

CEO ACTIVISM AND FIRM OUTCOMES:
EXAMINING THE ROLE OF CEO POLITICAL
IDEOLOGY

By

YASAMIN VAHDATI

Bachelor of Science in Computer Engineering
Azad University
Shahriar, Iran
2009

Master of Business Administration
Mazandaran University of Science and Technology
Babol, Iran
2013

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CEO ACTIVISM AND FIRM OUTCOMES: THE
MODERATING INFLUENCE OF CEO POLITICAL
IDEOLOGY

Dissertation Approved:

Dr. Kevin E. Voss

Dissertation Adviser

Dr. Todd Arnold

Dr. Karen Flaherty

Dr. James Pappas

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Title of Study: CEO ACTIVISM AND FIRM OUTCOMES: EXAMINING THE ROLE
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Abstract: There is a growing interest in an emerging phenomenon, CEO activism, in which a firm's CEO communicates his or her stand on social-political issues. Researchers have examined the effect of CEO activism on public opinion, customers' attitudes, purchase decisions, and employee's relationship with external stakeholders. Scholars argue that CEO activism is distinct from nonmarket strategy components—Corporate Social Responsibility (CSR) and Corporate Political Activity (CPA). Prior research does not address how CEO activism is distinct from CSR and CPA and how they relate to each other. CPA involves the firm's activities, mainly lobbying and Political Action Committee (PAC) contributions, intended to shape governmental policy favorable to the firm. I draw on upper echelons theory as well as research on CPA and CSR to examine the effect of CEO activism, as measured by the number of non-business organizations with which the CEO is affiliated, on the firm's CSR (as rated by MSCI) and CPA (dollar amount spent on lobbying and PACs) as well as the downstream effect on the firm's sales growth. I theorize an interaction effect between CEO activism and CEO's political ideology, as measured by an index of CEO's political contributions ten years prior to their tenure (liberalism index), on the firm's CSR and CPA. Further, I predict a positive association between sales growth and both CSR and CPA. I use a lagged design with CSR and CPA measured two years after CEO's appointment and sales growth, three years after the CEOs start. My sample includes CEOs of S&P's 1500 companies who were appointed in the time window 2001 to 2011. Using 3-stage least square (3SLS) estimation method, I find that the interaction effect between CEO activism and CEO political ideology to be positively related to the firm's CPA spending with a stronger association between CEO activism and firm's CPA for liberal CEOs. Contrary to my hypotheses, I find a negative relationship between CPA and sales growth. The data does not substantiate the hypothesized interaction effect on CSR. However, I do find a positive relationship between CSR and sales growth.

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CHAPTER I

INTRODUCTION

There is a growing interest in an emerging phenomenon, CEO activism, in which a firm's CEO communicates his or her stand on debated social-political issues, not directly related to the firm's core business. It appears that CEOs speak out on a wide range and broad social issues including abortion, immigration, environmental policies, race relations, etc. Recent series of ongoing research by Weber Shandwick¹, a public relations firm, in collaboration with KRC research, has provided thought-provoking insights into this phenomenon. Their surveys and polls have shown that the majority of customers expect the CEOs to take a stance when their company's values are infringed (Weber Shandwick 2018). Also, nearly half of Americans believe that CEO activism influences governmental policy. The perceived influence seems to have risen and is consistent between Democrats and Republicans (2018). Research has also shown that CEO activism is positively related to purchase decisions with 50% of the customers reporting that they are more likely to

¹ <https://www.webershandwick.com/>

purchase from a company with a CEO whose stance on issues are consistent with the ones held by the customer (Weber Shandwick 2016). It appears that companies are also allocating more time to CEO activism. Marketing executives have reported that they discuss whether their CEO should take a stand and that there has been a significant increase in the time they spend discussing the matter. Marketers also report that CEO activism has a positive long-term effect on the company's reputation (WeberShandwick 2019).

Statement of the problem. Previous work has examined the effect of CEO activism on public opinion (Chatterji and Toffel 2017), customers' attitude toward the company (Chatterji and Toffel 2019), purchase decisions (Chatterji and Toffel 2017; Dodd and Supa 2015; Korschun et al. 2016; WeberShandwick 2016), and employee's relationship with external stakeholders (Korschun et al. 2017). Specifically, researchers have found that CEO activism positively influences public opinion of issues as well as customers' purchase intentions, particularly among those who share the same viewpoint. The limited empirical research on CEO activism seems to indicate two differing perspectives on this phenomenon. Some researchers argue that CEO activism is distinct from nonmarket strategy components—Corporate Social Responsibility (CSR) and Corporate Political Activity (CPA). For example, Chatterji and Toffel (2018) argue that unlike CPA, CEO activism is “transparent” and “highly visible”, therefore essentially a counterpoint to CPA. Also, CEO activism differs from strategic CSR in a sense that it addresses much broader social issues and unlike strategic CSR is not visibly profit-motivated. Another perspective contends that CEO activism is part of firm's CSR (Clemensen 2017).

Prior research does not address how CEO activism is distinct from CSR and CPA and how they relate to each other. Specifically, what is the relationship among CEO activism and

the two important elements of the nonmarket strategy: CSR and CPA. Exploring this issue is important because it helps us understand CEO activism outcomes for the firm and empirically test the implications of its unidentified boundary condition(s). The purpose of this dissertation is therefore to examine the implications of CEO activism for CSR and CPA. Drawing on upper echelons theory and related research on CPA and CSR, I hypothesize that CEO activism is positively related to CPA and CSR. In addition, I predict a diminishingly positive curvilinear relationship between CEO activism and CSR for liberal CEOs and no significant positive effect of CEO activism on CSR for conservatives. With regards to CPA, I predict a stronger relationship between CEO activism and CPA for liberal CEOs compared to conservative CEOs. Lastly, I hypothesize that firm CSR and CPA are both positively related to the firm's sales growth.

Method. I analyze CEO data of S&P 1500 companies. I study newly appointed CEOs who started between 2001 to 2011. This time window includes 3770 CEO-company pairs. After several steps of data cleaning and pre-processing I reach a sample of 293. I use a lagged design to examine the effect of CEO activism. As such, the CSR, CPA are measured 2 years after the CEOs appointment and sales growth is gauged by the percentage change in the sales revenue three years after CEOs start. I measure CEO activism by the number of non-business organizations to which the CEO is affiliated. The data for CEO activism is provided by BoardEx dataset, which provides detailed profiles of CEOs of virtually all U.S. public companies. I gauge CSR by the score assigned annually to each firm based on criteria determined by MSCI, a financial advisory firm. CPA is captured by the combined dollar amount of a firm's spending on lobbying and PAC contributions. CPA data is sourced from Center for Responsible Politics. And finally, sales growth is measured by sales records of the

company provided by the Compustat database. I use 3-stage least square (3SLS) estimation method that allows simultaneous estimation of the parameter estimates.

Findings. In this dissertation, I predict that all else equal, the relationship between CEO activism and firm's CPA is will be stronger for liberal CEOs compared with the CPA of conservative CEOs. Consistent with this prediction, I find a significant interaction effect of CEO activism and CEO political ideology on the firm's CPA, such that the association between CEO activism and CPA is stronger for liberals compared with conservative. I also find that higher CPA is negatively related to sales growth, an unexpected finding contrary to my hypothesis of a positive relationship between CPA and sales growth. These two findings combined seem to indicate that for liberal CEOs, activism is negatively related to sales growth through higher CPA. Moreover, consistent with past research, I find that CSR is positively related to sales growth. However, I do not find a significant interaction effect between CEO activism and CEO political ideology on the firm's CSR.

Contributions and implications. I draw on literature on nonmarket strategy as well as moral foundations theory (Graham et al. 2009) to theorize that CEO activism has important impacts on firm outcome including CSR, CPA, and sales growth. I also identify an important moderator of the relationship, CEO political ideology, and explain the implications of this boundary condition for my theory.

In this dissertation, I contribute to the literature in several ways. First, I propose and empirically test a new theory, explaining and predicting the relationship among CEO activism, CEO political ideology, CSR, CPA, and sales growth. Therefore, I contribute to the depiction of the nomological network of CEO activism construct. Second, I provide some evidence into the conflicting perspectives on CEO activism: whether it is part of the firm's

CSR and CPA or distinct and if it is distinct what the relationship among them is. I theorize and predict that CEO activism is an antecedent to CSR and CPA by predicting an interaction effect between CEO activism and CEO political ideology on firm's CSR and CPA. I find some evidence for the interaction effect on CPA and ultimately the firm's sales growth. However, the data I examined does not substantiate the effect of CEO activism on CSR. Third, I contribute to upper echelons theory with the main premise that executives inject their values into their strategic decisions. Little is known about *how* important firm outcomes including CSR, CPA, and sales growth are driven by CEO's values. I provide evidence that CEO activism and CEO political ideology—a manifestation of CEOs values—work together to influence CPA and sales growth.

Fourth, by identifying CEO activism as a driver of CPA, I contribute to strategy research. I introduce CEO activism as another predictor of CPA and examine CEO political ideology as the boundary condition affecting the relationship between CEO activism and CPA. Researchers had previously examined CPA predictors from different perspective including firm, industry, issue, and institutional perspectives. What remained missing from the literature was CPA drivers from CEO level. This dissertation addresses this gap by providing evidence that CEO activism predicts CPA.

Lastly, I contribute to the emerging literature on CEO activism by adopting a novel measure of CEO activism. I capture CEO activism by the number of CEO affiliations to various non-business organizations using the BoardEx data. Considering all the limitations and scarcity of CEO statements on social-political issues, this proxy measure helps provide insights into research problems and paves the way for building a scientific foundation for this phenomenon.

Organization of the following chapters. The rest of this dissertation continues as follows. In Chapter II, I present a comprehensive review of the relevant literature from which I draw to theorize and test my theory. Specifically, I present literature on non-market strategy and its components, corporate social responsibility (CSR) and corporate political activity (CPA). In addition, I review literature on private politics, which includes activities from interest and activist groups to influence a firm's non-market strategy. In Chapter III, I present the theoretical development, conceptual model, and the statement of hypotheses. In Chapter IV, I explain the research methodology, the sample and data sources, the variables used to test my theory, and the procedure to obtain those variables. In Chapter V, I summarize the results of the 3-stage least square (3SLS). Lastly in Chapter VI, I provide the discussion including the summary of the findings, contributions to theory and practice, limitations of the research, directions for future research, and conclusion.

CHAPTER II

REVIEW OF THE LITERATURE

The field of strategic management informs not just the market strategies that firms undertake to acquire economic profit, but also their nonmarket strategies targeted at the nonmarket environment to pursue the same goal. A successful business strategy comprises both market and nonmarket strategies (Baron 1995).

In any given economy, there are formal and informal norms and regulations—also known as “rules of the game”— that construct market competition. The nonmarket environment consists of legal, social, and political arrangements by which firms’ interactions are organized among themselves as well as with the public (Baron 1995). The domain of nonmarket strategy centers around developing effective strategies to influence these institutions in a way that benefits the firm and secures it a competitive advantage (Baron and Diermeier 2007a). Traditionally nonmarket strategy is defined as “the coordinated actions firms undertake in public policy arenas” (Bonardi et al. 2006, p. 1209). Nonmarket strategy relates to a firm’s set of actions aimed at improving its performance by influencing the institutional or societal environment (Mellahi et al. 2016). Baron (1995) defines nonmarket strategy as “the concerted action of an interested party directed at a nonmarket issue that is a subject of competition in the cognizant

institutions where information typically plays an important role” (p. 75). To do so, firms need to understand the nonmarket forces—Government, interest groups, activists, and the public— that shape the nonmarket environment (Baron 1995).

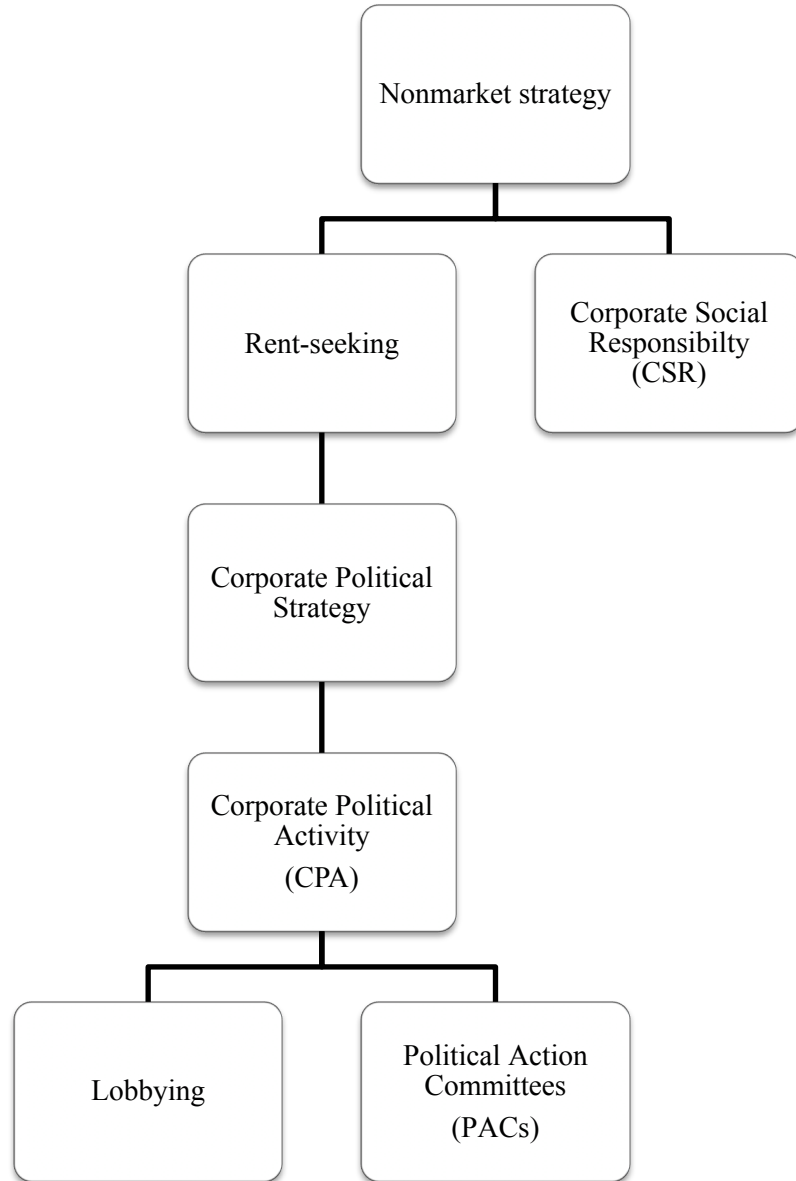
Nonmarket Strategy Drivers

Bonardi et al. (2006) develop and examine a theory of the determinants of a firm’s nonmarket strategy. Building on political market framework, which views the political environment as a marketplace consisting of suppliers (i.e. firms and interest groups) and demanders (i.e. politicians, regulatory agencies, and courts) transacting over public policy, Bonardi et al. (2006) identify the antecedents of the firm’s success to influence public policy in its own favor. They find that the firm’s internal nonmarket capabilities and external environment (i.e. political market) significantly affect its achievement of favorable public policy. Bonardi et al. (2006) only focus on the regulatory dimension of the firm’s nonmarket strategy and were not able to examine multiple dimensions of firm’s nonmarket strategy such as grassroots mobilization, lobbying, and campaign contributions.

In my review of the literature, I have identified two major streams of research within nonmarket strategy literature: corporate political strategy (a form of rent seeking) and strategic CSR. These two research streams seem to have evolved independently, drawn from disparate theoretical perspectives. However, recently researchers have attempted to integrate and bring these research streams under an overarching framework (Doh et al. 2012; Dorobantu et al. 2017; Mellahi et al. 2016). In the following, I will first explain and outline important research contributions to each stream in detail. Next, I will explain the studies that focus on integrating these two disparate research streams.

Figure 1 shows the scheme of my literature review on nonmarket strategy.

Figure 1. Nonmarket Strategy Literature Review Schema



Rent-seeking

The word “Rent” refers to “that part of the payment to an owner of resources over and above that which those resources could command in any alternative use”(Buchanan et al. 1980, p. 3). In other words, “Rent” includes “unearned income of any kind” (Morck and Yeung 2004, p. 391). Rent-seeking refers to “any redistributive activity that takes up resources” (Murphy et al. 1993, p. 409). The rent-seeking process involves a firm’s efforts to secure a competitive advantage through influence on legislative and regulatory processes rather than through market actions (Shaffer 1995).

Government restrictions over economic activity in market-oriented economies engender rents and hence a competition for rents— that is rent-seeking (Krueger 1974). Rent seeking takes many forms and can be considered legal or illegal. In many economies, lobbying and political campaign contributions are viewed as legal processes of rent-seeking, whereas bribery, corruption, black markets, and smuggling are considered illegal processes of rent-seeking (Daskalopoulou 2016; Krueger 1974; Lambsdorff 2002).

In the economics and finance literature, the term “political rent-seeking” has been defined as “self-interested dealings between the political and business elites” (Morck and Yeung 2004, p. 391). Lobbying politicians and swaying judicial process in one’s own favor are examples of political rent-seeking behavior (Murphy et al. 1993). Many economists agree that rent-seeking is detrimental to economic growth (Krueger 1974; Morck and Yeung 2004; Murphy et al. 1993; Murphy et al. 1991).

Economists distinguish between private and public rent-seeking (Murphy et al. 1993). Private rent-seeking involves transfer of resources between private parties and

takes the forms of theft, piracy, litigation, etc. An example is lawyers taking up litigation against big corporations. Public rent-seeking involves either redistribution from the private sector to the state (e.g., taxation) or from the private sector to government bureaucrats who influence the profits of the private sector (e.g., lobbying, corruption).

In economic research, public rent-seeking has been shown to reduce economic growth by stifling innovative activity (Murphy et al. 1993). In the entrepreneurship literature, Morck and Yeung (2004) show that entrusting a country's resources to a small economic and political elite group —“oligarchic family corporate group” (p. 405)—is associated with higher levels of political rent-seeking behavior and less economic growth.

Therefore, based on the body of literature on rent-seeking, corporate political activities such as lobbying and political action committee (PAC) contributions are legal forms of rent-seeking in many market-oriented economies. In the next section, I will clearly define the concepts of corporate political strategy and corporate political activity and delineate their relationship.

Corporate Political Strategy

One important stream of research within the nonmarket strategy literature is corporate political strategy (Dorobantu et al. 2017; Mellahi et al. 2016). Corporate political strategy relates to a firm's use of resources to undertake concerted actions to influence the political, social, and legal environment to gain a competitive advantage (Hillman and Hitt 1999a). Corporate political activity (CPA) is an important element of corporate political strategy and a body of literature has evolved around it. Corporate political activity refers to a firm's deliberate attempts to influence public policy in a way that is favorable to the firm (Getz 1997; Hillman et al. 2004). Firm lobbying activities

and political action committee (PACs) contributions are the most commonly studied examples of corporate political activity (Hillman and Hitt 1999a; Lux et al. 2011; Ridge et al. 2017). Constituency building, advocacy advertising, and coalition building are among other types of corporate political strategies that are common to many firms (Keim and Zeithaml 1986).

Before further reviewing the corporate political activity literature, it is important to draw a distinction between the terms: corporate political activity and corporate political strategy. Based on definitions of corporate political activity and corporate political ideology, these two concepts differ in two important ways. First, corporate political activity, unlike political strategy, is not necessarily tied to a firm's business strategy. Second, corporate political activity is directed toward governmental policy or process, whereas political strategy is not limited to governmental policy and includes actions toward the social and legal environment as well (Getz 1997). Based on this, corporate political activity is viewed as a component of corporate political strategy. Nevertheless, these two terms have sometimes been used interchangeably in the literature.

Corporate Political Activity

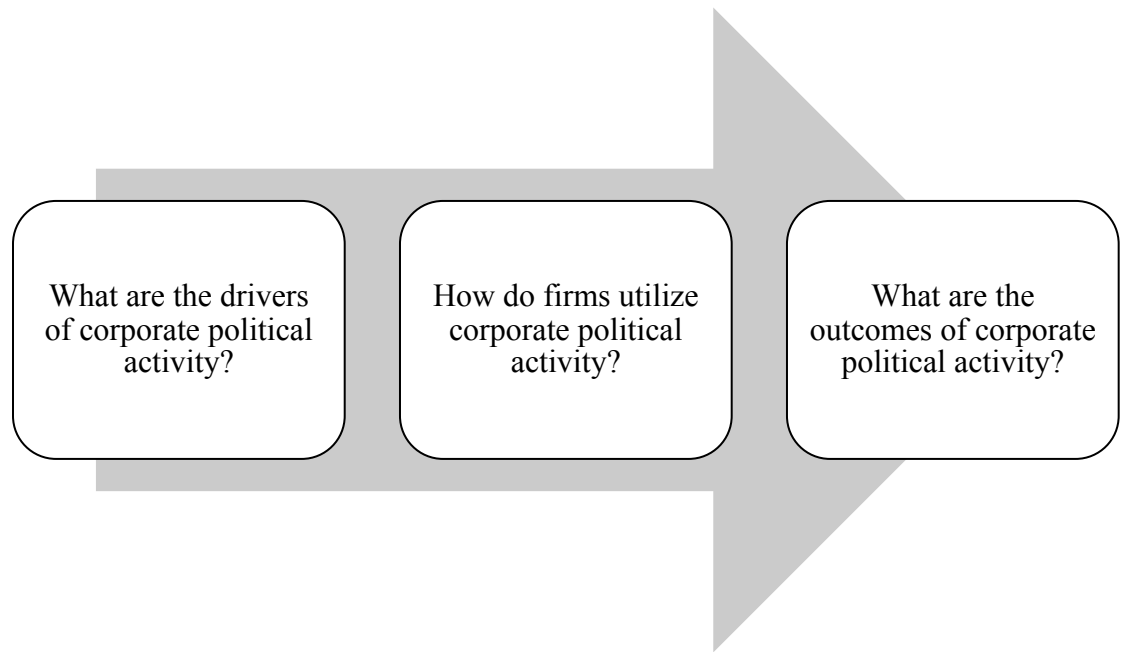
CPA involves a firm's activities to shape government policy in a way that benefits the firm (Hillman et al. 2004). Firm lobbying and PAC contributions are arguably the two most important means of CPA (Hillman et al. 2004; Lux et al. 2011). In fact, aggregated lobbying expenditures and PACs contributions are the most commonly used measures of corporate political activity (Hadani et al. 2015; Hadani and Schuler 2013; Lux 2016; Lux et al. 2011; Ridge et al. 2017).

Lobbying is a tactic used by a firm to influence government officials to make decisions that benefit the firm (Hillman and Hitt 1999a). Lobbying involves providing information to government officials with the aim of influencing their actions (Ridge et al. 2017). Firms implement both internal and external lobbying. In internal lobbying firms use employee lobbyists and in external lobbying firms hire external lobbying professionals or lobbying firms to do the job.

PAC contributions are another commonly used tactic utilized by firms to derive benefits. PAC contributions are viewed as a means to establish a quid pro quo relationship with political candidates (i.e. prospective government official). Firms develop PACs to increase a political candidate's prospects of winning in an election in return for the candidate acting in the firm's interest (Kroszner and Stratmann 1998; Tahoun 2014).

Based on published research and publicly available data, lobbying dominates the firm's expenditures compared to PACs (Hill et al. 2013; Kerr et al. 2014; Milyo et al. 2000) and is the primary and most effective means to influence government officials (Ridge et al. 2017). In my review of literature on corporate political activity, I identify three bodies of papers addressing three types of questions (Figure 2).

Figure 2. Key Research Questions Addressed within CPA Literature



In one stream, scholars have attempted to address the question: how do firms utilize political activity? To do so, they have attempted to explain the process of political strategy formulation (Hillman and Hitt 1999a; Oliver and Holzinger 2008).

To address the question of how firms formulate Corporate Political Strategies, drawing on resource dependence and market exchange theories, Hillman and Hitt (1999a) developed a taxonomy of political strategies taken by the firms and introduced a decision-tree model that helps managers make political action strategic decisions.

According to Hillman and Hitt (1999a) there are three important decisions involved in formulating political strategy: 1) the general approach to political strategy, 2) level of participation, and 3) the choice of political strategies. The first decision is the approach to political strategy. General approaches include transactional and relational. The transactional approach relates to formulating political strategies only when there is a relevant and salient issue to the firm. The relational approach refers to a firm's

involvement in the political arena over a long-term period rather than in response to a specific issue. The distinction between these two general approaches lies in their scope and length of transaction.

The second decision involved is specification of the levels of participation: individual or collective. Individual participation involves taking up political actions as an individual firm as opposed collective involvement that involves cooperative actions with other firms. This distinction is analogous to distinction between competitive vs cooperative strategies in the market strategy literature.

Finally, the last decision involved is the choice of specific strategies or tactics. Hillman and Hitt (1999a) provide three categories of political strategies: 1) informational, 2) financial incentive, and 3) constituency-building. Information strategies involve providing policy makers with specific information regarding the issue outcomes in order to affect public policy. It includes tactics such as lobbying and funding research projects. Financial incentive strategies relate to attempts to influence policy makers by providing financial incentives. Examples of financial incentive tactics include contributions to political parties or politicians. Lastly, constituency-building strategies target constituents in attempt to influence public policy by gaining their support. It includes activities such as grassroots mobilization of employees or customers, advocacy advertising, and public relations.

Drivers of CPA

Another stream of published research has evolved addressing the following question: what are the drivers of corporate political activity? Several researchers have

investigated this question (Capron and Chatain 2008; Funk and Hirschman 2017; Hillman et al. 2004; Keim and Zeithaml 1986; Lux et al. 2011; Schuler et al. 2002; Shaffer 1995).

Hillman et al. (2004), focused on papers published after Shaffer's (1995) review paper. The authors integrated disparate literature and organized their effort in a model of antecedents, types, and outcomes of CPA. Specifically, in terms of antecedents they identify firm-, industry-, issue-, and institutional-level antecedents. Firm size and firm dependency on government are among the most prominent firm-level determinants of CPA. On the industry level, the industry structural characteristics (e.g., industry concentration) and the level of political activism within an industry are identified. With respect to issue characteristics, issue salience has been shown as a key driver of CPA. And lastly, in terms of institutional differences, congressional characteristics, have been used in the explanation of CPA, predominantly PAC contributions. For example, Schuler et al. (2002) show that an industry represented by a congressional caucus is more likely to use multiple political activities.

Schuler et al. (2002) contributed to the literature by investigating the drivers of firm engagement in multiple political tactics (i.e. PACs, inside lobbyists, and using outside lobbyists). They argue that "access" to politicians and legislators is necessary for businesses to gain influence in the public policy arena and that proactive firms combine political tactics to shape their business environments. The authors theorize five drivers of firms combining political tactics on two levels— industry and firm levels. One factor is industry concentration—that is the structural configuration of a target industry—with more concentrated a firm's industry, the higher the likelihood of combining political tactics. Another factor is the industry having or lacking congressional caucus. The third is

political activism—that is how politically active other firms are in a given industry. The firm-level drivers include firm size and government contracts. Government contracts refer to the proportion of the firm’s total revenues drawn from contracts with the federal government.

Using a meta-analysis of studies from different disciplines, Lux et al. (2011) examined the effect of traditionally proposed antecedents of CPA on firms engagement in CPA (measured through PACs and lobbying expenditures) at three different levels of analysis — institutional, industry, and firm levels. The institutional-level drivers include incumbent politicians (as opposed to first-time candidates), ideology (sympathetic to business interests), political competition, regulation, government sales (reliance of a firm’s revenues on government sales), and politician dependence on firms. The industry-level drivers include industry concentration, international competition, and economic opportunity. Lastly, firm-level drivers include firm size and corporate strategy. The authors find that while these antecedents are significant drivers of CPA, incumbent politicians, government regulation, and firm size influence it to a greater extent.

CPA and Firm Performance

A body of research has evolved examining the outcomes of corporate political activity. Several researchers have examined this question (Bonardi et al. 2006; Hadani et al. 2015; Hadani and Schuler 2013; Hillman et al. 1999; Lux 2016; Lux et al. 2011; Ridge et al. 2017; Schuler et al. 2017). In this regard, a body of studies have developed around firm-specific benefits of political activities (Bonardi et al. 2006; Frynas et al. 2006; Hillman et al. 1999). In the following, I will review published research on the relationship between CPA and firm performance.

Several researchers have shown a direct link between corporate political activity and performance (Frynas et al. 2006; Hillman et al. 1999; Lux 2016; Lux et al. 2011). Hillman et al. (1999) showed a positive association between one political strategy named personal service — that is having a firm representative serve in a political capacity — and firm value measured through stock market return. The authors ground their theorization in research on interlocking directories and cooptation—that is reducing uncertainty through developing relationships with entities that control or have access to resources that are critical to a firm.

Lux et al. (2011) in a meta-analysis found a positive link between corporate political activity as measured by firm's total campaign contributions and lobbying expenditures, and firm economic performance captured by economic-based measures including return on assets (ROA) and return on investment (ROI).

Lux (2016) shows that political strategic fit, which is the degree to which a firm's actual political activities deviate from desired activity levels, operates as a dichotomous decision (engaging in CPA or freeriding) as opposed to an incremental one. Examining U.S. coal industry firms, the author finds that CPA is positively related to economic performance versus freeriding, which is negatively related to economic performance.

Frynas et al. (2006) draw on resource based view (RBV), resource dependence theory (RDT), and reciprocity theory to examine the relationship between political resources and first mover advantage. Using case-study methodology, the authors identify the underpinnings of when political resources translate into first mover advantage (FMA) in international business. Factors related to government and the political business environment such as government interference in an industry, cooperation between a

firm's home and host governments, and changes in the political business environment are shown to impact FMA. Moreover, factors related to the firm political and non-political resources are proposed to influence FMA.

In a review of the literature on the association between nonmarket strategy and its performance outcomes, Mellahi et al. (2016) show inconsistency in the reported results of previous empirical studies, with the majority reporting a positive association and the minority reporting mixed, insignificant, and negative association between nonmarket strategy and corporate performance. To address this inconsistency the authors propose an integrative framework that identifies the key drivers, mediating, and moderating variables involved in this association. They categorize these factors as either internal or external. The mediating mechanisms concern the means and approaches of implementing the nonmarket strategy. The mediating mechanisms are classified as those that are related to organizational boundary spanning (the bridging and buffering mechanisms) and those that are related to internal strategy formulation (market and nonmarket strategies integration and complementarity of nonmarket strategies). The boundary spanning mechanisms include bridging and buffering mechanisms, which are not mutually exclusive. Bridging mechanisms involve activities adhering to social and political expectations of stakeholders. Such mechanisms have been researched from institutional theory, stakeholder theory, resource-based view theory (RBV), and resource dependence theory (RDT) perspectives. One example of a bridging mechanism for a multinational enterprise is aligning the firm's nonmarket activities to local institutions to gain legitimacy, thereby improving firm economic performance. Buffering mechanisms involve activities aimed at influencing the external nonmarket environment. A firm uses

the buffering strategies to protect itself from the external environment. Examples include lobbying, rent-seeking, and campaign contributions. Scholars have drawn on RDT and RBV to look into these mechanisms.

Internal mediating mechanisms involve integration of market and nonmarket strategies as well as complementarity of nonmarket strategies. Integration of two strategy components is focused on formulating an integrated strategy aligning both market and nonmarket activities. According to Mellahi et al. (2016), RBV is the dominant theoretical lens in this mechanism: acquiring firm-specific resources that help the firm to manage both market and nonmarket components with the aim of securing a competitive advantage. Complementarity of nonmarket strategies is related to the complementarity of CSR and CPA nonmarket strategies and the interaction of the two.

Moderators of the Relationship Between CPA and Performance

Agency theory has been the dominant theoretical foundation in the theorization of moderators in the relationship between CPA and firm performance (Mellahi et al. 2016). Mellahi et al. (2016) identify macro-environmental and institutional moderators, industry-level moderators, and organizational-level moderators as external moderating factors and intra-organizational moderators reflecting the degree of agency conflicts and managerial opportunism as the internal moderating mechanisms.

Hadani et al. (2015) propose that one of the contextual factors impacting the relationship between corporate political activity (CPA) and firm performance is CEO discretion, which refers to CEO's latitude of action. Corporate political activity refers to "any deliberate firm action intended to influence governmental policy or process." (Getz 1997). They show that CEO discretion moderates the relationship between CPA and firm

performance such that with higher levels of CEO discretion CPA is negatively associated with performance. However, this result is contingent on how performance is measured and which CEO discretion proxy is used to capture CEO discretion.

Issue saliency — that is widespread support of an issue among a large segment of constituents — is known to reduce the effectiveness of a firm’s political strategies (Bonardi and Keim 2005). Information and reputation cascades, which are driven by activist or nongovernmental organizations, are two important factors that cause issues to become salient. Information cascades happen “when an individual, having observed the actions of others, chooses to follow others’ behavior, regardless of personal information possessed, because he or she thinks the others are more knowledgeable” (Bonardi and Keim 2005, p. 556). Reputation cascades “apply to individuals who are, or desire to be, specialists on a subject (e.g., experts or reporters). These individuals may follow the behavior of other specialists, potentially going against their private preference, not as a result of ignorance but rather to earn professional and social approval or to avoid professional and social disapproval” (Bonardi and Keim 2005, p. 556). The authors propose strategies for the firms to prevent salient issues and explain how firms can respond to widely salient issues.

Market Actions as Means of Gaining Policy Advantage

Research on corporate political activity has mostly focused on firm’s nonmarket actions to gain policy advantage. In a recent article Funk and Hirschman (2017) argued that firms influence the nonmarket environment, not just through nonmarket actions, but by market actions. Examples of such market actions include mergers and acquisitions, and relocating production. They conceptualize two pathways of change that firms might

affect. Formal policy change — alteration of formal rules — and interpretive policy change — that is change in the effect of the formal rules without transforming the codified rules.

For a summary of the findings of all the papers reviewed on CPA see Table 1. In the next section, I will review papers on CPA framed with the resource-based view (RBV) of the firm.

Table 1. Summary of the Literature on CPA

Author(s)	Theoretical Perspective	Analysis level	IVs	DVs	CPA Measures	Method	Contributions
(Keim and Zeithaml 1986)	Public choice (assumes legislators as self-interested agents); Exchange model (constituents provide political support in return for the legislator taking position on key issues advocated by voters)	Firm and institutional level	NA	NA	NA	Conceptual	Develop an exchange model of the legislative process in which corporations influence legislative decisions. Develop typology of legislative decisions based on two contingency variables- issue salience and degree of consensus. Corporations with constituency programs have greater impact on legislative decisions compared with the firms without one.
(Shaffer 1995)	Reviews articles from different theoretical perspectives	Macro and micro	NA	NA	NA	Review	Review published research on CPA from different theoretical perspectives and levels of analysis. Discuss how public policies influence the landscape of firm's competitive environment and firm's responses to it through either political behavior or adaptation.
(Hillman and Hitt 1999b)	Resource dependence and market exchange theories; Resource-based view; institutional theory	Firm and institutional level	Dependence on government policy; product diversification; country's level of corporatism/pluralism; firm resources; firm credibility; firm size	Type of political strategy	NA	Conceptual	The authors develop a taxonomy of firm's political strategies— information, financial incentive, and constituency-building strategies.

Table 1. Summary of the Literature on CPA

Author(s)	Theoretical Perspective	Analysis level	IVs	DVs	CPA Measures	Method	Contributions
(Hillman et al. 1999)	Research on interlocking directories and cooptation (reducing uncertainty through developing relationships with entities that control or have access to resources critical to a firm)	Firm	Personal service events	Stock market return	Congressional election and cabinet appointment announcements	Event Study	Shows that firm's value is affected by one type of political strategy, personal service, that is having a firm's executive serving as a government official.
(Schuler et al. 2002)	Exchange view of politics to identify factors motivating firms to interact with legislators; use collective action theory, competitive niche theory, institutional theory, and resource dependency theory in hypotheses development.	Firm, market, and institutional	Industry concentration; industry unionization; industry having congressional caucus; industry political activists; firm size; free cash flow.	Likelihood of combining political tactics	PAC contributions to congressional candidates; the average number of staff members (i.e. inside lobbyists) in Washington office; The average number of outside lobbyists retained by the firm.	Alternating logistic regression model	The authors model drivers of politically active firms to combine political tactics to gain competitive advantage. Five determinants, on both firm and industry levels, are identified. They show that politically active firms are more likely to combine political tactics. Firm size, firm free cash flow, industry concentration, industry unionization, industry having a congressional caucus, and other political active firms in an industry drive firms to combine political tactics.
(Hillman et al. 2004)	Reviews articles from different theoretical perspectives	Firm and public policy	NA	NA	NA	Review	Reviews literature published post Shaffer's (1995) paper and provides an integrative model of antecedents and types and outcomes of CPA.
(Bonardi and Keim 2005)	Rational choice literature (information & reputation cascades); neoinstitutional literature	Firm, institutional, and public policy	NA	NA	NA	Conceptual	Investigate the process through which public policy issues become salient and the implication of widely salient issues for firm's use of political activities.

Table 1. Summary of the Literature on CPA

Author(s)	Theoretical Perspective	Analysis level	IVs	DVs	CPA Measures	Method	Contributions
(Bonardi et al. 2005)	Public policy process	Firm; institutional	NA	NA	NA	Conceptual	Argue that firm's decision to involve in political strategies is partly a driven from the attractiveness of the political market. They outline the conditions under which political markets become more or less attractive.
(Frynas et al. 2006)	First mover advantages (FMA); RBV; Resource dependence theory; reciprocity theory	MNEs	Government and political business environment factors (e.g., government interference in the industry and cooperation between host and home governments). Firm political and nonpolitical-related factors.	First mover advantages	NA	Case study	Draws on studies to show the underpinnings of using political resources to gain FMAs. Find that nonmarket strategies can successfully be used both first movers and late movers.
(Gregory and Richard 2008)	Institutional theory	MNEs	NA	NA	NA	Conceptual	Examines different approaches to studying the role of institutions in relation to international business research. Argues that the institutional analysis used in international business literature is thin and that a case-based approach to would better advance international business scholarship.
(Oliver and Holzinger 2008)	Dynamic capabilities	Firm	NA	NA	NA	Conceptual	Develop a typology of the political strategies that firms undertake to gain value in the political environment. Argue that the effectiveness of such strategies is a function of firm's dynamic capabilities that are based on knowledge and influence use.

Table 1. Summary of the Literature on CPA

Author(s)	Theoretical Perspective	Analysis level	IVs	DVs	CPA Measures	Method	Contributions
(Capron and Chatain 2008)	RBV; Industrial organization economics (IO); CPA; First mover advantage (FMA); Competitive dynamics (CD)	Firm & Institutional	Propensity to intervene in factor and political markets	Actions on competitors' resources	NA	Conceptual	Argue that firms can undertake actions in the factor and the political environments to influence resource environment to their advantage. The authors discuss firm and market factors that determine the propensity of firms to deploy strategies to weaken their competitor's resource positions, thereby enhancing theirs.
(Lux et al. 2011)	No overarching theory; different theoretical perspectives from economics, management, sociology, and political sciences	Institutional; Market; firm level	Institutional level drivers (incumbent politicians; ideology,...); Market level drivers (Industry concentration; international competition; economic opportunity), and firm level (firm size; corporate strategy)	Contributions; Lobbying; Economic performance	Total firm PAC contributions in \$; lobbying expenditures \$; combined total contributions and lobbying \$	Meta-analysis	Show that out of all the factors that were previously believed to influence CPA, only a few, namely firm size, political incumbency, and government regulation, influence CPA to a large extent. They also find that CPA is positively associated with firm performance.
(Lawton et al. 2013)	RBV; Institutional theory	Firm	NA	NA	NA	Review	Review CPA research progress especially since Hillman et al.'s review paper by identifyig three domains of research based on their conceptual underpinnings: resources and capabilities, institutional environment, and political environment.

Table 1. Summary of the Literature on CPA

Author(s)	Theoretical Perspective	Analysis level	IVs	DVs	CPA Measures	Method	Contributions
(Hadani and Schuler 2013)	Agency theory	Firm (n = 943)	Corporate political investments (CPI); Board political service	Firm performance (measured through market value and ROS)	Cumulative CPI (firm's total spending on PAC, soft money, and lobbying.	Mixed-effects model analysis	Show that CPA is negatively related to firm's financial performance. Also, having former public officials as a board member is associated with poorer market and accounting performance. The only exception is firms in regulated industries.
(Hadani et al. 2015)	Agency and stewardship perspectives	Firm (n = 650)	CPA; CEO discretion (measured by four indirect measure)	Firm performance (market value, firm gross profit margin, and ROA)	Aggregated PACs contributions and lobbying expenditures	Mixed effects model	Introduce CEO discretion as a boundary condition of the relationship between CPA and firm performance.
(Lux 2016)	Empirical research on CPA	Firm	Level of firm regulation; union activity; firm size; legal costs; legal costs; political resources and capabilities	Economic performance	Total PAC contributions; firm and employee contributions to political parties and organizations	Time series regression analysis	Show that political strategic fit, which is the degree to which firm's actual political activities deviate from desired activity levels, operates as a dichotomous decision (engaging in CPA or freeriding) as opposed to an incremental one. Examining U.S. coal industry firms, the author finds that CPA is positively related to economic performance versus freeriding, which is negatively related to economic performance.
(Schuler et al. 2017)	Certification literature (Association with high-profile others signals important firm attributes to third parties)	Firm	Prior financial performance; Private ownership; Percentage of top managers with political connection; Level of institutional development	Cumulative abnormal return (CAR)	Number of official visits	Event Study	Argues that firms hosting visits from high-profile government officials is an emergent form of CPA that influences shareholders' valuation of the firm by conveying important information about the firm to the shareholders. It signals potential future government support and boosts firm's legitimacy and reputation.

Table 1. Summary of the Literature on CPA

Author(s)	Theoretical Perspective	Analysis level	IVs	DVs	CPA Measures	Method	Contributions
(Funk and Hirschman 2017)	Research on legal endogeneity	Firm	Firms market actions (e.g., product innovation; mergers & acquisitions)	Policy change	NA	Conceptual	Theorizes that firms may use market actions to influence public policy arena.
(Ridge et al. 2017)	Research on political connectedness and government entities targeted by lobbying	Firm	Lobbying breadth; political connectedness	Government contracts; firm performance ; market value	Lobbying breadth (the number of entities and legislative acts targeted); Political connectedness (measured by the number of revolving door lobbyists employed).	Random effects	Show that aggregate lobbying expenditures do not necessarily lead to positive firm performance. Specifically, effective lobbying strategies are a function of the breadth of government entities targeted and the degree of political connectedness.

CPA and Resource-Based View of the Firm (RBV)

One of the most used theoretical lenses in the research of CPA is the Resource-based view (RBV) of the firm. Given the salience of these papers in advancing our understanding of CPA, I reviewed and summarized these papers in Table 2.

Capron and Chatain (2008) argue that the relationship between a firm's resources and competitive advantage can be better explained by considering the firm's actions against its competitors' resources in factor markets as well as political markets. Factor markets refer to the markets "where resources that firms need to compete in their product markets are exchanged" (Capron and Chatain 2008, p. 100). The political markets refers to "an arena in which demanders of policies (e.g., firms and consumers) interact with providers of policies (e.g., politicians and bureaucrats) to shape policies that favor the demanders' interests" (Capron and Chatain 2008, p. 100). Firms attack competitors' resource positions by targeting their resource quantity and/or effectiveness using actions such as preemption of scarce resource (e.g., employee poaching) in factor markets and preemptive acquisitions of regulated resources (e.g., acquiring taxi airport slots) in political markets. In addition, the authors identify market conditions and the firm characteristics that are associated with a firm's propensity to act on its competitor's resources in factor markets. For example, the market conditions of propensity of the firm to take up actions in the factor market include discontinuity (vs. matured and well-structured markets) in resource environment, number of competitors, and existence of property-based resources. For a summary of the CPA conceptual research framed with the resource based view see Table 2.

Table 2. Summary of the CPA Literature Framed with RBV

Author(s)	Paper	IV(s)	Mediator(s)	Moderator(s)	DV(s)	Contributions
McWilliams et al. (2002)	Conceptual	Political strategies	Blocking the use of substitute resources for the rivals	NA	Rival costs; sustainable competitive advantage	Propose that raising rival costs strategy can lead to sustainable competitive advantage for the focal firm by blocking the use of substitute resources for the rivals hence securing non-substitutability condition for the firm. The authors argue that the condition of resource non-substitutability is the key to understanding the effect of political strategies—specifically raising rivals’ costs—on sustained competitive advantage for the focal firm.
Dahan (2005)	Conceptual	NA	NA	NA	NA	Critics the conceptualizations of political resources and proposes a new typology based on three characteristics: internal versus external resources, firm-level vs collective-level resources, and ad hoc vs semi-permanent resources.
Oliver and Holzinger (2008)	Conceptual	Motives of political management (value creation and value maintenance)	Political management strategies (reactive, anticipatory, defensive, and proactive)	Dynamic capabilities, political dynamism	Performance, competitive advantage	Propose a typology of political management strategies named reactive, anticipatory, defensive, and proactive. The authors theorize that the success of these political strategies depends on the firm’s internally- and externally-oriented dynamic capabilities and the political dynamism of the environment.

Table 2. Summary of the CPA Literature Framed with RBV

Author(s)	Paper	IV(s)	Mediator(s)	Moderator(s)	DV(s)	Contributions
Capron and Chatain (2008)	Conceptual	In factor markets: Market characteristics (market formation, number of competitors, existence of property-based resources)- firm characteristics (resource heterogeneity, scanning capability, competitor-oriented culture). In political markets: Market characteristics (institutional formation, number of politically active firms, degree of political influence of consumer groups)- firm characteristics (resource and lobbying capabilities heterogeneities)	A firm's propensity to target competitors' resources in factor markets and political markets	Competitive impact of the focal firm's actions; inimitability of focal firm's actions; competitors' retaliation capabilities; Competitors' ability to switch to substitutes.	Focal firm's scarcity rents	Argue that the relationship between firm's resources and competitive advantage can be better understood by considering the firms' actions against competitor's resources in both factor markets and political markets. The authors identify the market and firm characteristics that are associated with a firm's propensity to take up actions against competitors' resources in factor markets and political markets.

Table 2. Summary of the CPA Literature Framed with RBV

Author(s)	Paper	IV(s)	Mediator(s)	Moderator(s)	DV(s)	Contributions
Bonardi (2011)	Conceptual	Political resources possessing the following characteristics (not an exhaustive): Based on some of firm's critical economic assets, not imposing high integration costs, address the needs of policy suppliers, generate credible commitments, cannot be made ineffective by competitors' political strategies	NA	NA	Firm's success in political strategy	Argues that the straight adoption of the RBV in CPA literature is flawed. The author argues that the traditional criteria of rare, inimitable, and non-substitutable are not the necessary conditions for political resources considering that political arena is different from the economic arena.
Rehbein and Schuler (2015)	Conceptual	Corporate community programs	Firm resources (human capital, organizational capital, geographic)	Intensity of corporate community programs; political market attractiveness	Effectiveness of political strategies (information and constituency-building)	Examine the relationship between CSR (conceptualized as corporate community programs) and CPA (conceptualized as information and constituency-building political strategies). The authors propose that the effect of CSR on CPA is mediated by development of firm-level resources (i.e. human capital, organizational capital, and geographic resources).

In the following section, I will review the literature on the second stream of non-market strategy research— CSR.

Corporate Social Responsibility (CSR)

Strategic CSR is an important stream of nonmarket strategy (Mellahi et al. 2016). Despite calls for integration with the CPA stream (Aguinis and Glavas 2012; Baron 2001; Frynas and Stephens 2015), the strategic CSR literature has mostly evolved independently. Strategic CSR refers to a firm’s “responsible” activities that contribute to its economic performance and help secure a competitive advantage for the firm regardless of its motive (McWilliams and Siegel 2011; McWilliams et al. 2006). In terms of theory, researchers have dominantly drawn upon stakeholder theory to study CSR (Mellahi et al. 2016). With regard to CSR operationalization, researchers across disciplines have predominantly drawn upon the Kinder, Lydenber, and Domini (KLD) database (e.g., Chin et al. 2013; Hubbard 2017; Kang et al. 2016; Lenz et al. 2017; Mishra and Modi 2016). KLD provides annual data on firms’ performance in relation to seven social issue aspects: community, corporate governance, diversity, employee relations, environment, human rights, and product quality and safety.

In two conceptual papers published in HBR (2002; Porter and Kramer 2006), Porter and Kramer argue that unfocused corporate philanthropy activities do not help the corporation’s long term competitive positioning. Corporations can strategically use philanthropy by adopting a competitive-context approach to converge economic performance and social benefit. In one article, Porter and Kramer (2002) discuss the elements of the competitive context and how corporations can use them to influence the competitive context and secure a competitive advantage. According to the authors, “a

company's competitive context consists of four interrelated elements of the local business environment that shape potential productivity" (Porter and Kramer 2002, p. 8). The four elements of competitive context include factor conditions (available inputs of production); demand conditions; the context for strategy and rivalry; and related supporting industries. The authors' argument is that "philanthropy can often be the most cost-effective way—and sometimes the only way—to improve competitive context. It enables companies to leverage not only their own resources but also the existing efforts and infrastructure of nonprofits and other institutions." (Porter and Kramer 2002, p. 9)

In the next article, Porter and Kramer (2006) outline a framework that helps distinguish social issues based on the effect that firm's actions have on society. The three categories of issues include—the generic social issues, value chain social impacts, and social issues related to competitive environment. Generic social issues refer to the "social issues that are not significantly affected by a company's operations nor materially affect its long-term competitiveness" (p. 85). Value chain social impacts are "social issues that are significantly affected by a company's activities in the ordinary course of business" (p. 85). Finally, social issues related to the competitive environment are "social issues in the external environment that significantly affect the underlying drivers of a company's competitiveness in the locations where it operates" (p. 85). The framework suggests which social issues to address and how to effectively do so to gain a competitive advantage through CSR.

McWilliams and Siegel (2011) synthesize resource-based theory (RBT), economic models, and pricing models to provide a framework to ascertain the strategic value of CSR. This framework helps firms to quantify the value of firm's CSR activities.

The CSR literature is replete with studies focused on the question “is it possible to do well while doing good?” Several researchers have investigated the relationship between CSR and firm financial performance (Barnett 2007; Jia and Zhang 2014; Kang et al. 2016; Mishra and Modi 2016). Several scholars have attempted to contribute to the scholarship on CSR by addressing the debate regarding the financial outcomes of CSR for the firm (Barnett 2007; Kang et al. 2016; Mishra and Modi 2016). Divergent effects have been reported—with some studies reporting a positive, some negative, and a few non-significant relationship between CSR and financial returns.

To help explain the divergent findings of the relationship between CSR and financial performance, Barnett (2007) in a conceptual paper, draws on stakeholder theory—with the tenant that financial benefits accrue to firms that attend to their stakeholders’ concerns. The author introduces a new construct named stakeholder influence capacity—that is the ability of a firm to use CSR to improve stakeholder relationships—to help build a business case for CSR. He develops a set of propositions that explain the contingencies on the relationship between investment in CSR and financial returns.

Reviewing the literature on CSR, Kang et al. (2016) identify four mechanisms related to the relationship between CSR and firm performance. They call these four mechanisms: slack resources, good management, penance, and insurance mechanisms. The slack resources mechanism is based on the assumption that firms engage in CSR because they have slack resources due to their prosperous financial performance. The good management mechanism is based on the explanation that good management subsumes CSR and hence firm’s superior financial performance. The penance mechanism

posits that firms engage in CSR to attenuate the adverse effect of the past corporate social irresponsibility. The insurance mechanism explains that CSR serves as a backup for firms if and when a firm gets exposed for corporate social irresponsibility (CSI). The authors test these four mechanisms simultaneously in their empirical model and find that firms financially benefit from CSR through the good management and penance mechanisms and not the slack resources and insurance mechanisms. However, the authors also find that the penance mechanism does not offset the adverse performance effects of CSI. The authors conclude that CSR leads to financial performance and not the other way around.

Mishra and Modi (2016) examined the effect of CSR on shareholder wealth. They posit that marketing capabilities interact with different types of CSR (based on KLD dimensions) to influence shareholder wealth. They draw on stakeholder theory, RBV, dynamic capabilities theory, and agency theory to theorize the effect of CSR on shareholder wealth. They use the broader view and conceptualization of marketing capabilities defining it as an “overarching firm ability to more efficiently convert available marketing resources into outputs, relative to the competition”(Mishra and Modi 2016, p. 31). The authors show that CSR activities’ effect on stock returns and idiosyncratic risk become significant only with the presence of marketing capabilities. The authors operationalize marketing capability using stochastic frontier analysis (SFA) “by measuring how close its realized sales are to the sales frontier given a certain level of input resources “ (Mishra and Modi 2016, p. 32). Idiosyncratic risk is measured by the standard deviation of the residual estimated for each firm i in year t . They also show that marketing capabilities interact only with certain types of CSR efforts (based on KLD categories) including environment, products, diversity, corporate governance, and

employees' elements to influence stock returns and idiosyncratic risk. The authors show a positive interaction effect of these CSR elements on stock returns and a negative interaction effect on idiosyncratic risk. In addition, they find that marketing capabilities have no interaction effect with firms' community-based efforts.

Several scholars have examined the drivers of CEO engagement in CSR and its outcomes for the CEO. For example, Chin et al. (2013) draw upon echelons theory—which posits that executives incorporate their personal beliefs and values in their strategic decisions—to how CEO's political ideologies influence firm's intensity of CSR. In a time-series analysis, the authors show that CEO's political ideology influences the intensity of CSR as measured through KLD ratings. They also find that CEO's ideologies influence their firm's PAC contributions. In another study, Hubbard (2017) examines the personal consequences of CSR investments for CEOs. Specifically, the author investigates the interaction effect of stock returns and CSR on CEO dismissal. The author finds that when financial performance is good, prior investments in CSR reduce the likelihood of the CEO getting fired. When financial performance is poor, prior CSR investments, increase the likelihood of the CEO' getting fired.

Researchers have examined the outcomes of CSR, corporate social irresponsibility (CSI), and their interaction effects. Many researchers differentiate CSR from its negative counterpart CSI (e.g., Kölbel 2017). CSI refers to the “set of corporate actions that negatively affects an identifiable social stakeholder's legitimate claims” (Vanessa et al. 2006, p. 852). Lenz et al. (2017, p. 677) define it as “firms actions that hurt the well-being of stakeholders or society at large”.

Kölbel (2017) draws on stakeholder theory to investigate the effect of CSI coverage and its severity on firm's financial risk. They measure CSI coverage based on REpRisk data that identifies CSI-related news. Using a time series analysis, the author shows that CSI coverage in the news media outlets increases the firm's financial risk measured by credit risk, similar to previous research. As Kölbel (2017) notes: "Credit risk reflects the compensation required by investors to bear the risk that a firm's debt repayments may not be made as promised"². Moreover, the reach and severity of CSI coverage interact to amplify this relationship. In another study, Lenz et al. (2017) examine the effect of CSR and CSI occurrence on firm value. They show that in the presence of CSI, the positive firm outcomes of CSR will be attenuated. Moreover, they find that CSI context plays an important role in determining firm outcomes. Specifically, they conceptually distinguish between two CSR approaches—same domain CSR and other domain CSR—and show that depending on firm's choice of CSR approach, the outcomes differ.

For a summary of the papers reviewed on CSR, see Table 3. In the next section, I will review the papers that have attempted to integrate the two nonmarket strategy components— CSR and CPA.

² Data on credit risk is obtained through credit default swaps (CDS).

Table 3. Summary of CSR Literature

Author(s)	Theory	Analysis level	IVs	DVs	CSR Measure	Method	Contributions
(Porter and Kramer 2002)	NA	Firm	NA	NA	NA	Conceptual (HBR article)	Argue that unfocused corporate philanthropy activities do not help corporation's long-term competitive positioning. Corporations can strategically use philanthropy by adopting a competitive-context approach to converge economic performance and social benefit. The authors discuss elements of the competitive context and how corporations can use them to influence the competitive context to secure a competitive advantage.
(Porter and Kramer 2006)	NA	Firm	NA	NA	NA	Conceptual (HBR article)	Outline a framework that helps distinguish social issues based on the effect that firms' actions have on society. The three categories of issues include generic social issues, value chain social impacts, and social issues relating the competitive environment. Moreover, the framework suggests which social issues to address and how to effectively do so to gain a competitive advantage through CSR.

Table 3. Summary of CSR Literature

Author(s)	Theory	Analysis level	IVs	DVs	CSR Measure	Method	Contributions
(Barnett 2007)	Stakeholder theory (financial benefits accrue to firms that attend to their stakeholders' concerns)	Firm	CSR	Stakeholder relations; stakeholder influence capacity; social change, financial performance.	NA	Conceptual	Introduces a new construct, stakeholder influence capacity— that is the ability of a firm to use CSR to improve stakeholder relationships—to help build a business case for CSR. This helps explain the divergent findings of the relationship between CSR and financial performance.
(McWilliams and Siegel 2011)	RBT; economic models; pricing models	Firm	NA	NA	NA	Conceptual	Synthesize RBT, economic models, and pricing models to provide a framework to ascertain the strategic value of CSR.
(Chin et al. 2013)	Echelons theory (executives incorporate their personal beliefs and values in their strategic decisions)	Firm (n=249)	CEO political liberalism	CSR	KLD ratings to measure annual CSR profile	Time series analysis	Show that CEO's political ideologies influence the intensity of CSR. Moreover, CEO's political ideology influences their firm's PAC contributions.
(Frynas and Stephens 2015)	Legitimacy theory; resource-based view; Habermasian political theory; institutional theory; stakeholder theory	Peer-reviewed academic articles and journals	NA	NA	NA	Review	Review the theories within political CSR literature and suggest future theory development directions. Political CSR refers to activities that have an impact in the political arena. They find that institutional and stakeholder theories prevail political CSR scholarship.

Table 3. Summary of CSR Literature

Author(s)	Theory	Analysis level	IVs	DVs	CSR Measure	Method	Contributions
(Kang et al. 2016)	Build their model based on economic theory.	Firm	CSR, CSI	Financial performance measured by Tobin's q	KLD	Structural panel vector auto regression specification	Identify four mechanisms, explaining the relationship between CSR and firm financial performance, suggested in the literature. They test these four mechanisms simultaneously to examine capture the simultaneous effect among CSR, CSI, and financial performance. The authors find that firms benefit from CSR financially because they engage in it and not the other way around.
(Mishra and Modi 2016)	Stakeholder theory, RBV, Dynamic capabilities theory, Agency theory.	Firm	Relative marketing capability; CSR	Stock returns; idiosyncratic risk	KLD	Empirical modeling	Investigate the effect of CSR on shareholder wealth. The authors posit that marketing capabilities interact with CSR types (based on KLD) to influence stock returns and idiosyncratic risk.
(Hubbard 2017)	CSR literature	Firm	The interaction of stock returns and CSR	CEO dismissal	Rankings of 5 dimensions (employee, community, diversity, environment, and product) from KLD data	Random-effects model clustered by firm	Examined personal consequences of CSR investments for CEOs. When financial performance is good, prior investments in CSR reduce the likelihood of the CEO getting fired. When financial performance is poor, prior CSR investments, increase the likelihood of the CEO getting fired.
(Kölbel 2017)	Stakeholder theory	Firm (n=539)	CSI coverage; severity of CSI coverage;	Financial risk	CSI coverage measure based on RepRisk data that identifies CSI related news.	Time series method using two-way fixed effects	Show that CSI coverage in the news media outlets has risk generating effects for the firm that will increase firm's financial risk. Moreover, the reach and severity of CSI coverage interact to amplify this relationship.

Table 3. Summary of CSR Literature

Author(s)	Theory	Analysis level	IVs	DVs	CSR Measure	Method	Contributions
(Lenz et al. 2017)	Stakeholder theory	Firm	CSR and CSI occurrence	Firm Value	Construct CSR variable from KLD through a scaling procedure	Linear mixed modeling	Show that in the presence of CSI, the positive firm outcomes of CSR will be attenuated. Moreover, they find that CSI context plays an important role in determining firm outcomes. Specifically, they conceptually distinguish between two CSR approaches —same domain CSR and other domain CSR— and show that depending on firm’s choice of CSR approach, the outcomes differ.

Integration of the Literature Streams of Non-Market Strategy

As mentioned earlier, the CPA and CSR streams of research on nonmarket strategy have evolved independent of each other. Some researchers have moved the scholarship on nonmarket strategy forward by synthesizing and bringing these disparate streams of research under an overarching framework (Doh et al. 2012; Dorobantu et al. 2017; Mellahi et al. 2016). For a summary, see Table 4.

For example, Mellahi et al. (2016) proposes an integrative framework that includes the key drivers, mediating, and moderating variables involved in the link between nonmarket strategy and corporate performance. The authors integrate and synthesize two streams of nonmarket strategy, CPA and CSR, in an attempt to integrate multi-theory perspectives used in the study of these two streams. In this framework, external drivers of nonmarket strategy are obtaining legitimacy (institutional theory), obtaining the support of salient stakeholders (stakeholder theory), and ensuring the flow of critical resources (resource dependence theory). The internal drivers are developing valuable nonmarket resources (resource-based view) and satisfying managers' private needs (agency theory).

Dorobantu et al. (2017), using new institutional economic perspective, develop a typology of nonmarket strategies by connecting different streams of nonmarket strategy research. The six types include internalization, partnership, proactive, collective, influence, and coalition. This typology is grounded in the argument that firms undertake nonmarket strategies to minimize the market transaction costs of appropriating and protecting value. These institutional costs arise from the attributes of the environment within which the firm operates. In response to high institutional costs, firms formulate

nonmarket strategies based on two key decisions: strategic goal (adapt, augment, and transform the institutional environment) and level of participation (act as independent firm vs. collaborating with other firms).

In the following section, I will review the literature on private politics, which is when interest and activist groups influence economic activity without relying on public officeholders or institutions. Private politics influences a firm's nonmarket strategy (Baron 2001). Given its relevance, I will review the literature on private politics to build a base knowledge of its interplay with nonmarket strategy.

Table 4. Studies Integrating Nonmarket Strategy Research

Author(s)	Theoretical perspective	Main Proposition of the theory related to nonmarket strategy	Contributions
(Baron 1995)	Porter's value chain	Porter's value chain	Develops a strategy system that relates to nonmarket environment and helps deal with nonmarket environment issues. Adopting the analogy of a value chain, the author uses the notion of rent chain to delineate how firms can address nonmarket issues. Baron's strategy system involves formulation of concerted strategy integrating market and nonmarket components.
(Doh et al. 2012)	Institutional and strategic perspective to nonmarket strategy	The institutional boundaries of the firm interact with the firm's nonmarket strategy to affect outcomes such as superior profits. Strategy perspective: "the role and impact of institutions on strategy vary depending on home or host country, industry, strategic group, and firm specificity" (p. 28)	Review the literature and argue that integration of institutional and strategic perspectives on nonmarket strategy provides a fruitful path in the evolution of the nonmarket strategy scholarship.
(Mellahi et al. 2016)	Integration of institutional theory, stakeholder theory, RDT, RBV, and agency theory.	Institutional theory, stakeholder theory, RDT, and RBV are used to theorize the mediators of the relationship between nonmarket strategy and firm performance. Agency theory is mostly drawn on to theorize the moderators.	Synthesize and integrate two streams of nonmarket strategy literature, CPA and CSR, to better explain the effect of nonmarket strategy on firm performance.

Table 4. Studies Integrating Nonmarket Strategy Research

Author(s)	Theoretical perspective	Main Proposition of the theory related to nonmarket strategy	Contributions
(Dorobantu et al. 2017)	New institutional economics	Grounded in the argument that firms undertake nonmarket strategies to minimize the market transaction costs of appropriating and protecting value. Institutional costs arise from the attributes of the environment within which the firm operates. In response to high institutional costs firms formulate nonmarket strategies based on two key decisions: strategic goal (adapt, augment, and transform the institutional environment) and level of participation (act as independent firm vs. collaborating with other firms).	The authors develop a typology of nonmarket strategies by connecting different streams of nonmarket strategy research. The six types include internalization, partnership, proactive, collective, influence, and coalition.

Private Politics

As reviewed earlier, firms utilize nonmarket strategies to influence the public policy arena. However, firms' attempts to gain favorable public policy decisions face challenges from interest and activist groups (Bonardi and Keim 2005). Baron (2001) defines the term "activist" as "a player that seeks to change the practices of a firm. Activists can include activist organizations, interest groups, unions, watchdog organizations, and their nonmarket allies and coalition partners" (p. 12).

Scholars distinguish between public and private politics (Baron 2003; Baron 2001). Both are mechanisms that affect economic activity. In public politics, interest and activist groups, such as labor unions and environmental groups, influence public officeholders to gain advantage. Through private politics, interest and activist groups affect economic activity without relying on public officeholders or institutions. Private politics influences a firm's nonmarket strategy (Baron 2001).

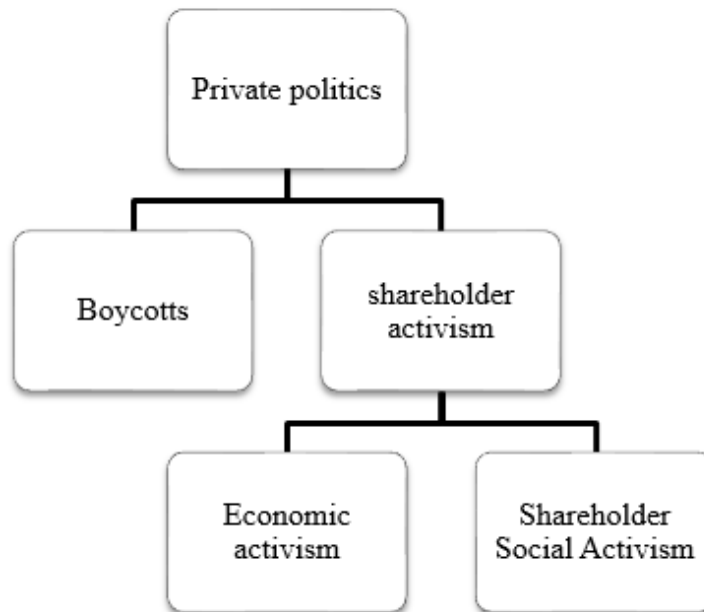
Boycott and shareholder activism are two important tools of private politics (Reid and Toffel 2009). Boycott is a tactic used by the activist to force corporations to change its practices. Shareholder activism refers to the "use of ownership position to actively influence company policy and practice" (Sjöström 2008, p. 142). These two concepts are further elaborated in the following section.

Through private politics, activist groups demand redistribution of income, wealth, and property from the shareholders to its own members, potential recipients whom they advocate, or a cause with which they are concerned (Baron 2003). Private politics has a direct and strategic effect on firm's integrated market and nonmarket strategy through the change of firm's competitive position in an industry (Baron 2001). The theory of private

politics (Baron 2001) has implications for firm's integrated strategy, including market and nonmarket components, both in the absence of competition and in a competitive landscape. When a firm's competitive advantage is not affected, using a nonmarket strategy (i.e. contesting the issue) can counter the threat of an activist, reduce the likelihood of a successful boycott, and increase firm's profit prospects. When a firm's competitive advantage is targeted, deploying nonmarket strategy can have an even greater return since it can reduce the adverse effect of the activist's actions on competitive advantage relative to the competitors (Baron 2001).

In my review of the literature on private politics, I have identified two important streams of research: boycotts and shareholder activism. In the next section, I will define these two concepts and review published research of each stream in detail. Figure 3 illustrates the schema of my literature review on private politics.

Figure 3. Private Politics Literature Review Schema



Boycotts

As mentioned earlier, boycott is an important tool of private politics (Baron 2003; Reid and Toffel 2009). Traditionally, boycott has been viewed as a form of organized protest (Pruitt and Friedman 1986a). King (2008) defines boycott as “a widely used movement tactic for activists trying to persuade corporate targets to adopt some change in practice or policy” (p. 398). The term “boycott” has also been used in the literature to refer to an activist’s campaign directed at a firm with the aim of changing the firm’s practices (Baron 2001). Activist groups use boycotts because boycotts have proven to be effective in influencing corporations. However, the effectiveness of boycotts varies.

Several researchers have investigated the effect of boycotts on stock market prices (Davidson et al. 1995; Pruitt and Friedman 1986a; Pruitt et al. 1988). For example, Pruitt and Friedman (1986a) examined the effect of union boycotts on stock market prices. The authors find that union boycotts initially have a significant negative effect on stock market prices. However, this effect is not long lasting and disappears in about two trading weeks.

Pruitt et al. (1988) investigate the effect of consumer boycotts on stock market prices. They found that consumer boycott announcements have a significantly negative effect on stock market prices as well as the firm’s overall market value. Davidson et al. (1995) examined the effect of boycotts and stock divestiture announcements on shareholder’s reactions. The authors show that boycotts are negatively associated with stock market prices. Whereas divestiture announcements have no significant effect on market reactions.

Several researchers have attempted to examine corporate responses to boycotts (Bonardi and Keim 2005; King 2008; McDonnell et al. 2015; McDonnell and King 2013). For example, King (2008) drawing on the theory of social movement outcomes and the political mediation model, examines the determinants of firm's concessions to boycotter's demand. They show that both the characteristics of the firms targeted and the attributes of the activist movements predict corporate concessions. Specifically, social movements receiving significant media attention are more likely to successfully exert influence on the targeted firm. Firms having decline in sales and reputation are more likely to concede to boycotter's demands.

McDonnell and King (2013) draw on impression management and social movement theories to explore firm's strategic reactions to restore their reputation after an attack by social movement boycotters. Firms' pre-threat reputation, the magnitude of the threat captured by the amount of media attention, and the firm's pre-threat impression management repertoire influence the firm's post-threat impression management in the form of prosocial claims. Similarly, McDonnell et al. (2015) Show that stakeholder activism (e.g., boycotting, shareholder resolutions, etc.) drives firms to make structural reforms to mitigate the adverse effects by adopting social management devices (i.e. annual CSR reports and CSR committees). This will in turn make the firms more receptive of being target of activist challenges in the future. Moreover, firm's historical performance in terms of sales and reputation, moderate the relationship between activist movements and firm's giving in to their demands.

For a summary of the literature on private politics and boycotts see Table 5.

Table 5. Summary of Literature on Private Politics and Boycotts

Author(s)	Theoretical perspective	Level of analysis	IVs	DVs	Method	Contributions
(Pruitt and Friedman 1986b)	Union-sponsored boycott literature	Firm and market	Union boycott announcements	Abnormal returns	Event study	Investigate the effect of union boycotts on stock market prices. The authors find that union boycotts initially have a significant negative effect on stock market prices. However, this effect is not long lasting and disappears in about two ensuing trading weeks.
(Pruitt et al. 1988)	Consumer boycott literature	Firm and market	Consumer boycott announcements	Abnormal returns	Event study	Investigated the effect of consumer boycotts on stock market prices. They found that consumer boycott announcements have a significantly negative effect on stock market prices as well as firm's overall market value.
(Davidson et al. 1995)	Agency theory	Firm	Boycott and divestiture announcements	Common stock returns	Event study	Examine the effect of boycotts and stock divestiture announcements on shareholder's reactions. Results show that boycotts are negatively associated with stock market prices, whereas divestiture announcements have no significant effect on market reactions.

Table 5. Summary of Literature on Private Politics and Boycotts

Author(s)	Theoretical perspective	Level of analysis	IVs	DVs	Method	Contributions
(Baron 2001)	Theory of private politics	Firm and market levels	Private politics; CSR motives	Redistribution of income, wealth, and property from the shareholders to interest groups' own members	Quantitative modeling	Develops a theory of private politics in which interest and activist groups attempt to alter firm's production practices to favor the cause they support without relying on public institutions. Private politics has implications for the firm's integrated strategy since it changes firm's market's position in the competitive landscape. The author also addresses disparate CSR outcomes by distinguishing among firm's motives—maximizing profit, altruism, and in response to threats by activist groups.
(Baron 2003)	Theory of private politics	Firm and market levels	NA	NA	Conceptual	Introduces an agenda for furthering research in the area of private politics by discussing four models of private politics: competition to gain support from the public, consumer decisions regarding a boycott, terms of resolution of a boycott, and equilibrium private ordering aimed at managing the ongoing conflicting interests of activist groups and firms.
(King 2008)	Theory of social movement outcomes; The political mediation model	Firm	Level of media attention; Decline in sales and reputation	Corporate concession to boycotters' demand	Longitudinal analysis	Examines the determinants of firm's concessions to boycotters' demand. They show that both the characteristics of the firms targeted, and the attributes of the activist movements predict corporate concessions. Specifically, social movements receiving significant media attention are more likely to successfully exert influence on the targeted firm.

Table 5. Summary of Literature on Private Politics and Boycotts

Author(s)	Theoretical perspective	Level of analysis	IVs	DVs	Method	Contributions
(McDonnell and King 2013)	Impression management; Social movement theory	Firm and market	Reputational threat of boycotts; firm's reputation; shareholder resolutions targeting others in the industry; Regulatory threat	Firm's prosocial claims post boycott	Longitudinal analysis	Explores firm's strategic reactions to restore their reputation after an attack by social movement boycotters. Firms' pre threat reputation, the magnitude of the threat captured by the amount of media attention and firm's pre threat impression management repertoire influence firm's post threat impression management in the form of prosocial claims.
(McDonnell et al. 2015)	Social movement theory	Firm (n=300)	Stakeholder activism	Social management devices (i.e. CSR report and CSR committee); Firm's receptivity to activist challenges	Longitudinal analysis	Show that stakeholder activism (e.g., boycotting, shareholder resolutions, etc.) drives firms to make structural reforms to mitigate the adverse effects by adopting social management devices (i.e. annual CSR reports and CSR committees). This will in turn make the firms more receptive of being target of activist challenges in the future. Moreover, firm's historical performance in terms of sales and reputation, moderate the relationship between activist movements and the firm's giving in to their demands.

Shareholder Activism

Shareholder activism, also known as investor activism (David et al. 2007), is another popular tool of private politics used by “shareholder activists” to directly target companies (Baron and Diermeier 2007b). Shareholder activism has been defined as the “use of ownership position to actively influence company policy and practice” (Sjöström 2008, p. 142). In finance literature, shareholder activist has been referred to as “entrepreneurial activist”. Klein and Zur (2009) define the entrepreneurial activist as “an investor who buys a large stake in a publicly held corporation with the intention to bring about change and thereby realize a profit on the investment” (p. 187).

Shareholder activists exert influence on firms using different methods such as direct communication with management (Smith 1996), submitting shareholder proposals (Gillan and Starks 2000), and shareholder amendments (Smith 1996). Filing formal shareholder resolutions to be voted on at shareholders’ annual meetings is the most commonly studied form of shareholder activism in the literature (Sjöström 2008).

The history of shareholder activism in the U.S. dates back to 1942, when shareholders were given permission by Securities and Exchange Commission (SEC) to propose resolutions to be voted on by all the shareholders in the shareholder’s annual meetings. Initially, mostly individual investors filed formal shareholder resolutions and their resolutions were mainly ignored. In the mid 80s, institutional investors, such as pension funds, entered the shareholder activism scene and played a more influential role (Gillan and Starks 2000; Gillan and Starks 2007; Sjöström 2008).

My literature review reveals that shareholder activism has been mostly operationalized and measured by the number of shareholder proposals (e.g., Goranova et

al. 2017). From the activist's perspective, the effectiveness of shareholder activism has been measured through the voting outcomes of the proposed resolution (e.g., Gillan and Starks 2000; Klein and Zur 2009).

Several researchers have investigated antecedents of shareholder activism (Goranova et al. 2017; Goranova and Ryan 2014a; Ryan and Schneider 2002). For example, Ryan and Schneider (2002) provide an integrative model of twelve variables influencing shareholders activists' propensity to engage in activism. Fund size, investment time span, focus on social or financial agenda, whether a fund has business relationships with a firm beyond their investor role, size of shares owned by the fund, size of the activists' portfolio invested in a firm, proportion invested in equity, legal restraints, whether the fund is defined-benefit or defined-contribution, investing style (active vs. passive investing), internal or external management, and finally internal vs. external proxy voting rights are the theorized factors in Ryan and Schneider's (2002) model to determine the level of shareholder activism.

Goranova et al. (2017) draw upon agency theory to examine the debated effect of corporate governance on shareholder activism by developing a model with two components: 1) shareholder's propensity to target a firm and 2) firm's propensity to negotiate demands privately and settle them. In this model, the authors account for shareholder's heterogeneity in interests. Firm's governance is measured through seven independent variables—CEO compensation, CEO ownership, board independence, CEO duality, board size, institutional ownership, and the largest institutional owner. The authors find that corporate governance relationship with shareholder activism is complex

and varies across shareholder number of proposals and success/failure of private negotiations.

Scholars have examined the relationship between shareholder activism and various organizational practices and outcomes, such as corporate social performance (David et al. 2007; Johnson and Greening 1999), stock market reactions (Gillan and Starks 2000; Klein and Zur 2009), and firm's adoption of public disclosures (Reid and Toffel 2009).

For example, Johnson and Greening (1999), grounding their theorization in institutional and signaling theories, show that institutional holdings are associated with corporate social performance. The authors examine the effect of two main types of institutional investors- pension funds and investment management funds- and governance-related variables on two different dimensions of corporate social performance (CSP)— people and product quality dimensions. They found that pension fund equity holding is positively associated with both dimensions of CSP. Unlike investment management funds that showed no direct relationship with CSP. Top management equity holding was positively associated with product quality dimension of CSP and unrelated to people dimension. Outside management representation was also positively associated with both dimensions of CSP.

David et al. (2007), drawing on shareholder salience theory show that shareholder proposal activism is negatively related to corporate social performance (CSP). They suggest that rather than having a “disciplining” function and increasing subsequent CSP, shareholder proposal activism, serves a “signaling” function, driving managers to divert resources away from CSP and utilizing them toward maintaining their discretion. Gillan

and Starks (2000) examine the effectiveness of shareholder activism through shareholder proposals by analyzing voting outcomes and market reactions. The authors show that voting outcomes are influenced by the proposal type (i.e. antitakeover-related issues, voting issues, board-related issues, and other) and sponsor identity (i.e. institutional investors, investment groups, and individual and religious organizations). Specifically, proposals sponsored by individual investors are associated with less number of votes and a small positive effect on stock market, whereas proposals put forth by coordinated obtain more votes and are associated with a small negative effect on stock market prices.

Klein and Zur (2009) Examine the determinants and outcomes of aggressive or confrontational campaigns of two shareholder activist groups: hedge fund activists and other investor activists including individual activists, asset management groups, venture capital firms, and private equity funds. The authors find similarities and differences between the two groups. In terms of similarity, activist groups' actions drive a significantly positive market reaction for the targeted firm and they secure a success rate in achieving their initial goals. The two groups are different in that hedge funds target cash flow issues within the firms whereas the other group address the targeted firm's investment strategies.

The summary of literature on shareholder activism is shown in Table 6. In the following section, I will review literature on two major streams of research in shareholder activism.

Table 6. Summary of the Literature on Shareholder Activism

Author(s)	Theory	Level of analysis	IV(s)	DV(s)	Method	Contribution
(David et al. 2007)	Shareholder salience theory	Firm (n=218)	Shareholder salience (criteria of power, legitimacy, and urgency); Shareholder proposal activism.	Responsiveness to shareholder proposal activism; Corporate Social Performance	Regression analysis	Show that shareholder proposal activism is negatively related to corporate social performance (CSP). They suggest that rather than having a “disciplining” function and increasing subsequent CSP, shareholder proposal activism, serves a “signaling” function, driving managers to divert resources away from CSP and utilizing them toward maintaining their discretion.
(Gillan and Starks 2000)	Shareholder activism literature	Firm	Shareholder activism by institutional /individual investors	Effectiveness of shareholder activism measured through the voting outcomes and stock market reaction to the proposals.	Event study	Examine the effectiveness of shareholder activism through shareholder proposals by analyzing voting outcomes and market reactions. The authors show that voting outcomes are influenced by the proposal type (i.e. antitakeover-related issues, voting issues, board-related issues, and other) and sponsor identity (i.e. institutional investors, investment groups, and individual and religious organizations). Specifically, proposals sponsored by individual investors are associated with less number of votes and a small positive effect on stock market, whereas proposals put forth by coordinated shareholders obtain more votes and are associated with a small negative effect on stock market prices.

Table 6. Summary of the Literature on Shareholder Activism

Author(s)	Theory	Level of analysis	IV(s)	DV(s)	Method	Contribution
(Klein and Zur 2009)	Shareholder activism finance literature	Firm and market	Shareholder activism by hedge funds; activism by other investor groups	Stock market returns; Activists success rate in achieving their goals	Event study; logistic models	Examine the determinants and outcomes of aggressive or confrontational campaigns of two shareholder activist groups: hedge fund activists and other investor activists including individual activists, asset management groups, venture capital firms, and private equity funds. The authors find similarities and differences between the two groups. In terms of similarity, activist groups' actions drive a significantly positive market reaction for the targeted firm and they secure a success rate in achieving their initial goals. The two groups are different in that hedge funds target cash flow issues within the firms whereas the other group address the targeted firm's investment strategies.
(George and Lorsch 2014)	NA	NA	NA	NA	Case-based	Discusses activist investors' challenges to the company and how companies should respond to their challenges. In summary, the authors urge companies to heed their fiduciary duties to their long-term shareholders.
(Goranova and Ryan 2014a)	Agency theory	Firm and market	Firm, activist, and environment level antecedents of shareholder activism; the processes of shareholder activism.	Shareholder activism outcomes for the firm, the activist, and the environment	Literature review	Review literature on shareholder activism and provides an integrative framework of the antecedents, processes, and outcomes of it. The review looks into both the financial and social activism branches.

Table 6. Summary of the Literature on Shareholder Activism

Author(s)	Theory	Level of analysis	IV(s)	DV(s)	Method	Contribution
(Goranova et al. 2017)	Agency theory	Firm	Firm's governance measured through 7 IVs: CEO compensation, CEO ownership, board independence, CEO duality, board size, institutional ownership, and largest institutional owner.	Shareholder activism measured by number of shareholder proposals	Bayesian method	The authors examine the debated effect of corporate governance on shareholder activism by developing a model that incorporates two components: 1) shareholder's propensity to target a firm and 2) firm's propensity to negotiate demands privately and settle them. This model accounts for shareholder's heterogeneity in interests.

Economic and Social Shareholder Activism

In my review of the literature on shareholder activism, I identified two streams of research—shareholder social activism and financial/economic shareholder activism. In social shareholder activism, proposals submitted by individual investors or investor groups such as religious organizations and pension funds, are concerned with social and environmental issues and are intended to “direct attention, raise awareness, and challenge corporations to improve their corporate social performance” (David et al. 2007, p. 91).

In 1970, SEC ruled that shareholder proposals that were concerned with social and environmental issues should not be omitted from companies’ proxy statements (Proffitt and Spicer 2006; Vogel 1983) and ever since, increasing numbers of social shareholder resolutions have been included in the proxy statements of the companies for the shareholders to vote on.

On the other hand, financial shareholder activism, primarily focused on governance-related issues, was precipitated by the rise of institutional ownership (Gillan and Starks 2000; Gillan and Starks 2007). Financial shareholder activists “seek to improve governance structures and render managers more accountable to firm shareholders” (Goranova and Ryan 2014b, p. 1233).

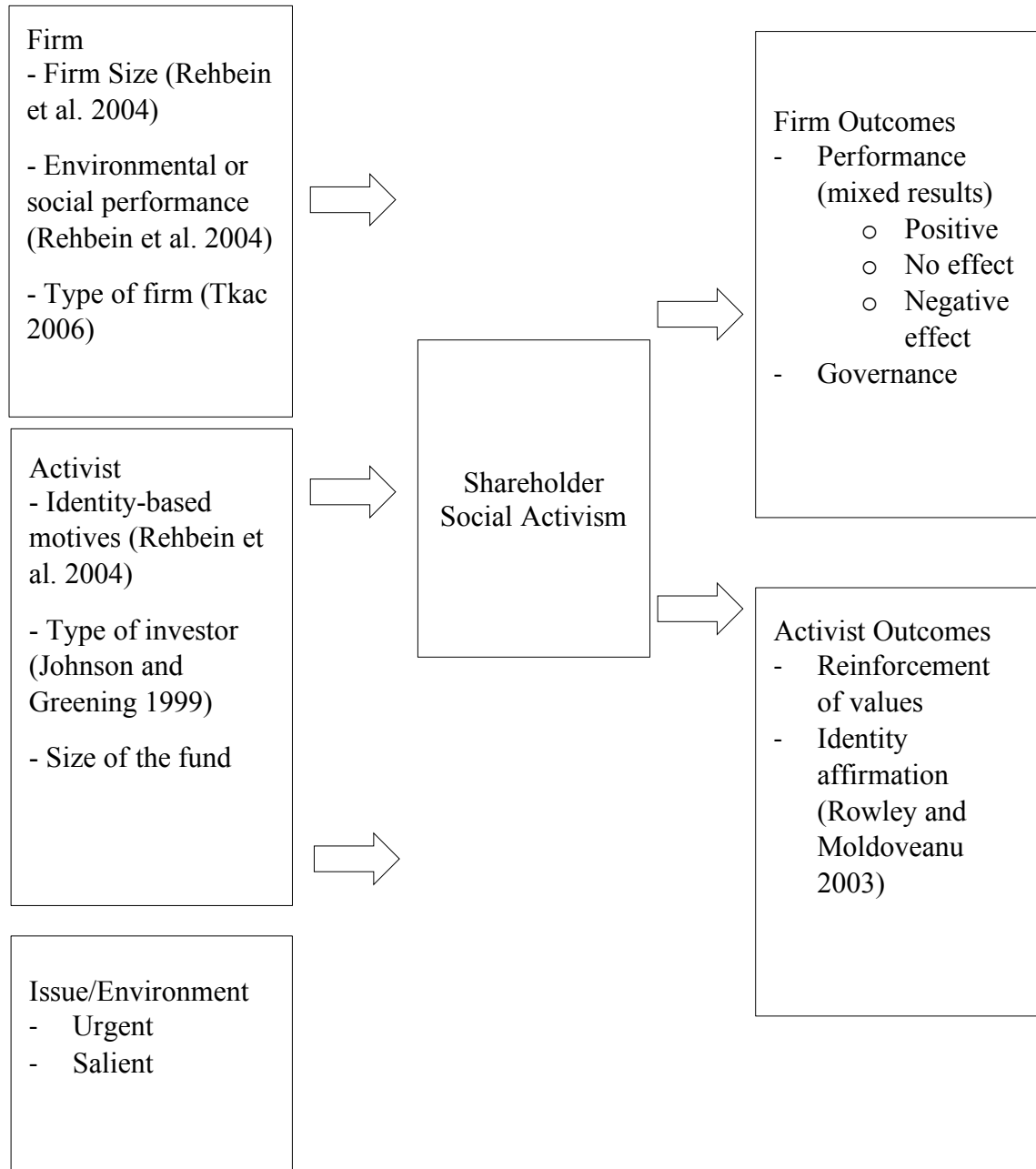
Shareholder Social Activism

In this section, I review the literature relevant to socially motivated shareholder activism. I first present the concept and definition of social shareholder activism. Next, I discuss the antecedents of shareholder social activism from three distinct perspectives: 1) firm-level antecedents that stimulate social shareholder activists to target the firm 2) activist related factors prompting actions against the firm, and 3) issue-related factors.

Moreover, I will review and discuss social shareholder activism outcomes distinguished by firm and activist outcomes. I present my synthesis of prior research in a multilevel model (Figure 4). The papers that are reviewed in this section are tabulated in Table 7.

Shareholder social activism is a type of shareholder activism that is used often by activist shareholders to raise awareness about social issues and influence corporations to enhance their corporate social performance (David et al. 2007; Sjöström 2008). The history of social shareholder activism dates back to early 1970s, when breaking with historical precedence, an organization named Project on Corporate Responsibility filed resolutions that were concerned with social issues to be voted on the annual shareholder meeting of General Motors. The Securities and Exchange Commission (SEC) ruled that the resolutions be included in the proxy statement of the company (Vogel 1983). Since then, there has been an increasing trend in shareholder resolutions concerning social dimensions (Proffitt and Spicer 2006; Tkac 2006; Vogel 1983). Religious organizations were the innovators and champions of social shareholder activism and set the agenda by galvanizing support from other investor groups, thus legitimizing such activism (Proffitt and Spicer 2006). Pension funds were the second investor group that entered the shareholder activism scene and played a determining role in agenda creation (Proffitt and Spicer 2006). Shareholder social activists such as individuals, religious institutions, hedge funds, socially responsible investment (SRI) funds, and large pension funds use a number of actions including engaging in dialogue with corporate management, initiating or supporting legal action against management, voting to influence corporate governance, and filing shareholder proposals to reach their goals (Sjöström 2008).

Figure 4. Shareholder Social Activism: Antecedents and Outcomes



Shareholder social activism forms

Shareholder social activists use many actions to challenge corporations to abide by their social responsibilities and to influence corporation's policy and practice. Filing of shareholder proposals concerning environmental and social issues is the most commonly used action by social shareholder activists (David et al. 2007; Proffitt and Spicer 2006; Tkac 2006; Vogel 1983). In one of the earliest studies in this regard, Vogel (1983) looks into the first thirteen-year trend of public interest proxy resolutions after its conception. The author concludes that the heterogeneity in the political leanings of shareholder activists using the proxy process helps protect the rights of shareholders to not to be influenced by changes in the political arena. In another study, Proffitt and Spicer (2006), examine the role of activist funds in moving forward the issues of human rights and labor standards, which they call global social issues, through shareholder proposals filed between 1969 and 2003. Using a social movement perspective, the authors show that religious organizations paved the way and legitimized social issue activism agenda. Religious organizations were followed by public pension funds, which also had a prominent role in pushing the agenda forward. The authors also challenge prior works' suggestion that fund size is an important predictor of shareholder activism (Ryan and Schneider 2002) given that it does not explain religious organization's activism. Instead, they argue that moral and ethical concerns underlie social shareholder activism and suggest that any type of shareholder activism is morally motivated. That is, instead of corporate governance activism being a different type than social issue activism, they are both ignited by core beliefs about how corporate management should be run.

Shareholder social activism antecedents

In past research, the “performance expectation” of activist funds—that is fund’s managers’ focus on financial measures or social and environmental agendas— has been proposed to influence the level of shareholder activism (Ryan and Schneider 2002).

There’s been a growing but scattered body of literature on socially oriented shareholder activism and in the following section I will explain antecedents that propell social shareholder activism from both firm and activist’s perspectives.

Firm-level antecedents

Activists target firms to cause firms to change their practice or policy (Tkac 2006). Firm size is one of the important factors that has been shown to prompt social shareholder activists to target firms (Rehbein et al. 2004; Ryan and Schneider 2002; Tkac 2006). Rehbein et al. (2004) drew on Rowley and Moldoveanu’s (2003) model of stakeholder group action to examine how shareholder activists select their target firms. According to Rowley and Moldoveanu (2003), stakeholders’ interest is not the only driver and determinant of stakeholder mobilization and that stakeholder mobilization is a function of both identity expression and affirmation along with interest protection. That is, stakeholder actions vary given their motives. For example, the authors theorize that as interest overlap between stakeholders’ different membership groups increase, so does the likelihood that they mobilize on that motive (interest-based perspective). In addition, the likelihood of stakeholder groups undertaking action varies based on their desire to express identity- the is rooted in maximally differenetiating them from other stakeholder groups’ identity (identity-based perspective). Basing their hypotheses on both the interest-based and identity-based perspectives, Rehbein et al. (2004) show that firm size and firm

performance with regards to social and environmental issues are two important predictors of which firms shareholder activists select to target with their resolutions. The authors show that larger firms and socially and environmentally poorly performing firms are targeted more. In another study, Tkac (2006), examining thirteen-year trend of shareholder proposals, found that larger and therefore more recognized firms were targeted more often. Type of firm (manufacturing vs. service or technology firm) has also been found in the past research to instigate shareholder social activism. For example, in a study that examined shareholder social activism between 1992 to 2002 period, Tkac (2006) found that manufacturing firms that had operations causing significant environmental, specifically air polluting, impact and firms with operations overseas, where labor cost is cheap, were more frequently targeted by shareholder activist groups. Therefore, manufacturing firms were more targeted compared with service and technology firms .

In summary, based on the results of these studies larger, and more high-profile firms are more frequently targeted by shareholder social activists due to their larger environmental and social impacts and also due to the fact that targeting them attracts more attention to issues being voiced. In addition, firms with poor corporate social performance are selected as targets with the hope of correcting their behavior.

Activist-level antecedents

As discussed before, shareholder activists sometimes are not motivated by financial goals (Johnson and Greening 1999). These type of activists have identity-based motives (Rehbein et al. 2004; Rowley and Moldoveanu 2003).

Size of the fund and type of institutional investor (Johnson and Greening 1999) have been shown to instigate social shareholder activism.

My synthesis of the literature from various disciplines on social shareholder activism reveals that most of the studies conducted are descriptive and lack a strong theoretical foundation.

Shareholder Social Activism Outcomes

Firm outcomes

Corporate social activism has been associated with corporate social performance (David et al. 2007; Johnson and Greening 1999), firms' use of financial and relational CPA (Hadani et al. 2016), and firm's decision about adopting public disclosures (Reid and Toffel 2009).

For example, David et al. (2007) drew on shareholder salience theory to show that shareholder proposal activism is negatively related to corporate social performance (CSP). They suggest that rather than having a "disciplining" function and increasing subsequent CSP, shareholder proposal activism, serves a "signaling" function, driving managers to divert resources away from CSP and utilizing them toward maintaining their discretion. International conduct, environmental issues, and anti-discrimination were the top three most common filled issues.

Reid and Toffel (2009) drew on the model of social activism and organizational change to explore how both public (i.e. Regulatory forces) and private politics (i.e. Shareholder activism) influence change in a firm's practices. The authors argue that both shareholder activism and regulatory forces increase a firm's propensity to align itself with the broader societal demand. They also theorize and test a spillover effect through which

the effect of private and public actions targeted at a specific firm spillover to other actors in an industry.

Hadani et al. (2015) drew on political market place theory of CPA and signaling theory to examine the relationship between shareholder social activism and firm's use of financial and relational CPA. The authors theorize that firms use CPA to influence the SEC to omit socially oriented proposals. They show that the combination of financial and relational CPA is associated with favorable SEC omission rulings on what will be included in the final proxy statement.

Activist outcomes

Rowley and Moldoveanu (2003) suggest that shareholder activists can be motivated by a desire express an identity. It has been proposed in the literature that, the outcome of shareholder social activism for activist is reinforcement of values and identity affirmation (Rowley and Moldoveanu 2003).

Table 7. Summary of Literature on Shareholder Social Activism

Author(s)	Theory	Discipline	Period	Activism measure	IVs	DVs	Contributions
(Vogel 1983)	No overarching theory	Management	1970-1982	NA	NA	NA	The author examines the trend of socially oriented shareholder resolutions between 1970 and 1982 and concludes that shareholder activism was greatly influenced by sociopolitical, ideological, and regulatory climate of the 70s.
(Johnson and Greening 1999)	Institutional theory; signaling theory	Management		Institutional holdings	Institutional investors: 1) pension fund 2) investment management funds (mutual funds, banks, investment banks)	Corporate social performance (community relations, women and minorities, employee relations, environment, product quality dimensions of KLD)	The authors examined the effect of two main types of institutional investors- pension funds and investment management funds- and governance-related variables on two different dimensions of corporate social performance (CSP)— people and product quality dimensions. They found that pension fund equity holding is positively associated with both dimensions of CSP. Unlike investment management funds that showed no direct relationship with CSP. Top management equity holding was positively associated with product quality dimension of CSP and unrelated to people dimension. Outside management representation was also positively associated with both dimensions of CSP.
(Campbell et al. 1999)	Descriptive study based on data	Finance	1997 proxy season	NA	NA	NA	The authors focus on the 1997 proxy season, and in a descriptive fashion, examine shareholder proposal concerning social and corporate governance issues. According to the results, religious organizations submitted the highest number of proposals followed by individual activists. A high proportion of proposals filed by individuals are withdrawn. The issue related to employment discrimination received the highest voting results.

Table 7. Summary of Literature on Shareholder Social Activism

Author(s)	Theory	Discipline	Period	Activism measure	IVs	DVs	Contributions
(Rowley and Moldoveanu 2003)	Social movement theory; social identity theory	Management	NA	NA	NA	NA	Drawing on interest-based and identity-based perspectives, the authors challenge the prevalent notion that all stakeholder movements are interest based and that mobilization is a function of both identity expression/affirmation and interest protection. Stakeholder salience theory (Frooman 1999) posits that stakeholder power, legitimacy, and urgency of their demands predicts their mobilization. Rowley and Moldoveanu (2003) contribute to literature by theorizing that these factors only partially predict stakeholder mobilization.
(Rehbein et al. 2004)	Model of stakeholder group action- interest-based and identity-based perspective	Business?	1992-1998	Number of shareholder proposals within specific shareholder-related categories	Firm's stakeholder-related performance (with respect to relevant stakeholders)	Number of shareholder resolutions	Examined how shareholder activist choose their targets. Results show that activists target poor performing corporations with respect to social and environmental issues. Firm size— with larger and more high-profile firms being subjected to more activism— is also another predictor of shareholder activism.
(Monks et al. 2004)	Available cases; extant literature	Sustainable development	2000-2003	Number and type (Corporate Governance related or CSR related or both) of proposals submitted	Type of proposals filed	Number of proposals and voting result	The authors examine the trend of shareholder activism and finds that nearly half of the proposals submitted between 2000 to 2003 were centered around CSR issues and that proposals having both CSR and corporate governance angles were more successful at garnering votes compared with proposals concerning only CSR issues.

Table 7. Summary of Literature on Shareholder Social Activism

Author(s)	Theory	Discipline	Period	Activism measure	IVs	DVs	Contributions
(Ryan and Schneider 2002)	Available cases; extant literature; Portfolio theory	Management	-2002	NA	Performance Expectation (financial and nonfinancial)	Shareholder Social Activism	The authors provide an integrative model of twelve variables influencing shareholder activists' propensity to engage in activism. Fund size, investment time span, focus on social or financial agenda, whether a fund has business relationships with a firm beyond their investor role, size of shares owned by the fund, size of the activists' portfolio invested in a firm, proportion invested in equity, legal restraints, whether the fund is defined-benefit or defined-contribution, investing style (active vs. passive investing), internal or external management, and finally internal vs. external proxy voting rights are the theorized factors in Ryan and Schneider's (2002) model to determine the level of shareholder activism.
(Tkac 2006)	No specific theory	Economics	1992-2002	Number of CSR oriented proposals submitted	NA	NA	The Author uses data from Investor Responsibility Research Center (IRRC) to study the 11-year trend of shareholder activism. Based on the results, the largest number of socially oriented proposals were submitted by religious organizations and there was an increasing trend of proposals submitted by socially responsible (SR) funds.
(Proffitt and Spicer 2006)	Social movement perspective	Management	1973-2003	Number of proposals	NA	Number and type of social issue of proposals	Examines 35-years trend of social shareholder activism. Finds that religious organizations set the agenda and legitimized shareholder social activism and were subsequently followed by pension funds.

Table 7. Summary of Literature on Shareholder Social Activism

Author(s)	Theory	Discipline	Period	Activism measure	IVs	DVs	Contributions
(David et al. 2007)	Shareholder salience theory	Management	1992-1998	Proposals concerning social issues	Shareholder salience (criteria of power, legitimacy, and urgency); Shareholder proposal activism	Responsiveness to shareholder proposal activism; Corporate Social Performance	Show that shareholder proposal activism is negatively related to corporate social performance (CSP). They suggest that rather than having a “disciplining” function and increasing subsequent CSP, shareholder proposal activism, serves a “signaling” function, driving managers to divert resources away from CSP and utilizing them toward maintaining their discretion. International conduct, environmental issues, and anti-discrimination were the top three most common filled issues.
(Sjöström 2008)	Literature on Shareholder social activism	Business strategy	1983-2007	Number of proposals	NA	NA	The author reviews and synthesizes the body of research on social shareholder activism between 1983 and 2007. Based on the review missing perspectives and directions for future research are identified.
(Reid and Toffel 2009)	The model of social activism and organizational change	Firm and market		Number of proposals	Shareholder resolutions on environmental-related issues	Firm’s decision about adopting public disclosures	Explore how both public (i.e. Regulatory forces) and private politics (i.e. Shareholder activism) influence change in a firm’s practices. The authors argue that both shareholder activism and regulatory forces increase a firm’s propensity to align itself with the broader societal demand. They also theorize and test a spillover effect through which the effect of private and public actions targeted at a specific firm spillover to other actors in an industry.
(Hadani et al. 2016)	Political marketplace theory of CPA; and signaling theory	Management	1999-2006	Shareholder resolutions concerning social and environmental issues	Financial CPA; Relational CPA	SEC rule on omission of a proposal from the final proxy statement	The authors theorize that firms use CPA to influence SEC to omit socially oriented proposals. They show that the combination of financial and relational CPA is associated with favorable SEC omission rulings on what will be included in the final proxy statement.

CHAPTER III

THEORETICAL DEVELOPMENT AND CONCEPTUAL MODEL

In the following chapter I draw from the reviewed literature on CSR and CPA, as well as upper echelons and moral foundation theories to develop hypotheses that explore the consequences of a CEO's action to take a stand on a social-political issue on his/her respective firm's CSR and CPA and subsequently the firm's sales growth. The conceptual model is shown in Figure 5. As illustrated, I propose that CEO activism, measured by the number of times a CEO takes a stand on a social-political issue, is related to his/her respective firm's advances in corporate social responsibility (CSR) as well as the firm's corporate political activity (CPA) and that CSR and CPA are related to the firm's sales growth. I further theorize that the CEO's political ideology, measured by the CEO's political donations prior tenure, moderates the relationship among CEO activism, CSR, and CPA.

I begin by introducing the concepts of CEO activism and CEO's political ideology. I then draw on upper echelon's theory and related literature on political ideology and CEO activism to explain the theoretical underpinnings of my hypotheses. Table 8 shows the construct names and definitions

Figure 5. Proposed Conceptual Model

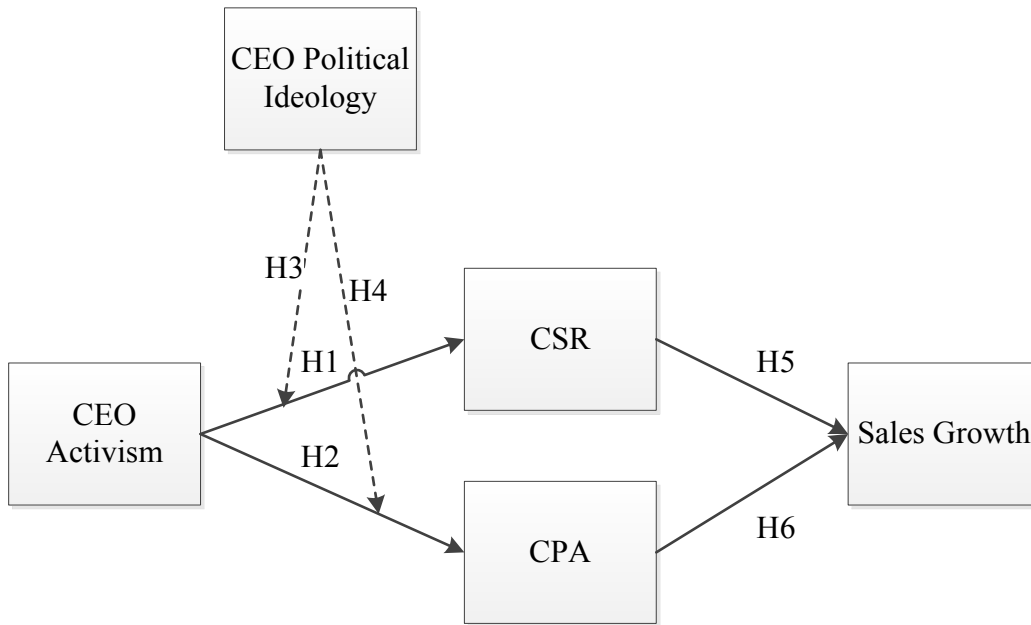


Table 8. Definitions of Key Constructs

Construct	Definition	Example studies
CEO Activism	When a CEO communicates his/her stand on social-political issues not directly related to their core business.	(Chatterji and Toffel 2017)
Corporate Social Responsibility (CSR)	“actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams and Siegel 2001, p. 117)	(Chin et al. 2013; Gupta et al. 2017)
Corporate Political Activity (CPA)	Corporate attempts to influence government policy or process in ways favorable to the firm.	(Getz 1997; Hillman et al. 2004; Lux et al. 2011)
CEO Political Ideology	“the term ‘political ideology’ is normally defined as an interrelated set of attitudes and values about the proper goals of society and how they should be achieved” (Tedin 1987, p. 65). I use CEO political ideology as a relatively stable and enduring personal inclination of the CEO that reflects his/her underlying personal values.	(Chin et al. 2013; Jost 2006; Unsal et al. 2016)

CEO Activism

CEOs, more than ever, are taking a stand on controversial social and political issues. Polls have shown that the majority of customers base their purchase or boycott decisions on a firm's political stand on a controversial issue (WeberShandwick 2018). These polls indicate that ideology dominates consumer's purchase decisions. For example, the 2017 Edelman Earned Brand survey³ shows that 60% of the millennials purchase decisions and 50% of all consumers' are "belief-driven". An illustrative example is Keurig's customer backlash. After Keurig's tweet announcing that it would pull ads from Sean Hannity's Fox News show for siding with a then-political candidate accused of sexual abuse, videos of users breaking their Keurig's coffee machines surged to the internet. This event is illustrative of how consumers act out their reactions to firm's stances on controversial issues through consumer products—a phenomena, Crouch (2017, *The New Yorker*) calls "politicization of American junk".

There are both rewards and risks for the firms of the CEOs who take a stand on a controversial issue. The rewards accrue to firms from those customers who share the CEO viewpoint. The risks incur to firms from those customers who oppose the CEO's stance (WeberShandwick 2018; Weinzimmer and Esken 2016).

In the dawn of corporate political activism, investigating this phenomenon is timely. In 2016-2018 research agenda, the Marketing Science Institute listed the question "should brands take stands? What is marketing's role as a driver/enabler of social change?" as a "critical issue emerging in the not-too-distant future"⁴.

³ See <https://www.edelman.com/earned-brand/>.

⁴ See <http://www.msi.org/research/2016-2018-research-priorities/on-the-horizon-seven-questions-to-ponder/>.

In the literature, the concept of businesses taking a stand on controversial social or political issues has been given different names including corporate social advocacy (Dodd and Supa 2014a), corporate political activism (Clemensen 2017; Korschun et al. 2017), and CEO activism (Chatterji and Toffel 2015b). For a summary of the constructs and definitions, see Table 9.

In the words of Dodd and Supa (2014a), corporate social advocacy refers to “an organization making a public statement or taking a public stance on social-political issues” (p. 5). Clemensen (2017) refers to corporate political activism as “when a company acts in response to controversial political topics” (p. 13). The author considers corporate political activism as part of a firm’s CSR. Chatterji and Toffel (2017) define CEO activism as when “corporate leaders seek to influence social issues not directly related to their core business” (p. 1).

This concept has been introduced to the literature recently and there is not much consensus on its limits. For example, Chatterji and Toffel (2017) view CEO activism distinct from nonmarket strategy and its elements—CPA and CSR. CPA includes firm’s efforts to influence public policy in a way that contributes to the firm’s bottom line. They refer to actions to secure favorable policy regulation such as lobbying, as “narrow efforts”. Similarly, the authors argue that CSR has a dual objective of “doing well while doing good”, meaning it is profit-motivated. On the other hand, CEO activism addresses much broader societal issues without being obviously profit-motivated. Unlike CPA, CEO activism is “transparent” and “highly visible”. In summary, they view CEO activism as a counterpoint to CPA and ultimately nonmarket strategy.

In a recent *Harvard Business Review* article, Chatterji and Toffel (2018), drawing on anecdotal evidence, suggest that there are two main tactics of CEO activists, raising awareness and leveraging economic power. Raising awareness involves activities such as issuing a statement or tweet and writing an op-ed. Leveraging economic power involves “putting economic pressure on states to reject or overturn legislation” (Chatterji and Toffel 2018). This tactic is similar to using market actions such as mergers and acquisition and moving headquarters out of the state, to influence the nonmarket environment and gain policy advantage (Funk and Hirschman 2017). However, one difference may be that in the case of market actions as means of gaining policy advantage, the motive is dominantly economic with the goal of contributing to the bottom line.

CEO activism is an emerging phenomenon and expectedly empirical evidence of its antecedents and outcomes are limited. In terms of method, experiments have mostly been used to study CEO activism (Chatterji and Toffel 2017; Dodd and Supa 2015). See Table 10 for a summary of the few papers on CEO activism.

Table 9. Concept of a Firm Taking a Stand on Controversial Issues

Author (s)	Construct name	Definition
Dodd and Supa (2015, p. 387)	Corporate social advocacy	“taking of a public stance on a controversial social-political issue by corporations, most often in the form of a CEO statement”
Clemensen (2017, p. 13)	Corporate political activism	“when a company acts in response to controversial political topics”
Korschun et al. (2016, p. 2)	Corporate political activism	“a public position taken by an organization or its executives on a divisive political issue, election, or government legislation”
Chatterji and Toffel (2017, p. 1)	CEO activism	“where corporate leaders seek to influence social issues not directly related to their core business”

Table 10. Summary of the Literature on CEO Activism

Author(s)	Theory	IV(s)	DV(s)	Activism Measures	Contributions
Dodd and Supa (2015; 2014b)	Theory of planned behavior as the underpinning of purchase intention	CEO statement on a social-political issue; Attitude toward social-political issues.	Purchase intention	CEO statement	Using an experiment, the authors find that consumer's agreement with a corporate stance is positively related to their purchase intentions.
Weinzimmer and Esken (2016)	No overarching theory	NA	NA	NA	The authors evaluate the effect of firm's executives taking a stand on what they call "sensitive social issues". The benefit is gaining support of those customers who agree with the firm's political position and the downside is alienating those who disagree. The authors conclude that the long-term benefits that firms accrue from being politically involved, outweighs its risks. That is in the long-run firms benefit from taking a stand. The authors argue that how a company takes a stand influences subsequent outcomes. For example, directly addressing the issue elicits outcomes that are more positive for the firm. The authors make normative suggestions to business leaders regarding taking a stand on sensitive issues. First, business leaders should balance their fiduciary duties and social activism by aligning their stand with their business context. Second, they must regard their stand as a strategic action. Lastly, they must heed the legal ramifications of their stand and make sure that it is not in conflict with the law.

Author(s)	Theory	IV(s)	DV(s)	Activism Measures	Contributions
(Chatterji and Toffel 2017)	Policy lifecycle stages—initiation, early adoption, diffusion, and standardization. The authors view CEO activism happening in the early adoption and diffusion stages.	Support for a controversial policy (RFRA)	Purchase intention;	CEO statement on a controversial policy	Using two field experiments, the authors examine the influence of a CEO's political and social stands on public' attitudes and purchase intentions. In the first study, they find Apple CEO's views on a controversial policy decreased public support for the law and positively influenced consumers' purchase intentions particularly among those who shared the same viewpoint. In the second study, the result is divergent from the first study's result. The authors do not find support for the effect of a group of unnamed CEOs on public opinion of a climate change policy, regardless of how the issue is framed.

CEO Political Ideology

We know that corporate executives do not operate without constraints (e.g., Lieberman and O'Connor 1972). However, they often have a considerable degree of discretion in their decisions (Phillips et al. 2010). According to the upper echelons theory (Hambrick and Mason 1984), organizational outcomes—strategic decisions and performance—are driven by executive's background characteristics. Executives' experiences, personalities, and values, including their political ideologies, can therefore determine strategic choices and organizational outcomes (Finkelstein 2009).

According to upper echelons theory (Hambrick and Mason 1984) a manager's characteristics and background predict organizational outcomes including strategic decisions and firm performance. Based on the theory, heterogeneity in outcomes and strategic decisions of companies is due to the differences in corporate leaders concerning their experiences, personalities, and personal values. The bulk of the empirical tests of the upper echelons theory focuses on the effect of CEOs' experiences (Miller and Shamsie 2001) and personalities (Chen et al. 2015a; Peterson et al. 2003) on their decision making. Fewer researchers have examined the effect of CEO's values on their decisions (Agle et al. 1999; Simsek et al. 2005).

Based on the political science and political psychology literatures, executive's political ideologies reflect their values (Barnea and Schwartz 1998; Goren et al. 2009; Rosenberg 1956). Ideology as a belief system of the individual has been defined in different ways, with "stability" and "organization" being the common key features in all the definitions (Jost 2006). Some scholars have defined political ideology in terms of values. For example, as Tedin (1987) defines it, "The term 'political ideology' is

normally defined as an interrelated set of attitudes and values about the proper goals of society and how they should be achieved...” (p. 65). The relationship between values and political ideology has been studied and many scholars have contended that individual’s political ideology reflects his/her values (Barnea and Schwartz 1998; Layman 1997; Rosenberg 1956). In other words, values are manifested in individuals’ political ideologies (Feldman 2003).

In political science, ideology is often treated as a “relatively stable and coherent (or constrained) belief system within the mind of an individual” (Jost 2006, p. 652). As such, ideology is an “internally consistent and stable belief system” (Jost 2006, p. 652).

The left-right distinction (or in the U.S. liberalism-conservatism) of political ideology is the most used classification of political ideology (Jost 2006). As Jost (2006, p. 654) noted: the left-right distinction “has been the single most useful and parsimonious way to classify political attitudes for more than 200 years”. The spatial metaphor of left-right may be traced back to the French parliament seating arrangements in 18th century (Jost 2006).

Scholars have shown that there are significant differences between liberals and conservatives concerning their beliefs and values. Hence, studying liberal-conservative spectrum substantially helps us understand individual’s core beliefs and values (Schwartz 2016). The core issues that shape the most meaningful and most consistent differences between liberals and conservatives concern “attitude toward social change versus tradition ” and “attitudes toward inequality” (Jost 2006, p. 654). According to Jost and his colleagues (Jost et al. 2003; Jost 2006), individuals who identify as conservatives are more resistant to change and place more emphasis on order, stability, maintaining the

status quo, respect for conventional authority figures, and traditional “family values”. They also value property rights, free market, and business needs. On the other hand, individuals who identify as liberals are more sensitive to social issues including diversity, minority rights, and social change. They place a higher priority on social justice, economic equality, and control over markets.

Researchers in strategic management and political science fields have long studied the political actions of corporations and its effect on the market and nonmarket environments (Hillman et al. 2004; Keim and Zardkoohi 1988). Recently, there has been a growing interest in the influence of corporate executives’ political orientations, as distinct from the corporation’s political agenda (e.g., Briscoe et al. 2014; Chin et al. 2013; Di Giuli and Kostovetsky 2014; Elnahas and Kim 2017; Francia et al. 2005; Hutton et al. 2014; Tetlock 2000; Unsal et al. 2016). For example, Democrat-leaning CEOs are found to make more CSR advances (Chin et al. 2013; Di Giuli and Kostovetsky 2014) and Republican-leaning CEOs are found to implement more financially conservative policies (Hutton et al. 2014).

Researchers have attempted to investigate the relationship between CEOs political leanings on a firm’s CSR engagement (Chin et al. 2013; Di Giuli and Kostovetsky 2014) and the employee’s engagement in activism (Briscoe et al. 2014). See Table 11 for a summary of the results. For example, Chin et al. (2013) draw on upper echelons theory to theorize the relationship between a CEO’s political ideology and the firm’s CSR ratings. The authors show that CEO’s political liberalism is positively associated with the intensity of CSR. Moreover, they show that CEO’s political ideology influences their firm’s PAC contributions. Di Giuli and Kostovetsky (2014) draw on CSR literature to test

the “direct value” theory of CSR which posits that CSR “can provide direct value to firm stakeholders even if it is financially costly” (Di Giuli and Kostovetsky 2014, p. 159). The authors explore the relationship between political affiliation of a firm’s executives (founders, CEO, and directors) and CSR ratings measured through KLD. They find that democratic leadership and having headquarters in the blue states is associated with higher CSR scores compared with republican leadership and headquarters located in the red states. The authors also find that CSR expenditures is negatively associated with firm value measured by future stock returns and ROA. The researchers suggest that the CSR’s benefits to a group of stakeholders occurs at the cost of the firm’s value.

CEO’s political ideology is found to influence the firm’s engagement in CPA (Chin et al. 2013; Coates 2012; Milyo et al. 2000). CEO political ideology has also been found to influence their firm’s investment decisions, specifically mergers and acquisitions decisions (Elnahas and Kim 2017). The authors find that Republican CEOs are significantly less likely to undertake mergers and acquisitions activities.

Unsal et al. (2016) find support that CEO political orientation—measured by manager’s personal PAC financial contributions to both parties during elections— influences corporate lobbying efforts. Specifically, the authors show that Republican-leaning managers lobby a larger number of bills and expend more on lobbying compared to their Democratic-leaning and Apolitical counterparts. Researchers have also found that CEOs have a significant influence on corporate donations to PACs (Coates 2012; Milyo et al. 2000). Moreover, CEO political liberalism is found to be significantly positively related to the company’s PAC Democratic orientation (Chin et al. 2013). PAC Democratic orientation is measured by an annual average of three indicators: “the number

of company PAC donations to Democrats divided by the number of donations to recipients in both parties, the dollar amount of company PAC donations to Democrats divided by the dollars given to both parties, and the number of distinct Democratic recipients divided by the number of recipients in both parties” (Chin et al. 2013, p. 217-218). In other words, liberal-leaning firms donate more to Democratic PACs.

Firms that have Republican-leaning CEOs are on average larger in market size, have higher ROA, have lower corporate debt and more leverage, possess more tangible assets, and make less risky investments (Hutton et al. 2014). Researchers have found a significant difference between firms that have Republican leaning CEOs compared with their counterparts in terms of lobbying efforts (Unsal et al. 2016). Specifically, Republican leaning firms hire more lobbyists including more former congressmen, have higher lobbying expenditures and lobby a larger number of bills including more than one issue in both the U.S. Senate and U.S. House of Representative. As a result, a greater number of bills in favor of the Republican firms are passed in the aforementioned U.S. legislative institutions and ultimately become law (Unsal et al. 2016).

According to the above and consistent with previous research (e.g., Chin et al. 2013; Hutton et al. 2014; Lee et al. 2014), I treat and use the concept of CEO political ideology as relatively stable and enduring personal inclination of the CEO that reflects their underlying personal values. I further argue that the CEOs’ political ideology influences the relationship between CEO activism and corporate political activity as well as the relationship between CEO activism and corporate social responsibility.

Table 11. Literature on CEO Political Ideology and CSR

Author(s)	Theory	IV(s)	DV(s)	Contributions
Chin et al. (2013)	Echelons theory (executives incorporate their personal beliefs and values in their strategic decisions)	CEO political liberalism	Firm's annual CSR profile (KLD ratings)	Show that CEO's political ideologies influence the intensity of CSR. Moreover, CEO's political ideology influences their firm's PAC contributions.
Di Giuli and Kostovetsky (2014)	CSR literature- test the "direct value" theory of CSR—"CSR can provide direct value to firm stakeholders even if it is financially costly."	Firm political affiliation; having a firm headquarter in republican-leaning or democratic-leaning states	CSR ratings (KLD scores)	Explore the relationship between political affiliation of a firm's executives (founders, CEOs, and directors) and CSR ratings measured through KLD. The authors find that democratic leadership and having headquarters in blue states is associated with higher CSR scores compared with republican leadership and headquarters in red states. The authors also find that higher CSR expenditures are not associated with higher sales. In fact, CSR expenditures is negatively associated with firm value measured by future stock returns and ROA.
Briscoe et al. (2014)	Corporate opportunity structure—with the tenant that contextual factors play a critical role in predicting the occurrence and its success likelihood.	CEO liberalism (measured through political donations); Moderators: CEO power, workplace conservatism, expansion of the movement.	Employees' engagement in activism measured through formation of corporate LGBT groups in the period 1985-2004.	Theorize that political ideology of the firm's CEO influences employee's tendency to engage in activism. They find evidence that CEO's political liberalism is associated with more employee activism and that this relationship is stronger when the CEO is more powerful, the workplace environment is more conservative, and the social movement has not diffused greatly.

CEO Activism and CSR

CSR is defined as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams and Siegel 2001, p. 117). CSR is an umbrella term that includes a variety of organizational practices and operations that are intended to serve multiple stakeholders, beyond firm’s owners, including customers, employees, interest groups, communities, and society at large (Chin et al. 2013). Many scholars emphasize that CSR actions must be discretionary (e.g., Aguilera et al. 2007; Mackey et al. 2007).

According to upper echelons theory (Hambrick and Mason 1984) a manager’s characteristics and background predict organizational outcomes including strategic decisions and firm performance. Adopting the logic of upper echelons theory (Hambrick and Mason 1984), I predict that as the number of times a CEO communicates his/her stand on social-political issues— not directly related to their core business— increases, the firm will have higher advances in CSR and hence a higher CSR rating. As discussed earlier, CEO activism is the manifestation of the CEOs underlying values and beliefs. According to the upper echelons theory, CEOs incorporate their values and beliefs into their strategic decision.

There are two mechanisms through which the CEO’s values enter his/her decision making (England 1967; Finkelstein 2009). The first mechanism is referred to as “behavior channeling” (England 1967). Through behavior channeling, values may have a direct effect on the CEO’s choices. After considering facts, probabilities, consequences, and alternatives, the CEO selects a course of action that fits his or her values.

The second mechanism is referred to as “perceptual filtering” (England 1967). Through perceptual filtering, values may have an indirect effect on the CEO’s choices. Under perceptual filtering, the CEO selectively searches for information that fits his or her values and perceives and interprets information in a value-congruent fashion. This is a far more prevalent conduit for values to enter CEOs choices than behavior channeling (Chin et al. 2013).

According to my adopted definition of CEO activism, CEO activism occurs when a CEO takes a side on a social-political issue, not directly related to their core business. The increase in the intensity of CEO activism is reflective of a socially concerned and aware CEO. In other words, CEO activism indicates that the CEO activist is more sensitive to social-political issues. Based on this, activist CEOs are more likely to interpret a business case for boosting the firm’s CSR. In other words, CEO activism is associated with CEO’s perceptions of the business case for CSR through perceptual filtering, as well as their preferences for the outcomes of CSR through behavior channeling. That is, as a CEO’s instances of taking a side on a social-political issue increases, so does his or her perceptions that CSR is beneficial for the firm’s stakeholders (perceptual filtering). Convinced that CSR is desirable, in the role of the chief director of the company policies and practices, the CEOs will advance CSR—fortifying their firm’s CSR strengths and excluding concerns about CSR. Thus, I expect that CEO activism will positively influence the firm’s advances in CSR.

H1: CEO activism will have a positive association with the firm’s CSR score.

CEO Activism and CPA

As discussed earlier, CEO activism is when a CEO seeks to influence issues not directly related to their core business by taking a public stance on a controversial social-political issue (Chatterji and Toffel 2018; Chatterji and Toffel 2015a). CEO activism is a burgeoning phenomenon. It has been introduced in the literature recently and expectedly empirical evidence of its outcomes are limited. The few research studies conducted in this area show that CEO activism may shape public policy by shaping public opinions of the policies as well as influencing public policy directly through leveraging economic power and putting pressure on states to pass or overturn a legislation (Chatterji and Toffel 2017; 2018). CEO activism has also been found to affect consumer purchase intentions (Dodd and Supa 2015; Dodd and Supa 2014b), particularly among those who share the CEO's viewpoint (Chatterji and Toffel 2017). Korschun et al. (2017) argue that corporation's public positions on controversial political issues influences the corporation's relationships with its key constituents, specifically its employees. The authors theorize that the (mis)alignment of the public position taken by the organization has implications for how the employees view the self in relations to others and that this social comparison influences how they manage their identity and behavioral outcomes.

What is missing from our knowledge about CEO activism is its relationship with corporate political engagement through activities such as lobbying and PAC contributions. Drawing on the upper echelons theory (Hambrick and Mason 1984), I argue that CEO activism, as measured by the number of times a CEO makes a statement indicating its position on a controversial social-political issue, is related to firm's engagement in political activities.

Based on published research, we know that there are both risks and rewards associated with CEO activism (Weinzimmer and Esken 2016). Risks incur to firms from the stakeholder group who do not share the CEO's view point and reward accrue to firms from those who share the CEOs viewpoint (Chatterji and Toffel 2017). The two main tactics of CEO activists is to raise awareness and to leverage their economic power. (Chatterji and Toffel 2018). Through leveraging the economic powers, corporations put pressure on states to reject or overturn legislation (Chatterji and Toffel 2018). For example, a case of CEO activism may involve punishing states by canceling planned expansion to the state's territory, threatening to stop all salesforce employees travel to the state, threatening to move the headquarters out of the state, and canceling plans of establishing operation centers in the state that would potentially create considerable number of jobs. CEO activism might also involve donating to third-party groups that promote their stand (Chatterji and Toffel 2018).

Based on the above, there is a clear relationship between CEO activism and CPA. CEO activism involves activities that leverage the firm's economic power to influence public policy and CPA includes firm's deliberate attempts to influence the public policy in a way that is favorable to the firm and contributes the firm's bottom line (Getz 1997; Hillman et al. 2004). As a CEOs activism level increases, he or she is more likely to increase CPA to influence the public policy. Therefore, as the number of times a CEO takes a position on social-political issues increases, his or her firm's aggregate lobbying and PAC expenditures also increase. Thus, based on the above, I hypothesize:

H2: CEO activism will have a positive association with the firm's CPA.

The Moderating Effect Hypotheses

As argued previously, CEO activism influences the firm's CSR. The higher CEO activism, measured by the number of times they communicate their stand on a social-political issue, the more the firm's advances in CSR. This is because CEO activism as the manifestation of the underlying values and beliefs of the CEO influences the CEO to project a business case for the CSR (perceptual filtering) and hence increases their tendency to invest in CSR activities. We know from published research that the political orientation of the CEOs influence their firm-level decision making processes as well as the firm performance (e.g., Hutton et al. 2014; Unsal et al. 2016). For example, firms of Democratic CEOs are more socially responsible (Briscoe et al. 2014; Chin et al. 2013; Di Giuli and Kostovetsky 2014) and firms of Republican CEOs are less socially responsive (Sturdivant et al. 1985), make less risky investments (Elnahas and Kim 2017; Hutton et al. 2014) and have higher profitability (Hutton et al. 2014). I argue that the effect of CEO activism on CSR varies across CEO's political ideology orientation.

Researchers contend that liberals and conservatives differ in terms of their personalities. Liberal individuals are on average more open to experience, more sensitive to social issues, have a tendency to seek changes and novelty both personally and politically (Jost et al. 2008; McCrae 1996). Conservative individuals, on the other hand, show a strong disposition to maintaining the status quo as well as respect for authority (Jost et al. 2003; Jost et al. 2008).

According to moral foundation theory (Haidt and Graham 2007), there are five psychological foundations of morality. They label these five foundations harm/care, fairness/reciprocity, ingroup/loyalty, authority/respect, and purity/sanctity. "Cultures then

vary in the degree to which they construct, value, and teach virtues based on the five intuitive foundations” (Haidt and Graham 2007, p. 104).

The harm/care moral foundation is based on the evolutionary human tendency to be sensitive to cruelty and harm. Because of this, individuals have approval for those who prevent or alleviate harm, and disapproval toward those who inflict harm. The approval is culturally codified in virtues such as kindness and compassion. Cruelty and aggression are examples of the corresponding vices. The fairness/reciprocity is about virtues related to fairness and justice. Graham et al. (2009) refer to these two foundations as individualizing foundations because “they are (we suggest) the source of the intuitions that make the liberal philosophical tradition, with its emphasis on the rights and welfare of individuals, so learnable and so compelling to so many people” (Graham et al. 2009, p. 1031). The ingroup/loyalty foundation reflects virtues such as loyalty, patriotism, and heroism and the corresponding vices such as betrayal and treason. The authority/respect moral foundation concerns virtues related to good leadership, often involving magnanimity, fatherliness, and wisdom. Lastly, the purity/sanctity foundation relates to “a set of virtues and vices linked to bodily activities in general, and religious activities in particular” (Haidt and Graham 2007, p. 106). Graham et al. (2009) refer to the last three moral foundations as the binding foundations, because “they are (we suggest) the source of the intuitions that make many conservative and religious moralities, with their emphasis on group-binding loyalty, duty, and self-control, so learnable and so compelling to so many people” (Graham et al. 2009, p. 1031).

These five moral foundations provide “a taxonomy for the bases of moral judgments, intuitions, concerns” (Graham et al. 2009, p. 1040). Haidt and Graham’s

(2007) idea was based on “that moral intuitions derive from innate psychological mechanisms that coevolved with cultural institutions and practices”. Therefore, to develop the said taxonomy, the authors searched for “the best links between anthropological and evolutionary accounts of morality” (Haidt and Graham 2007, p. 1030).

Graham et al. (2009) applied moral foundation theory to moral differences between liberal- and conservative-leaning individuals in the U.S. According to the theory, “Political liberals construct their moral systems primarily upon two psychological foundations—Harm/care and Fairness/reciprocity—whereas political conservatives construct moral systems more evenly upon five psychological foundations—the same ones as liberals, plus Ingroup/loyalty, Authority/respect, and Purity/sanctity” (Graham et al. 2009, p. 1029). They refer to it as the *moral foundation hypothesis* and across four studies, using multiple methods, show support for it. The test of theory suggests that variation in liberals and conservatives’ moral values, judgments, arguments, and behavior is due to different configuration of the five foundations. The four studies Graham et al. (2009) conducted, indicate that liberals’ morality is primarily focused on harm and fairness, whereas conservatives’ morality concerns are equally distributed across the five moral foundations (p.1040).

For conservative-leaning CEOs, the effect of different levels of CEO activism on CSR will not be different compared with the liberal CEOs, all else equal. This prediction is based on the moral foundation hypothesis (Graham et al. 2009) as well as the findings of the researchers who demonstrate that conservative CEOs apply financially conservative policies (Hutton et al. 2014). Firms with conservative CEOs are known to

have less debt, make less risky investment decisions, lower capital and research and development (R&D) expenditures, higher dividend payouts, and higher profitability (Hutton et al. 2014). Firm investment decisions also vary depending on the CEO's political ideology. For example, researchers suggest that conservative CEOs are less likely to engage in mergers and acquisitions (M&As) activities compared with liberal CEOs (Elnahas and Kim 2017). Overall, conservative CEOs apply more financially conservative policies, demonstrate a strong disposition to preserve the status quo, and are less likely to engage in sensation-seeking behavior. CSR advances require resource allocation and its positive firm outcomes are not visible in the short term. Increasing investment in CSR activities is antithesis of maintaining the status quo and avoiding risky investment. Based on this logic, I predict that conservative CEOs (compared with liberal CEOs) will not increase their company's advances in CSR as their level of activism increases.

For liberal-leaning CEOs, I predict that CEO activism will have a diminishingly positive effect on the firm's advances in CSR. This effect is the most positive at lower levels of CEO activism and weakens as CEOs increase the number of times they take a stand on social-political issues. From published research, we know that liberal CEOs apply more socially responsible policies (Briscoe et al. 2014; Chin et al. 2013; Di Giuli and Kostovetsky 2014). As discussed earlier, CEO activism reflects the CEO's underlying values and political convictions. As liberal CEOs engage in more activism, they tend to perceive a business case for CSR and grow a strong preference for CSR outcomes. As a result, they envision that CSR is beneficial for the firms and hold that CSR is intrinsically desirable. This will influence the CEO to apply socially responsible

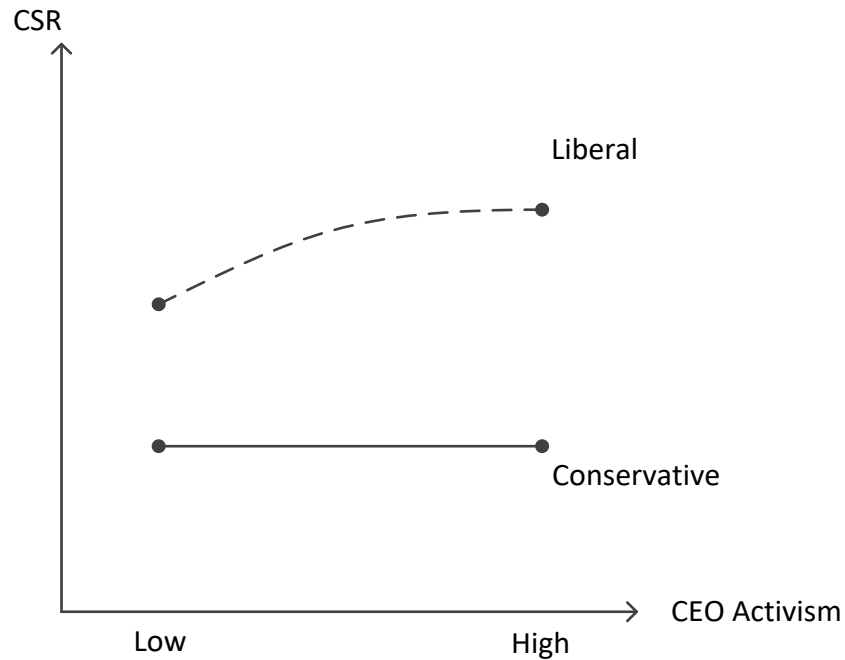
policies and practices and hence their activism will have a growing positive effect on the firm's CSR, however up to a certain point.

While I suggest that higher CEO activism levels improves the firm's CSR, there is one consequential reason this positive effect will reach a point of diminishing returns. According to research in resource allocation (Klingebiel and Rammer 2014) as the breadth of resource allocation increases, the focus and thrust gets limited, hence resources for the task at hand will not be sufficient. Consistently, as CEO activism gains more breadth, the resources such as time, energy, capital and other resources become more limited, hence the weaker association between CEO activism and the firm's CSR. In this case, the CEO will not be able to give intense focus to implementing policies and practices directed at improving the CSR and as a result have lower levels of focus on CSR.

Based on the above, all else constant, for liberal CEOs, higher levels of CEO activism likely return higher CSR ratings, at a certain point engaging in CEO activism will result in diminishing CSR ratings for the corresponding increases in CEO activism. See Figure 6 for the predicted interaction effect of CEO political ideology and CEO activism on the firm CSR. Based on the above discussion, I hypothesize the following:

H3: CEO's political ideology (liberalism vs. conservatism) moderates the relationship between CEO activism and the firm's CSR. All else equal, for liberal-leaning CEOs, CEO activism will have a diminishingly positive association with firm's advances in CSR; the relationship is most positive at lower levels of CEO activism but weakens at high levels of CEO activism. For conservative-leaning CEOs, CEO activism will not have a significant effect on the firm's CSR.

Figure 6. Predicted Interaction Effect on CSR



Earlier, as the baseline hypothesis, I argued that the number of times a CEO expresses his/her side on a controversial issue is positively related to the CEO's firm engagement in political activities. We know that two of the tactics CEO activists use to influence public policy are raising awareness and leveraging economic power. Leveraging economic power includes activities such as threatening to move the headquarters out of the state and donating to third-parties who advocate the CEO's stand. Such actions have an association with firm's engagement in political activities mainly lobbying and donations to PACs.

The effect of CEO activism on CPA is a baseline effect meaning that on average across all firms, CEO activism is positively related to CPA. However, I argue that the effect of CEO activism on CPA varies across firms with CEOs that have conservative-versus liberal-leaning political ideologies. Specifically, I predict that CEO engagement in

more activism—measured by the number of times they take a side on social-political issues— will significantly increase the firm spending on CPA for firms with liberal-leaning CEOs compared with conservative-leaning CEOs.

Researchers have found that CEOs have a significant influence on corporate donations to PACs (Coates 2012; Milyo et al. 2000). For example, CEO political liberalism is found to be significantly positively related to the company's PAC Democratic orientation (Chin et al. 2013). Published research shows the Republican-leaning managers lobby a larger number of bills, hire more lobbyists, and expend more on lobbying compared to their Democratic-leaning and Apolitical counterparts (Unsal et al. 2016).

We know that one of the fundamental differences between liberals and conservatives is resistance to change (Jost et al. 2003; Jost 2006; Sturdivant et al. 1985). Liberalism is characterized by preferring new things, being receptive to change or innovation, and stimulus seeking (Sturdivant et al. 1985). Published research also shows that liberals are more sensitive to social issues and that they place a higher priority on social justice (Jost 2006). For liberal-leaning CEOs, engagement in CEO activism—measured by the number of times they communicate their stand on a social-political issue—induces them to enact corporate political activity policies that are aligned with their political convictions and this will increase their respective firm's CPA expenditure.

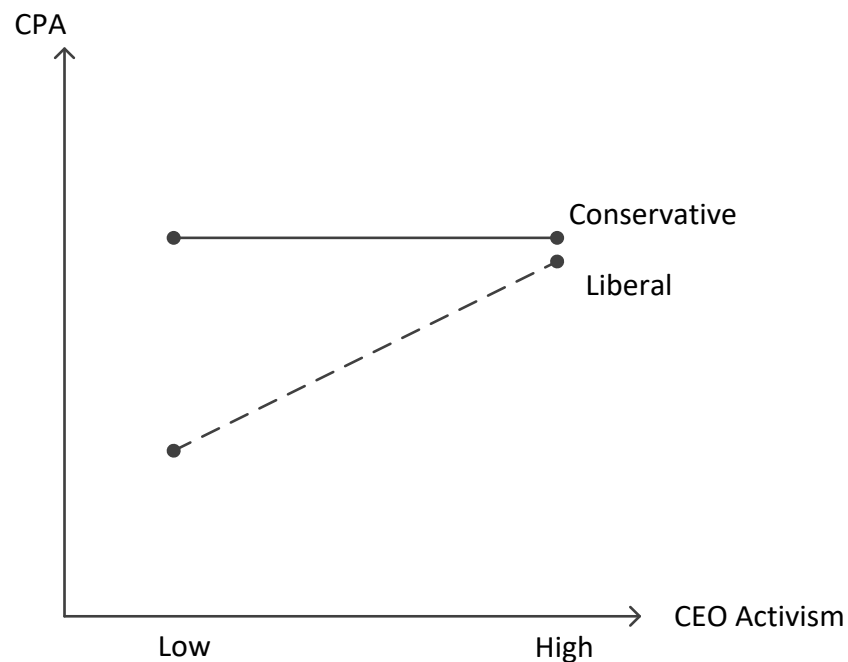
On the other hand, the effect of CEO activism on CPA will not be significantly higher for conservative-leaning CEOs. As discussed earlier, conservatives have a disposition toward maintaining the status quo and place a higher priority on free market and business needs (Jost et al. 2003; Jost 2006). Conservative CEOs also apply more

financially conservative policies (Hutton et al. 2014). Based on this, it is unlikely that the number of times they engage in activism, will significantly influence their already-in-place optimal financial policies regarding their respective firm's CPA.

As a result, the CPA expenditure of the firms with liberal-leaning CEOs increases to a greater extent compared with the CPA expenditure of the firms with conservative-leaning CEOs. Figure 7 illustrates the predicted interaction effect of CEO activism and CEO political ideology on firm's CPA. Based on the above, I hypothesize the following:

H4: CEO's political ideology (liberalism vs. conservatism) moderates the relationship between CEO activism and the firm's CPA. All else equal, for liberal-leaning CEOs, CEO activism will have a positive association with firm's advances in CPA. For conservative-leaning CEOs, CEO activism will not have a significant effect on the firm's CPA.

Figure 7. Predicted Interaction Effect on CPA



CSR and Sales Growth

Two of the early empirical works on the firm effect of CSR include Brown and Dacin's (1997) and Sen and Bhattacharya's (2001) papers. Brown and Dacin's (1997) investigated the effect of firm's CSR associations on new product evaluations. They find that CSR associations influence product evaluations through corporate evaluations. Building on this paper, Sen and Bhattacharya (2001) also investigated the effect of CSR on company evaluations and show that this relationship is mediated by customer's self-congruence with the company and moderated by the customer's support for the CSR domain. In both papers, the authors use the broad societal conceptualization of CSR defined as the company's "status and activities with respect to its perceived societal obligations" (Brown and Dacin 1997, p. 68; Sen and Bhattacharya 2001, p. 226).

Overall, the empirical evidence is suggestive of a positive relationship between CSR and firm performance. Studies that focus on the relationship between CSR and firm performance are built on four mechanism: slack resources, good management, penance, and insurance mechanisms (Kang et al. 2016). Slack resources mechanism is based on the assumption that firms engage in CSR because they have slack resources due to their prosperous financial performance. Good management mechanism is based on the explanation that good management subsumes CSR and hence firm's superior financial performance. Penance mechanism posits that firms engage in CSR to attenuate the adverse effect of the past corporate social irresponsibility. Insurance mechanism explains that CSR serves as a backup for firms if and when a firm gets exposed for corporate social irresponsibility (CSI). Kang et al.(2016) test these four mechanisms simultaneously in their empirical model and find that firms financially benefit from CSR through the

good management and penance mechanisms and not the slack resources and insurance mechanisms. However, the authors also find that the penance mechanism does not offset the adverse performance effects of CSI. The authors conclude that CSR leads to financial performance and not the other way around.

Review papers and meta-analyses have reported a positive association between CSR and financial performance (Margolis 2001; Margolis and Walsh 2003; Orlitzky et al. 2003) and a negative association between CSI and financial performance (Kölbel 2017). Specifically, CSR is shown to be significantly related to future revenue and growth on sales. The above discussed evidence provides the following hypothesis:

H5: CSR is positively related to the firm's sales growth.

CPA and Sales Growth

As discussed earlier, lobbying and campaign contributions are the two most commonly used forms of CPA. In 2018, corporations spend \$3.46 billion on lobbying alone⁵. Firms engage in CPA to influence the public policy process and outcomes and gain a competitive advantage (Getz 1997).

A great body of research in CPA has examined the financial outcome of CPA for the firm (Bonardi et al. 2006; Hadani and Coombes 2015; Hillman et al. 1999; Lux 2016). A meta-analysis on the drivers and outcomes of CPA has shown a positive link between corporate political activity as measured by firm's total campaign contributions and lobbying expenditures, and firm economic performance captured by economic-based measures including return on assets (ROA) and return on investment (ROI). Published

⁵ Based on calculations by Center for Responsible Politics. See <https://www.opensecrets.org/lobby/>

research demonstrates that CPA can lead to changes in expenditures, sales, and revenue by influencing trade policy (Kerr et al. 2014), influencing competitive resource environment to the firm's advantage (Capron and Chatain 2008), securing government contracts (Ridge et al. 2017), delivering tax breaks (Richter et al. 2009), and shielding the firm from corporate fraud detection (Yu and Yu 2011). CPA has been found to increase accounting and market measures of firm performance (Chen et al. 2015b; Hadani et al. 2015; Hadani and Schuler 2013; Lux 2016; Lux et al. 2011), as well as firm value (Hill et al. 2013; Ridge et al. 2017; Schuler et al. 2017). Recently, Zheng et al. (2015) supported that having political ties is positively associated with firm's sales growth. Building on this evidence and findings of published research, I propose the following:

H6: CPA is positively related to the firm's sales growth.

CHAPTER IV

RESEARCH METHODOLOGY

Sample and Data Structure

The sampling frame I chose consists of all CEOs of Standard & Poor's 1500 firms who were appointed at any time during 2001 to 2011. This frame includes 3770 CEOs (3770 CEO-company pairs). The data required for my study were generally abundant for these major companies (but more limited for smaller firms). I sample newly appointed CEOs so that I can observe their firms' CSR and CPA from the onset of their appointment.

As described below, the year 2003 is the first year that CSR data is available for a wide set of companies rather than a much smaller pool of firms. Additional sampling filters are also applied. First, to control for the industry-level CSR and CPA, I only include CEOs of firms in industries that have at least five other firms in the CSR and CPA database (based on 2-digit SIC code). To do so, I created a variable "less than or equal to 5?", which flags the companies that do not have at least five competitors in their industries. Second, I exclude CEOs who have previously been CEOs of other companies; this is due to the measure of CEO political ideology, which is based on each CEO's political donations behavior prior to their first CEO appointment. There are several

individuals in the sampling frame who have been a CEO (in one or more companies) before the year 2001 and the CEO of only one company after the year 2001, which the start time window of my research. For clarity I call these individuals non-freshmen_2001 CEOs. So, when I drop the CEO appointed before 2001, non-freshmen_2001 CEOs will be disguised as first-time CEOs, while in fact they are not. To prevent this, I created a variable indicating if the person has been a CEO before 2001 and then added this to the master dataset so that I would be able to drop these CEOs in later steps. Third, I only include CEOs who serve at least two years, since tenures less than two years might not have a significant impact on companies' CSR and CPA behavior resulted from CEOs' actions. Applying these criteria yields a sample of 1751 CEOs. I use a lagged design so that CEO activism temporally precedes CSR, CPA, and relative sales growth measurements. For every CEO, I measure their respective company's CSR and CPA two years after they became the CEO (year t) and sales growth is measured three years after the CEO was appointed ($\frac{Sales_{t+3}}{Sales_{t+2}} - 1$).

Data Sources

The secondary datasets analyzed in this dissertation were collected from several sources, including publicly available data and proprietary data repositories. The data sources include BoardEx, MSCI (formerly KLD), Center for Responsive Politics (CRP), and COMPUSTAT (ExecuComp). In the following section, I will briefly explain each data source and explain the variables borrowed from each one.

BoardEx

BoardEx data provides detailed profiles of directors and executives for 20,000+ companies from 1999 to present. It includes virtually all U.S. public companies. This

database contains data on executives' and directors' background, compensation, employment, social membership, and relationship. From this database I collect all the information available related to each CEO's affiliation to various nonbusiness organizations including non-profit organizations, religious institutions, club memberships, university board of trustees, etc. I use the count of CEO's affiliation to the said organizations to arrive at CEO activism proxy variable.

MSCI (formerly KLD)

The MSCI data set was created by Kinder, Lydenberg, and Domini (KLD) research and analytics in 1991. KLD was acquired by MSCI in 2010. KLD is a widely used database in academic literature (e.g., Chin et al. 2013; Kang et al. 2016; Mishra and Modi 2016) providing annual data on firms' strength and concerns on multiple social issue dimensions including community, corporate governance, diversity, employee relations, environment, human rights, and product quality and safety. KLD annually measures the CSR profiles of firms and is considered the best available data for measuring CSR (Chin et al. 2013).

KLD measures CSR in multiple categories such as environment, community, employee relations, etc. Under each category, there are several "strength" and "concern" indicators. For example, the community category includes eight strength indicators such as charitable giving and six concern indicators such as adverse economic impact. The company is rated on each indicator based on the presence or absence (binary) of the specific item. For example, if a company has donated more than 1.5% of trailing three-year net earnings before taxes to charity, the "charitable giving" indicator equals 1, otherwise 0.

Center for Responsible Politics

Center for Responsive Politics (CRP) provides data for all campaign contributions and lobbying directed toward the federal government. Federal Election Commission (FEC) records all individual contributions of more than \$200 to individual candidates; to campaign committees for federal office; to national, state, and local parties, and to political action committees (PACs). FEC data is also available through the Center for Responsive Politics⁶—a non-partisan research institute.

COMPUSTAT (ExecuComp)

COMPUSTAT database provides financial and market information on active and inactive companies across the world. COMPUSTAT Executive Compensation (ExecuComp) provides information on CEOs such as CEOs full name, title, position, age, gender, and tenure.

Measures

Based on the theoretical definitions of the constructs in my model, I used the appropriate available variables in the previously described datasets. My model predicts the effect of one explanatory (CEO activism) and one moderating variable (CEO political ideology) on two main mediating variables (CSR and CPA), as well as the effect of the mediating variables⁶ on the dependent variable (sales growth). In the following section, I describe the operationalization of each conceptual variable. Table 12 provides a summary of operational definitions of variables.

⁶ www.opensecrets.org

Table 12. Operational Definition of Variables

Variable	Operationalization	Data Source	Example studies
	Independent Variable		
CEO Activism	Count of CEO's affiliations to various non-business organizations including non-profit organizations, religious institutions, club memberships, university board of trustees, etc.	BoardEx	—
	Mediating Variables		
CSR _(t+2)	Firm's annual net CSR score = sum of all the firm's strengths minus sum of all concerns. This is calculated for two years after the CEO's appointment.	MSCI (KLD)	(Chin et al. 2013; David et al. 2007; Wong et al. 2011)
CPA _(t+2)	Aggregate of firm's lobbying expenditures and donations to political action committees (PACs). This is calculated for two years after the CEO's appointment.	Center for Responsible Politics	(Lux et al. 2011; Ridge et al. 2017)
	Moderating Variable		
CEO Political Ideology _(t-10, t-1)	CEO's political donations behavior for the ten years prior to the time they became the CEO (from year $t-10$ to $t-1$, where t is the first year of their tenure). This measure is the average of four indicators, each capturing a distinct aspect of CEO's political donations. The measure ranges from 0 to 1. Conservative if value less than 0.5, liberal otherwise.	Center for Responsible Politics	(Chin et al. 2013; Di Giuli and Kostovetsky 2014; Elnahas and Kim 2017; Gupta et al. 2017; Unsal et al. 2016)
	Dependent Variable		
Relative Sales Growth _(t+3)	Percentage change in sales revenue measure for three years after the CEO's appointment $(\frac{Sales_{t+3}}{Sales_{t+2}} - 1)$.	Compustat	

	Control Variables		
CEO Duality	Dummy variable: 1 if CEO also board chair, 0 otherwise.	ExcuComp (Compustat)	(Chin et al. 2013; Hadani et al. 2015)
Year became CEO	The year CEO was appointed.	ExcuComp (Compustat)	—
Firm Size $(t-1)$	Sales (logged) measured in the year prior to the CEO's appointment.	Compustat	(Chin et al. 2013; Hillman et al. 2004; Lux et al. 2011; Schuler et al. 2002)
Firm Performance $(t-1)$	Market-to-book value of common equity minus the mean of the value for the industry (logged). This is calculated for one year prior to CEO's appointment.	Compustat	(Chin et al. 2013)
Pre-CEO CPA $(\bar{t}-1, \bar{t})$	CPA (lobbying + PAC) averaged for the year CEO was appointed and the year before that (i.e. t and $t-1$)	Center for Responsible Politics	
CPA Within Industry $(t-1)$	For each firm, the proportion of a firm's competitors in the same industry (with the same two-digit SIC code) that spent on lobbying and PACs, calculated for the year CEO was appointed.	Center for Responsible Politics	(Hillman et al. 2004; Schuler et al. 2002)
Industry- Average CSR t	The average CSR for all the firms in the same industry (based on the 2- digit SIC code)—excluding the focal firm, calculated for the year CEO was appointed.	MSCI (KLD)	(Chin et al. 2013; Matten and Moon 2008)
	Instrumental Variables		
Headquarters Location	Binary variable: 1 Firm's headquarters located in the ten most Democratically oriented stats (as rated by Gallup ⁷) 0 otherwise.	Compustat	(Chin et al. 2013)

⁷ <https://news.gallup.com/poll/114016/state-states-political-party-affiliation.aspx>

CEO's overall degree of political activism (t-10, t-1)	CEO's total number of political donations for 10 years prior to CEO's start date.	Center for Responsible Politics	(Chin et al. 2013)
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Independent Variable: CEO Activism

Initially, I set out to measure CEO Activism by the count of times a CEO has publicly communicated his or her stance on a social-political by issuing a formal statement, tweeting, writing an op-ed two years prior to appointment. This data was then meant to be put up for assessment by a panel of judges to determine the level of controversiality of the issues as well as the ideological valance of the stance (liberal-leaning statement vs. conservative-leaning statement). In addition, the depth of the CEO's stance (how many times the CEO has taken a side on a particular issue) as well as the breadth of the issues (how many different issues the CEO has taken a side on) was planned to be measured. To obtain the CEO statements, I scraped textual data in various databases to identify sources that contained the names from the initial CEO list (3770 CEOs). This yielded 53760 articles in total, and among those 48877 had full text that would be used for text mining. I used SAS text miner to do word parsing on the articles and to identify how many articles contained generic social and political terms and how many times they had appeared in those articles. The terms considered in the word parsing output included abortion, planned parenthood, LGBT, gender identity, gay marriage, gay, transgender, climate change, environmental impact, greenhouse emission, pollutants, poverty, guns, civil rights, immigration, affordable housing, race, homelessness, student loan, religion freedom, euthanasia, death penalty, globalization, government mandates, confederate flag, nationalism, bullying, and marijuana. The word parsing output yielded

2718 articles that contained the aforementioned terms. An examination of these articles showed that most of the articles did not contain a CEO statement, out of those that did, most of them did not contain a CEO statement on social political issues.

Therefore, I opted for obtaining a proxy variable for measuring CEO activism. To construct this proxy, I used BoardEx data that contains detailed profiles of CEOs of the U.S. public companies. The specific data that I used from BoardEx was information on social and political memberships of the CEOs. This data has a list of each CEO's affiliations to all clubs, societies, non-profit organizations, religious institutions, university board of trustees, etc. I constructed CEO activism by the count of the institutions to which each CEO is affiliated. In the next section, I explain the procedure I used to obtain this proxy.

Procedure

BoardEx data includes several tables containing information about CEOs. The tables of my interest called "board summary" and "director profile other activities", contain director information (including their role in the company) and their affiliation with various non-business organizations. To calculate CEO activism using these tables, I took several data pre-processing steps on their fields and data, a subject to which now I turn.

In the "board summary" table, there is a field that indicates the director's role in the company. For the 'Individual Role' field, I first selected "CEO" and "Chairman". After selecting the unique director IDs in the filtered data, I matched them with the "director profile other activities" table that contained CEO affiliations information. The next step was to match this with my sampled CEOs. There were several challenges in

matching due to difference in data structure and formatting. For example, the names are not in the same format in two dataset (one could be in “First Name Middle initial Last Name” format and the other table was in the format of “Last Name, First Name initial”). To get an accurate match, several steps were taken. First, I stripped the titles, nicknames in parentheses, extra titles, etc. from full name field to identify first, middle, and last names in BoardEx data table. To ensure accuracy, I first merged BoardEx data and the CEO sample (n = 1751) on last name and then kept only those that had an identical first name initial. Then I manually checked the match between the CEO and BoardEx data to ensure exact match. Next, for each CEO, I calculated the number of memberships. Those CEOs who had no recorded affiliations in the BoardEx data are assigned 0 for activism, with the assumption that if they had any affiliations, they would have been reflected in the BoardEx dataset. I call the resulting dataset master data. In the next paragraphs, I explain the challenges and approaches in developing the master data by adding CSR, CPA, sales growth, and control variables data to it.

Mediating Variables: CSR and CPA

CSR

Companies CSR data is available from 2003 to 2013 for a large number of U.S. public companies. Consistent with previous research (Chin et al. 2013), to measure each firm’s annual CSR rating, I included the six KLD categories that reflect the firm’s commitments to stakeholders beyond the firm’s owners. A firm’s net CSR score for each firm was calculated as the sum of all the firm’s strengths minus the sum of all concerns. This approach is consistent with published research (e.g., Chin et al. 2013; Choi and Wang 2009; David et al. 2007; Gupta et al. 2017; Wong et al. 2011). CSR score for each firm was measured two years after its CEO’s appointment.

Procedure

To merge the calculated CSR score with the master dataset several challenges presented themselves. One, in the CSR data, ticker of the companies was not unique, because outside U.S. companies had the same ticker as some of the U.S. companies. Therefore, if I were to merge the CSR data with the master data, I would have multiple matches for some of the CEOs (companies). To fix this issue, I first merged the CSR data and master data, and then counted the number of rows for each ticker/company pair. Next, I went over those with multiple pairs, identified the non-matched ones (out of the U.S. companies), and then removed those companies from my data.

CPA

The data source for calculating CPA is Center for Responsible Politics. I measure CPA by aggregating firm's PAC contributions and lobbying expenditures two years after CEO's appointment.

Procedure

The challenge in matching the lobbying data with the master data was that company's ticker is not provided in the lobbying table and therefore I could only rely on the companies' names. Similar to merging on CEO's names, merging on companies' names is challenging since different datasets could use various styles such as having abbreviations in company names (for example XYZ corporation vs XYZ corp.). To address this issue, first I only matched lobbying data with the master data on the companies' names initials and also the year of interest for CPA (two years after CEO's appointment). Then I categorized the initial matched data into different groups based on the length of the company name. Next, in these sub-groups, I filtered the rows that were matches between companies in the master data and the lobbying data. The match criterion

was different in various sub-group datasets. For datasets containing longer names, I matched on a greater number of characters compared to the datasets containing companies with shorter names. Next, I concatenated all of the matched cases from all sub-group datasets and dropped the unessential variables. Then I left joined the master dataset and lobbying data and calculated total lobbying amount for CEOs (companies). Similar steps were taken for adding the companies' PAC data to the master dataset.

Moderator: CEO Political Ideology

I measure CEO political ideology through the CEO's political donations for ten years prior to the time they became CEO (from year $t-10$ to $t-1$, where t is the first year of their appointment). For example, if a CEO was appointed in year 2005, his or her political donations for the time frame 1995 to 2004 are examined. This ten-year window includes five congressional election cycles and two presidential elections, to allow meaningful interpretation of a CEO's donation pattern. Researchers have shown that political donations reflect individual's political ideologies (Ansolabehere et al. 2003; Ensley 2009; Francia 2003). To measure CEO's political ideology, I adopt Chin et al.'s calculation of liberalism index (Chin et al. 2013). Researchers have used this index to measure CEO's political ideology and this measure has been validated across several studies (e.g. Briscoe et al. 2014; Chin et al. 2013; Chin and Semadeni 2017; Gupta et al. 2017). The data used for this measurement is sourced from the Center for Responsible Politics and includes CEO's political donations to individual candidates and party committees. The liberalism index measurement includes four indicators each tapping a distinct aspect of CEO's political contributions. These four aspects include financial commitment, behavioral commitment, commitment persistency, and political orientation.

The measurement is the average of the four following indicators 1) the ratio of the number of donations to Democrats to total number of donations, 2) the ratio of dollar value of donations to Democrats to total dollar value of donations , 3) the ratio of the number of years the CEO made donations to Democrats to total number of years the CEO made donations , and 4) the ratio of the number of distinct recipients who were identified as Democrats to the total number of distinct recipients. Consistent with the main premise of political ideology that is relatively stable across time (Jost 2006), the liberalism index has been shown to be stable across CEO's tenure (Chin et al. 2013; Chin and Semadeni 2017). The scores from the index range from zero to one, denoting degree of CEO's liberalism. Values less than 0.5 indicates conservatism and values greater than 0.5 representing liberalism.

Procedure

To obtain the liberalism index, I started with the individual contribution data from Center for Responsible Politics for election cycles 1992 to 2014. This window covers seven election cycles. After fixing some formatting issues and concatenating donation records across election cycles, the next step would be to match the individual contributions with my CEO sample. However, if I were to merge contribution and CEO data on both first and last name at the same time, I would lose some potential CEO contributions. The reason is that in the contribution dataset, for some contributors, there is only an initial recorded for the first name (e.g. Faust, R M MRS). To avoid this issue, I first joined the two datasets on last name. Then, I only kept those who also had the same first letter in the first name.

Dependent Variable: Sales Growth

For each company, the sales growth is measured as percentage change in sales revenue $\left(\frac{Sales_{t+3}}{Sales_{t+2}} - 1\right)$ where t is the year CEO was appointed.

Procedure

I added the sales data for both two and three years after CEO started to the master dataset. And then calculated the relative sales growth $\left(\frac{Sales_{t+3}}{Sales_{t+2}} - 1\right)$ for each company.

Control Variables

To properly control for and isolate the effects of the independent and moderator variables, I include several control variables in the statistical model. Table 12 lists all the control variables, their operationalization, data sources, and the sample studies.

Master Dataset

The resulting master dataset contains information of 293 CEOs. The master dataset contains CEO activism (a numerical value) measure, CEO political ideology (liberalism index) calculated for 10 years before CEOs appointment, the CEO's firm's CSR score and the CEO's firm's lobbying and PAC spending calculated for two years after the CEO start and the CEO's firm's relative sales growth (percentage change in sales revenue) calculated for three years after the CEO's appointment. In the next paragraph, I will explain the estimation method used for testing the hypotheses.

Estimation Method

I examine the interaction effect between CEO activism and CEO political ideology on firm's CSR, CPA, and sales growth using simultaneous equations modeling approach (Greene 2003). It is possible that the error terms of the study variables are

correlated. Therefore because endogeneity is probable in my proposed model, ordinary least square (OLS) regression might result in bias and inconsistent parameter estimation (Kumar 2009; Lee and Weng 2013). To address this issue, it is critical that all equations are estimated simultaneously (Greene 2003). Therefore, I employ three-stage least square (3SLS) method of estimation. 3SLS allows for simultaneous equations estimation. 3SLS allows correlation among error terms (Greene 2003). One important benefit of the 3SLS over two stage least square (2SLS) is that it is more consistent and asymptotically more efficient (Greene 2003). A necessary but not sufficient condition for estimating parameters simultaneously is identification. Identification precedes estimation and basically addresses if the equations are even estimable (Greene 2003). The problem of identification is not related to sample size or sampling properties. The 3SLS estimation approach has been adopted by past research that have empirical similarity with this dissertation (Cuypers et al. 2017; Kumar 2009; Lee and Weng 2013). In the next chapter, I explain the results of the hypotheses testing.

CHAPTER V

RESULTS

In this chapter, I present the results of the 3SLS estimation. The organization of this chapter is as follows. First, I summarize the variables' descriptive statistics and discuss the multicollinearity issue. Next, I will present the equations in the 3SLS system of equations. Lastly, I explain the model fitting and the 3SLS results. To run the 3SLS estimation, I used the *proc syslin* procedure in SAS.

Table 13 summarizes variables' descriptive statistics including means, standard deviations, min, and max. The univariate statistics of CEO political ideology indicate that the CEOs in the sample are on average inclined toward conservatism, with a mean of 4.0. Figure 8 presents the frequency distribution of CEO political ideology. The CPA measure is of a vastly different magnitude and the shape of its distribution is not close to normal. To address the issue, I log transformed CPA and included the transformed values in the 3SLS model.

Figure 8. Frequency Distribution of CEO Political Ideology (N = 262)

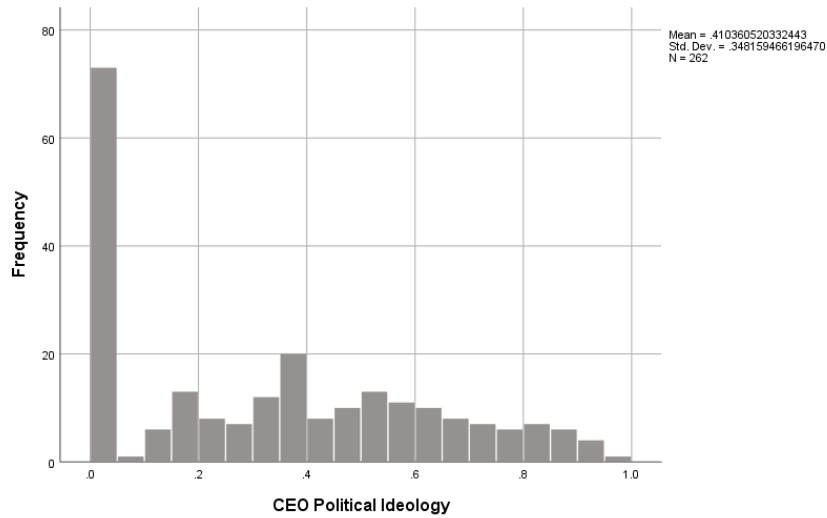


Table 13. Descriptive Statistics (N = 262)

Variable	Mean	S.D.	Min	Max
1. CEO activism	8.29	7.71	0	32
2. CEO political ideology	0.41	0.35	0	1
3. CSR _(t+2)	0.74	2.91	- 6	9
4. CPA _(t+2)	1,915,489	3,588,785	1750	28666500
5. Sales growth	4.67	16.64	- 92.69	57.34
6. Industry-average CSR	- 0.41	0.54	- 2.80	1.26
7. CPA within industry	0.35	0.15	0.03	0.63
8. Pre-CEO CPA	2,488,841	4,467,806	0	38257696
9. CEO's total number of contributions	14.68	26.33	1	313
10. Firm size _(t-1)	8.60	1.51	2.55	12.08
11. Firm Performance _(t-1)	6934	18186	- 15795	148525

CPA has been logged transformed. The reported descriptive statistics is for the original variable.

Table 14 presents the variables correlations. As shown in Table 14, there is a strong correlation among firm size, firm performance, and pre_CEO CPA. To prevent the multicollinearity issue, I use the third principal component of these variables. The reason is that the strong correlation among these variables creates multicollinearity. Principal component allows me to summarize these correlated control variables (Rencher 2012). Based on the model illustrated in Figure 5, I use a three-equation 3SLS model to simultaneously estimate the interaction effect of CEO activism and CEO political ideology on CPA and CSR, and the effect of CSR and CPA on the firm's sales growth. I now turn to the equations and explain the variables included in each one.

Equation 1. CSR score is the dependent variable and CEO activism, CEO political ideology, and their interaction term are the independent variables. In this equation, I control for industry-average CSR, CEO-duality, headquarters location, firm performance, firm size, and pre_CEO CPA.

Equation 2. CPA (logged) is the dependent variable. CEO activism, CEO political ideology, and their interaction term are the independent variables. In equation 2, I control for CEO-duality, firm performance, firm size, pre_CEO CPA, CPA within industry (logged), headquarters location, and year became CEO.

Equation 3. Sales growth is the dependent variable. CSR and CPA (logged) are the independent variables and year became the CEO is a control variable. Using the 3SLS estimation technique, the data is fit to the model.

Table 14. Descriptive Statistics and Correlations (N= 262)

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13
1. CEO activism	8.29	7.72	1.00	0.05	0.08	0.26**	0.07	-0.05	0.18**	0.14*	0.15*	0.35**	0.27**	0.12*	0.15*
2. CEO political ideology	0.41	0.35	0.05	1.00	0.04	0.10	0.09	-0.04	-0.01	0.06	0.02	0.11	0.11	-0.02	0.13*
3. CSR	0.74	2.91	0.08	0.04	1.00	0.32**	0.07	0.28**	-0.13*	0.23**	0.00	0.28**	0.22**	0.17**	0.18**
4. CPA (log)	13.04	1.87	0.26*	0.10	0.32*	1.00	-0.07	0.04	0.15**	0.48**	0.07	0.53**	0.39**	0.05	0.21**
5. Sales growth	4.67	16.64	0.07	0.09	0.07	-0.07	1.00	0.04	0.01	-0.09	-0.12	-0.15*	-0.12*	0.07	0.03
6. Industry-average CSR	-0.41	0.54	-0.05	-0.04	0.28**	0.04	0.04	1.00	-0.33*	0.01	0.00	-0.04	0.11	-0.01	0.08
7. CPA within industry (log)	0.35	0.15	0.18**	-0.01	-0.13*	0.15*	0.01	-0.33**	1.00	0.06	0.05	0.11	0.01	0.15*	-0.15*
8. Pre-CEO CPA	2488841	4467806	0.14*	0.06	0.23**	0.48**	-0.09	0.01	0.06	1.00	0.04	0.34**	0.43**	0.02	0.21**
9. CEO total number of contributions	14.68	26.33	0.15*	0.02	0.00	0.07	-0.12	0.00	0.05	0.04	1.00	0.18**	0.21**	0.06	0.02
10. Firm size	8.6	1.51	0.35**	0.11	0.28**	0.53**	-0.15*	-0.04	0.11	0.34**	0.18**	1.00	0.50**	0.09	0.10
11. Firm Performance	6934	18186	0.27**	0.11	0.22**	0.39**	-0.12*	0.11	0.01	0.43**	0.21**	0.50**	1.00	0.04	0.29**
12. CEO duality	—	—	0.12*	-0.02	0.17**	0.05	0.07	-0.01*	0.15*	0.02	0.06	0.09	0.04	1.00	-0.02
13. Headquarters location	—	—	0.15*	0.13*	0.18**	0.21**	0.03	0.08	-0.15*	0.21**	0.02**	0.10	0.29**	-0.02	1.00

* Correlation is significant at the $p < 0.05$ (2-tailed)

** Correlation is significant at the $p < 0.01$ (2-tailed)

Having identified the system of equations, I run 3SLS with the initial sample including 293 observations (Model 1). In the following lines, I explain the residual analysis of the data fittings. The parameter estimates, significance, system weighted R-square, and residual normality plots are reported in the Appendix.

Having run the initial 3SLS, I examine the regression residuals of Model 1. To do so, I examine the outlier plots for the main variables: CPA, CSR, and sales growth. I plot and detect the outliers for each variable. First, I examine the sales growth variable outliers. Most of the outliers for CPA and sales growth overlapped. I eliminated 8 detected outliers for sales growth and CPA and re-ran the 3SLS with the remaining 285 observations (Model 2). Comparison between Model 1 and Model 2 reveals an improvement to the system weighted R-square, from 0.12 to 0.14. In addition, the parameter estimates of the effect of CSR and CPA on sales growth change from non-significant to significant. Next, I examine the CSR residuals from Model 2 and eliminate 21 outliers leaving 264 observations (Model 3). Model 3 estimation leads to slight improvement to the system weighted R-square (from 0.138 to 0.141) and significance of the parameter estimate of the interaction effect on CPA. Finally, I examine the residuals from Model 4 and remove the remaining 2 outliers reaching a sample of 262 observations. Model 4 has a slightly lower system weighted R-Square, but the parameter estimates significance levels remain unchanged. Based on the R-square, removing the outliers did not take away the explanatory power of the models. Additionally, the normality plots of the residuals indicate that the residuals get closer to normality every step of the outlier elimination. See Table A1 in the Appendix section for the reported contrast between the models. Given the improvements to the system weighted R-square,

the significance of the estimates, as well as the improvements to the normality of the residuals, I choose Model 4 for estimation. Model four 3SLS results are reported in Table 15.

Table 15. 3SLS Results

Variable	Equation 1 DV: CSR	Equation 2 DV: CPA	Equation 3 DV: Sales Growth	Hypotheses Test Result
Intercept	0.00** (0.90)	0.00 (60.85)	0.00* (1206.2)	—
CEO activism	0.03 (0.03)	0.00 (0.02)	—	H1 not supported. H2 not supported
CEO political ideology	0.02 (0.52)	-0.08 (0.40)	—	
CEO activism × CEO political ideology	0.70 (0.05)	0.25* (0.04)	—	H3 not supported. H4 supported.
CSR	—	—	3.62** (7.90)	H5 supported.
CPA (logged)	—	—	- 3.08** (9.53)	H6 not supported.
Control Variables				
CEO duality	0.19*** (0.87)	-0.00 (0.66)	—	
Industry-average CSR	0.22*** (0.19)	—	—	
Principal component of firm performance, firm size, and pre-CEO CPA	0.13** (0.20)	0.25*** (0.15)	—	
CPA within industry (logged)	—	0.18*** (0.15)	—	
Year became CEO	—	0.00 (0.03)	.26* (.60)	
Headquarters location	0.17** (0.38)	0.23*** (0.25)	—	

Standard errors are reported in parentheses.

* indicates $p < 0.05$, two-tailed.

** indicates $p < 0.01$, two-tailed.

*** indicates $p < 0.001$, two-tailed.

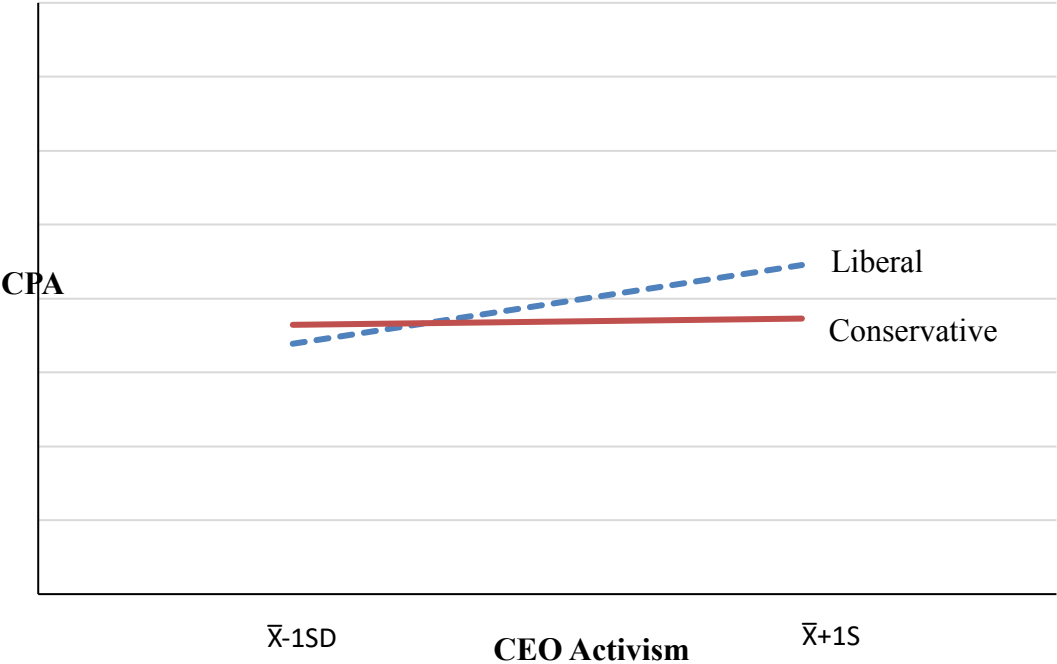
System Weighted R-square = 0.13

In hypothesis 1, I argue for the positive main effect of CEO activism on CSR.

The 3SLS result does not support a relationship between CEO activism, as measured by the count of CEO's membership of various non-business organizations, and CSR. In hypothesis 2, I predict a positive relationship between CEO activism and firm's CPA. In

equation 2, I find that there is no main effect of CEO activism on CPA, therefore hypothesis 2 is not supported. In hypothesis 3, I predict an interaction effect between CEO activism and CEO political ideology on CSR. Based on the 3SLS estimates, in equation 1, I do not find a statistically significant interaction effect of CEO activism and CEO political ideology on CSR. To visually assess the effect of CEO activism on CSR, I first mean split CEO political ideology and created the scatterplots with CSR on Y axis and CEO activism on the X axis. Figure A1 and Figure A2 in the Appendix illustrate the scatter plots. Based on the visual examination of the plots, there seems to be a curvilinear effect of CEO activism on CSR for liberal CEOs. However, after testing for the curvilinear effect, I did not find a significant effect of CEO activism on CSR for liberals. In hypothesis 4, I hypothesize an interaction effect between CEO activism and CEO political ideology on CPA. The interaction between CEO activism and CEO political ideology has a positive and statistically significant ($p = .01$) effect on a firm's CPA spending. This result is consistent with hypothesis 4. According to this result, when CEO's political ideology is leaning toward liberalism, the association between CEO activism as measured by the number of non-business organizations the CEO is affiliated with, and the firm's CPA spending is stronger. I have plotted the interaction effect in Figure 9. As shown in the figure, it appears that on average, when CEO activism, as measured by the number of CEO affiliation to non-business organizations, increases the relationship between CEO activism and firm's CPA spending becomes stronger (steeper slope) for liberal CEOs compared to conservative CEOs.

Figure 9. Interaction Effect of CEO Activism and CEO Political Ideology on CPA



In hypothesis 5, I predict a positive relationship between CSR and sales growth. I find that, consistent with hypothesis 5, there is a positive and significant relationship between CSR and sales growth ($p = .009$). Therefore, hypothesis 5 is supported. Finally, in hypothesis 6, I predict a significant a positive relationship between CPA and sales growth. However, I find that there is a negative and significant relationship between CPA and sales growth ($p = .004$).

In summary, I find that the interaction effect between CEO activism and CEO political ideology is related to the firm’s sales growth through CPA spending. It appears that the as CEO activism increases, the relationship between CEO activism and CPA becomes stronger, but only for liberal CEOs. Moreover, this increase in firm’s CPA spending is negatively related to the firm’s sales growth. With regards to CSR, consistent with past research, I find a significant positive relationship between CSR and sales

growth. However, the data does not substantiate an interaction effect between CEO activism and CEO political ideology on CSR.

CHAPTER VI

DISCUSSION

Findings

In this dissertation, I use a lagged design to investigate the effect of CEO activism, as measured by the number of non-business organizations with which the CEO is affiliated, on the firm's CSR and CPA as well as the effect on the firm's sales growth. I analyze data from all CEOs of S&P's 1500 companies who were appointed in the time window 2001 to 2011. After several steps of data cleaning and data pre-processing, I arrive at a sample of 262 CEOs. For every CEO, CEO activism is operationalized by the number of non-business organizations to which a CEO is affiliated. This data is provided from the BoardEx dataset. The firm's CSR score—as rated by MSCI— and CPA spending—measured by the aggregate of lobbying and PAC contribution dollar amount—are analyzed for two years after the CEO's start. The firm's sales growth is measured by the percentage change in sales revenue for three years after the CEO's appointment $\left(\frac{Sales_{t+3}}{Sales_{t+2}} - 1\right)$.

I draw on upper echelons and moral foundation theories as well as the reviewed literature on CSR and CPA. I theorize that CEO activism, a manifestation of the CEOs

underlying values and beliefs, as measured by the number of non-business organizations the CEO is a member of, is positively related with both firm's CSR score and CPA spending. Based on my empirical analysis, I do not find the baseline positive effect of CEO activism on CSR and CPA to be true on average across all firms in my sample in the time frame 2001 to 2011.

Further, I predict interactions effects between CEO activism and CEO political ideology on firm's CSR and CPA. I theorize that there is positive interaction effect of CEO activism and CEO's political ideology, as measured by an index of CEO's political contributions ten years prior to their tenure (liberalism index), on the firm's CPA. I predict that all else equal, for liberal CEOs there will be a stronger relationship between CEO activism and the firm's CPA spending compared with the CPA spending of firms with the conservative CEOs. I do find that the interaction effect of CEO activism and CEO political ideology to be positively related to the firm's CPA spending with a stronger association between CEO activism and firm's CPA for liberal CEOs. I also theorize a significant interaction effect between CEO activism and CEO political ideology on the firm's CSR score. I predict a curvilinear relationship (diminishingly positive) between CEO activism and CEO political ideology on CSR for liberal CEOs and no significant positive effect on CSR for conservative CEOs. The data does not substantiate the predicted interaction effect on CSR.

Lastly, I predict that CSR and CPA are positively related to firm's sales growth. The results show that consistent with past research, CSR, measured two years after CEO's appointment, is positively related to the firm's sales growth, measured by the

percentage of sales growth three year after the CEO's start. However, contrary to my prediction, I find that CPA is negatively related to the firm's sales growth.

Contributions to Theory

In this dissertation I make several contributions to theory. First, I develop a theoretical model explaining and predicting the relationship among CEO activism, CEO political ideology, CSR, CPA, and firm's sales growth. I theorize and empirically test CSR, CPA, and sales growth as the outcomes of CEO activism. These are important firm outcomes for the firm, thereby contributing to improving the nomological network of CEO activism.

Second, this dissertation provides some evidence into the current scholarship's conflicting perspectives on CEO activism, whether it is as part of the firm's non-market strategy or distinct from it (Chatterji and Toffel 2019). For example, Clemensen (2017) states that CEO activism is part of the firm's CSR. On the other hand, Chatterji and Toffel (2019) suggest that CEO activism is distinct from CSR and CPA. I theorize CEO activism as an antecedent to CSR and CPA by predicting that the interaction effect between CEO activism and CEO political ideology affect CSR and CPA. I find evidence of the interaction effect on CPA, suggesting that CEO activism is an antecedent therefore distinct from CPA. However, the data I examined did not substantiate the prediction of the interaction effect between CEO activism and CEO political ideology on CSR. Although I show that CEO activism is distinct from CPA, more research is needed to substantiate CEO activism as and antecedent rather a part of CPA and CSR.

Third, I contribute to upper echelons theory. The main premise of upper echelons theory is that executives' strategic decisions and organizational outcomes are driven by

their personalities, experiences, and values. However, there is very little empirical evidence casting light on the how CEO values influence non-market strategy elements, CSR and CPA, and bottom line outcome, firm's sales growth. I provide evidence that CEO activism and CEO political ideology—a manifestation of CEO values— interact to effect how much the firm spends in the political space and how all this influences the firm's sales growth.

Fourth, I make a contribution to strategy research by identifying CEO activism as an antecedent of CPA, thereby expanding the scope of CPA literature. Prior studies have investigated the antecedents of CPA from different perspective and offered valuable insights into the important factors determining corporate political spending on lobbying and PACs (e.g. Hillman et al. 2004; Lux et al. 2011; Schuler et al. 2002). This dissertation introduces CEO activism as yet another predictor of CPA and expands the theory by identifying a boundary condition affecting CPA and ultimately sales growth. Specifically, previous scholars have examined drivers of CPA from firm, industry, issue, and institutional perspectives. Very few researchers have focused on CEO-related predictors of CPA (e.g. Chin et al. 2013). This research addresses this gap in our knowledge by examining how CEO activism, as measured by the number of non-business organizations a CEO is involved with, influences how much the firm spends in lobbying and PACs.

Fifth, as explained in the literature review, the two major streams of non-market strategy, CSR and CPA, have mainly evolved separately. I advance non-market strategy research, by embedding both elements, CSR and CPA, in one theoretical model, thereby

answering scholars' call (e.g. Doh et al. 2012; Dorobantu et al. 2017; Mellahi et al. 2016) for integration of the CSR and CPA.

Finally, I make a notable empirical contribution to the emerging literature on CEO activism by introducing and incorporating a novel measure of CEO activism by using CEO affiliations to various non-business organizations. Past researchers have used framed field experiments (e.g. Chatterji and Toffel 2019; Dodd and Supa 2015) to examine the impact of CEO activism. Using BoardEx data, I operationalize CEO activism as the number of CEO affiliations to a variety of non-business organizations, providing another empirical testing of the effect of this construct. Future research could extend and improve this operationalization and make it a more precise gauge of CEO activism.

Contributions to Practice

This dissertation has several important practical implications for marketing. I provide new insights into the consequences of CEO activism, as measured by CEO affiliations with various non-business organizations, for the firm by showing that CEO activism and CEO's political ideology interact to influence corporate political spending and sales growth. This finding provides knowledge for the CEOs to understand how their involvement with various non-business organizations and their political ideology impact the firm they are directing.

I identify a significant boundary condition—CEO political ideology—related to the effect of CEO activism on corporate political activity and sales growth. I show that for liberal CEOs, there is a stronger association with CEO activism and CPA compared to the conservative CEOs. Moreover, CPA is negatively related to the sales growth. Based

on this finding, liberal CEO's activism is related to negative sales growth through the increase in the firm's CPA spending. This is an interesting and unexpected finding that has implications for sales managers to employ sales tactics to offset the negative effect of liberal CEO's activism on sales growth. Certainly, more research is required to substantiate the effect. Therefore, I call on more research to explore and substantiate the effect of CEO activism on sales growth.

Although I do not find a connection among CEO activism, CEO political ideology and CSR, I do find a positive relationship between CSR and sales growth. In the face of a positive relationship between CSR and sales growth, the lack of connection between CEO activism and CSR is interesting that highlights the need to search for other unidentified boundary conditions than CEO political ideology.

Moreover, by identifying CEO political ideology boundary condition, I provide actionable knowledge for corporate boards whose tasks involve overseeing and reacting to the strategic decisions of CEOs, specifically the decisions related to the firm's corporate political activity.

Limitations and Future Research Directions

Like any other empirical study, this dissertation is not without limitations, which provide avenues for extensions and refinements.

First, the effect I found in this dissertation may be bounded by the time frame (2001-2011) that I analyzed. Future research could test the veracity of the effect by analyzing more current data.

Second, the CEO activism data source—BoardEX— did not provide me with longitudinal data, which is the reason I constructed CEO activism by a numerical value

constant across the years. Although my model has a lagged design (measuring CSR and CPA 2 years and sales growth 3 years after the CEO's appointment), and therefore a time dimension, it is still considered cross-sectional. An ideal dataset to analyze would be a panel dataset with information on CEO activism, CSR, CPA, and sales growth in a relatively long period of time. This data would enable researchers to establish causal relationships.

Third, considering all the limitations, explained in the previous chapters, in obtaining actual CEO statements, I captured CEO activism by the proxy variable of the number of CEO memberships to non-business organizations. Although innovative in nature, it is a proxy measure and must be considered an imprecise measure of the CEO activism construct. Future research could contribute to the improvement of this measure by considering a more fine-tuned measurement, hence adding precision to it. For example, beside a count of CEO memberships to non-business organizations, future research may consider CEO power in their membership role by capturing whether or not the CEO is also on the board of directors in that organizations.

Fourth, instances of CEO activism are growing and as a result data on CEO statements will be more available. Future research could consider capturing CEO activism by actual CEO statements—what I initially proposed in this dissertation—and compare and contrast the effect on CSR, CPA, and sales growth with the present results.

Fifth, the empirical analyses in conducted with firms of S&P 1500 companies. Future research could examine the effect of CEO activism on firm's outcomes in other settings—different countries with different institutional environments. Country-level

boundary conditions could be identified, contributing to broadening the scope of the present theoretical model.

Lastly, I examine the effect of CEO activism captured by the CEO's activities. Future research could explore how CEO activism is different from corporate activism, in which communications of the stances on issues comes from the company's communication channels, for example statements on the company's official Twitter account. It would be informative to extend our knowledge on the difference and similarities between the two and compare the extent of their effect on CSR, CPA, and sales growth.

Conclusion

In this dissertation I advance scholarship on the phenomenon CEO activism by examining its implications for important firm outcomes including corporate social responsibility, corporate political activity, and sales growth. I provide important insights on the growing scholarship on CEO activism by showing that CEO activism and CEO political ideology impact how much the company spends on lobbying and PACs and how this spending influences the company's sales growth. This dissertation is among the firsts to explore CEO activism and its important implications for the firm. However, much remains unexplored. The impact of CEO activism on different stakeholder groups, whether and how it influences public policy, its role in shaping public attitude on issues, and its effect on the stock market are all important areas that researchers could cast light on. CEO activism is an important and growing area of inquiry and there is so much more for scholars to investigate.

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APPENDICES

Figure A1. Scatter plot of the effect of CEO activism on CSR for conservatives

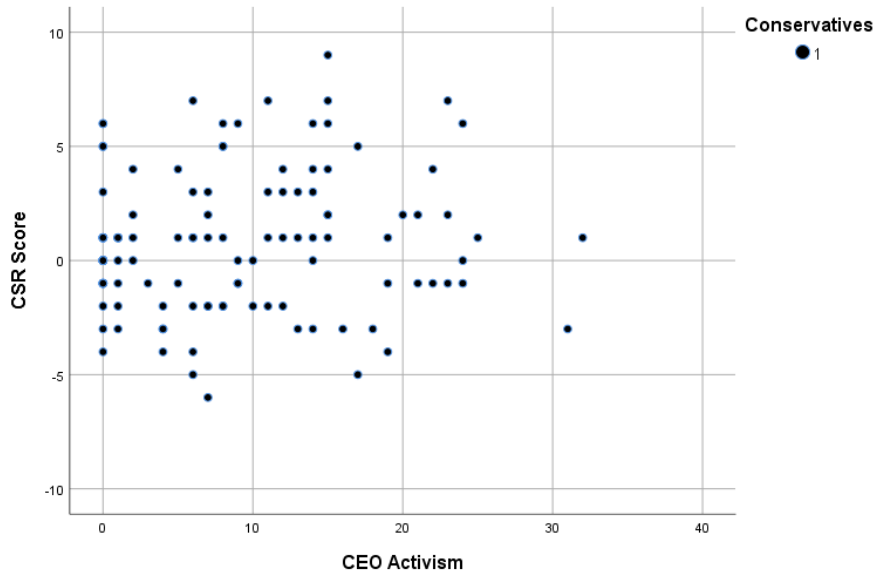
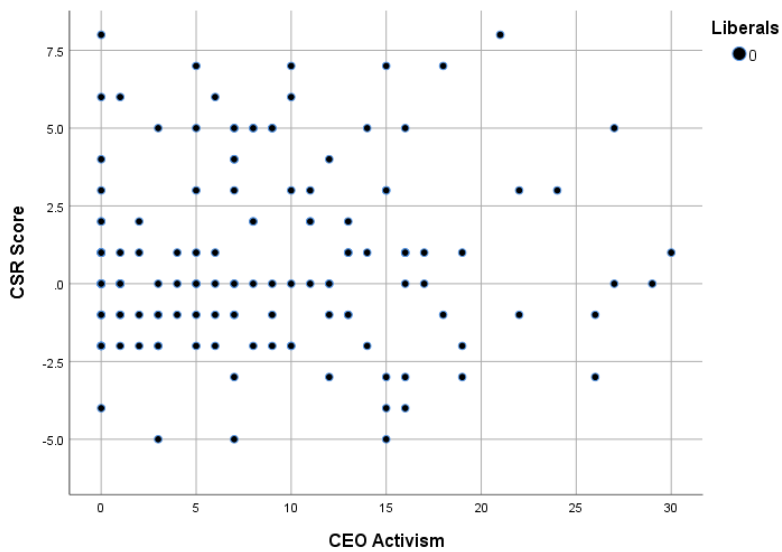


Figure A2. Scatter plot of the effect of CEO activism on CSR for liberals



Residual Analysis

Table A1 summarizes parameter estimates of different 3SLS models as well as the system weighted r-square models. In addition, residual plots of model 1 to model 4 are provided. Model 1 is the initial 3SLS estimation with 293 observations. Model 2 is the second 3SLS estimation with 285 observations (8 outliers are removed). Model 3 is third 3SLS estimation with 264 outliers (21 outliers are removed). Model 4 is the last and final 3SLS estimation (2 outliers are removed). As evident in Table A1, every step I remove outliers, there is an improvement in the system weighted R-square as well as the parameter estimates. As shown in the plots, after removing the outliers, the residuals' normality improves.

Table A1. Comparison of 3SLS Estimates

		CEO activism	CEO political ideology	CEO activism × CEO political ideology	CEO activism	CEO political ideology	CEO activism × CEO political ideology	CSR	CPA	System weighted R-square
		DV: CSR			DV: CPA			DV: Sales Growth		
Model 1	N = 293	0.00 (0.04)	0.01 (0.80)	0.05 (0.07)	0.21*** (0.02)	-0.06 (0.38)	0.14* (0.04)	-0.43 (9.74)	-2.48 (14.88)	0.117
Model 2	N = 285	0.04 (0.03)	0.05 (0.60)	0.04 (0.05)	0.07 (0.02)	-0.07 (0.41)	0.18 (0.04)	3.42* (6.63)	-2.24** (6.88)	0.138
Model 3	N = 264	0.00 (0.03)	0.00 (0.54)	0.11 (0.05)	0.06 (0.02)	-0.07 (0.40)	0.20* (0.04)	3.15* (7.32)	-2.85** (9.31)	0.141
Model 4	N = 262	0.03 (0.03)	0.02 (0.52)	0.70 (0.05)	0.00 (0.02)	-0.08 (0.40)	0.25* (0.04)	3.62** (7.90)	- 3.08** (9.53)	0.134

Standard errors are reported in parentheses.

* indicates $p < 0.05$, two-tailed.

** indicates $p < 0.01$, two-tailed.

*** indicates $p < 0.001$, two-tailed.

CSR Residuals

Figure A3. CSR Residual Histogram of Model 1

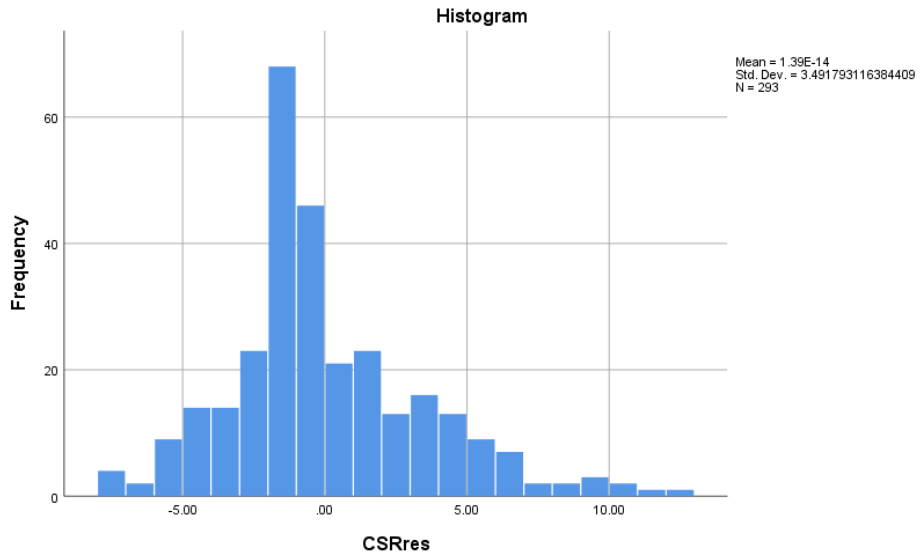


Figure A4. CSR Residual Histogram of Model 4

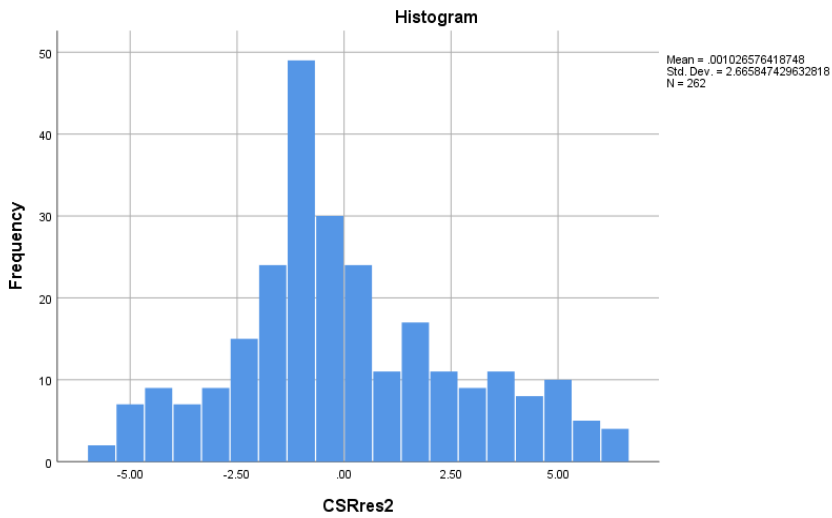


Figure A5. Normal Q-Q Plot of CSR Residual Before Removing Outliers

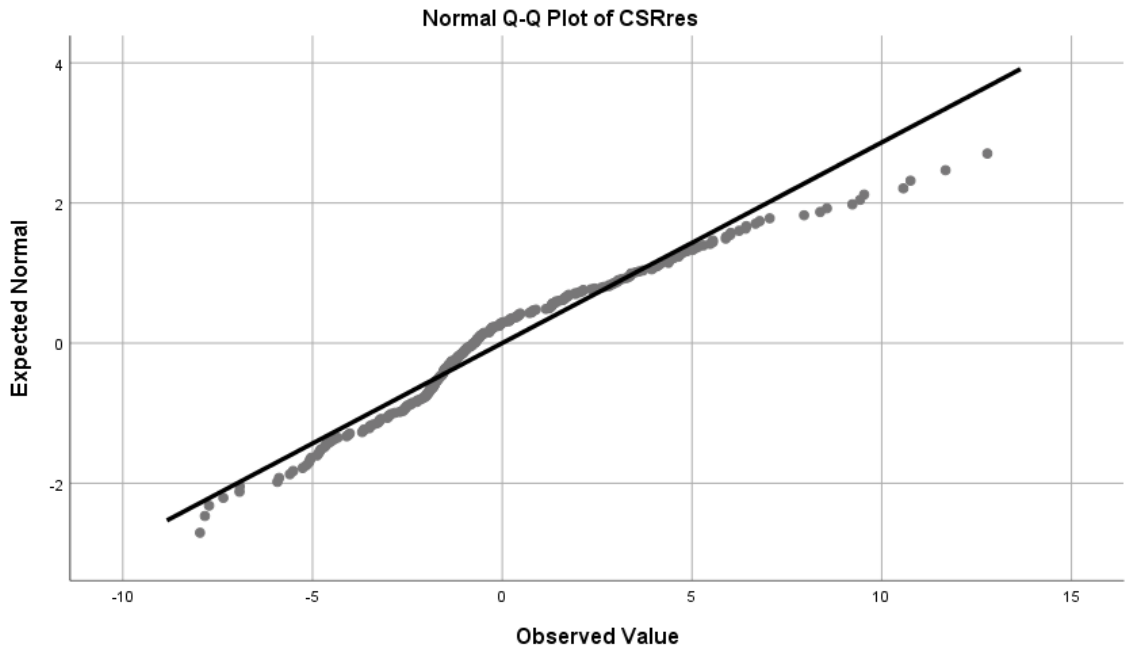
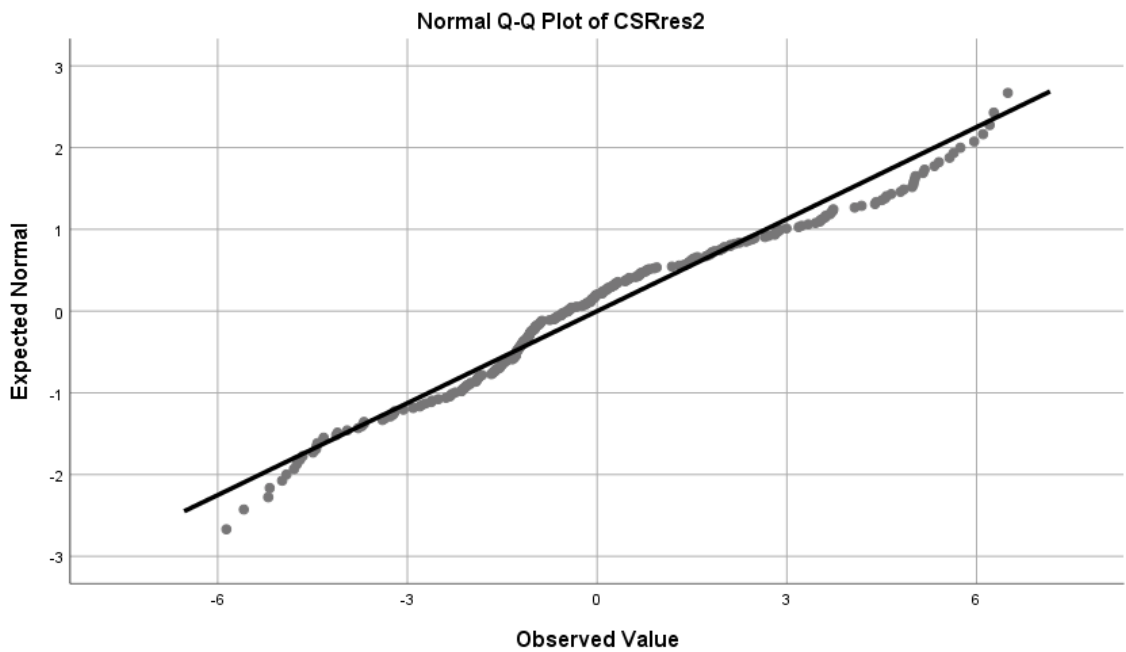


Figure A6. Normal Q-Q Plot of CSR Residual After Removing Outliers



CPA Residuals

Figure A7. CPA Residual Histogram of Model 1

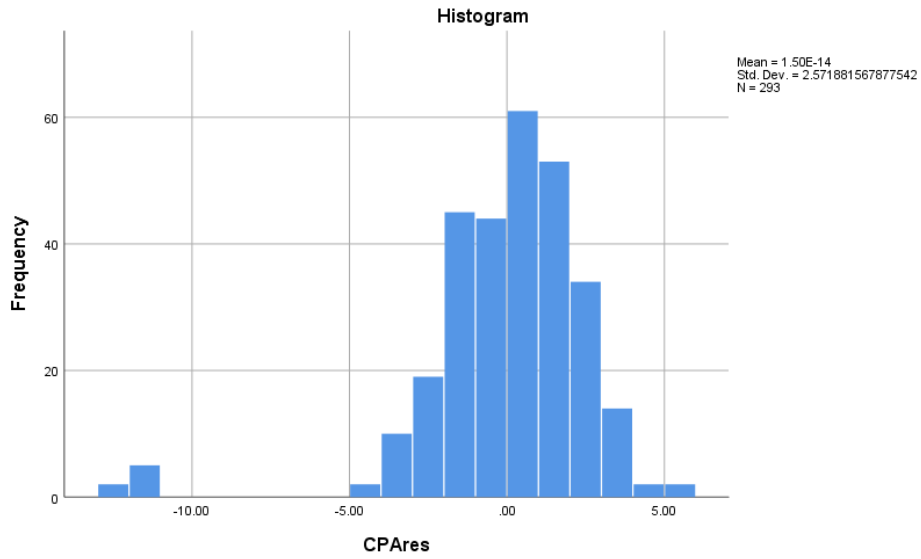


Figure A8. Residual Histogram of Model 4

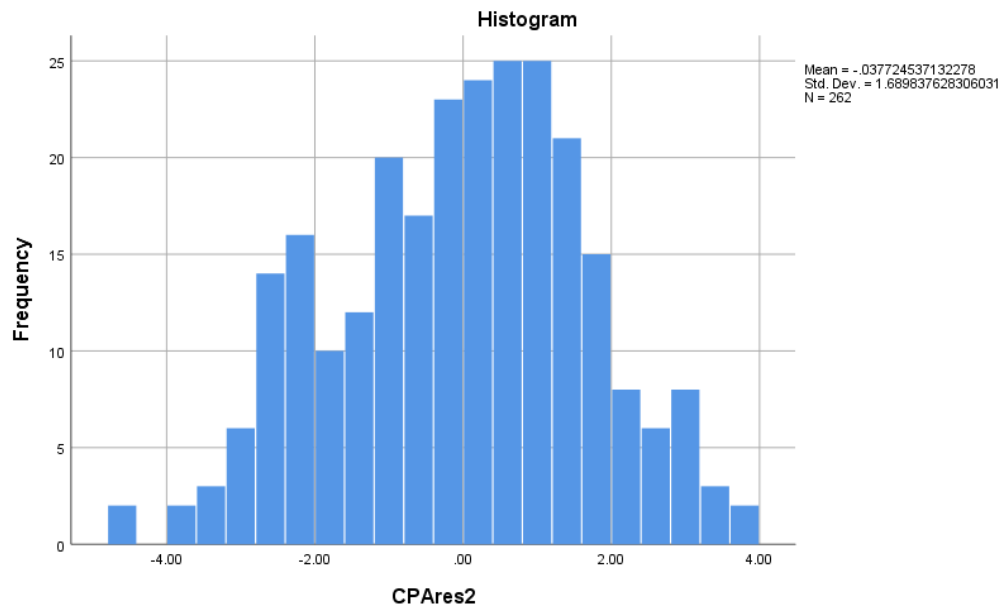


Figure A9. Normal Q-Q Plot of CPA Residual Before Removing Outliers

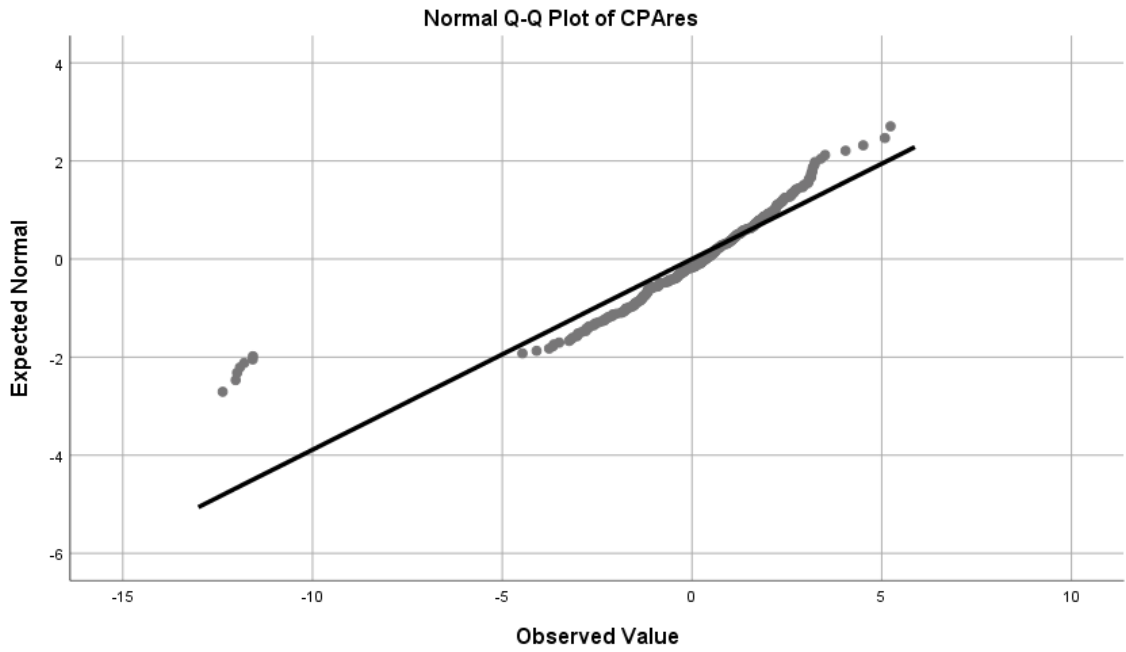
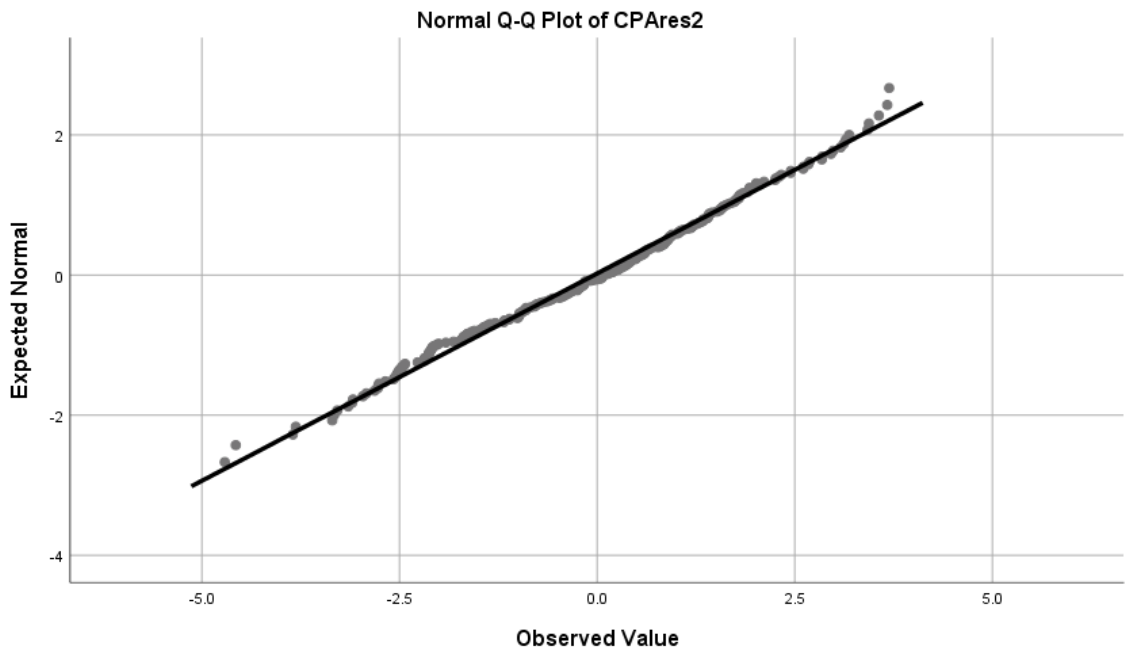


Figure A10. Normal Q-Q Plot of CPA Residual After Removing Outliers



Sales Growth

Figure A11. Sales Growth Residual Histogram of Model 1

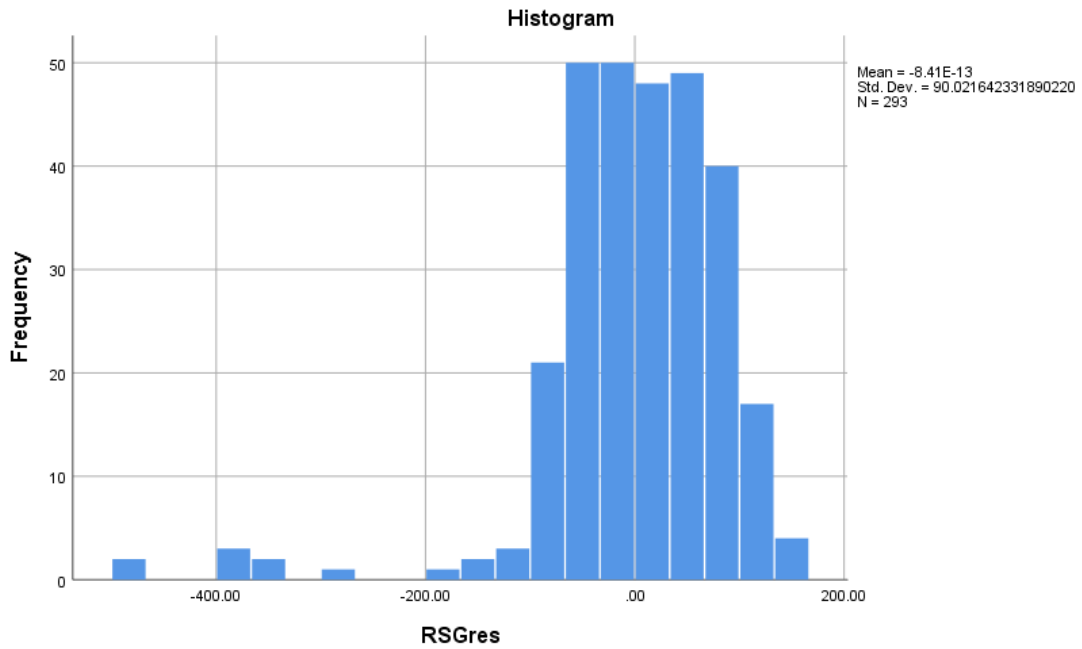


Figure A12. Sales Growth Residual Histogram of Model 4

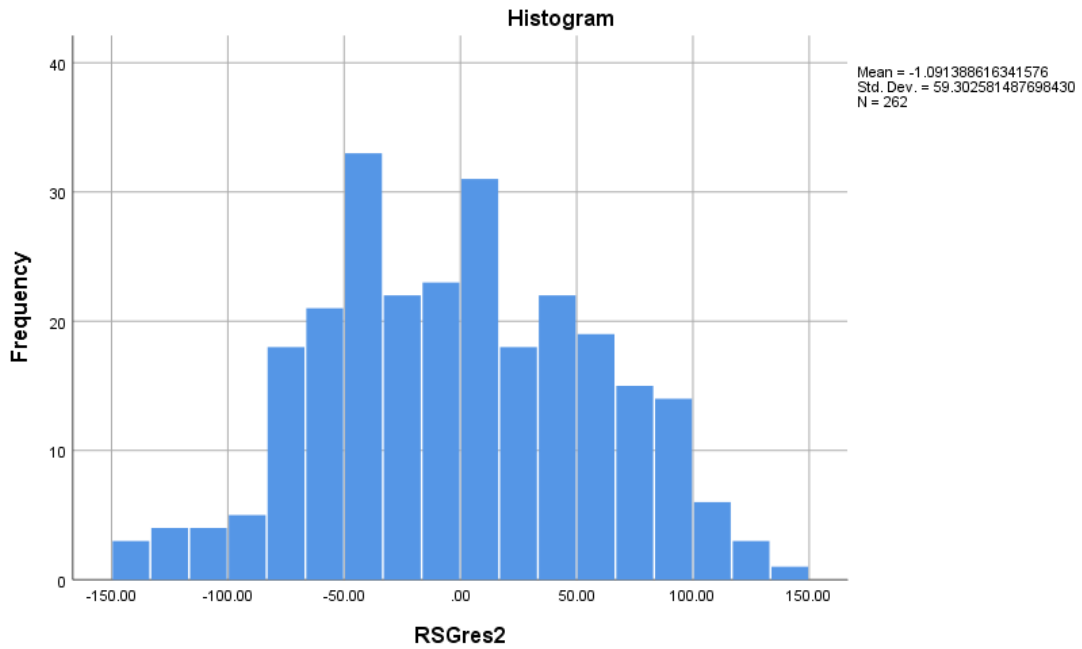


Figure A13. Normal Q-Q Plot of Sales Growth Residual Before Removing Outliers

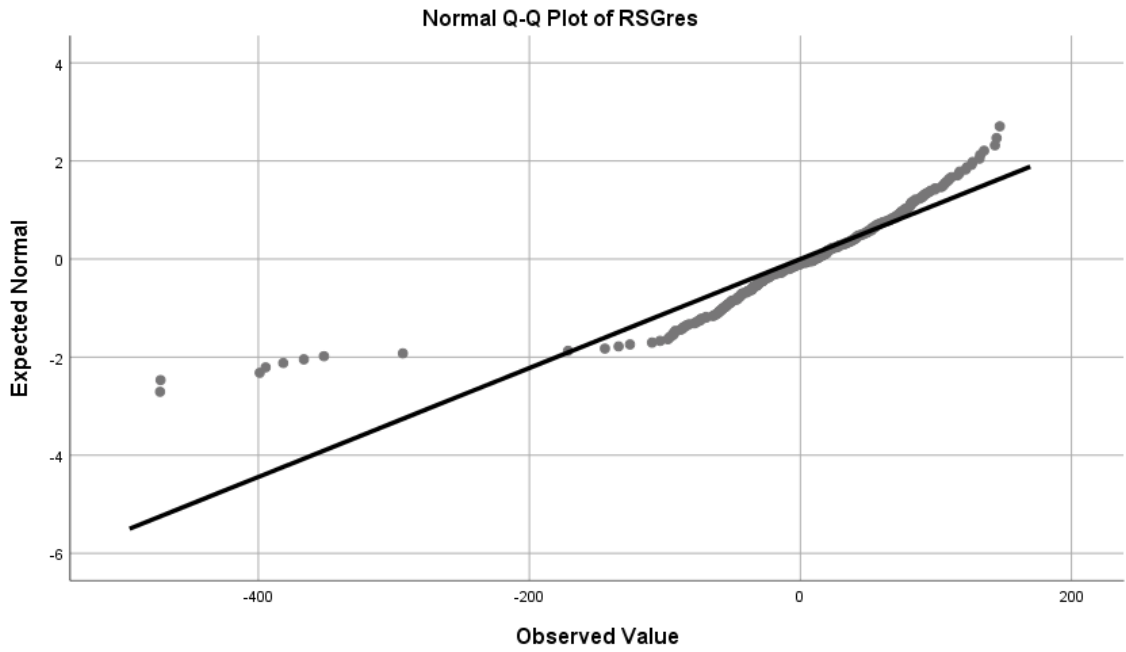
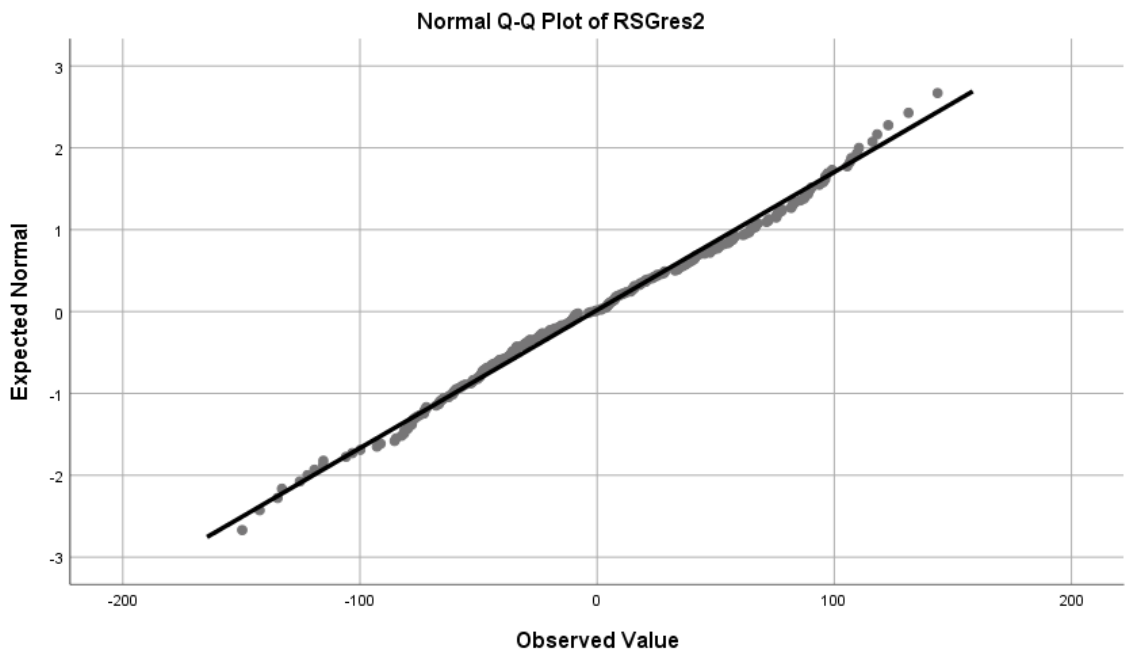


Figure A14. Normal Q-Q Plot of Sales Growth Residual After Removing Outliers



VITA

Yasamin Vahdati

Candidate for the Degree of

Doctor of Philosophy

Dissertation: CEO ACTIVISM AND FIRM OUTCOMES: THE MODERATING
INFLUENCE OF CEO POLITICAL IDEOLOGY

Major Field: Business Administration, Marketing

Biographical:

Education:

Completed the requirements for the Doctor of Philosophy in Business Administration, Marketing at Oklahoma State University, Stillwater, Oklahoma in July, 2019.

Completed the requirements for the Master of Business Administration at Mazandaran University of Science and Technology, Babol, Iran in 2013.

Completed the requirements for the Bachelor of Science in Computer Engineering at Azad University, Shahriar, Iran in 2009.

Professional Memberships:

American Marketing Association
Academy of Marketing Science