance and size. Since market value is not available for several companies in the dataset, it is only included in Model 5, not Model 6.

RESULTS

The results of all models are presented in Table 1. Beginning with the simple OLS analysis in Model 1, a one-unit increase in CEO ideology is associated with a 0.18 increase in corporate activism within a given year. Model 2 accounts for unobserved heterogeneity between firms, and in this fixed effects model, the effect size of CEO liberalism decreases slightly. The coefficient is also smaller under different identifying assumptions in Model 3, which only includes a lagged outcome variable but no firm fixed effects. As recommended by Angrist and Pischke (2008, 245–246), the results from the fixed effects and lagged outcome variable models can serve as the upper and lower bound on the true causal effect of CEO ideology on corporate activism. Therefore, the effect of CEO ideology should be somewhere between 0.06 and 0.14.[8]

Models 4 through 6 are dynamic panel models, and in these analyses, the coefficient on CEO liberalism is within the upper and lower bound established by Models 2 and 3. Regardless of whether additional covariates are included in the regression, the dynamic panel models predict that a one-unit increase in CEO ideology is associated with 0.12 more activism events. Including additional covariates has essentially no impact on the relationship between CEO liberalism and corporate activism. Also note that the dynamic panel models result in a small coefficient on the lagged outcome variable. A one-unit increase in past values of corporate activism only correlates with a 0.19-unit increase in the current value of corporate activism. Evidently, the data generating process behind corporate activism is not sticky after netting out the firm fixed effects.

[8] Since the main hypothesis is directional in nature, I primarily rely upon one-tailed tests of statistical significance. I am aware of no theoretical justification for why more liberal CEOs would be *less* likely than conservative CEOs to engage their companies in activism.

TABLE 1. The effect of CEO liberalism on annual corporate activism is robust across specifications

	(1) OLS	(2) FE	(3) LDV	(4) DP	(5) DP	(6) DP
Activism ($t-1$)			0.807**	0.204**	0.194**	0.187**
			(0.020)	(0.045)	(0.043)	(0.046)
CEO liberalism (CF score × -1)	0.182**	0.140**	0.057**	0.124**	0.123**	0.122*
	(0.055)	(0.071)	(0.014)	(0.059)	(0.061)	(0.064)
Average industry-level activism					0.158**	0.167**
					(0.061)	(0.066)
Lobbying expenditure (log)					0.004	0.003
					(0.002)	(0.003)
Market share					1.278*	1.396*
					(0.706)	(0.759)
Profit (log)					0.047	0.065*
					(0.034)	(0.034)
Market value (log)						−0.051
						(0.054)
Constant	0.356**	0.340**	0.068**	0.273**	−1.000	−0.211
	(0.047)	(0.037)	(0.019)	(0.032)	(0.735)	(1.369)
Firm FEs	No	Yes	No	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,991	2,991	2,991	2,991	2,958	2,676
Clusters (firms)	362	362	362	362	361	359
Adjusted R^2	0.030	0.688	0.603	0.699	0.701	0.698

Dataset is at the firm-year level and outcome variable is the count of annual activism. Robust standard errors clustered by firm are presented in parentheses below coefficients. *Note:* $^*p < 0.05$ (one-tailed), $^{**}p < 0.05$ (two-tailed)

As previously noted, there was at least one CEO transition for 70% of corporations during the time series. The median change in CEO ideology (in absolute value) was 0.4; the 75th percentile was 0.8. These two numbers can be used as benchmarks to provide a substantive interpretation of the consequences of transitioning to a more-liberal CEO. For a median change in CEO ideology, the dynamic panel models predict that a company will engage in 0.5 more activism events over the course of 10 years. For a larger change in CEO ideology at the 75 percentile, the models predict that a company will engage in one more activism event over the course of 10 years. Several CEO transitions were even larger, with a difference of 2 units between the ideology of the previous and current CEO. For this maximum swing, the model predicts that if a company transitions from a conservative CEO (liberalism = -1) to a liberal CEO (liberalism = 1), the firm would engage in about 3 more activism events over the course of 10 years. Consequently, CEO ideology has a substantively meaningful effect on corporate political activity on social issues, especially given the fact that 56% of companies engaged in no activism during the time series.

When comparing the effect of CEO ideology with other covariates, CEO ideology is as strong of a predictor of activism as others. After netting out firm fixed effects, a two standard deviation increase in CEO ideology leads to a 0.6 increase in activism over 10 years. The only other variables that have a meaningful association with activism are average industry-level activism and the firm's market share. A two standard deviation increase in industry-level activism leads to a 0.4 increase in a firm's activism. A two standard deviation increase in firm market share also leads to a 0.4 increase in a firm's activism. Alternatively, lobbying expenditures, profit, and market value exert no meaningful influence on corporate activism. In sum, CEO liberalism, isometric pressure from peers, and lack of competition are all factors that similarly predict corporate activism.

One potential cause of endogeneity is that CEO ideology is confounding other traits of the CEO, such as demographic characteristics. It may be the case that CEOs from marginalized communities, younger CEOs, or more educated CEOs—and not necessarily more liberal CEOs—are more likely to engage their firms in corporate activism. To rule out this possibility, I demonstrate in Online Appendix D that these CEO characteristics have no effect on corporate activism and then show that CEO ideology has a similarly-sized effect even after controlling for CEO characteristics.

Another possibility is that the selection of a liberal CEO is endogenous to corporate activism. I discuss why this does not seem theoretically likely and perform placebo tests that rule out reverse causation in Online Appendix E. The first model presented in the appendix indicates that future values on the CEO liberalism variable cannot predict current corporate activism. In the second analyses, I then demonstrate that current corporate activism cannot predict future values of CEO liberalism. The results of these tests increase confidence that there is a causal relationship between CEO liberalism and CPA on social issues and mitigate concerns over reverse causation.

WHAT CONDITIONS THE CEO-ACTIVISM RELATIONSHIP?

According to Hypotheses 2 and 3, the effect of CEO ideology should be strongest for companies with a greater economic incentive to engage in activism. In this section, I assess whether firm characteristics—such as industry and employee demographics—condition the effect of CEO ideology. These innate firm-level characteristics are not randomly nor as-if-randomly distributed among the population of firms and do not vary substantially over time (at least not as I measure them here). Because of this, the analysis presented in this section is not intended to be interpreted as making a causal claim of any sort. Instead, it is an inherently descriptive exercise to determine the potential mechanisms behind the relationship between CEO ideology and corporate activism.

To identify the firm characteristics that condition the CEO-activism relationship, I utilize a random intercept model with within and between effects (B. Bartels 2015; Bell and Jones 2015). In these models, the treatment variable is still CEO liberalism, but the variable is transformed so that it is a de-meaned "within effect" (equivalent to the fixed effects estimator). The additional covariates are also added to the model as de-meaned within effects. From this model, I add in company-level firm characteristics that do not vary across time and interact these variables with CEO liberalism in a cross-level interaction term. I estimate each multilevel model using maximum likelihood with year fixed effects and company-clustered standard errors.[9]

Online Appendix F presents the results of four different models, each with a different company-level interaction term. In three of the models, the interaction terms are statistically insignificant. However, "It is perfectly possible for the marginal effect of X on Y to be significant for substantively relevant values of the modifying variable Z even if the coefficient on the interaction term is insignificant" (Brambor, Clark, and Golder 2006, 74). Therefore, marginal effects graphs are presented for each of the four models in this section, where the minimum and maximum on the x-axes roughly correspond to the 10th and 90th percentiles on the moderator variable. To demonstrate common support, marginal effects graphs include overlaid histograms showing the distribution of the moderator variable (Hainmueller, Mummolo, and Xu 2019). Figure F.1 within Online Appendix F further demonstrates sufficient common support between values of CEO liberalism and the moderators.[10]

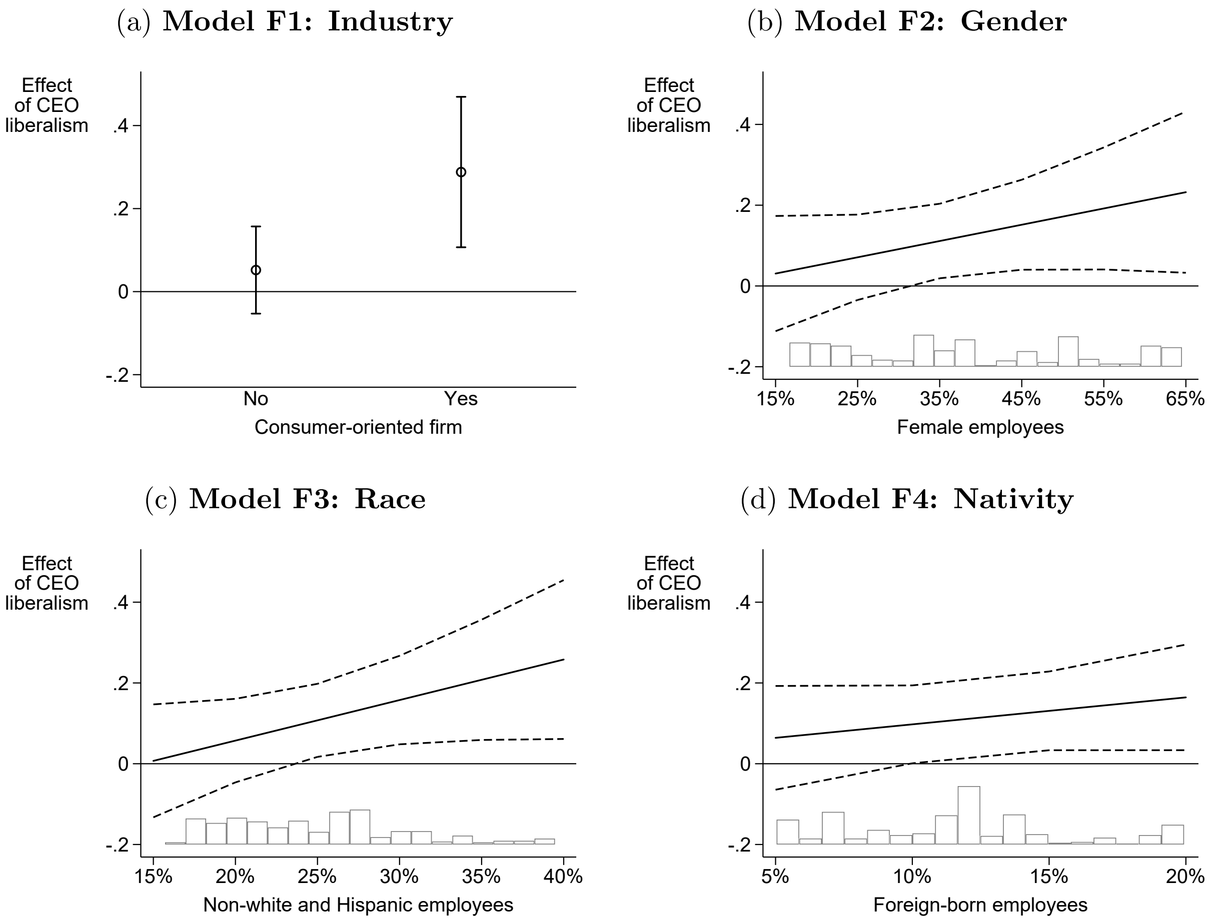
In Model F1, the firm characteristic used in the cross-level interaction term is a dichotomous measure for whether the firm is consumer-oriented. Companies are deemed to be consumer-oriented if they are in the Consumer Discretionary or Consumer Staples economic sectors within the Global Industry Classification System. These companies are consumer-facing, provide products or services to consumers, and receive most of their revenue from consumers (as opposed to other businesses or the government). Twenty percent of companies within the sample fall into this category. As the marginal effects presented in Figure 3a demonstrate, there is no statistically significant effect of CEO liberalism for companies without an economic incentive to win over consumers, as predicted by Hypothesis 2. These results

[9] Results are similar if interacting the firm characteristics with year fixed effects, accounting for the fact that firm characteristics could produce differential returns from activism.

[10] Hainmueller, Mummolo, and Xu (2019) designed R and Stata packages for estimating marginal effects of interaction terms. However, their packages cannot estimate a random intercept model with a cross-level interaction term as is used in this section.

suggest that the effect of CEO liberalism is conditional upon the consumer-orientation of the firm and liberal CEOs only engage their firms in activism when they have a market-based incentive to do so.

FIGURE 3. Firm characteristics condition the CEO-activism relationship



Figures are marginal effects of models presented in Online Appendix F. Estimates are surrounded by a 90% confidence interval. In a cross-level interaction term, CEO ideology (de-meaned level-1 variable) is interacted with a firm-level characteristic (level-2 variable). Demographic variables are measured at the sub-industry-level, pooling all monthly CPS surveys between 2008 and 2017 (Flood et al. 2018). For continuous interaction terms, a histogram is overlaid on the marginal effects plot, and the minimum and maximum of the x-axis roughly correspond to the 10th and 90th percentiles.

In Models F2 through F4, CEO ideology is interacted with employee characteristics: the percent of employees who are female, the percent of employees who are non-white or Hispanic, and the percent of employees who are foreign-born. To obtain these data, I use IPUMS Current Population Survey U.S. Census microdata with survey weights, and estimate employee demographics at the sub-industry-level (Flood et al. 2018).[11] The marginal effects of Models F2 through F4 provide modest evidence in support of Hypothesis 3. As can be seen in Figures 3b, 3c, and 3d, the effect of CEO ideology on corporate activism is strongest for companies in industries with more female employees, more non-white or Hispanic employees, and more foreign-born employees. (Although, the conditioning strength of foreign-born employees is certainly weaker than the other measures of employee diversity.) This evidence suggests that liberal CEOs engage their firms in identity-based corporate activism when they believe it will help create inclusive spaces that increase employee recruitment, retention, and productivity.

In sum, the effect of CEO liberalism is conditional upon existing economic incentives for activism—a need to court liberal customers or a diverse employee base. As upper echelons theory argues, a CEO's background shapes their perceptions of situations. When there is an economic incentive to engage in activism, a liberal CEO thinks that the benefits of corporate activism outweigh the costs. However, a more-conservative CEO thinks the costs of activism outweigh the benefits, even when there *is* an economic incentive to engage in activism.

DISCUSSION AND CONCLUSION

Political scientists have long studied the role of money in politics and recent work has focused specifically on the over-representation of the rich in the political system. Affluent Americans—and CEOs more specifically—have many methods they can use to influence the policy process, including contributing directly to campaigns or contacting elected officials. They can also use more covert methods, like contributing to Super PACs, where it is difficult to trace the ultimate source of donations. As this study has demonstrated, wealthy CEOs can influence the policy process in another covert way, by using their corporation as a tool to advance their personal moral policy preferences. Yet CEOs of large companies are not

[11] Census industries were first cross-walked with the North American Industry Classification System. (Note that two companies were conglomerates with no industry classification.) Census industries are narrowly-defined with 260 in total. All monthly CPS surveys are pooled between 2008 and 2017 to estimate sub-industry demographics.

exceptional. They are more intelligent than average but not immensely so. Instead, it is a complicated mix of traits—including height—that can predict who will become CEOs later in life (Adams, Keloharju, and Knüpfer 2018). To put it bluntly: Why should these (tall) Americans, who just so happen to be selected as CEOs, who have no particularly exceptional intelligence, be able to use their public companies to advance their own personal policy preferences?

To be sure, the results presented in the previous section are suggestive of an interactive relationship between market forces, internal employee dynamics, and the perspectives of the company's CEO, since the effect of CEO ideology is strongest among consumer-oriented firms and those with more diverse employee bases. In this way, companies do appear to be acting in their "self-interest" but corporate executives interpret the same situations in different ways. Liberal CEOs are more likely to see corporate activism as advantageous to the firm when presented with the same set of information as a conservative CEO. Liberal CEOs frequently judge that the benefits of activism (an increase in customers and employees from marginalized communities) are outweighed by the costs (boycotts from conservatives). Thus, the political ideology of a CEO influences their cost-benefit analysis of the decision to engage in social activism.

Although recent research has come to appreciate that businesses are not a conservative monolith with shared preferences (Bonica 2014; Gimpel, Lee, and Parrott 2014; Hart 2004; M. A. Smith 2000), public and academic discourse still frequently views corporations as unidimensional, conservative actors. However, the study of corporate political activity on social issues underscores the multidimensionality of corporate preferences. Almost exclusively, corporations are liberal on social issues when they decide to wade into cultural debates. At the same time, they are also advancing their economic interests by pushing for less regulation and lower taxes. Businesses do not always oppose liberal causes, but neither do they exclusively champion them. The truth is likely somewhere in between, where many large corporations—especially those with socially-liberal CEOs—simultaneously advance social liberalism and economic conservatism.

Corporate political activity on social issues represents an important avenue for future social science research. Corporate activism has been increasing in its frequency and each year, more and more corporations decide to engage with social issues for the first time. Future research should further probe the *origins* of corporate activism and also explore the *consequences* of activism—for firms themselves and for the public policy process.

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