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CEO Political Ideology and Voluntary Forward-Looking Disclosure

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Abstract

This study investigates whether the management earnings forecasts of Republican and Democratic CEOs differ due to systematic differences in their information disclosure preferences. We find that Republican CEOs prefer a less asymmetric information environment than Democrat CEOs, and thus make more frequent, timelier, and more accurate disclosures than Democrat CEOs. Results using the propensity score matched sample and difference-in-differences analysis show that our results are unlikely to be driven by potential endogeneity. Our results are robust to controlling for various CEO characteristics and are stronger for firms with higher levels of institutional ownership and litigation risk.

I. Introduction

At present, the U.S. is experiencing an unprecedented degree of political polarization. The Pew Research Center documents that over the period of 1994 to 2017, the average partisan gap (the difference in opinion between supporters of Republicans and Democrats) has increased from 15 to 36 percentage points.[1] According to a recent Gallup report, political identity influences people's views

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[1]A summary of Pew's report can be found at the following link: https://www.people-press.org/2017/10/05/the-partisan-divide-on-political-values-grows-even-wider/.

on a wide variety of matters that are often not directly related to politics (Newport (2019)). Political ideology seems to affect a broad spectrum of our life choices, ranging from what we eat to our perception of climate change. Consistent with these findings, a recent Forbes report argues that, for many, political ideology is becoming an official religion.[2]

A growing body of research has investigated the effect of managers' political ideology on their corporate policies. This literature shows that Republican CEOs have more conservative investment and financial policies than Democrats (e.g., Hong and Kostovetsky (2012), Di Giuli and Kostovetsky (2014), Hutton, Jiang, and Kumar (2014), Francis, Hasan, Sun, and Wu (2016), and Elnahas and Kim (2017)), are less likely to engage in earnings management, pay lower audit fees, and have higher financial reporting quality (Dong, Li, Xie, and Zhang (2018)). These findings are in line with the predictions of the behavioral consistency principle that CEOs' conservatism shapes a wide range of their corporate policies.[3] However, the actual effect of CEO conservatism might be understated in these studies because financial and investment policies tend to be persistent, with less managerial discretion (Fee, Hadlock, and Pierce (2013)).[4]

Management earnings forecasts (MEFs), one of the voluntary disclosures over which managers have a higher degree of managerial discretion (e.g., Houston, Lev, and Tucker (2010), Cheng, Luo, and Yue (2013)), could provide a much cleaner setting in which to investigate the impact of CEO political ideology on corporate policy choices.[5] This is so, in particular, because managers can exercise their full discretion over MEFs to alter investor expectations about the future stock price, mitigate information asymmetry (Brown and Hillegeist (2007)), reduce the cost of capital (Baginski and Rakow (2012)), increase analyst following (Ajinkya, Bhojraj, and Sengupta (2005)), and enhance a firm's reputation for accurate and transparent reporting (Graham, Harvey, and Rajgopal (2005)). In this study, we investigate a hitherto under-explored question of whether and, if so, how CEO conservatism (captured by his/her political ideology) influences MEFs.

Conservatism is defined by Wilson ((1973), p. 4) as "resistance to change and the tendency to prefer safe, traditional, and conventional forms of institutions and behavior." Since the early 1950s, political conservatism has been studied by political scientists, historians, sociologists, and philosophers, among others. During these decades of research, several theoretical frameworks have emerged to explain the psychology of politically conservative individuals (Jost, Glaser, Kruglanski, and Sulloway (2003)). First, personality theories associate political conservatism with

[2]See more details at https://www.forbes.com/sites/johnhart/2017/11/30/is-ideology-becoming-americas-official-religion/#ce0893a164b3.

[3]Similarly, Wintoki and Xi (2020) document that mutual fund managers allocate assets to firms whose executives and directors share a similar political partisan affiliation. Researchers study CEO political ideology, as a personal trait, because personal political ideology is established in early adulthood and becomes relatively consistent over time (Jost and Amodio (2012)). Further, political ideology can be clearly measured based on a CEO's political donations and hence is subject to little measurement error.

[4]Several empirical studies show that firms adjust their capital structure slowly over multiple years (e.g., Flannery and Rangan (2006)).

[5]Management earnings forecasts are defined as voluntary managerial disclosures predicting earnings prior to the actual earnings reporting date.

authoritarianism and intolerance of ambiguity (Peterson, Doty, and Winter (1993)). Second, epistemic and existential need theories postulate that conservatives have a higher need for closure, a desire for security and stability, and a preference for the avoidance of threats and change (Jost, Kruglanski, and Simon (1999)). Finally, sociopolitical theories argue that conservatives have a higher preference for social dominance and system justification (Sidanius and Pratto (1999)).

These theories have interesting implications concerning conservative CEOs' attitudes toward transparency and voluntary disclosure like MEFs. On the one hand, by definition, individuals with a high need for closure do not have a high preference for information disclosure. Further, failure of actual earnings to meet MEF could increase litigation risk (Francis, Philbrick, and Schipper (1994)) as well as CEO turnover (Lee, Matsunaga, and Park (2012)). Consequently, transparency and high-quality disclosure can represent a threat to individuals with authoritarian personalities. As a result, the authoritarian nature and need for closure of politically conservative CEOs can foster their tendency to seize on information (Jost et al. (2003)), and thus lead them to prefer less transparent disclosure. In this study, this effect of conservative political ideology on CEO disclosure policies is conveniently called the *authoritarian effect.*

On the other hand, prior research shows that high-quality MEFs have several significant benefits for firms as well as CEOs. At the firm level, high-quality MEFs increase firm value and reduce firm risk (Trueman (1986)), information asymmetry (Brown and Hillegeist (2007)), share price volatility (Graham et al. (2005)), and the likelihood of litigation (Skinner (1994)). At the CEO level, high-quality MEFs enhance managerial reputation (Graham et al. (2005)) and reduce career penalties in the form of bonus cuts, fewer stock grants, and forced turnover (Lee et al. (2012)). These potential personal costs, which can be mitigated by high-quality MEFs, represent an important form of potential losses to CEOs. As a result, politically conservative CEOs' intolerance of ambiguity, desire for security (including job and financial security), and preference for the avoidance of uncertainty and threats can lead them to adopt more transparent and higher-quality disclosure policies. This effect is conveniently called the *precautionary effect.*

Hence, conservative (Republican) CEOs' attitudes toward MEFs are determined by the trade-off between the two effects mentioned above, i.e.: i) the perceived benefits to be achieved by satisfying their authoritarian needs through seizing on information (the authoritarian effect); and ii) the perceived losses to be prevented by adopting more transparent disclosure policies (the precautionary effect). Political conservatives have been described by personality theoreticians as generally more sensitive to the threat of loss and to negatively framed outcomes (e.g., potential losses) than to positively framed outcomes (e.g., potential gains) (Jost et al. (2003)). Accordingly, we conjecture that conservative CEOs are more motivated by the *precautionary effect* than by the *authoritarian effect*, leading them to adopt more transparent disclosure policies.

Conservative CEOs' preference for more transparent MEFs was apparent when Hewlett Packard's (HP) Democrat CEO Lewis E. Platt was succeeded by the renowned Republican Carly Fiorina in 1999. HP's MEFs experienced a drastic change upon this move from a Democrat CEO to a Republican CEO. Specifically, whereas Mr. Platt had an average forecast issuance, frequency, and accuracy of 0.14, 1.00, and

1.00, respectively, Mrs. Fiorina had significantly higher forecast issuance, frequency, and accuracy of 0.60, 3.33, and 2.43, respectively.[6] In this article, we present evidence that HP is not a unique example; instead, it is just the tip of the iceberg.

Following Hutton et al. (2014), among others, we use CEOs' political donations to a candidate or a party committee to measure their political ideology.[7] Using a sample covering the period of 1993 to 2016, we examine the effect of CEO political ideology on managers' forecast preferences and various properties of MEFs, including i) managers' preference for forecast issuance and frequency; ii) managers' preference for forecast horizon and range; and iii) MEF accuracy.

To provide systematic evidence on the impact of CEO political ideology on CEO voluntary disclosure strategy, we first examine whether, and if so, how, CEO political ideology influences the likelihood and frequency of issuing MEFs. In so doing, we classify CEOs into Republican CEOs and Democrat CEOs, using data on CEOs' donations to two political parties. We find that, on average, Republican CEOs are approximately 13% more likely to issue forecasts than Democrat CEOs. Further, among CEOs who issue MEFs, Republican CEOs disclose 16.5% more forecasts, on average, compared to Democrat CEOs. Second, we test the effect of CEOs' political ideology on the earnings forecast horizon and forecast range. Due to their preference for avoiding a negative market reaction and litigation if they miss their forecasts, we expect Republican CEOs to prefer range over point forecasts, compared to Democrat CEOs. Further, due to their preference for avoiding ambiguity and information asymmetry, we expect Republican managers to issue timelier forecasts than Democrat CEOs. Our results show that Republican CEOs are more likely to issue range forecasts and issue forecasts in a timelier fashion than Democrat CEOs, which is consistent with their conservative political ideology (Hutton et al. (2014)). For instance, Republican CEOs issue 12.7% more range estimates than non-Republican CEOs. Further, Republican CEOs have an average forecast horizon that is approximately 11% longer than that of Democrat CEOs.[8] Third, we test for the effect of CEO political ideology on the credibility of MEFs. We find that forecasts made by Republican CEOs are, on average, 8.7% more accurate than those made by Democratic CEOs.

We conduct several tests to alleviate concerns about potential endogeneity in our baseline results. First, we use the propensity score matching (PSM) technique and difference-in-differences (DID) regressions around CEO turnover events to address the possibility that certain types of firms and industries hire CEOs with a similar political ideology to implement their desired corporate policies. Second, we address the possibility that our baseline results are affected by correlated omitted CEO characteristics, incentives, or overconfidence. Specifically, we control for CEO pay-performance sensitivity (DELTA) and CEO risk-taking incentives

[6]Forecast issuance is a binary variable that captures the likelihood of issuing MEFs, forecast frequency refers to the number of MEF issues during the fiscal year, and forecast accuracy captures the difference between MEF and actual earnings. The Appendix provides operational definitions of the three variables.

[7]Other studies adopting similar measures include Hong and Kostovetsky (2012), Francis et al. (2016), Elnahas and Kim (2017), and Bhandari et al. (2018).

[8]We use the terms, Republican (Democratic) CEOs and conservative (liberal) CEOs interchangeably throughout the article.

(VEGA), CEO tenure, CEO gender, role duality, CEO age, and CEO overconfidence. Third, to address possible measurement errors inherent in our baseline measures of CEO political ideology (for which we follow Hong and Kostovetsky (2012) and Bhandari, Golden, and Thevenot (2018)), we construct alternative measures of CEO political ideology, similar to Hutton et al. (2014) and Elnahas and Kim (2017). We find that our results are robust to these alternative measures. Overall, we find that our baseline results are robust to the use of PSM, DID design, and other sensitivity checks, suggesting that our results are unlikely to be driven by potential endogeneity caused by correlated omitted variables, reverse causality, and/or measurement errors.

To further test our conjecture that Republican CEOs favor higher-quality MEFs to avoid litigation and other disciplinary actions (i.e., the precautionary effect), we also conduct cross-sectional tests using subsamples of firms with large and small institutional ownership and those with high and low litigation risk. The results of these subsample tests lend strong support to the presence of the precautionary effect or the precautionary effect dominating the authoritarian effect. Specifically, in firms with a high level of institutional ownership, Republican CEOs are 17.7% more likely to issue forecasts than non-Republican CEOs; in contrast, they are only 9.7% more likely to do so in firms with a low level of institutional ownership. Similarly, in firms with high litigation risk, the accuracy of forecasts issued by Republican CEOs is 20.6% higher than those issued by non-Republican CEOs, whereas it is only 5.4% higher in firms with low litigation risk.

To lend further support to our conservatism hypothesis, we conduct several cross-sectional tests based on CEO age, inside debt, marital status, tenure, the political ideology of a firm's headquarters location, and policy uncertainty. Consistent with our conservatism hypothesis, our results are stronger for older CEOs, CEOs with higher inside debt, married CEOs, CEOs with shorter tenure, and firms located in Republican states. Further, the results are stronger during periods of high policy uncertainty, especially for firms located in red states.

This article is accompanied by an Supplementary Material that presents a battery of additional robustness tests. We control for managerial ability, the political ideology of the CFO and top management team (TMT), political activism, and alternative measures of CEO political ideology and overconfidence. Further, to address the coverage issue of the management guidance database, we exclude firms that have never issued earnings forecasts during our sample period.[9] Lastly, we use several alternative statistical specifications for our baseline as well as our PSM tests. We find that our main results are robust to these sensitivity checks.

This study makes several contributions to the literature. First, in a broad sense, our study contributes to the literature on the effects of cultural traits on corporate decision-making (e.g., Ahern, Daminelli, and Fracassi (2015)). More specifically, it contributes to the recent stream of research investigating the effect of CEO political ideology on corporate policy choices. This strand of research focuses largely on corporate investment and financial policies. For instance, Hutton et al. (2014) find

[9]Furthermore, we run a robustness test that includes only firm-year observations in which firms issue one or more MEFs, and again find support for our main findings. These results are available in the Supplementary Material.

that Republican managers pursue more conservative corporate policies, such as lower debt, lower R&D expenditure, and less risky investment policies. Similarly, Elnahas and Kim (2017) find that Republican CEOs are less likely to engage in M&A activities and avoid diversification. Francis et al. (2016) find that Republican managers are less likely to engage in corporate tax avoidance. Hong and Kostovetsky (2012) find that mutual fund managers who make political donations to Democrats are less likely to invest in socially irresponsible firms. Surprisingly, however, this line of research has paid little attention to the role of CEO political ideology in shaping corporate disclosure policies. To the best of our knowledge, our study is the first to examine the impact of CEO political ideology on voluntary disclosure in the form of management earnings guidance or MEFs. Our study fills this knowledge gap by providing large-sample, systematic evidence on the relation between CEO political ideology and a firm's decisions on whether, when, and how to issue forward-looking earnings guidance.

Second, we note that studying the impact of CEO political ideology on MEFs is less subject to confounding effects than studying its impact on investment and financial policies. This is because investment and financing policies have lower managerial discretion and thus tend to be persistent (Fee et al. (2013)). In contrast, MEFs are voluntary and so are subject to a higher degree of managerial discretion (e.g., Houston et al. (2010), Cheng et al. (2013)). Thus, MEFs provide a cleaner setting in which to investigate how CEOs' personality traits, such as political ideology, translate into their corporate policy choices, allowing us to make stronger and more reliable inferences on the role of CEO political ideology in shaping corporate policies.

Another reason that makes this study different from prior studies on CEO political ideology and makes its research question worthy of investigation is that transparency and quality disclosure are not exclusively claimed by one political party. Prior studies find that Republican CEOs tend to adopt more conservative financial and investment policies (Hong and Kostovetsky (2012), Hutton et al. (2014), Francis et al. (2016), and Elnahas and Kim (2017)), whereas Democrat CEOs tend to engage more in corporate social responsibility (CSR) activities (Di Giuli and Kostovetsky (2014)). This finding enhances our understanding of how CEOs' personal traits affect their firms' decision-making. However, it is not surprising that conservative CEOs act conservatively and pro-social CEOs engage more in socially responsible activities.

In practice, who advocates for transparency and quality disclosure: conservatives or liberals? Berliner (2014) sheds some light on this matter by investigating the political origins of transparency by tracing the emergence of the Freedom of Information Acts (FOIA) globally. He shows that while the FOIA in Canada was passed in 1982 by the Liberal party, it was opposed and delayed for years by the Liberal Democratic Party (LDP) in Japan. In the U.S., the FOIA was first proposed by the Democrat congressman John Moss. However, in the meantime, it was almost vetoed by the Democrat president Lyndon Johnson and was opposed by almost all federal agencies and departments. Recently, Dyck et al. (2017), in their Washington Post article, reviewed the results of a survey, conducted by a group of researchers at the University of Massachusetts, on how Republicans and Democrats support basic democratic freedoms. Interestingly, Republicans and

Democrats both express their support for freedoms related to transparency and disclosure, like freedom of speech and freedom of the press. Given this background, we aim to provide systematic evidence and useful insights that help to better understand how CEOs' personal traits affect their firms' decision-making and contribute to the ongoing debate on who, Republicans or Democrats, favors more transparency and higher-quality disclosure, when in power.

Finally, this study contributes to the literature on the determinants of MEFs and the association between CEO personal characteristics and MEFs. Hribar and Yang (2016) find that CEO overconfidence increases forecast issuance and optimism and reduces forecast precision. Similarly, Bamber, Jiang, and Wang (2010) find that managers with finance and accounting backgrounds and those with military experience issue conservative earnings forecasts and prefer a more precise disclosure style. Further, Jiang, Kumar, and Law (2016) find that conservative analysts issue more frequent and accurate forecasts and produce better quality research. Our study extends this literature and presents evidence that Republican CEOs tend to issue more frequent and more accurate forecasts.

The article proceeds as follows: Section II reviews the literature on behavioral consistency, CEO political ideology, and MEFs. Section III describes our data and the construction of our measures of CEO political ideology. Section IV presents the empirical results and discusses their interpretation. Section V reports the robustness tests. Section VI provides a summary and concluding remarks.

II. Literature Review

Researchers in sociology and behavioral psychology have studied the implications of the behavioral consistency theory and show that people behave consistently across different domains. For example, Epstein (1979) argues that individuals show stable behavioral patterns over time and across different areas. More recently, researchers in financial economics investigate whether the behavioral consistency theory can help understand various corporate decisions. For instance, Cronqvist, Makhija, and Yonker (2012) find consistent patterns between a firm's leverage decisions and the CEO's personal leverage decisions. Similarly, Biggerstaff, Cicero, and Puckett (2015) find that CEOs who are personally benefiting from options backdating tend to engage more in corporate misconduct.

Prior literature also suggests that CEOs' personal conservatism and risk-taking behavior are reflected in corporate decision-making. For instance, Graham, Harvey, and Puri (2013) show that CEOs' optimism and risk aversion affect their firms' financial policies. Further, Benmelech and Frydman (2015) show that military CEOs are more conservative and behave more ethically than other CEOs. Similarly, Cain and McKeon (2016) argue that pilot CEOs are associated with higher equity return volatility, higher leverage, and higher levels of acquisition activity. Davidson, Dey, and Smith (2015) also find that CEOs' off-the-job behavior is positively related to their corporate behavior. In sum, managers' personality traits have been found to remain consistent across different domains and consequently influence their corporate policy choices.

A. Political Ideology, Personality Traits, and Corporate Policies

Of late, researchers in corporate finance have paid considerable attention to CEO political ideology and its impact on corporate policy choices. Unlike other personal traits, a person's political orientation tends to be stable and consistent over time.[10] For example, Alford, Funk, and Hibbing (2005) argue that genes play a crucial role in shaping political attitudes, ideologies, and the strength of an individual's party identification. More importantly, Jost and Amodio (2012) argue that political ideology is established in early adulthood and becomes relatively consistent over time. The literature dealing with political ideology issues often substitutes "liberalism" and "conservatism" for "liberal" and "conservative," "left" and "right," or "Democrat" and "Republican."

Another reason why financial economists pay particular attention to CEO political ideology is the increasing polarization of the political environment in the U.S. This political environment has triggered several studies that aim to understand the differences between the two dominant political orientations in the U.S., namely, Republicans and Democrats. Behavioral psychology literature finds stark ideological and psychological differences between the two groups; the main difference between the two political ideologies is the degree of openness to change. Jost et al. (2003) argue that conservatives avoid ambiguity, uncertainty, and complexity. Relative to liberals, conservatives prefer to punish violators of social norms and prevent free riders, value job security more highly than task variety, fear losses, value financial security, value property rights, and show more respect for authority and preference for preserving the status quo. Further, Wilson (1973) shows that conservatives seek familiarity and safety and are resistant to change.

Several studies in financial economics investigate whether the above personality differences between conservatives and liberals translate into their firms' corporate decisions. These studies show that Republican managers prefer less risky investment and financial policies, are less likely to engage in mergers and acquisitions, avoid high information-asymmetry acquisitions, and are less likely to engage in corporate tax avoidance (Hutton et al. (2014), Francis et al. (2016), and Elnahas and Kim (2017)). In contrast, Democrat managers are more likely to invest in CSR and less likely to invest in socially irresponsible firms (Hong and Kostovetsky (2012), Di Giuli and Kostovetsky (2014)). Furthermore, Hutton, Jiang, and Kumar (2015) find that Democrat managers are more likely to face litigation for securities fraud and intellectual property rights violations, whereas Republican managers are more likely to face civil rights, labor, and environmental litigation.[11] More recently, Lee, Jeon, and Seok (2018) show that Republican CEOs hold more outside directorship roles, regardless of the political regime. Finally, Babenko, Fedaseyeu, and Zhang (2020) find that CEO political orientation affects employee campaign contributions, whereby candidates supported by the CEO

[10]If political ideology was subject to changes over time, then studying the relation between political ideologies into corporate policy choices would be potentially troublesome.

[11]Political ideology may affect the decisions of other decision makers too. For example, Jiang et al. (2016) argue that conservative analysts produce more accurate earnings forecasts, issue more frequent forecast updates, are less likely to deviate from benchmarks, and produce better quality research than other analysts.

receive three times more contributions from employees than candidates not supported by the CEO.

In a broad sense, the aforementioned literature is mainly concerned about whether, and, if so, how CEO political ideology is associated with corporate investment and financial policies. Although CEOs certainly have a significant impact on firms' investment and financial policies, they do not have full autonomy over such policies due to several organizational considerations. For instance, Fee et al. (2013) argue that firms' investment and financing decisions are persistent and more likely to be determined by a firm's past policies and culture, and, thus are subject to limited managerial discretion. Moreover, investment and financial policies that deviate greatly from value maximization are usually challenged by the market for corporate control.

In contrast, MEFs are voluntary, and managers have substantial discretion over whether, when, and how to issue earnings forecasts (Cheng et al. (2013)). For instance, managers can temporarily stop issuing earnings forecasts if they fail to meet analysts' forecasts and resume issuance when they feel confident about meeting analyst forecasts (Houston et al. (2010)). Similarly, managers tend to increase disclosure and bad news forecasts before insider purchases and equity offerings, strategically choose forecast precision, voluntarily disclose bad news forecasts, and tactically avoid negative earnings surprises (Skinner (1994), Matsumoto (2002), and Cheng et al. (2013)). Thus, MEFs provide an ideal setting in which to test how CEOs' personality traits affect corporate policy choices. CEOs, whether Republicans or Democrats, may face several limitations in infusing their political ideologies into their firms' investment and financing policies. In contrast, CEOs, whether Republicans or Democrats, are better able to infuse their political ideologies into their voluntary disclosures, such as MEFs.

B. Management Earnings Forecasts

Existing literature identifies several firm-level and CEO-level characteristics as main determinants of the likelihood of issuance, forecast frequency, and other properties of MEFs. At the firm level, MEFs depend on firms' legal and regulatory environment, investor demand, firm-specific litigation risk, earnings volatility, and managerial compensation incentives. For instance, investors tend to prefer investing in firms that have better disclosure policies and lower information asymmetry because such firms enjoy higher liquidity, lower cost of capital, and lower agency problems (e.g., Diamond and Verrecchia (1991), Ajinkya et al. (2005)). Moreover, firms with higher R&D expenditure are less likely to issue forecasts (Rogers and Stocken (2005)). Similarly, firms with higher earnings volatility tend to issue forecasts less often, and more profitable firms are likely to issue forecasts more frequently (Miller (2002)). Waymire (1985) argues that firms with more volatile earnings tend to issue forecasts later in the year, indicating that forecast timeliness reflects earnings variability. Skinner (1994) argues that firms voluntarily disclose bad news forecasts to avoid subsequent litigation. Similarly, firms with higher ex ante litigation risk and bad news are more likely to issue forecasts (Houston, Lin, Liu, and Wei (2019)).

At the CEO level, researchers show that MEFs are affected by CEOs' compensation design, ability, overconfidence, and career concern. Stock-based incentives should increase MEF frequency and reduce agency problems in disclosure. For example, Baginski, Campbell, Moon, and Warren (2018) find that managers' severance pay and stock option portfolios increase their earnings forecast accuracy. Baik, Farber, and Lee (2011) find that CEOs' ability is positively associated with forecast issuance, frequency, and accuracy. Further, Hribar and Yang (2016) argue that overconfident CEOs are more likely to issue MEFs. Their forecasts are more optimistic, and they are more likely to miss their forecasts subsequently. Prior literature also recognizes the role that a CEO's career concern can play in shaping MEFs. Pae, Song, and Yi (2016) find that CEOs with greater career concerns are more likely to provide downward earnings guidance and less likely to beat market expectations; managers' career penalties, such as bonus cuts, fewer stock grants, and forced turnover, can also affect their earnings forecast decisions. Moreover, Lee et al. (2012) find a positive relation between CEO turnovers and MEF errors.

Due to the high level of autonomy and discretion that CEOs have over voluntary disclosure, we expect disclosure to be affected by CEOs' personal preferences. As discussed earlier, we expect that conservative individuals, such as Republican CEOs, have less tolerance for ambiguity, uncertainty, and complexity, value job security, and have a higher fear of losses than other individuals. We further expect Republican CEOs to utilize MEFs as a mechanism to alter investors' earnings expectations, reduce future litigation concerns, and establish their reputation with regard to transparent and accurate reporting. Drawing on the above discussions, this study aims to provide large-sample evidence on the effect of CEO political ideology on various aspects of MEFs, including the likelihood of issuing forecasts, and forecast frequency, range, horizon, and accuracy.

III. Data and Sample Selection

A. Data

We start with an initial sample of CEOs from the ExecuComp database covering firms in the S&P 1500 index from 1993 to 2016. We exclude financial firms (SIC between 6000 and 6999) and firms in the utility industry (SIC between 4900 and 4999). Then, we merge CEO data with individual donations data obtained from the Federal Election Commission (FEC). The FEC publishes several types of files that identify donors who have made political contributions in amounts exceeding $200. The individual's contribution files contain information on the contributor's name, city, state, zip code, employer, and occupation, as well as transaction date, amount, and unique committee ID. A committee is formed by a candidate or a political party to collect funds and contributions from individuals. The committee files contain a committee ID, name, type, party affiliation, city, state, zip code, and candidate ID.

CEOs and other corporate managers can contribute to political parties through their company's Political Action Committees (PACs) or directly by making individual contributions. Because PACs can contribute to multiple parties simultaneously (Cooper, Gulen, and Ovtchinnikov (2010)), we focus on individual political contributions to a candidate or a party committee to measure a CEO's

political ideology. We identify the political contributions of CEOs using their contributions to Republican- and Democrat-affiliated Senate, House, presidential candidates, and political party committees.[12] To identify a CEO's contributions to a political party, we link the contributor's name, occupation, employer, and transaction date provided by the FEC with the executive's name, company name, and fiscal year from the ExecuComp database.

Our management earnings per share (EPS) forecast data comes from IBES. We obtain actual earnings data from the IBES actuals file to ensure consistency between MEFs and EPS realization. Following Baik et al. (2011), Lee et al. (2012), and Hribar and Yang (2016), we exclude qualitative forecasts because we do not have well-defined criteria to identify whether such forecasts were missed. We also exclude earnings preannouncements (i.e., management forecasts that are issued after the fiscal year-end but before the actual earnings announcements (Ajinkya et al. (2005), Rogers and Stocken (2005), and Houston et al. (2019)). Following prior literature, we restrict our analyses to annual EPS forecasts (Baik et al. (2011), Hribar and Yang (2016)).

Finally, we acquire data on firm-level characteristics from Compustat, stock return data from CRSP, and institutional ownership data from Thomson Reuters Institutional Holdings (13F). Combining these data sets results in a final sample of 33,951 unique firm-year observations for the period of 1993 to 2016.

B. Measures of CEO Political Ideology

The association between CEO political ideology and corporate decisions has received considerable attention from recent studies, including Hong and Kostovetsky (2012), Hutton et al. (2014), Francis et al. (2016), Elnahas and Kim (2017), and Bhandari et al. (2018). These studies provide a variety of measures for a CEO's political ideology. We follow Bhandari et al. (2018) in constructing our first measure of a CEO's political ideology, REP_DUM, which is an indicator variable that equals 1 if a CEO has donated more to the Republican Party than to the Democratic Party during her/his entire tenure, and 0 otherwise. This is a long-term and robust measure of a CEO's political ideology because it considers the total contributions of her/his entire tenure. Our second measure of a CEO's political ideology, REP_INDEX is similar to that of Hong and Kostovetsky (2012). Specifically, REP_INDEX measures the percentage of a CEO's support for the Republican Party, calculated as the number of cycles in which a CEO donates exclusively to the Republican Party divided by her/his number of donation cycles in the sample period. This measure is based on the 2-year election cycle, and a higher percentage shows stronger Republican affiliation.

[12]Details of the campaign contribution data are available at the Federal Election Commission (FEC), https://www.fec.gov/. We focus on the CEOs individual level campaign contribution rather than at the firm level for two reasons: 1) firms may contribute to exploit the political favors to maximize shareholders' benefits (Blau, Brough, and Thomas (2013)), whereas individuals' contributions mainly reflect their personal political preference; 2) to exploit political benefits, firms typically contribute to both parties and/or their contribution may vary depending on the congress majority in each election cycle, whereas individuals' contributions generally remain consistent across election cycles and they are mostly directed toward only one party.

To mitigate potential noises and biases inherent in specific measures of CEO political ideology and to ensure the comparability of our measures with those employed in the prior literature, we conduct a variety of robustness checks using several additional measures of CEO political ideology. Following Hutton et al. (2014), we use: i) $\text{REP\_DUM}_{\text{CYCLE}}$, which is an indicator variable that equals 1 if all of the donations made by a CEO in an election cycle are directed to the Republican Party (i.e., none to the Democratic Party), and 0 otherwise; and ii) $\text{REP\_INDEX}_{\text{CYCLE}}$, which is calculated as a CEO's total donations to the Republican Party minus total donations to the Democratic Party divided by total donations to both parties in a given election cycle. Further, following Elnahas and Kim (2017), we use $\text{REP\_DUM}_{\text{TENURE}}$, which is an indicator variable that equals 1 if all donations made by a CEO during her/his entire tenure are directed to the Republican Party, and 0 otherwise. Finally, we check the robustness of our results to the use of two different measures of Democratic Party affiliation: i) DEM_DUM, which is an indicator variable that equals 1 if a CEO donated more to the Democratic Party than to the Republican Party during her/his entire tenure, and 0 otherwise; and ii) DEM_INDEX, measures the percentage of a CEO's support for the Democratic Party, calculated as the number of cycles in which a CEO donates exclusively to the Democratic Party divided by her/his number of donation cycles in the sample period.[13]

C. Measures of Voluntary Disclosure

Following prior literature, we use several proxies to capture the likelihood of issuing MEFs as well as several of their different properties. First, to measure the likelihood of issuing MEFs, we use ISSUE, which is an indicator variable that equals 1 if a firm makes at least one annual earnings forecast in a fiscal year, and 0 otherwise, and FREQUENCY, which is the total number of annual earnings forecasts made by a firm in a fiscal year (Ajinkya et al. (2005), Baik et al. (2011), and Houston et al. (2019)). Second, we measure the forecast horizon, ln(HORIZON), using the natural logarithm of 1 plus the average horizon of the annual earnings forecasts made by a firm in a fiscal year (Baik et al. (2011), Houston et al. (2019)). For each forecast, the horizon is defined as the number of calendar days between the forecast announcement date and the corresponding period end date. We assign a value of 0 when a firm makes no forecasts in a fiscal year. To measure the likelihood that a firm issues range instead of point forecasts, we use RANGE, which is an indicator variable that equals 1 if a firm issues range forecasts, and 0 otherwise (Hribar and Yang (2016)). ACCURACY is the average forecast accuracy for all annual earnings forecasts made by a firm in a fiscal year (Houston et al. (2019)).[14]

[13]Detailed descriptions of these variables are provided in the Appendix. Further, in addition to the measures of CEO political ideology reported in the article, our Supplementary Material reports results using additional measures of Republican Party affiliation, Democratic Party affiliation, and political neutrality.

[14]More detailed descriptions of the calculation of these variables are provided in the Appendix.

TABLE 1

Summary Statistics

Table 1 reports descriptive statistics for measures of CEO political ideology, voluntary disclosure, and control variables for our sample covering the period of 1993 to 2016. REP_DUM is an indicator variable that equals 1 if a CEO donated more to the Republican Party than to the Democratic Party during her/his tenure. REP_INDEX is the percentage of a CEO's support for the Republican Party calculated as the number of cycles in which a CEO donates exclusively to the Republican Party divided by her/his number of donation cycles in the sample period. All other variables are defined in the Appendix.

Variable	No. of Obs.	Mean	Std. Dev.	25th Perc	Median	75th Perc
CEO Political Ideology						
REP_DUM	33,951	0.229	0.420	0.000	0.000	0.000
REP_INDEX	33,951	0.169	0.337	0.000	0.000	0.000
Voluntary Disclosure						
ISSUE	33,951	0.353	0.478	0.000	0.000	1.000
FREQUENCY	33,951	1.550	2.619	0.000	0.000	3.000
ln(HORIZON)	33,951	1.828	2.493	0.000	0.000	5.141
RANGE	33,951	0.266	0.442	0.000	0.000	1.000
ACCURACY	33,951	1.035	1.592	0.000	0.000	2.000
Firm Characteristics						
ln(ASSETS)	33,951	7.181	1.597	6.023	7.047	8.211
MB	33,951	3.235	4.049	1.488	2.352	3.844
LEVERAGE	33,951	0.147	0.144	0.020	0.114	0.225
RD	33,951	0.034	0.059	0.000	0.003	0.044
ROA	33,951	0.037	0.114	0.015	0.052	0.090
VOLATILITY	33,951	0.027	0.014	0.018	0.024	0.034
ln(ANALYST)	33,951	2.116	0.805	1.609	2.197	2.708
INSTIT_OWN	33,951	0.542	0.360	0.150	0.647	0.837
LITIGATION	33,951	0.240	0.427	0.000	0.000	0.000
NEWS	33,951	0.631	0.482	0.000	1.000	1.000
EQUITY_ISSUE	33,951	0.203	0.402	0.000	0.000	0.000
ACQUISITION	33,951	0.411	0.492	0.000	0.000	1.000
INDUSTRY_CONC	33,951	0.475	0.151	0.356	0.447	0.539

D. Descriptive Statistics

Table 1 provides descriptive statistics for our measures of CEO political ideology, MEFs, and the control variables used in our baseline models. As shown in Table 1, the mean value of REP_DUM is 0.229, indicating that around 23% of CEOs make more contributions to the Republican Party than to the Democratic Party during their entire tenure. The mean value of REP_INDEX is 0.169, suggesting that in around 17% of cycles, CEOs exclusively donate to the Republican Party. These statistics are consistent with those reported by Hong and Kostovetsky (2012), Hutton et al. (2014), and Bhandari et al. (2018). The mean value of ISSUE is 0.35, which indicates that, on average, firms have a 35% likelihood of issuing at least one annual earnings forecast in a fiscal year. The mean value of FREQUENCY is 1.55, suggesting that, on average, firms issue approximately 1.55 forecasts each fiscal year. The mean values of ISSUE and FREQUENCY are comparable with those reported by Baik et al. (2011), Hribar and Yang (2016), and Houston et al. (2019). The mean value of ln(HORIZON) is 1.83, which means that, on average, firms in our sample release their earnings forecasts 68 days before the forecast period end date. The mean value of forecast accuracy is 1.04, which is comparable with that reported by Houston et al. (2019). Further, Table 1 shows that, on average, institutional investors own about 54.2% of outstanding shares, 24% of firms are subject to increased risk of litigation, and 20.3% of firms have issued equity in the year. The mean values of firm characteristics are comparable with those reported in prior studies, including Ajinkya et al. (2005), Rogers and Stocken (2005), Baik et al. (2011), Hribar and Yang (2016), and Houston et al. (2019).

TABLE 2

Pearson Correlations

Table 2 reports Pearson correlation coefficients. REP_DUM is an indicator variable that equals 1 if a CEO donated more to the Republican Party than to the Democratic Party during her/his tenure. REP_INDEX is the percentage of a CEO's support for the Republican Party calculated as the number of cycles in which a CEO donates exclusively to the Republican Party divided by her/his number of donation cycles in the sample period. All other variables are defined in the Appendix.

Variables		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S
REP_DUM	A	1																		
REP_INDEX	B	0.86																		
ISSUE	C	0.03	0.04																	
FREQUENCY	D	0.04	0.05	0.80																
ln(HORIZON)	E	0.03	0.04	0.99	0.80															
RANGE	F	0.02	0.03	0.85	0.74	0.85														
ACCURACY	G	0.04	0.05	0.88	0.73	0.87	0.75													
ln(ASSETS)	H	0.15	0.21	0.20	0.24	0.20	0.17	0.22												
MB	I	0.00	0.00	0.05	0.06	0.05	0.03	0.10	0.00											
LEVERAGE	J	0.06	0.07	−0.04	−0.03	−0.04	−0.04	−0.09	0.28	−0.22										
RD	K	−0.10	−0.10	−0.08	−0.07	−0.08	−0.09	−0.08	−0.27	0.13	−0.30									
ROA	L	0.05	0.06	0.13	0.13	0.13	0.11	0.18	0.14	0.17	−0.25	−0.29								
VOLATILITY	M	−0.08	−0.09	−0.13	−0.17	−0.13	−0.13	−0.18	−0.35	−0.06	0.00	0.25	−0.29							
ln(ANALYST)	N	0.11	0.14	0.19	0.20	0.19	0.15	0.23	0.59	0.16	−0.04	−0.02	0.20	−0.20						
INSTIT_OWN	O	0.03	0.02	0.12	0.13	0.12	0.11	0.12	0.13	0.03	0.00	0.02	0.09	−0.07	0.20					
LITIGATION	P	−0.10	−0.11	−0.02	−0.00	−0.02	−0.03	−0.02	−0.15	0.11	−0.27	0.55	−0.10	0.20	0.04	0.06				
NEWS	Q	0.00	0.02	0.00	0.03	0.00	0.00	0.07	−0.00	0.12	−0.14	−0.05	0.33	−0.06	0.05	0.00	−0.00			
EQUITY_ISSUE	R	−0.06	−0.07	−0.06	−0.07	−0.07	−0.08	−0.05	−0.23	0.11	−0.17	0.25	−0.06	0.24	0.00	0.02	0.21	0.08		
ACQUISITION	S	0.00	0.00	0.14	0.13	0.13	0.12	0.14	0.12	−0.03	0.05	−0.07	0.07	−0.13	0.06	0.11	0.00	−0.03	−0.00	
INDUSTRY_CONC	T	0.02	0.02	0.04	0.07	0.04	0.05	0.04	0.06	−0.02	0.05	−0.04	0.02	−0.07	−0.07	0.03	−0.16	−0.00	−0.07	0.02

Table 2 presents Pearson correlation coefficients. As shown, we find a positive correlation between measures of Republican ideology and measures of the likelihood of MEF issuance (ISSUE and FREQUENCY), indicating that Republican CEOs are more likely to share forward-looking information with the market, compared to non-Republican CEOs. Similarly, we find positive correlations between measures of Republican ideology and ACCURACY, indicating that Republican CEOs make more accurate forecasts. Consistent with prior research, Republican ideology is negatively correlated with RD and VOLATILITY, and positively correlated with ROA (e.g., Hutton et al. (2014)). In addition, we find a positive correlation of firm size with ISSUE, FREQUENCY, ln(HORIZON), and ACCURACY. These correlations are consistent with the idea that larger firms issue more forecasts and have greater forecast accuracy (Ajinkya et al. (2005), Baik et al. (2011), Hribar and Yang (2016), and Houston et al. (2019)).

IV. Analysis and Results

A. Baseline Regression Model

To formally test the association between CEO political ideology and MEFs, we estimate the following regression model:

$$\text{MEF}it = \beta 0 + \beta 1\text{REPUBLICAN}it + \gamma it + \mathcal{E}it. \tag{1}$$

In equation (1), MEF*it* refers to the dependent variable capturing MEF likelihood and properties for firm *i* in year *t*.[15] REPUBLICAN refers to the various proxies that capture CEOs' Republican political ideology; we use REP_DUM or REP_INDEX in our main analysis and $\text{REP\_DUM}_{\text{CYCLE}}$, $\text{REP\_DUM}_{\text{TENURE,}}$ or $\text{REP\_INDEX}_{\text{CYCLE}}$ in robustness tests. γ is a vector of control variables. We include a set of indicator variables to control for year and industry fixed effects in all models.

We control for firm size (ln(ASSETS)), market-to-book (MB) ratio, financial leverage (LEVERAGE), the intensity of investment in research and development expenditure (RD), return on assets (ROA), return volatility (VOLATILITY), analyst following (ln(ANALYST)), and institutional ownership (INSTIT_OWN), because prior research shows that these variables influence the likelihood and properties of MEFs (Miller (2002), Ajinkya et al. (2005), and Houston et al. (2019)). We also control for litigation risk (LITIGATION) because MEFs that are made in good faith are inversely associated with the likelihood of litigation (Francis et al. (1994), Matsumoto (2002)). We include news type (NEWS) to control for the direction of the change in EPS from the prior year (Baginski, Hassell, and Kimbrough (2002)). We control for firms' engagement in equity issues (EQUITY_ISSUE) and in mergers and acquisitions (ACQUISITION) because firms may provide biased disclosures to reduce information asymmetry when undergoing significant events such as new issue offerings or mergers and acquisitions (Hribar and Yang (2016)). Finally, we control for product market competition

[15]We use an OLS regression model for continuous earnings forecasts measures and a logit regression model for binary earnings forecasts measures.

TABLE 3

CEO Political Ideology and MEF

Table 3 presents tests of the association between CEO political ideology and the likelihood and frequency of earnings forecasts as well as the likelihood of issuing range forecasts and forecast horizon. The dependent variable in columns 1 and 2 is ISSUE which is an indicator variable that equals 1 if a firm makes annual earnings forecasts in a fiscal year, and 0 otherwise. The dependent variable in columns 3 and 4 is FREQUENCY which is the total number of annual earnings forecasts made by a firm in a fiscal year. The dependent variable in columns 5 and 6 is RANGE which is an indicator variable of range estimates. The dependent variable in columns 7 and 8 is ln(HORIZON) which is the natural logarithm of 1 plus the average horizon of annual earnings forecasts made by a firm in a fiscal year. The dependent variable in columns 9 and 10 is ACCURACY, which is the average Forecast accuracy for all annual earnings forecasts made by a firm in a fiscal year. Measures of CEO political ideology, REP_DUM and REP_INDEX, and all other independent variables are defined in the Appendix. All models include year and industry fixed effects. *t*-statistics are computed using robust standard errors and reported in parentheses. †, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	ISSUE		FREQUENCY		RANGE		ln(HORIZON)		ACCURACY	
	1	2	3	4	5	6	7	8	9	10
REP_DUM	0.128†		0.165†		0.127†		0.111†		0.087†	
	(3.86)		(5.26)		(3.62)		(3.86)		(4.58)	
REP_INDEX		0.126†		0.117†		0.144†		0.100†		0.084†
		(3.08)		(3.04)		(3.34)		(2.82)		(3.60)
ln(ASSETS)	0.018	0.021	0.121†	0.126†	−0.025*	−0.022	0.022*	0.024**	0.020†	0.022†
	(1.28)	(1.51)	(9.72)	(10.09)	(−1.71)	(−1.53)	(1.85)	(2.09)	(2.72)	(3.00)
MB	0.002	0.002	0.015†	0.015†	0.000	0.000	0.008**	0.008**	0.014†	0.014†
	(0.44)	(0.49)	(4.12)	(4.20)	(0.01)	(0.06)	(2.37)	(2.42)	(6.66)	(6.71)
LEVERAGE	0.450†	0.449†	0.364†	0.362†	0.380†	0.380†	0.246**	0.244**	−0.297†	−0.297†
	(3.66)	(3.65)	(3.68)	(3.66)	(2.90)	(2.90)	(2.48)	(2.46)	(−5.24)	(−5.25)
RD	−3.649†	−3.637†	−1.935†	−1.925†	−4.655†	−4.638†	−2.600†	−2.591†	−1.433†	−1.424†
	(−9.74)	(−9.71)	(−7.14)	(−7.10)	(−11.01)	(−10.97)	(−9.62)	(−9.58)	(−8.84)	(−8.78)
ROA	1.406†	1.413†	0.790†	0.796†	1.242†	1.247†	0.778†	0.782†	0.675†	0.678†
	(7.97)	(8.01)	(7.26)	(7.31)	(6.48)	(6.51)	(6.51)	(6.54)	(10.53)	(10.57)
VOLATILITY	−23.445†	−23.389†	−17.674†	−17.654†	−23.294†	−23.230†	−18.934†	−18.917†	−15.288†	−15.274†
	(−16.69)	(−16.66)	(−17.64)	(−17.62)	(−15.47)	(−15.44)	(−17.43)	(−17.42)	(−23.44)	(−23.41)
LN(ANALYST)	0.671†	0.671†	0.467†	0.469†	0.546†	0.546†	0.542†	0.543†	0.383†	0.384†
	(26.76)	(26.78)	(23.32)	(23.40)	(20.66)	(20.66)	(27.38)	(27.42)	(31.87)	(31.90)
INSTIT_OWN	0.251†	0.248†	0.184†	0.180†	0.216†	0.213†	0.185†	0.182†	0.086†	0.084†
	(6.06)	(5.99)	(4.54)	(4.45)	(4.96)	(4.88)	(4.82)	(4.75)	(3.52)	(3.43)
LITIGATION	0.209†	0.210†	0.289†	0.289†	0.186†	0.189†	0.205†	0.205†	0.062*	0.062*
	(3.67)	(3.69)	(5.48)	(5.46)	(3.16)	(3.21)	(4.11)	(4.12)	(1.93)	(1.94)
NEWS	−0.115†	−0.115†	0.013	0.013	−0.101†	−0.101†	−0.083†	−0.082†	0.108†	0.108†

(continued on next page)

TABLE 3 (continued)

CEO Political Ideology and MEF

	ISSUE		FREQUENCY		RANGE		ln(HORIZON)		ACCURACY	
	1	2	3	4	5	6	7	8	9	10
	(−3.82)	(−3.81)	(0.47)	(0.50)	(−3.17)	(−3.17)	(−3.19)	(−3.17)	(6.69)	(6.70)
EQUITY_ISSUE	−0.094**	−0.095**	−0.025	−0.026	−0.134†	−0.134†	−0.080†	−0.081†	−0.027	−0.028
	(−2.46)	(−2.48)	(−0.79)	(−0.82)	(−3.22)	(−3.23)	(−2.58)	(−2.60)	(−1.37)	(−1.39)
ACQUISITION	0.353†	0.353†	0.302†	0.302†	0.334†	0.334†	0.321†	0.321†	0.226†	0.226†
	(12.27)	(12.28)	(11.17)	(11.17)	(10.93)	(10.95)	(12.49)	(12.49)	(13.74)	(13.75)
INDUSTRY_CONC	0.704†	0.705†	0.554†	0.549†	0.290*	0.294*	0.552†	0.550†	0.458†	0.457†
	(4.99)	(4.99)	(4.56)	(4.51)	(1.92)	(1.94)	(4.72)	(4.71)	(6.13)	(6.11)
Year and ind. FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951
Pseudo/adj. R^2	0.257	0.257	0.280	0.279	0.253	0.253	0.269	0.268	0.266	0.266

(INDUSTRY_CONC) because firms in highly competitive industries may issue less optimistic forecasts, specifically when investors have difficulty identifying the forecast bias (Rogers and Stocken (2005)). The Appendix provides detailed definitions of the above control variables.

B. CEO Political Ideology and the Likelihood and Frequency of Issuing MEFs

In this section, we test our first conjecture that firms with Republican CEOs are more likely to issue earnings forecasts, and that once they decide to issue, such firms tend to issue their forecasts more frequently, compared to those with non-Republican CEOs. Table 3 presents the results for the association of CEO political ideology with the likelihood of issuing MEFs and the properties of MEFs.

Models 1 and 2 of Table 3 present results of logistic regressions in which the dependent variable is the likelihood of issuing MEFs (ISSUE), and models 3 and 4 present results of OLS regressions in which the dependent variable is the frequency of MEFs (FREQUENCY). CEO political ideology is measured using REP_DUM in models 1 and 3, and REP_INDEX in models 2 and 4. In the models for ISSUE (models 1 and 2), we find that the coefficients on both REP_DUM and REP_INDEX are positive and highly significant at less than the 1% level. This finding is consistent with our expectation that Republic CEOs are more likely to issue MEFs than non-Republican CEOs. Specifically, in model 1, the coefficient estimate on REP_DUM (0.128; *t*-value = 3.86) indicates that Republican CEOs are nearly 13% more likely to issue earnings forecasts in any given year, compared to non-Republican CEOs. In the models for FREQUENCY (models 3 and 4), we also find that the coefficients on both measures of CEO political ideology are positive and highly significant at less than the 1% level. The finding is consistent with the view that Republican CEOs tend to issue MEF more frequently than non-Republican CEOs. Specifically, in model 3, the coefficient estimate on REP_DUM (0.165; *t*-value = 5.26) suggests that Republican CEOs, on average, issue 16.5% more forecasts compared to non-Republican CEOs. We find similar results in models 2 and 4, where CEO political ideology is proxied by REP_INDEX.

The coefficient estimates on control variables (i.e., other determinants of the likelihood and frequency of issuing MEFs) are largely consistent with the findings of prior studies. For instance, we find a positive association between firm size (ln (ASSETS)) and the frequency of MEFs (e.g., Ajinkya et al. (2005), Houston et al. (2019)). The negative coefficient on RD indicates that R&D-intensive firms make fewer MEFs. Further, we report a positive coefficient on ROA, which lends support to the view that firms with excellent performance are more likely to issue MEFs and tend to disclose them more frequently (e.g., Miller (2002)). Our results also show a positive association between MEFs and the number of analysts (Ajinkya et al. (2005)); and a negative association between MEFs and VOLATILITY (Houston et al. (2019)). Finally, due to their large holdings, institutional investors demand that firms release more information (Ajinkya et al. (2005)). Similarly, Bird and Karolyi (2016) find that institutional ownership significantly improves firm disclosure policy. Consistent with this finding, we find that INSTIT_OWN is positively associated with both the likelihood and frequency of issuing MEFs, and the

association is highly significant. In short, our results reported in columns 1–4 of Table 3, taken together, provide strong and reliable evidence that firms run by Republican CEOs tend to disclose more forecasts than non-Publican CEOs even after controlling for other known determinants of the likelihood and frequency of MEFs.

C. CEO Political Ideology and Forecast Range, Horizon, and Accuracy

In this section, we test the effect of CEO political ideology on the likelihood of issuing a range forecast on the one hand and its impact on the MEF horizon on the other hand. We conjecture that because they prefer avoiding negative market reactions and litigation if they miss their forecasts, Republican CEOs might prefer to issue range over point estimates. Further, because of their stronger preference for an environment of low information asymmetry, Republican CEOs might issue forecasts with a longer horizon. The results of these tests are reported in models 5–8 of Table 3.

In Table 3, the dependent variable is RANGE in the logistic regression models 5 and 6, and ln(HORIZON) in the OLS regression models 7 and 8. CEO Republican ideology is measured using REP_DUM in models 5 and 7, and REP_INDEX in models 6 and 8. Our results show that Republican-leaned CEOs' political ideology is positively associated with both forecast range and horizon. Specifically, the coefficient estimate on REP_DUM in model 5 is 0.127, indicating that firms run by Republican CEOs, on average, issue 12.7% more range estimates than firms with non-Republican CEOs. Similarly, the average horizon of forecasts made by Republican CEOs is around 11% longer than the horizon of forecasts made by other CEOs. Put differently, given that the average forecast horizon in our sample is 68 days, the horizon of forecasts made by Republican CEOs is around 7–8 days longer than those made by other CEOs. The results are qualitatively the same when REP_INDEX is used as an alternative measure of CEO Republican ideology.

Our results also show that larger firms issue fewer range forecasts and have a longer forecast horizon than smaller firms. Further, the forecast horizon is longer, and the likelihood of issuing range forecasts is greater for firms that are more levered, more profitable, followed by more analysts, have more institutional ownership, and for those that experience an acquisition during the year. In contrast, the forecast horizon is shorter, and the likelihood of issuing range forecasts is smaller for firms that have higher R&D intensity, higher volatility, have a positive change in EPS (NEWS), and for those that experience an equity issuance during the year. These results are, in general, consistent with the findings of prior research on determinants of forecast horizons and forecast ranges (Baik et al. (2011), Hribar and Yang (2016), and Houston et al. (2019)). In short, the results presented in columns 5–8 of Table 3 show significantly positive associations of Republican-leaned CEOs' political ideology with RANGE and HORIZON, suggesting that the conservative ideologies of Republican CEOs influence the properties of their MEFs and their influence is incremental over other known determinants of MEFs.

To obtain further insight into the role of CEO political ideology in their disclosure behaviors, we test the association between CEO political ideology and forecast accuracy. We conjecture that Republican CEOs, who have a higher

preference for loss and ambiguity avoidance than Democrat CEOs, are more likely to avoid negative earnings surprises, reduce information asymmetry, and reduce the risk of litigation by issuing more accurate forecasts, compared to non-Republican CEOs. To formally test this conjecture, we examine whether and how CEO Republican ideology is associated with forecast accuracy (ACCURACY). The results of this test are reported in models 9 and 10 of Table 3.

As shown in Table 3, the estimated coefficients on ACCURACY in models 9 and 10 are positive and statistically significant at the 1% level, indicating that Republican CEOs tend to issue more accurate forecasts. Specifically, forecasts made by Republican CEOs are, on average, 8.7% more accurate than those made by CEOs with other political ideologies. The coefficients on control variables are also consistent with prior studies. For example, firm size, MB ratio, return on assets, analyst following, institutional ownership, litigation environment, earnings news type, and industry competition are positively associated with forecast accuracy. In contrast, leverage, R&D intensity, volatility, and equity issuance are negatively associated with forecast accuracy.

V. CEO Political Ideology and MEFs: Identification and Endogeneity Issues

Our baseline findings show strong associations between CEO political ideology and both the likelihood of issuing MEFs and their properties. However, one can argue that our findings could be driven by endogenous firm-CEO matching. For instance, firms with higher disclosure quality may tend to appoint Republican CEOs, and/or Republican CEOs might tend to move to firms that have a superior disclosure quality environment. Similarly, directors and top executives may prefer to hire a CEO who shares their political affiliation, and/or a CEO might prefer to work in a company whose directors and top executives share her/his political affiliation. For instance, Wintoki and Xi (2020) show that fund managers prefer to allocate assets to firms managed by executives and directors with whom they share a similar political affiliation. More recently, Twitter CEO and co-founder Jack Dorsey, who exclusively donates to Democrats,[16] was subject to a severe threat of losing his position after the well-known Republican activist investor Elliot Management Corporation purchased a sizable stake in Twitter.[17] However, Khanna, Kim, and Lu (2015) argue that such a connection between the CEO and other top executives increases the risk of corporate fraud and reduces the likelihood of CEO dismissal upon the discovery of such fraud. Lee, Lee, and Nagarajan (2014) show that alignment in political orientation between the CEO and independent directors is associated with lower firm valuations, lower operating profitability, and increased internal agency conflicts such as lower turnover for poorly performing CEOs and lower pay-performance sensitivity.

[16]See more details at https://nypost.com/2018/08/04/how-twitter-is-fueling-the-democratic-agenda// (accessed 7 May 2020).

[17]See more details at https://www.bloomberg.com/news/articles/2020-02-29/singer-s-elliott-is-said-to-seek-to-replace-twitter-ceo-dorsey (accessed 7 Nov. 2022).

TABLE 4

Propensity Score Matching

Table 4 presents the test of management earnings forecasts between Republican and matching samples of control firm-years with non-Republican CEOs matched primarily on the firm characteristics, year, and industry. Panel A presents results for the diagnostic- differences in means of firm characteristics where *Treatment* denotes REP_DUM_{CYCLE} which is an indicator variable that equals 1 if all donations of a CEO in an election cycle are directed to the Republican Party and *controls* refers to matching sample of CEOs who donated to other parties or never donated. *Difference* represents the difference between treated and control groups. Panel B presents the results for the models of the association between management earnings forecasts and CEO political ideology from matched firm-years. All other variables are defined in the Appendix. †, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A. Diagnostic – Differences in Means of Variables

Variable	Treatment	Control	Difference	*t*-Stat
ln(ASSETS)	7.620	7.604	0.015	0.48
MB	3.209	3.250	−0.041	−0.53
LEVERAGE	0.164	0.160	0.004	1.55
RD	0.023	0.023	0.000	−0.31
ROA	0.049	0.051	−0.002	−1.09
RETURN_VOLATILITY	0.025	0.025	0.000	0.40
ln(ANALYST)	2.268	2.264	0.004	0.25
INSTIT_OWN	0.558	0.550	0.009	1.20
LITIGATION	0.157	0.151	0.005	0.74
NEWS	0.650	0.649	0.001	0.15
EQUITY_ISSUE	0.156	0.160	−0.004	−0.53
ACQUISITION	0.416	0.412	0.004	0.39
INDUSTRY_CONC	0.482	0.480	0.002	0.59

Panel B. CEO Political Ideology and Management Earnings Forecast

	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
	1	2	3	4	5
REP_DUM_{CYCLE}	0.103**	0.091*	0.104*	0.083*	0.071**
	(2.03)	(1.94)	(1.91)	(1.88)	(2.48)
Controls	Yes	Yes	Yes	Yes	Yes
Year and ind. FE	Yes	Yes	Yes	Yes	Yes
No. of obs.	9,578	9,578	9,578	9,578	9,578
Pseudo/adj. R^2	0.254	0.301	0.269	0.279	0.279

To alleviate concerns about such biases arising from endogenous firm-CEO matching, we conduct multiple causality tests. We first re-estimate our baseline regression model using the propensity score matched sample. Second, we exploit CEO turnovers to perform a DID analysis.[18] Third, to further address concerns about correlated omitted variables, we conduct additional tests that control for CEO characteristics, incentives, and overconfidence. Finally, to address possible error-in-measurement issues with our baseline proxy for CEO political ideology, we use several alternative measures of political ideology following Hutton et al. (2014) and Elnahas and Kim (2017).

A. Propensity Score Matching

In this section, we use the PSM technique to construct a treatment group of firms with Republican CEOs and a control group of firms with non-Republican CEOs. Specifically, the TREATMENT group is identified using REP_DUM_{CYCLE}, which is an indicator variable that equals 1 if all donations made by a CEO in an

[18]In our previous tests, we controlled for various firm and CEO characteristics, and year and industry fixed effects. We also perform robustness tests controlling for state fixed effects, run subsample tests excluding CEO turnover years and excluding the first 3 years of the CEO's tenure, and perform change-on-change regressions. These results are available in the Supplementary Material.

election cycle are directed to the Republican Party (with none to the Democratic Party), and 0 otherwise. As the first step of the PSM, we estimate a logistic regression of REP_DUM_{CYCLE} on multiple firm characteristics. Using the estimated coefficients from the logistic model, we then compute the propensity scores (i.e., the predicted likelihood) of $REP\_DUM_{CYCLE} = 1$ for all firms in our sample. We then match each treated firm with a control firm that has the nearest neighbor propensity score. As the second step of the PSM, we re-estimate all regressions in Table 3 using the PSM-screened sample. We report the PSM results using REP_DUM_{CYCLE} as the key variable of our interest in Table 4.

Panel A of Table 4 presents results for the diagnostic test for differences in means of firm characteristics between the TREATMENT and CONTROL groups. Reported *t*-statistics show no statistically significant differences in firm characteristics between the TREATMENT and CONTROL groups. Panel B of Table 4 presents the results for regressions of various properties of MEFs on CEO political ideology, using the propensity score-matched firm-year observations. Our findings indicate that REP_DUM_{CYCLE} is positively associated with forecast issuance, frequency, range, horizon, and accuracy. Overall, the effect of CEO political ideology on the likelihood of issuing MEFs and various MEF properties is qualitatively similar to that reported in our baseline models.[19]

B. Management Earnings Forecasts Around CEO Turnover: Difference-in-Differences Tests

To better establish the causal relation between CEO political ideology and MEFs, we exploit CEO turnovers (from Republican CEOs to non-Republican CEOs or vice versa) as a setting in which to apply the DID analysis of how changes in CEO political ideology influence various properties of MEFs. To this end, we construct a new indicator variable, REP-LEAVING, that equals 1 if a firm replaces a Republican CEO with a non-Republican CEO, and 0 otherwise. Republican CEOs are identified using REP_DUM_{ONLY}, which is an indicator variable that equals 1 if all donations made by a CEO in an election cycle are directed to the Republican Party, and 0 otherwise. We also create an indicator variable, AFTER, that equals 1 for post-turnover years, and 0 for pre-turnover years. The interaction term, REP-LEAVING × AFTER, captures the DID effect of replacing a Republican CEO with a non-Republican CEO on the likelihood of issuing MEFs and various properties of MEFs once issued. Based on our baseline results, we predict reductions in the likelihood of issuing MEFs, forecast frequency, and the quality and credibility of MEFs following CEO turnover (AFTER = 1). To avoid the impact of other confounding effects, we use firm-year observations for the window of (−3, +3) years around each CEO turnover event. Further, we restrict our test to turnover events where a long-term incumbent CEO is replaced by a long-term new CEO, where long-term CEOs are those who hold their position for at least 3 years. Table 5 reports the results of these DID tests.

[19]Our results also remain qualitatively similar if we reconstruct the treatment and control groups based on our alternative measures of CEO political ideology. These results are available in the Supplementary Material.

TABLE 5

MEF Around CEO Turnover: Difference-in-Difference (DID) Test

Table 5 presents estimates from the difference-in-difference (DID) regressions of the association between CEO political ideology and management earnings forecasts around CEO turnover events (−3, +3). REP-LEAVING is an indicator variable that equals 1 if a firm replaces a Rep CEO with a non-Rep CEO, and 0 otherwise. Republican CEOs are defined as REP_DUM_{ONLY}, which is an indicator variable that equals 1 if all donations of a CEO in an election cycle are directed to the Republican Party only. AFTER is an indicator variable equals 1 for the years after the CEO turnover, 0 for the pre-tenure period where CEO_TURNOVER equals 1 if a CEO in the current year is different from the CEO in the previous year. We only consider turnover events where long-term old CEOs are replaced by long-term new CEOs (long-term old and long-term new CEOs are those who hold their position for at least 3 years). All models include control variables, year, and industry fixed effects. All other independent variables are defined in the Appendix. *t*-statistics are computed using robust standard errors and reported in parentheses. †, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
	1	2	3	4	7
REP-LEAVING × AFTER	−0.274**	−0.080	−0.230*	−0.246*	−0.188**
	(−2.03)	(−0.62)	(−1.67)	(−1.92)	(−2.24)
REP-LEAVING	0.105	−0.028	−0.026	0.113	0.139**
	(0.96)	(−0.30)	(−0.23)	(1.12)	(2.09)
AFTER	0.100	0.155**	0.178**	0.114*	0.050
	(1.44)	(2.43)	(2.34)	(1.72)	(1.14)
Controls	Yes	Yes	Yes	Yes	Yes
Year and ind. FE	Yes	Yes	Yes	Yes	Yes
No. of obs.	8,722	8,722	8,722	8,722	8,722
Pseudo/adj. R^2	0.216	0.299	0.214	0.253	0.271

Consistent with our baseline results, the coefficient on REP-LEAVING × AFTER is negative and statistically significant in models examining MFE ISSUE, RANGE, HORIZON, and ACCURACY, while it is insignificant, albeit negative, for the FREQUENCY model.[20] Overall, these results lend further support to the view that our main results are unlikely to be driven by potential endogeneity, particularly reverse causality. Replacing a Republican CEO with a non-Republican CEO leads to lowering the likelihood of issuing MEF and deteriorating the quality of MEFs.

C. Controlling for CEO Characteristics, Incentives, and Overconfidence

Our proxies for CEO political ideology are constructed from each CEO's individual donations data and hence are likely to capture CEO political orientation reasonably well. However, if these proxies are mere reflections of, and/or highly correlated with, other CEO characteristics that our baseline models do not control for, then our baseline results could suffer from potential problems that may arise from correlated omitted variables. To alleviate concerns about such problems, we additionally control for a wide range of CEO characteristics. Specifically, we control for ln(TENURE) and DUALITY because forecasting accuracy and earnings announcement tone are shown to be positively associated with the managers' experience and CEO duality (Feng, Li, and McVay (2009)). We also control for CEO gender because prior research shows that female CEOs are less likely

[20]Our findings are qualitatively similar if we restrict our sample to −2, +2 years around CEO turnover events. We also find statistically significant results for changes in earnings forecasts associated with changes in CEO political ideology due to CEO turnover, where $\Delta REP_{CEO} = 1$ if a Republican CEO (REP_DUM_{ONLY}) replaces a Democratic CEO (DEM_DUM_{ONLY}), 0 if the political ideology is similar after a CEO turnover, and −1 if a Democratic CEO replaces a Republican CEO. These results are available in the Supplementary Material.

to engage in opportunistic and fraudulent behavior (e.g., Ali and Hirshleifer (2017)). We also control for ln(AGE) because prior studies find a negative relation between CEO age and bad news hoarding (Andreou, Louca, and Petrou (2017)) and a positive relation between CEO age and financial reporting quality (Huang, Rose-Green, and Lee (2012)). We include CEO pay-performance sensitivity (ln (DELTA)) and CEO risk-taking incentive (ln(VEGA)) because prior research finds a positive relation between CEO equity compensation and MEFs (Baginski et al. (2018)). Similarly, managers may opportunistically provide voluntary disclosure to maximize their stock option compensation (Cheng et al. (2013)). We also control for measures of CEO overconfidence, such as HOLDER67 and NET_BUYER following Hribar and Yang (2016), and CEO ownership (CEO_OWN) following Malmendier and Tate (2005). The results of these tests are reported in Table 6.[21]

Even after controlling for the aforementioned firm and CEO characteristics, the results are qualitatively identical to those of the baseline models. Specifically, we find a positive association between measures of CEO Republican ideology and such forecast-related variables as the likelihood of forecast issuance, forecast frequency, range, horizon, and accuracy. Consistent with prior studies, we find that VEGA is positively associated with the likelihood of forecast issuance, forecast frequency, range, horizon, and accuracy (Baginski et al. (2018)). We also find that CEO overconfidence is positively associated with the likelihood of forecast issuance and forecast frequency. In addition, we find that female CEOs tend to issue more guidance and issue longer horizon guidance, which is consistent with the findings that female CEOs are likely to be more conservative in disclosure.

D. Alternative Measures of CEO Political Ideology

Our baseline models use REP_DUM (Bhandari et al. (2018)) and REP_INDEX (Hong and Kostovetsky (2012)) as proxies for CEO Republican ideology. The construction of these individual proxies may represent another source of potential endogeneity in our baseline results due to measurement error. To mitigate potential bias and noise in the baseline measures of CEO political ideology, we employ three alternative measures of CEO Republican ideology, namely $\text{REP\_INDEX}_{\text{CYCLE}}$, $\text{REP\_DUM}_{\text{CYCLE}}$ (Hutton et al. (2014)), and $\text{REP\_DUM}_{\text{TENURE}}$ (Elnahas and Kim (2017)). Table 7 reports the test results using these alternative measures.

The results in Table 7 are, overall, in line with our baseline results, and alleviate the concern that our main findings are biased owing to measurement errors in individual proxies for Republican ideology. Specifically, we find that Republican CEOs are, on average, about 8% to 12% more likely to issue forecasts, compared to non-Republican CEOs (depending on the alternative Republican ideology measure used). Further, on average, Republican CEOs have about 9% to 11% greater forecasting frequency than non-Republican CEOs. Similarly, using these alternative proxies for political ideology, Republican CEOs consistently have a higher likelihood of issuing range forecasts, longer forecast horizons, and higher forecast accuracy.

[21]The results using the alternative measure of CEO overconfidence (NET_BUYER) are reported in the Supplementary Material.

TABLE 6

Controlling for CEO Characteristics, Incentives, and Overconfidence

Table 6 presents tests of the association between CEO political ideology and management earnings forecast controlling for CEO characteristics (ln(TENURE), ln(AGE), DUALITY, CEO_GENDER, ln(DELTA), ln(VEGA), CEO_OWN, and OVERCONFIDENCE) in addition to the baseline control variables. Measures of CEO political ideology, REP_DUM and REP_INDEX, and all other independent variables are defined in the Appendix. All models include year and industry fixed effects. *t*-statistics are computed using robust standard errors and reported in parentheses. †, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	ISSUE		FREQUENCY		RANGE		ln(HORIZON)		ACCURACY	
	1	2	3	4	5	6	7	8	9	10
REP_DUM	0.122†		0.177†		0.116†		0.115†		0.077†	
	(3.37)		(5.02)		(3.04)		(3.59)		(3.67)	
REP_INDEX		0.117†		0.126†		0.126†		0.103†		0.070†
		(2.62)		(2.91)		(2.69)		(2.61)		(2.72)
ln(TENURE)	−0.027	−0.025	−0.092†	−0.088†	−0.022	−0.020	−0.052**	−0.050**	−0.040†	−0.038†
	(−1.05)	(−0.96)	(−4.31)	(−4.13)	(−0.80)	(−0.73)	(−2.50)	(−2.39)	(−3.01)	(−2.89)
ln(AGE)	−0.130	−0.129	−0.385†	−0.380†	−0.099	−0.100	−0.137	−0.136	−0.125*	−0.124*
	(−1.00)	(−0.99)	(−3.35)	(−3.30)	(−0.72)	(−0.73)	(−1.24)	(−1.22)	(−1.80)	(−1.79)
DUALITY	0.213†	0.215†	0.181†	0.186†	0.211†	0.213†	0.170†	0.172†	0.098†	0.099†
	(6.32)	(6.39)	(5.68)	(5.84)	(5.99)	(6.04)	(5.76)	(5.84)	(5.23)	(5.30)
CEO_GENDER	0.193**	0.190**	0.170	0.163	−0.107	−0.110	0.184*	0.181*	−0.017	−0.020
	(2.05)	(2.02)	(1.63)	(1.56)	(−1.08)	(−1.11)	(1.96)	(1.92)	(−0.30)	(−0.35)
ln(DELTA)	0.036*	0.037*	0.073†	0.074†	0.004	0.004	0.043**	0.044**	0.066†	0.066†
	(1.69)	(1.70)	(3.95)	(4.03)	(0.19)	(0.19)	(2.40)	(2.43)	(5.70)	(5.74)
ln(VEGA)	0.084†	0.083†	0.096†	0.095†	0.077†	0.077†	0.092†	0.092†	0.053†	0.053†
	(6.59)	(6.57)	(7.49)	(7.46)	(5.87)	(5.85)	(7.93)	(7.91)	(7.04)	(7.03)
CEO_OWN	−2.692†	−2.666†	−2.210†	−2.197†	−2.790†	−2.759†	−2.120†	−2.105†	−1.845†	−1.835†
	(−5.68)	(−5.63)	(−6.05)	(−6.01)	(−5.28)	(−5.22)	(−5.69)	(−5.65)	(−7.90)	(−7.85)
OVERCONFIDENCE	0.101†	0.102†	0.175†	0.177†	0.085**	0.087**	0.116†	0.117†	0.088†	0.089†
	(2.75)	(2.78)	(5.39)	(5.43)	(2.20)	(2.23)	(3.69)	(3.72)	(4.47)	(4.50)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and ind. FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	27,912	27,912	27,912	27,912	27,912	27,912	27,912	27,912	27,912	27,912
Pseudo/adj. R^2	0.259	0.259	0.292	0.291	0.254	0.254	0.276	0.276	0.278	0.278

TABLE 7

Alternative Measures of CEO Republican Ideology

Table 7 presents tests of the association between CEO political ideology and management earnings forecast using alternative measures of CEO political ideology. REP_INDEX_{CYCLE} is an index calculated as total donations to the Republican Party minus total donations to the Democratic Party divided by total donations to both parties in each election cycle. REP_DUM_{CYCLE} is an indicator variable that equals 1 if all donations of a CEO in an election cycle are directed to the Republican Party. REP_DUM_{TENURE} is an indicator variable that equals 1 if all donations of a CEO during her/his tenure are directed to the Republican Party. We report the results for ISSUE, FREQUENCY, RANGE, ln(HORIZON), and ACCURACY, in turn. All models include control variables, year, and industry fixed effects. All other independent variables are defined in the Appendix. *t*-statistics are computed using robust standard errors and reported in parentheses. †, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	ISSUE			FREQUENCY			RANGE			ln(HORIZON)			ACCURACY		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
REP_INDEX_{CYCLE}	0.078†			0.088†			0.104†			0.069†			0.046†		
	(2.73)			(3.16)			(3.42)			(2.71)			(2.76)		
REP_DUM_{CYCLE}		0.112†			0.099†			0.101**			0.087**			0.069†	
		(2.88)			(2.69)			(2.47)			(2.55)			(3.08)	
REP_DUM_{TENURE}			0.122†			0.110†			0.108**			0.087**			0.070†
			(2.76)			(2.65)			(2.33)			(2.29)			(2.82)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and ind. FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951	33,951
Pseudo/adj.R^2	0.257	0.257	0.257	0.279	0.279	0.279	0.253	0.253	0.253	0.268	0.268	0.268	0.266	0.266	0.266

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TABLE 8

Cross-Sectional Test: High Versus Low Institutional Ownership

Table 8 presents results for firms with high (above-median) levels of institutional ownership (Panel A) and firms with low (below-median) levels of institutional ownership (Panel B). Measures of CEO political ideology, REP_DUM and REP_INDEX, and all other independent variables are defined in the Appendix. All models include control variables, year, and industry fixed effects. *t*-statistics are computed using robust standard errors and reported in parentheses. †, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	ISSUE		FREQUENCY		RANGE		ln(HORIZON)		ACCURACY	
	1	2	3	4	5	6	7	8	9	10
Panel A. High Institutional Ownership										
REP_DUM	0.177†		0.245†		0.202†		0.162†		0.141†	
	(3.94)		(4.97)		(4.40)		(3.83)		(4.98)	
REP_INDEX		0.138**		0.192†		0.182†		0.134†		0.138†
		(2.54)		(3.21)		(3.28)		(2.62)		(4.02)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and ind. FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	16,975	16,975	16,975	16,975	16,975	16,975	16,975	16,975	16,975	16,975
Pseudo / adj. R^2	0.221	0.220	0.269	0.268	0.207	0.206	0.251	0.251	0.263	0.262
Panel B. Low Institutional Ownership										
REP_DUM	0.091*		0.073*		0.019		0.066*		0.037	
	(1.78)		(1.95)		(0.33)		(1.71)		(1.49)	
REP_INDEX		0.147**		0.022		0.106		0.073		0.028
		(2.25)		(0.49)		(1.48)		(1.50)		(0.91)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and ind. FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	16,970	16,970	16,976	16,976	16,970	16,970	16,976	16,976	16,976	16,976
Pseudo/adj. R^2	0.291	0.291	0.293	0.293	0.302	0.303	0.279	0.279	0.266	0.266

E. Republican CEOs: The Authoritarian Effect Versus the Precautionary Effects

Our results so far are consistent with the predictions of the *precautionary* effect. To further establish the precautionary effect as an explanation for our results, we conduct cross-sectional tests using subsamples of firms with high and low institutional ownership and with high and low litigation risk. If Republican CEOs indeed adopt high-quality MEF policies as a precaution to avoid litigation and career penalties, then our results are expected to be stronger for firms with stronger institutional monitoring and higher litigation risk. We report the results of our cross-sectional tests based on institutional ownership in Table 8.

In Panel A of Table 8 reports results for the subsample of firms with high (above-median) institutional ownership, and Panel B reports results for firms with low (below-median) institutional ownership. The impact of CEO Republican ideology on the likelihood of issuing and characteristics of MEFs is much stronger in the high institutional ownership subsample. For example, using REP_DUM, in firms with high institutional ownership, the likelihood of issuing MEFs is 17.7% higher for Republican CEOs than for non-Republican CEOs (column 1, Panel A). In contrast, in firms with low institutional ownership, the likelihood is only 9.7% higher for Republican CEOs than for other CEOs (column 1, Panel B). Similarly, in firms with high institutional ownership, Republican CEOs are 20.2% more likely to issue range forecasts than non-Republican CEOs (column 5, Panel A). In contrast, in firms with low institutional ownership, they are only 1.9% more likely to do so

TABLE 9

Cross-Sectional Test: High Versus Low Litigation Risk

Table 9 presents results for firms in industries with high litigation environment (Panel A) and firms in industries with low litigation environment (Panel B). Measures of CEO political ideology, REP_DUM and REP_INDEX, and all other independent variables are defined in the Appendix. All models include control variables, year, and industry fixed effects. *t*-statistics are computed using robust standard errors and reported in parentheses. †, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	ISSUE		FREQUENCY		RANGE		ln(HORIZON)		ACCURACY	
	1	2	3	4	5	6	7	8	9	10
Panel A. High Litigation Environment										
REP_DUM	0.220†		0.325†		0.343†		0.215†		0.206†	
	(2.79)		(4.03)		(4.14)		(3.11)		(4.35)	
REP_INDEX		0.261†		0.318†		0.354†		0.225†		0.229†
		(2.76)		(3.37)		(3.53)		(2.69)		(4.00)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and ind. FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	8,120	8,120	8,144	8,144	8,120	8,120	8,144	8,144	8,144	8,144
Pseudo/adj. R^2	0.253	0.253	0.288	0.287	0.223	0.222	0.269	0.269	0.272	0.272
Panel B. Low Litigation Environment										
REP_DUM	0.097†		0.112†		0.071*		0.075**		0.054†	
	(2.63)		(3.33)		(1.83)		(2.38)		(2.62)	
REP_INDEX		0.075*		0.042		0.080*		0.048		0.038
		(1.65)		(1.01)		(1.65)		(1.23)		(1.50)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year and ind. FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	25,807	25,807	25,807	25,807	25,807	25,807	25,807	25,807	25,807	25,807
Pseudo/adj. R^2	0.266	0.266	0.290	0.290	0.268	0.268	0.281	0.280	0.275	0.275

(column 5, Panel B). These results are consistent across all other variables that capture different characteristics of MEFs.

In Table 9, we report the results of our cross-sectional tests based on litigation risk. In Panel A of Table 9 presents the results for the subsample of firms with high litigation risk, and Panel B does the same for the subsample of firms with low litigation risk. The impact of CEO Republican ideology on the likelihood and characteristics of MEFs is again much stronger in the high litigation risk subsample. For example, using REP_DUM, in firms with high litigation risk, the ACCURACY of MEFs of Republican CEOs is 20.6% higher than non-Republican CEOs (column 1, Panel A), whereas, in firms with low litigation risk, it is only 5.4% higher (column 1, Panel B). These results are also consistent across most of the other characteristics of MEFs. In general, these cross-sectional results lend strong support to the *precautionary effect* explanation. Republican CEOs favor more frequent and higher-quality forecasts when the likelihood of disciplinary action is elevated due to strong institutional monitoring or high litigation risk.

F. Conservatism Versus Other Explanations

The main premise of this article is that CEOs' conservatism would shape their disclosure preferences. We interpret our results as evidence that due to their conservative ideology, Republican CEOs tend to choose a less opaque voluntary disclose style. Because of its central role in our story, we attempt to further test the conservatism hypothesis. Particularly, if conservatism plays a critical role in

TABLE 10

Cross-Sectional Test: The Conservatism Hypothesis

Table 10 presents the results of cross-sectional tests based on CEO age (Panel A), CEO inside debt (Panel B), CEO marital status (Panel C), CEO tenure (Panel D), a firm headquarters county political orientation (Panel E), policy uncertainty (PU) index (Panel F), and high policy uncertainty index within red versus blue states (Panel G). All control variables are included in the models and are defined in the Appendix. All models include year and industry fixed effects. *t*-statistics are computed using robust standard errors and reported in parentheses. †, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A. CEO Age

	CEO Age > Median					CEO Age < Median				
	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
	1	2	3	4	5	6	7	8	9	10
REP_DUM	0.138†	0.227†	0.142†	0.126†	0.080†	0.134**	0.106*	0.102*	0.126**	0.088†
	(2.97)	(4.99)	(2.91)	(3.06)	(2.96)	(2.28)	(1.89)	(1.65)	(2.46)	(2.60)
No. of obs.	15,342	15,343	15,316	15,343	15,343	12,217	12,569	12,281	12,569	12,569
Pseudo/adj R^2	0.260	0.295	0.263	0.279	0.281	0.257	0.294	0.246	0.280	0.281

Panel B. CEO Inside Debt

	CEO Inside Debt > Median					CEO Inside Debt < Median				
	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
REP_DUM	0.111†	0.157†	0.104**	0.095†	0.066†	0.133	0.144	0.092	0.146*	0.092*
	(2.75)	(4.19)	(2.44)	(2.75)	(2.86)	(1.51)	(1.57)	(1.02)	(1.77)	(1.79)
No. of obs.	21,661	21,661	21,661	21,661	21,661	6,203	6,251	6,214	6,251	6,251
Pseudo/adj R^2	0.286	0.335	0.288	0.305	0.297	0.218	0.227	0.184	0.242	0.264

Panel C. CEO Marital Status

	Married CEOs					Single CEOs				
	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
REP_DUM	0.094*	0.132†	0.055	0.087**	0.044	0.042	0.224**	0.211	0.037	0.077
	(1.89)	(3.08)	(1.02)	(2.10)	(1.60)	(0.32)	(2.06)	(1.47)	(0.36)	(1.10)
No. of obs.	14,582	14,582	14,582	14,582	14,582	2,950	3,062	2,939	3,062	3,062
Pseudo/adj R^2	0.285	0.328	0.275	0.300	0.277	0.291	0.302	0.289	0.287	0.300

(continued on next page)

TABLE 10 (continued)

Cross-Sectional Test: The Conservatism Hypothesis

Panel D. CEO Tenure

	CEO Tenure > Median					CEO Tenure < Median				
	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
REP_DUM	0.105**	0.154†	0.089*	0.089**	0.053*	0.140**	0.187†	0.124**	0.132†	0.101†
	(2.23)	(3.41)	(1.81)	(2.15)	(1.96)	(2.40)	(3.29)	(2.02)	(2.61)	(3.00)
No. of obs.	15,316	15,316	15,316	15,316	15,316	12,596	12,596	12,257	12,596	12,596
Pseudo/adj R^2	0.265	0.294	0.261	0.282	0.283	0.266	0.295	0.246	0.277	0.280

Panel E. Headquarters State Political Orientation

	Firms Located in Republican States					Firms Located in Democratic States				
	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
REP_DUM	0.174†	0.197†	0.138**	0.143†	0.092†	−0.013	0.163†	−0.023	0.020	0.044
	(2.98)	(3.82)	(2.27)	(2.91)	(2.97)	(−0.23)	(2.69)	(−0.38)	(0.39)	(1.25)
No. of obs.	9,578	9,578	9,539	9,578	9,578	13,723	13,836	13,419	13,836	13,836
Pseudo/adj R^2	0.290	0.311	0.285	0.301	0.307	0.255	0.291	0.238	0.275	0.270

Panel F. Policy Uncertainty (PU) Index

	High Policy Uncertainty (PU) Index					Low Policy Uncertainty (PU) Index				
	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
REP_DUM	0.112**	0.179†	0.152†	0.105**	0.083†	0.133**	0.151†	0.037	0.109**	0.061**
	(2.33)	(3.42)	(3.22)	(2.30)	(2.86)	(2.36)	(3.29)	(0.56)	(2.45)	(2.03)
No. of obs.	15,191	15,191	15,191	15,191	15,191	12,721	12,721	12,721	12,721	12,721
Pseudo/adj R^2	0.239	0.262	0.193	0.264	0.297	0.263	0.322	0.289	0.266	0.241

Panel G. High PU in Red Versus Blue States

	High PU Index in Red States					High PU Index in Blue States				
	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY	ISSUE	FREQUENCY	RANGE	ln(HORIZON)	ACCURACY
REP_DUM	0.150*	0.203†	0.216†	0.125*	0.083*	−0.024	0.134	−0.061	−0.001	0.068
	(1.94)	(2.71)	(2.87)	(1.83)	(1.94)	(−0.31)	(1.48)	(−0.79)	(−0.01)	(1.38)
No. of obs.	5,134	5,189	5,155	5,189	5,189	7,462	7,517	7,138	7,517	7,517
Pseudo/adj R^2	0.283	0.293	0.233	0.308	0.333	0.235	0.256	0.161	0.260	0.291

shaping Republican CEOs' disclosure policies, we expect the strength of our results to be affected by other CEO and firm characteristics (besides political ideology) that are related to CEO conservatism. Specifically, we conduct a series of cross-sectional tests based on CEO age, inside debt, marital status, tenure, the political ideology of a firm's headquarters location, and policy uncertainty. We report the results of these cross-sectional tests in Table 10.

Panel A of Table 10 reports the results for a subsample of firms with above (below) median CEO age in models 1–5 (6–10). The coefficient estimates of both measures of CEO Republican ideology are more economically and statistically significant for the subsample of older (less risk-taking) CEOs.[22] The results of other cross-sectional tests based on CEO characteristics are also in line with our expectation in that they are stronger for the subsamples of CEOs with high inside debt (Panel B), married CEOs (Panel C), and CEOs with shorter tenure (Panel D). The above results lend strong support to our conservatism explanation of the baseline results. CEOs' conservatism appears to play a strong role in shaping a CEO's voluntary disclosure.

In addition to CEO's personal characteristics, conservatism can also be affected by a firm's headquarters environment and/or the prevailing level of policy uncertainty. Specifically, the level of conservatism is expected to be elevated in Republican-dominated areas and during periods of high policy uncertainty. Panel E of Table 10 reports the results for a subsample of firms located in Republican (Democratic) states in models 1–5 (6–10). Consistent with the conservatism hypothesis, our results are stronger for firms located in Republican states. Similarly, our results are stronger during periods of high policy uncertainty (PU) (Panel F of Table 10). Further, within the subsample of the high PU index, our results are stronger for firms headquartered in Republican states (Panel G of Table 10).[23] In general, the results reported in Table 10 are consistent with the view that CEOs' conservatism plays an important role in making them choose a more transparent disclosure policy.

G. Additional Robustness Tests

We conduct a series of additional robustness checks, the results of which are reported in the Supplementary Material. Specifically, we first investigate the effect of CEO political ideology on earnings forecast news types and earnings surprises. Consistent with the conservatism hypothesis, the results of these tests show that Republican CEOs are more likely to issue bad news forecasts, compared to non-Republican CEOs. In addition, firms led by Republican CEOs are more likely to experience positive earnings surprises and less likely to experience negative earnings surprises than other firms.

Second, we conduct additional tests to further address potential endogeneity issues that could arise from measurement error, selection bias, and/or correlated omitted variables. These tests include DID tests around CEO turnover, controlling

[22]For brevity, we report the results using REP_DUM. Though not tabulated, we obtain similar results using REP_INDEX. These results are available from the authors.

[23]Our conclusion does not change if we use low instead of high PU in this test. These results are un-tabulated for brevity and are available from the authors.

for managerial ability, and PSM tests that use an alternative matching setup. These additional results, taken together, suggest that our results are unlikely to be driven by potential endogeneity.

Third, we employ alternative measures of CEO political ideology and MEFs to address concerns regarding error-in-variable problems. Fourth, we undertake a series of robustness tests to tackle potential specification errors that could confound our main results. Fifth, we perform a comprehensive set of cross-sectional tests for the conservatism hypothesis by examining the impact of different CEO and firm characteristics on our baseline results. In so doing, we utilize variations in CEO age, CEO inside debt, CEO marital status, CEO tenure, the political orientation of a firm's headquarters state, policy uncertainty, type of institutional ownership, and analyst coverage. The results of these cross-sectional tests are, overall, consistent with our baseline results, lending further support to the conservatism hypothesis.

Lastly, we utilize various alternative subsamples to address the potential impact of sample selection bias on our baseline results. For example, we conduct a subsample analysis by excluding CEOs who did not make any donations during the sample period, and by restricting the sample to years in which CEOs made donations, among other restrictions. Our findings remain consistent even when employing these more restrictive subsamples.

VI. Conclusion

The main premise of this article is that CEOs' political ideology can translate into their decisions related to voluntary disclosure. Specifically, Republican CEOs, who are often described as more conservative, might use voluntary disclosure to reduce information asymmetry, the likelihood of negative earnings surprises, and the risk of litigation.

Our results, using CEOs' political contributions data for the period of 1993 to 2016, show that firms run by Republican CEOs are more likely to issue forecasts and have higher forecast frequency than other firms. Consistent with the conservative characteristics of Republican CEOs, we find that they are more likely to issue range forecasts. Republican CEOs also issue forecasts in a timelier fashion and with higher accuracy than other CEOs. Our results are robust to the use of several alternative measures of CEO political ideology to address potential error-in-measurement issues. Further, multiple cross-sectional analyses yield results that are consistent with the conservatism hypothesis.

In short, our results provide strong and reliable evidence that CEO political ideology does affect corporate policy choices, specifically relating to the voluntary (and thus discretionary) disclosure of forward-looking information. Given the scarcity of empirical evidence on the role of CEO political ideology in shaping firms' disclosure policies, we recommend further research in this direction. In particular, a fruitful area for future research would be to investigate whether and how CEO political ideology influences the quality of financial reporting, including its qualitative nature such as readability, tone, and other linguistic quality of narrative disclosure. Furthermore, future research could utilize natural experiments as a means to more effectively establish the causal relationship between CEO political orientation and corporate disclosure policies.

Appendix. Variable Definitions

CEO Political Ideology (Baseline)

REP_DUM: An indicator variable that equals 1 if a CEO donated more to the Republican Party than to the Democratic Party during their tenure (Bhandari et al. (2018)).

REP_INDEX: The percentage of a CEO's support for the Republican Party, calculated as the number of cycles in which a CEO donates exclusively to the Republican Party divided by the number of his/her donation cycles in the sample period (Hong and Kostovetsky (2012)).

$\text{REP\_DUM}_{\text{CYCLE}}$: An indicator variable that equals 1 if all donations by a CEO in an election cycle are directed to the Republican Party, and 0 otherwise (Hutton et al. (2014)).

$\text{REP\_DUM}_{\text{TENURE}}$: An indicator variable that equals 1 if all donations by a CEO during their tenure are directed to the Republican Party, and 0 otherwise (Elnahas and Kim (2017)).

$\text{REP\_INDEX}_{\text{CYCLE}}$: An index calculated as total donations to the Republican Party minus total donations to the Democratic Party divided by total donations to both parties in each election cycle. This index ranges between −1 (strong Democrat) and 1 (strong Republican) (Hutton et al. (2014)).

Voluntary Disclosure.

ISSUE: An indicator variable that equals 1 if a firm makes annual earnings forecasts in a fiscal year, and 0 otherwise.

FREQUENCY: The total number of annual earnings forecasts made by a firm in a fiscal year.

ln(HORIZON): The natural logarithm of 1 plus the average horizon of annual earnings forecasts made by a firm in a fiscal year. For each forecast, the horizon is defined as the number of calendar days between the forecast announcement date and the corresponding period end date. If a firm makes no forecasts in a fiscal year, we assign an average horizon value of 0.

RANGE: An indicator variable denotes that a firm issues range estimates. For each forecast, we first assign a value of 1 for range estimates, and 0 otherwise. These individual forecast values are then averaged for each firm-year. RANGE is then defined as an indicator variable that equals 1 if the average range is greater than 0.5, and 0 otherwise.

ACCURACY: The average forecast accuracy for all annual earnings forecasts made by a firm in a fiscal year. For each estimate, we first calculate the absolute difference between MEFs and actual earnings scaled by the stock price at the end of the month before the forecast. Next, we identify forecast accuracy as the quintile ranking of the scaled forecast difference, where 1 is assigned to the top quintile (largest error), and 5 is assigned to the bottom quintile (lowest error). The value 0 is assigned if no forecasts are made.

Firm Characteristics

ln(ASSETS): The natural logarithm of total assets. [AT]

MB: The ratio of market-to-book value of equity. [(PRCC_F*CSHO)/CEQ]

LEVERAGE: The ratio of total debt to the market value of total assets. [(DLTT+DLC)/(AT-CEQ + CSHO*PRCC_F)]

RD: Expenditure on research and development scaled by total assets. [XRD/AT]

ROA: Return on assets, measured as income before extraordinary items scaled by total assets. [IB/AT]

VOLATILITY: The standard deviation of daily stock returns (CRSP variable ret) of a firm over the last fiscal year.

ln(ANALYST): The natural logarithm of the number of analysts following a firm.

INSTIT_OWN: The percentage of shares owned by institutional investors.

LITIGATION: An indicator variable that equals 1 if a firm's SIC code denotes an industry subject to increased litigation (2833–2836, 3570–3577, 3600–3674, and 7370–7374), and 0 otherwise.

NEWS: An indicator variable that equals 1 if the current period EPS is greater than or equal to the previous-period EPS, and 0 otherwise.

EQUITY_ISSUE: An indicator variable that equals 1 if a firm issued shares in a year, and 0 otherwise.

ACQUISITION: An indicator variable that equals 1 if a firm's annual M&A-related costs exceed 5% of net income (or loss) in the year, and 0 otherwise. [AQC/NI]

INDUSTRY_CONC: A firm's industry concentration, measured as the sum of sales of the top five firms in its 2-digit SIC code scaled by total sales of all firms in its 2-digit SIC code in the year. $\left[\sum_{i=1}^{5} \text{SALE}_{i,j} / \sum_{i=1}^{n} \text{SALE}_{i,j}\right]$

CEO Characteristics

ln(TENURE): The natural logarithm of CEO tenure, where tenure is defined as the length of a CEO's tenure with their current firm.

ln(AGE): The natural logarithm of the age of a CEO in the year in which a MEF was released.

DUALITY: An indicator variable that equals 1 if a CEO is also the chairperson of the firm's board, and 0 otherwise.

CEO_GENDER: CEO Gender equals 1 if a CEO is female, 0 otherwise.

ln(DELTA): The natural logarithm of the expected dollar change in CEO wealth for a 1% change in stock price, computed as in Core and Guay (2002).

ln(VEGA): The natural logarithm of the expected dollar change in CEO wealth for a 1% change in stock return volatility, computed as in Guay (1999).

CEO_OWN: The percentage of outstanding shares owned by a CEO.

MARRIED: Married equals 1 if a CEO is married, and 0 otherwise (Roussanov and Savor (2014)). We thank Roussanov and Savor (2014) for sharing their CEOs marital status data, which is available at http://doi.org/10.1287/mnsc.2014.1926.

INSIDE_DEBT: The natural logarithm of 1 plus the debt-to-equity ratio of CEO compensation.

HOLDER67: An indicator variable that equals 1 if a CEO holds vested options with average moneyness greater than 67%, and 0 otherwise starting in the first year when a CEO displays this behavior. Option moneyness is calculated as follows: First, we calculate the realizable value per option as the total realizable value of the exercisable options divided by the number of exercisable options [VALUE_PER_OPTION = (OPT_UNEX_EXER_EST_VAL/OPT_UNEX_EXER_NUM)]. Second, we compute the estimate of the average exercise price of the options by subtracting the per-option realizable value from the stock price at the fiscal year-end [AVG_EXERCISE_PRICE = (PRCCF – VALUE_PER_OPTION)]. Finally, the average percent moneyness of an option equals the per-option realizable value divided by the estimated average exercise price [AVG_PCTG_MONEYNESS_OPT = (VALUE_PER_OPTION/AVG_EXERCISE_PRICE)] (Malmendier and Tate (2005), Campbell, Gallmeyer, Johnson, Rutherford, and Stanley (2011), and Hirshleifer, Low, and Teoh (2012)).

Supplementary Material

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