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The impact of CEO political ideology on labor cost reductions and payout decisions during the COVID-19 pandemic

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ABSTRACT

Using a hand-collected dataset, we study whether CEO political ideology affected S&P 500 firms' reactions to the COVID-19 pandemic in 2020. During the pandemic, CEOs had the option to distribute the pain of the pandemic's impact onto shareholders by paying lower dividends, onto the workforce by reducing labor costs, or to share the pain. We hypothesize that conservative CEOs were more likely to aggressively reduce labor costs while still meeting dividend expectations. Conversely, other CEOs would have been less likely to meet dividend expectations and less likely to reduce labor costs. Our findings support this hypothesis. We also find that during the pandemic, conservative CEOs used temporary downsizing to avoid earnings losses, enabling them to meet dividend expectations.

> As the pandemic squeezes big companies, executives are making decisions about who will bear the brunt of the sacrifices, and in at least some cases, workers have been the first to lose, even as shareholders continue to collect.
>
> [Peter Whoriskey, *The Washington Post*, May 5, 2020]

1. Introduction

In the face of extreme and sudden economic adversities, how do CEOs reconcile the priorities of their shareholders with those of their employees? Scholarly work to date has predominantly focused on the manner in which the personal ideologies and preferences of CEOs influence their decisions regarding shareholders and employees in periods of economic stability (e.g., Di Giuli and Kostovetsky, 2014; Chin et al., 2013; Adams et al., 2011). Three notable and recent examples are Bizjak et al. (2022), Keum and Meier (2023), and Guenzel et al. (2023). The former examines how CEOs with different political leanings balanced the interests of shareholders and public health during the pandemic. The latter two explore the impact of CEO social preferences on layoff decisions. However, their analyses stop short of the 2008 crisis and the COVID-19 pandemic, respectively. Consequently, the role

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of CEO decision-making under sudden and extreme market conditions, where effective leadership is crucial in balancing the needs of the employees and shareholders, is not well documented.[1]

We attempt to fill the identified gap in the literature using a unique and granular dataset related to how S&P 500 firms adjusted labor costs during the 2020 COVID-19 pandemic. The period marked by the pandemic precipitated a substantial decline in earnings for a considerable proportion of firms. In contrast to the 2008 financial crisis, which was preceded by warning signs (e.g., Pettifor, 2006), not only was the pandemic unexpected, but the contraction of the global economy it caused was also much more sudden and severe (IMF, 2020). Hence, the pandemic forced CEOs of affected firms to take rapid and potentially extreme measures to reduce costs and preserve liquidity, which may have been primarily achieved by reducing labor costs, cutting dividends, or both.

We examine the influence of CEO political ideology on how the pain caused by the pandemic was distributed across employees and shareholders. During normal times, liberal-leaning CEOs prioritize the interests of nonfinancial stakeholders more than their conservative counterparts do; this is well documented in the literature.[2] However, it remains unclear whether such behavior is sustained during economic shocks.

Building on this foundation, we investigate the role of CEO political preferences during the pandemic. Our investigation centers on whether the financial pain was borne primarily by the employees, through either temporary or permanent cuts in labor costs; primarily by shareholders, through reduced dividends; or equally by employees and shareholders. We posit that CEO political ideology shapes CEOs' prioritization of stakeholder interests, impacting decisions on labor cost adjustments and dividend payments. We conjecture that conservative-leaning CEOs are more inclined to protect shareholder interests, potentially at the expense of the workforce, by favoring strategies that may include permanent downsizing. In contrast, CEOs with less conservative ideologies may opt for temporary reductions in labor costs, with the aim of preserving employment.

We argue that CEOs may have used dividend cuts as an alternative way of dealing with liquidity crises that they may have faced during the pandemic. This may be the case for the following two reasons. First, given the sudden and exogenous nature of the pandemic, it would have been unlikely for investors to blame CEOs for dividends falling short of expectations. Thus, cutting dividends during the pandemic would have been a legitimate and possible option. Dividend cuts may even have been the preferred option compared to the alternative of reducing labor costs via, for example, laying off employees for reasons beyond employee performance. In contrast, under normal circumstances, CEOs are dissuaded from cutting dividends because hefty penalties are typically meted out by capital markets for such cuts.[3]

Second, dividend cuts could have been considered a plausible alternative to options such as external financing or reductions in capital expenditures. Indeed, when internal financing is insufficient to cover investments, firms can (i) raise external capital, (ii) reduce investment while keeping their payout policy unchanged, or (iii) reduce the payout while increasing investment (Iyer et al., 2016). Given that the cost of external financing is prohibitive during a crisis, the first alternative option can be easily discarded for the COVID-19 pandemic. Hence, only the two latter options remain. We argue that the perceived temporary nature of the COVID-19 pandemic would have increased CEOs' propensity to reduce dividends compared to reducing capital expenditures, as the latter type of reduction would have turned the otherwise temporary effect of the pandemic into a longer-term effect. In addition, dividend changes can be implemented relatively quickly, and they therefore have a relatively rapid impact on a firm's liquidity, which is not the case for reductions in capital expenditures. In support of our argument, Campello et al. (2010), who surveyed 1,050 chief financial officers (CFOs) during the 2008 financial crisis, report that the respondents expected the smallest cuts to capital expenditures. Further support is provided by Iyer et al. (2016), who find no link between cash dividends and capital expenditures under normal circumstances. The lack of a negative correlation suggests that firms are not constrained from cutting dividends and may opt to preserve capital expenditures instead.

Past research has typically measured reductions in labor costs through a drop in the number of employees using firm-level employment counts.[4] In contrast, this study benefits from a hand-collected and highly granular dataset related to how firms reduced their labor costs during the pandemic. The dataset was collected from filings of Form 8-K, which is the form that firms must file with the Securities and Exchange Commission (SEC) to disclose material events (in accordance with Section 409 of the Sarbanes-Oxley Act of 2002). Hence, our data not only tell us whether a firm reduced its labor costs but also how this reduction was performed (e.g., labor cost reductions via temporary or permanent downsizing). Importantly, our data also include information about reductions in labor costs that did not result in reductions in employee numbers (e.g., reductions in wages and reductions in the number of hours worked). This granularity enables a precise examination of CEO actions during the pandemic; therefore, it does not suffer from the limitations of indirect and aggregate measures of labor cost reductions.

We find evidence that conservative CEOs were more likely to meet – or even exceed – dividend expectations, while also being more likely to reduce labor costs. In other words, conservative CEOs were more likely to choose actions that resulted in employees bearing the pain from the economic shock caused by the pandemic while meeting investors' dividend expectations from the end of 2019, the year preceding the pandemic. In contrast, the remaining CEOs – and not just the liberal ones – were more likely to opt

[1] There is a body of literature on how CEO political ideology affected firms around the 2008 financial crisis (see, e.g., Campbell et al., 2022, for a recent overview). However, this literature tends to focus on firms' and banks' risk-taking behavior or financial performance before and during the crisis.

[2] See Chin et al. (2021) for a recent review.

[3] Such penalties include a drop in the share price (see, e.g., Healy and Palepu (1988), Michaely et al. (1995), Benartzi et al. (1997), Jensen et al. (2010)) and institutional investors voting with their feet by reducing their stock holdings (see, e.g., Parrino et al. (2003)). Dividend cuts have also been shown to increase the likelihood of the CEO being dismissed (Parrino et al., 2003; Schaeck et al., 2011) and to lower the CEO's future number of seats on other firms' boards (Kaplan and Reishus, 1990).

[4] See Guenzel et al. (2023) for a discussion.

for reactions to the pandemic that either shared the pain between shareholders and employees or made shareholders bear all the pain. We also find some evidence that conservative CEOs were more likely to use temporary reductions in labor to avoid negative earnings per share, which then enabled them to meet dividend expectations. Finally, we do not find any evidence that conservative CEOs reduced labor costs to maintain their stock repurchase programs during or after the pandemic. Our results are upheld via a battery of robustness tests.

Our paper contributes to our understanding of CEO behavior during periods of crisis. It contributes to an emerging literature on how CEOs behave during extreme states of the world (e.g., Matsa and Miller, 2014; Yonker, 2017; Cejnek et al., 2021; Afzali et al., 2022), as well as to our knowledge of the importance of the political preferences of CEOs in decision-making (e.g., Hutton et al., 2014; Elnahas and Kim, 2017; Unsal et al., 2016; Francis et al., 2016; Gupta et al., 2018). This is achieved by documenting that CEO political ideology is a key determinant of how the financial burden caused by the pandemic is allocated across shareholders and employees, confirming that the effect of political ideology extends to times of crisis. More importantly, in this vein, our paper illustrates that the dividend decision and the decision to reduce labor costs in response to a crisis are closely linked to each other; therefore, they should not be studied in isolation, as is normally done in extant literature.

Closest to our study is the research by Afzali et al. (2022); these authors examine the determinants of a CEO's decision to share the pain of the pandemic with employees. They find that performance prior to the pandemic and the firm's exposure to the pandemic are the main determinants of the CEO sharing the pain with the employees. In contrast, our study focuses on how CEOs apportion the pain from the pandemic across shareholders and employees. Note that contrary to our study, Afzali et al. (2022) limit themselves to furloughing and reducing the number of workers. Again, the present study also takes into account other ways of reducing labor costs, which did not affect the number of workers.

The remainder of this paper is organized as follows. The next section provides a brief summary of the events surrounding the COVID-19 pandemic, including the economic shortfall it caused and the U.S. government's reaction to it. Following this, Section 3 describes the sample selection and methodology. Section 4 then focuses on the empirical analysis, including the robustness tests and further analysis. Finally, Section 5 concludes.

2. The COVID-19 pandemic

The first identified COVID-19 case – that is, the first case of the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) – can be traced back to December 2019 and was reported in China[5]; the first American case was reported soon thereafter, on January 20, 2020. On January 31, the then health and human services secretary Alex M. Azar declared a public health emergency.[6] The pandemic hit the U.S. particularly hard; it was the country that suffered the highest number of COVID-19 cases and related deaths.[7] The economic fallout from the pandemic was not only rapid but also substantial (Bartik et al., 2020), as evidenced by a drop in the S&P 500 index from 3225 on January 31 to 2237 on March 23. The index then gradually recovered to reach 3756 on December 31.[8] This was combined with an increase in the unemployment rate from 3.5% in January and February to 14.8% in April, a greater peak than that reached during the Great Recession caused by the 2008 financial crisis (BLS, 2012). In July 2020, the unemployment rate somewhat recovered, dropping to 10.2%. At the end of calendar year, it was down to 6.7%.[9] To sum up, the economic fallout was mainly experienced during the first two quarters of 2020. The effects of the pandemic varied across industries, with the retail, leisure, hospitality, and travel industries suffering the most (Chetty et al., 2022; Bartik et al., 2020).[10]

The U.S. government's main response to the pandemic was the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which came into effect on March 27, 2020. The CARES Act introduced a number of measures targeting not only individuals and small businesses but also large corporations to help them deal with the economic consequences of the COVID-19 pandemic. More specifically, the Act focused on relief measures for healthcare providers, manufacturers, and distributors, such as loans, tax credits, tax deductions, and tax deferrals. Such measures included steps to make it easier for corporations to avoid downsizing, such as the deferral of the employer's share of Social Security taxes for up to two years and a refundable employee retention tax credit. A condition of receiving support under the CARES Act was that firms were not permitted to conduct involuntary terminations or furloughs. For example, the Payroll Support Program to Air Carriers and Contractors, published in March 2020, required applicant firms to refrain from conducting involuntary layoffs or furloughs for six months.[11]

As Congdon and Vroman (2022) document, there were 30 million unemployment insurance (UI) claims during the pandemic; during the Great Recession, the equivalent number did not exceed 10 million. In addition, the Pandemic Unemployment Assistance (PUA) program provided unemployment benefits to millions of workers who would not normally have been eligible for UI (e.g., gig workers and workers with caring responsibilities). Government support was also more generous in that additional benefits were

[5] See WHO (2021).

[6] See https://docs.house.gov/meetings/IF/IF14/20200226/110589/HHRG-116-IF14-20200226-SD002.pdf, accessed on January 30, 2023.

[7] Johns Hopkins Whiting School of Engineering — Center for Systems Science and Engineering, JHU CSSE COVID-19 Project, https://systems.jhu.edu/research/public-health/ncov/, accessed on January 30, 2023.

[8] See https://fred.stlouisfed.org/series/SP500, accessed on September 29, 2022.

[9] See https://fred.stlouisfed.org/series/UNRATE, accessed on September 29, 2022.

[10] See Chetty et al. (2022) for a detailed study on the effects of the pandemic on consumer spending and revenues and employment for small businesses. This study finds that consumer spending dropped the most in the In-Person Services industry sector, with the Hotels & Food and Transportation industry subsectors being hit particularly hard. See also Bartik et al. (2020), Alekseev et al. (2023).

[11] See https://home.treasury.gov/system/files/136/Payroll-Support-Procedures-Form-FINAL.pdf, accessed on January 27, 2023.

provided by the Federal Pandemic Unemployment Compensation (FPUC) program, amounting to $600 for the first week and then $300 for following weeks.

Finally, research suggests that the political leanings of citizens in general and corporate decision makers may have affected how they reacted to the pandemic. Although Vorsatz (2022) found no difference between Republican and Democrat mutual fund teams – both were more risk averse during the COVID-19 pandemic when compared to nonpartisan fund teams – Cookson et al. (2020) and Benton et al. (2022) found that conservative investors and CEOs were more optimistic about the pandemic. Rothwell and Makridis (2020) and Canes-Wrone et al. (2020) provide supporting evidence for this, showing that citizens of red states were less worried about COVID-19, practiced less social distancing and social isolation, and were less likely to wear a face mask. They were also more likely to visit their workplace and retail stores.

3. Sample selection, data collection, and methodology

3.1. Sample selection and data collection

Given the focus of this paper on investigating whether CEO political ideology explains whether firms cut their dividends, reduced labor costs – including the downsizing of the workforce – or did both in response to the pandemic, it is important that the firms in question paid a dividend before the 2020 pandemic. Therefore, we focus on S&P 500 firms because they are more likely to be dividend payers.[12] We obtained the list of the S&P 500 firms from Bloomberg for the year 2020. After excluding the 19 companies with headquarters located outside the U.S., the initial sample consists of 481 S&P 500 firms.

For the initial sample, we collect CEO data from Execucomp and BoardEx, then match these data with firm financial and accounting data obtained from Compustat. We then complement the data with political donations data obtained from the Federal Election Commission (FEC) and labor cost reduction data obtained from Form 8-K filings submitted by firms during the four quarters of calendar year 2020. After merging the financial and accounting data with the political donation and labor cost reduction data, as well as discarding firms with missing observations, we obtain a final sample of 459 firms for use in the regression analysis.[13]

We measure CEO political ideology in terms of political donations. We follow previous work (see, e.g., Hutton et al., 2014) by measuring CEO political ideology via the political donations made by the CEOs during their lifetime up to and including calendar year 2020.[14] We use a matching algorithm, combined with a manual check, to filter out CEOs from other donors with similar names, using information about donor occupation, employer, and address. For each year, we aggregate the donations to obtain the dollar value of the total contributions to each party made by each CEO. We only consider CEOs' direct contributions to the Republican and Democratic parties, and we exclude indirect donations made via a political action committee (PAC), as CEOs themselves are not fully in control of the choice of recipients for the donations made by a PAC (Hutton et al., 2014). Hence, the donations made by a PAC are likely to be a reflection of the political ideology of the firm's workforce and not necessarily a true reflection of its CEO's political leaning.

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

The data on labor cost reductions were obtained from Form 8-K filings made by S&P 500 firms during the four quarters of calendar year 2020 (i.e., 7577 filings in total). In accordance with Section 409 of the Sarbanes-Oxley Act of 2002, Form 8-K is the form that firms must file with the SEC to disclose events that are likely to be material. Using Form 8-K filings enables us to collect granular data, including data on the way firms reduced their labor costs. While some of these reductions in labor costs would have resulted in downsizing – that is, reductions in the number of employees – our data enable us to assess whether the downsizing was temporary or permanent; this cannot be deduced by collecting data on annual employment figures. Importantly, our data on downsizing also include reductions in labor, such as reductions in the weekly working hours, which do not affect the number of employees.

The data on labor cost reductions was collected via a four-step process. First, we manually checked a subset of Form 8-K filings to generate a list of "core" keywords related to labor cost reductions. Second, we added semantically similar words to the list of keywords using a word embedding model (Pennington et al., 2014) to include as many words as possible related to labor cost reductions. We followed a similar process to identify words related to COVID-19 and to seeking assistance under the CARES Act. Third, we conducted a fuzzy search[15] to identify Form 8-K filings containing at least one of the keywords related to COVID-19, as well as a number of keywords possibly related to labor cost reductions and applications made under the CARES Act. These "core" keywords are listed below. It should be noted that our text search includes not only these words but also a wider list with word variations and semantically similar words obtained via the word embedding model (Pennington et al., 2014).

[12] Out of the 481 U.S.-headquartered S&P 500 firms, only 75 did not pay a dividend in the pre-pandemic year 2019, while 64 of these 75 firms did not pay a dividend in 2020 either. Fifty-five percent of the firms that did not pay a dividend in at least one of these two years were in the high-tech industry.

[13] Further details about the sample selection process can be found in Appendix A.

[14] Please note that there were only 112 donations (out of a total 12,246 donations) made by CEOs in calendar year 2020; excluding these donations does not materially change our political ideology measures.

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

- Keywords for COVID-19: *COVID-19*, *coronavirus*, *pandemic*, *epidemic*, and *health crisis*.
- Keywords for labor cost reductions: *workforce*, *headcount*, *staff*, *employees*, *personnel*, *labor force*, *response*, *downsizing*, *furlough*, *shutdown*, *close*, *layoff*, *restructure*, *retrench*, *redundancy*, *compulsory*, *voluntary*, *temporary*, *shorten*, *early leave*, *forgo*, and *reduce*.
- Keywords for CARES: *coronavirus aid*, *CARES act*, *relief*, *assistance*, *payroll support*, *loan*, *treasury department*, and *economic security*.[16]

Finally, we manually checked all the identified Form 8-K filings for the presence of the above keywords. To ensure data consistency, we also cross-checked the information provided in these filings on applications made under the CARES Act with information from the website of the U.S. Treasury Department.[17]

3.2. Methodology

3.2.1. Regression models and key variables

To test the validity of our hypothesis that CEO political ideology would affect the way a CEO reacted to the 2020 pandemic, we estimate multinomial logit regressions. While full details about the multinomial logits can be found in Table C.1 in Appendix C, in a nutshell, the various multinomial logits enable us to estimate the likelihood of a (more) conservative CEO choosing a (more) shareholder-friendly reaction to the pandemic as opposed to a (more) employee-friendly reaction. We consider reactions that prioritize safeguarding the dividend – more precisely, those meeting dividend expectations – over maintaining employee numbers as shareholder-friendly, while reactions that avoid reductions in labor costs are considered employee-friendly.

The question arises as to which comparator should be used for the quarterly dividends in calendar year 2020. On the one hand, it can be argued that the comparator should be the dividend per share for the equivalent quarter from the previous year (year 2019), as suggested by Lintner (1956). For example, the dividend for the second quarter of 2020 should then be compared to the dividend for the second quarter of 2019. If the former is lower than the latter, this would constitute a dividend cut. On the other hand, it can be argued that the counterfactual for the pandemic is not the year 2019; preceding the pandemic, investors may have expected the dividend to increase in 2020 in line with earnings per share that were also expected to increase. Hence, we opted to compare each quarterly dividend per share (DPS) in 2020 to the expected DPS for the respective quarter. We use the difference between the actual DPS in a given quarter of 2020 and the arithmetic mean of analysts' forecasts for the DPS in 2019. These data are obtained from I/B/E/S; the forecasts we use are the latest made during the calendar year 2019. It should be noted that using the latest dividend forecasts made in 2019 could cause a bias as, for example, the forecast for the first quarter of 2020 may be more accurate than the forecast for the fourth quarter of 2020. Nevertheless, the economic fallout from COVID-19 was mainly experienced during the first quarter, with the U.S. economy recovering steadily in quarters 3 and 4 of calendar year 2020. Therefore, we would expect this bias to be lowest during the first (two) quarter(s), when firms were more likely to adjust their dividends and labor costs.

While the actual change in the dividend in quarter q of year t, qt, is equal to:

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

we compare the actual dividend to the expected dividend, that is, the dividend forecast made in *t-1*, as follows:

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

It should be noted that our approach is equivalent to comparing the actual change in the dividend to the expected change in the dividend, that is:

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

While the above discussion focused on dividends, we also account for stock repurchases in the following analysis. The question arises as to whether we should also take into account special dividends. We follow DeAngelo et al. (2000) to identify firms with special dividends in the Center for Research in Security Prices (CRSP) database. We classify a dividend as a special dividend if it has a distribution code of 1262 or 1272. As we only identify 7 firms with special dividends in 2019, 12 firms in 2020, and 13 firms in 2021, it is not possible to perform a regression analysis. More importantly, these numbers suggest that firms that reduced their labor costs were unlikely to use special dividends to disperse these cost savings to their shareholders.

Again, to test the validity of our main hypothesis – that conservative CEOs were more likely to let their employees bear the brunt of the economic fallout from the pandemic – we distinguish between entirely shareholder-friendly reactions, entirely employee-friendly reactions, and reactions that favor neither. In the following, we refer to these reactions as "no pain", "shareholder pain", "no employee pain and shareholder joy", "employee pain", and "shared pain", as defined below:

- "No pain": No reduction in labor costs and paying out the expected dividend;
- "Shareholder pain": No reduction in labor costs and paying out a dividend below the expected dividend, which implies that the shareholders bear all the pain;

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

[17] https://home.treasury.gov/policy-issues/cares, accessed on January 27, 2023.

- "No employee pain and shareholder joy": No reduction in labor costs and paying out a dividend above the expected dividend and/or repurchasing shares;[18]
- "Employee pain": Reducing labor costs while maintaining the dividend, i.e., meeting the expected dividend, which implies that the employees bear all the pain; and
- "Shared pain": Reducing labor costs and dividends below the expected dividend.[19]

To estimate the likelihood of the reactions to the pandemic depending on CEO political ideology, we estimate multinomial logits based on Eq. (1):

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

The dependent variable of the multinomial logits is explained in detail in Table C.1 in Appendix C.

We run three different multinomial logits because the above pairs of alternatives require three different base cases (i.e., "shareholder pain", "shared pain", and "no pain"). Unless otherwise stated, all variables are based on calendar year 2020. Although the quarterly data for 2020 are aggregated, our empirical analysis still benefits from the granularity of the quarterly data. Indeed, the DPS falling below expectations in the 2020 calendar year is defined as a DPS in *any of the four quarters* of 2020 that is below the expected DPS for the equivalent quarter. In turn, a dividend exceeding expectations in 2020 is defined as a DPS for any of the four quarters of 2020 that exceeds the expected DPS for the equivalent quarter. Firms with dividends both falling below expectations in some quarters and dividends exceeding expectations in the remaining quarters of 2020 are classed as firms whose dividend fell below expectations in 2020. Given the context of the pandemic, this approach takes into account that firms may not have met dividend expectations during the first two or three quarters of 2020 but then met dividend expectations from 2019 once their earnings had recovered sufficiently.[20]

It should be noted that the dependent variable in Eq. (1) takes into account whether the firm reduced its labor costs. However, it does not distinguish between the various ways of doing so. When it comes to downsizing, this could take the form of temporary versus permanent downsizing or voluntary versus compulsory downsizing during at least one of the quarters of 2020. We also considered reductions in the working week and salary reductions to be compulsory reductions in labor costs. Some firms may have engaged in more than one way of reducing labor costs in the same quarter, including both voluntary and compulsory redundancies. In such cases, in the regression analysis, we considered the worst form of reducing labor costs that a firm used. As mentioned in Section 3.1, after identifying the Form 8-K filings containing some or all of the keywords for labor cost reductions, we encode the following indicator variables to capture the occurrence of different types of downsizing:

- *Labor cost reductions* (any of the following ways of reducing labor costs),
- *Temporary* (temporary downsizing measures, such as furloughing),
- *Permanent* (permanent downsizing measures, such as early retirement),
- *Voluntary* (voluntary leave),
- *Compulsory* (compulsory leave),
- *Shortened* (shortened workweek program),
- *Reduced salary* (a salary cut for all staff), and
- *Reduced salary board* (a salary cut for the board only).[21]

With the help of excerpts from seven Form 8-Ks, Table B.1 in Appendix B illustrates how the encoding of the variables was operationalized. We then aggregate these indicator variables at the annual level for calendar year 2020.[22]

As stated in Section 2, the retail, leisure, hospitality, and travel industries suffered the most from the pandemic; they were unable to operate during part of 2020 because of lockdowns and travel restrictions (Chetty et al., 2022; Bartik et al., 2020). Firms in these industries typically did not have the option to avoid reductions in labor costs. Nevertheless, the CEOs of such firms may still have had a choice among the different ways of reducing labor costs. Notably, employees should prefer temporary downsizing over permanent downsizing. They should also prefer voluntary redundancies over compulsory redundancies. Having data on the different ways of reducing labor costs enables us to assess the severity of the labor cost reductions. Finally, they should prefer salary reductions for board directors only to salary reductions for the entire staff. In line with our main hypothesis, we expect that conservative CEOs will opt for more severe forms of labor cost reductions. To test whether the CEOs' political ideology affected

[18] Note that we do not have any cases of firms repurchasing shares while their dividend is below expectations.

[19] The reader should note that in earlier versions of the paper, we also considered the reaction "employee pain and shareholder joy" in our analysis. This reaction consisted of reducing labor costs while exceeding dividend expectations. However, given the relatively small number of observations for this reaction, we decided to merge it with "employee pain." This is different from the reaction "**no** employee pain and shareholder joy", which we still consider.

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

[21] The encoding of the various labor cost reduction variables was conducted by two members of the data-encoding team. Any discrepancies in the encoding between the two members were then resolved by the third member of the team.

[22] Earlier versions of the paper also included the variable *labor cost reduction date* for each quarter, which indicates the earliest date when reductions in labor costs occurred in 2020. This date is compared with the date when the DPS changed. For only a few firms, the dividend (labor cost reduction) decision preceded the labor cost reduction (dividend) decision. Hence, in general, there was no timing difference between the two decisions.

the severity of the reductions for those firms engaging in such reductions, we rerun Eq. (1), this time distinguishing between firms engaging in permanent labor cost reductions and those engaging in temporary labor cost reductions.

For both versions of Eq. (1), our key variable of interest is *CEO political ideology*. CEO political ideology is measured in two different ways. First, we use *CEO conservatism*. Considering the lifetime political donations of the CEO up to and including calendar year 2020, but ignoring the donations made in the calendar year before U.S. presidential elections,[23] this alternative measure is based on the total amount that the CEO donated to the Republican Party divided by the sum of the total amounts donated to both the Republican Party and the Democratic Party. Second, we use a set of four indicator variables measuring the political leanings of CEOs: *Conservatives*, CEOs who donated to the Republican Party only; *Liberals*, CEOs who donated to the Democratic Party only; *Nonpartisans*, CEOs who donated to both the Democratic and Republican parties; and *Zerodonations*, CEOs who did not make any donations. It should be noted that there are limitations to these indicator variables. First, we end up with relatively few conservative CEOs (64). Second, a CEO who donated $100,000 to the GOP and $500 to the Democrats would be categorized as nonpartisan, similar to another CEO who donated $100,000 to the Democrats and $500 to the Republicans. Given these limitations, the descriptive tables that follow use the index rather than the four CEO categories to identify subsamples based on CEO political ideology. Nevertheless, in the regression analysis, we use both and find qualitatively similar results.

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

3.2.2. Control variables

Our first two control variables account for firm behavior during "normal times". These variables are the standard deviation of the percentage change in the number of employees ($Employee\ St.\ Dev.$) and the standard deviation of the dividend surprise ($Div.\ Surprise\ St.\ Dev.$) for the period of 2015–2019. To ensure representative and meaningful values for the standard deviations, we only computed the standard deviation in question if there were at least three observations for the percentage change in the number of employees or the dividend surprise for the period of 2015–2019. As sufficient data on the number of employees (the dividend surprise) were available for only 398 (437) firms, we set the standard deviations to zero for firms with insufficient data.

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

Our next two control variables are measures that may affect the likelihood of labor cost reductions. We include the two key variables that are included in the classic labor demand equation (see Nickell, 1984): wage costs and labor productivity. These two variables adjust for labor rigidity; we expect labor productivity and wage costs to be greater in firms with high levels of firm-specific human capital (see Nickell, 1984 for further details). $Wage\ costs_{2019}$ is the natural logarithm of wages, and $Productivity_{2019}$ is measured by the natural logarithm of sales, both relating to the fiscal year 2019. One limitation of the Compustat database is the lack of data on labor costs, which are only available for 12% of the firm-year observations in our sample. To deal with this lack of data, we complement the firm-year observations available in Compustat with data obtained from the Annual Survey of Manufactures (ASM) conducted by the U.S. Census Bureau. Following Donangelo et al. (2019), we estimate the total labor costs to the employer, using data at the two-digit NAICS level, as the logarithm of the industry average for the sum of salaries and wages plus additional costs (for more details, see Appendix D). Hence, we assume that firms with missing labor costs have the same labor costs as the average firm in their industry.[24]

We include $Institutional\ ownership\ ratio_{2019}$ as the ratio of institutional ownership to the total number of shares outstanding, based on the calendar year end for 2019. Furthermore, the indicator variable $CARES$ is set to one if the firm applied for assistance

[23] Donations made during the year prior to a presidential election tend to be driven by opportunism rather than ideology. For details, see Bayat and Goergen (2022).

[24] Our results to do not change qualitatively when excluding this variable from the regressions.

under the CARES Act during the calendar year 2020 and zero otherwise. In turn, *Red state* is an indicator variable that is set to one if the firm's headquarters are located in a state where a majority of voters voted for the Republicans in the 2019 elections.[25]

Also considered are several variables measuring CEO characteristics, including *CEO age*, and a number of indicator variables set to one if the CEO is male (*CEO gender*); the CEO also acts as the chair of the board of directors (*CEO duality*); and the CEO has an MBA (*MBA*), a PhD (*PhD*), a degree from an Ivy League university (*Ivy League*), or a professional accounting qualification (*Professional qualification*). We also control for CEO share ownership.[26]

Finally, we also utilize a set of control variables related to firm characteristics — namely, *Firm size*, measured by the natural logarithm of total assets; *Firm age*, measured by the natural logarithm of the number of years that the firm has been included in CRSP up to and including the year 2019; *Tobin's Q*, defined as the ratio of total assets plus the product of common shares outstanding at the end of fiscal year 2019 close price minus the book value of common equity over total assets; *Cash holdings*, measured as the ratio of cash and short-term investments over total assets; the *ESG score* from ASSET4/Refinitiv ESG, which ranges from 0 to 100; *Credit rating*, an indicator variable set to one for firms with a credit rating of investment grade (i.e., a rating of BBB- or better) and zero otherwise; *Market-to-book*, measured as the ratio of total market value of equity over the book value of equity; *R & D*, measured as research and development expenses; *Foreign sales*, which is equal to the ratio of foreign sales over foreign and domestic sales; *Capital expenditures*, defined as the ratio of capital expenditures over total assets; and *Leverage*, defined as the book value of long-term debt over the book value of total assets. Detailed variable definitions can be found in Appendix D.

4. Empirical analysis

4.1. Descriptive statistics

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

Table 1 suggests that for 43.1% of the firms, at least one of the actual quarterly dividends per share in calendar year 2020 is below the expected quarterly dividend. The percentage of firms reducing their labor costs is lower, at 28.2%. In addition, most labor cost reductions tend to be compulsory downsizing (not tabulated). Further, 8.3% of firms also reduced the salaries of the entire workforce, and 13.7% of the firms reduced the remuneration of the board of directors (not tabulated). Just under 14% of firms have a CEO classed as conservative, whereas 6.8% of firms have a liberal CEO. Nonpartisans – that is, CEOs who donated to both the Democratic and Republican parties – make up 24.3% of the observations. At first sight, the low percentage of conservative CEOs might appear surprising. However, the reader should remember that the definition of a conservative CEO, which underlies the *Conservatives* indicator variable, is extremely stringent. Indeed, we only consider a CEO to be conservative if the CEO has *only ever* donated to the Republican Party. This would exclude a CEO whose donations were mostly to the Republican Party, with the odd smaller donation to the Democrats. Nevertheless, in line with expectations, the average for *CEO conservatism* is above 0.5 at 0.563, suggesting that the average CEO is conservative. At the same time, the median is exactly 0.5. Importantly, while we use two different sets of measures for CEO political ideology, resulting in very different distributions of conservative CEOs and other CEOs, our regression results from using the two alternative sets of measures are not qualitatively different. This confirms the robustness of our key results. Furthermore, 34.4% of the firms reported a loss; on average, however, actual earnings per share were greater than expected (see *EPS surprise*). Moreover, there was a drop in the ratio of shares repurchased in 2020 compared to 2019. The same pattern applies to the value of shares repurchased. About 10% of the firms successfully applied for support under the CARES Act. Finally, average CEO age is approximately 59 years, 37% of CEOs also act as chair of the board of directors, and slightly above 5% of CEOs are female. These descriptive statistics for the CEO characteristics are in line with those reported in extant studies (see e.g. De Angelis and Grinstein, 2020). Note that we confirm the continuation of the downward trend in the percentage of firms with CEO duality, as highlighted by Graham et al. (2020).

Table 2 reports the correlation matrix. The table documents a significant and positive association between *CEO conservatism* and the actual dividend being above expectations. The same pattern is observed for the indicator variable *Conservatives*. In contrast, the correlation between the dividend exceeding expectations on the one side and the indicator variables *Liberals*, *Nonpartisans*, and *Zerodonations* on the other is either negative or insignificant. Interestingly, the indicator variable *Zerodonations* also suggests that CEOs without political donations are more likely to pay a dividend *below* the expected one. Nevertheless, no association between the measures of political ideology and labor cost reductions is found. Finally, there is no significant correlation between the *CARES* indicator variable on the one hand and *CEO conservatism* or any of the four indicator variables of CEO political ideology on the other. Hence, there is no evidence that CEO political ideology affected the likelihood of a firm applying for assistance under the CARES Act.

[25] It would not make sense to base this indicator variable on the 2020 presidential elections, as the way voters voted may have been a reflection of their satisfaction with how the Trump administration had managed the pandemic.

[26] When we interact CEO share ownership with the loss indicator variable (not tabulated), we do not find that the coefficient on *Loss * CEO share ownership* is significant in any of these regressions.

Table 1
Summary statistics.

Statistic	Mean	Median	St. Dev.	No. Obs.
Actual Div. Above Expectation	0.312	0	0.464	462
Actual Div. Below Expectation	0.431	0	0.496	462
Actual Div. Equals Expectation	0.257	0	0.437	462
Labor Cost Reductions	0.282	0	0.450	481
Conservatives	0.139	0	0.346	481
Liberals	0.068	0	0.253	481
Nonpartisans	0.243	0	0.429	481
Zerodonations	0.548	1	0.498	481
CEO Conservatism	0.563	0.500	0.273	481
Employee St. Dev.	8.087	4.447	12.106	481
Div. Surprise St. Dev.	0.126	0.024	0.253	481
EPS	1.386	0.857	11.50	479
ΔEPS	−0.222	0.010	2.592	481
Loss	0.344	0	0.475	479
EPS Surprise	0.698	0.396	1.673	481
$\text{Repurchases}_{2019}$	0.844	1	0.363	481
$\text{Repurchases}_{2020}$	0.804	1	0.396	481
$\text{Shares Repurchased}_{2019}$	0.027	0.016	0.033	481
$\text{Shares Repurchased}_{2020}$	0.014	0.007	0.023	479
$\text{Value Shares Repurchased}_{2019}$	1933.634	365.461	5972.825	481
$\text{Value Shares Repurchased}_{2020}$	1383.461	150.032	10,550.810	479
CARES	0.099	0	0.300	481
$\text{Institutional Ownership Ratio}_{2019}$	2.350	2.430	0.619	479
$\text{Productivity}_{2019}$	8.070	7.922	1.263	481
$\text{Industry Labor Expense}_{2019}$	5.079	0	8.516	481
Red State	0.419	0	0.494	481
CEO Age	58.690	59	6.620	481
CEO Gender	0.946	1	0.226	481
CEO Duality	0.370	0	0.483	481
MBA	0.401	0	0.491	481
PhD	0.033	0	0.180	481
Ivy League	0.104	0	0.306	481
Professional Qualification	0.060	0	0.238	481
CEO Share Ownership	0.251	0.101	0.424	481
Tobin's Q	2.440	1.797	1.945	481
Tobin's Q_{2020}	2.601	1.769	2.340	461
Tobin's Q_{2021}	2.717	1.900	2.563	481
Tobin's Q_{2022}	2.449	1.791	1.939	443
ROA_{2020}	0.033	0.029	0.087	442
ROA_{2021}	0.063	0.050	0.072	436
ROA_{2022}	0.068	0.043	0.078	388
ROE_{2020}	0.452	0.112	6.213	461
ROE_{2021}	−0.422	0.159	9.627	455
ROE_{2022}	0.096	0.143	4.752	405
Cash Holdings	0.106	0.059	0.127	481
ESG Score	44.544	57.150	31.908	481
Credit Rating	0.097	0	0.297	481
Firm Size_{2019}	9.925	9.915	1.897	481
Firm Age_{2019}	3.386	3.508	0.892	481
Market to Book	1.129	2.516	73.187	481
$\text{R\&D}_{2019}$	684.941	0	2678.871	481
$\text{Foreign Sales}_{2019}$	0.273	0.241	0.267	481
$\text{Capital Expenditures}_{2019}$	0.033	0.0232	0.034	481
Leverage_{2019}	0.312	0.309	0.201	481
China	0.291	0	0.455	481

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

4.2. Univariate analysis

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

Table 2
Correlation matrix.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1. Actual Div. Above Expectation	1																							
2. Actual Div. Below Expectation	**−0.59**	1																						
3. Actual Div. Equals Expectation	**−0.40**	**−0.51**	1																					
4. Labor Cost Reductions	**−0.11**	**0.10**	−0.01	1																				
5. Conservatives	**0.14**	**−0.12**	−0.01	−0.04	1																			
6. Liberals	0.08	**−0.08**	0.01	0.01	**−0.11**	1																		
7. Nonpartisans	−0.04	−0.01	0.04	0.04	**−0.23**	**−0.15**	1																	
8. Zerodonations	**−0.10**	**0.12**	−0.03	−0.01	**−0.44**	**−0.30**	**−0.63**	1																
9. CEO Conservatism	**0.11**	−0.05	−0.06	−0.03	**0.61**	**−0.54**	**0.13**	**−0.26**	1															
10. EPS	−0.02	−0.04	0.06	**−0.08**	−0.03	−0.02	−0.03	0.05	−0.02	1														
11. ΔEPS	**0.09**	0.01	**−0.10**	**−0.10**	−0.07	−0.01	−0.03	0.07	0.01	**0.19**	1													
12. Loss	**−0.12**	0.06	0.06	**0.29**	0.06	−0.01	0.05	**−0.08**	0.07	**−0.15**	**−0.13**	1												
13. EPS Surprise	−0.05	−0.05	**0.11**	−0.06	0.01	**−0.08**	−0.02	0.05	0.01	**0.16**	**0.13**	**−0.16**	1											
14. $\text{Repurchases}_{2020}$	−0.01	−0.04	0.05	0.03	−0.01	**−0.09**	−0.01	0.07	0.01	0.04	−0.02	**−0.10**	0.06	1										
15. $\text{Repurchases}_{2019}$	−0.02	−0.03	0.06	0.04	0.04	**−0.09**	−0.06	0.07	0.01	0.03	−0.02	−0.01	0.03	**0.70**	1									
16. $\text{Share Repurchased}_{2020}$	−0.02	**−0.14**	**0.17**	**−0.09**	−0.04	−0.02	−0.01	0.04	−0.07	0.07	−0.01	**−0.14**	**0.15**	**0.30**	**0.18**	1								
17. $\text{Share Repurchased}_{2019}$	−0.05	−0.02	0.08	0.06	0.03	−0.05	−0.02	0.02	−0.01	0.06	−0.04	−0.04	0.06	**0.30**	**0.31**	**0.47**	1							
18. $\text{Value Share Repurchased}_{2020}$	−0.04	−0.04	**0.09**	−0.06	−0.02	−0.01	0.02	−0.01	−0.04	0.02	−0.02	−0.06	0.06	0.06	−0.07	**0.45**	0.03	1						
19. $\text{Value Share Repurchased}_{2019}$	−0.05	**0.08**	−0.04	−0.06	0.04	−0.04	**0.16**	**−0.15**	−0.01	0.01	−0.04	**−0.09**	0.02	**0.13**	**0.14**	**0.12**	**0.33**	**0.20**	1					
20. CARES	0.02	−0.04	0.03	**0.19**	0.05	−0.01	0.01	−0.03	0.01	−0.04	**−0.10**	**0.15**	0.06	0.04	0.05	0.01	0.04	−0.03	−0.06	1				
21. $\text{Institutional Ownership Ratio}_{2019}$	−0.01	0.02	−0.01	0.06	−0.01	0.07	−0.07	0.03	−0.04	0.01	0.03	−0.04	−0.07	0.04	−0.04	**−0.08**	−0.01	**−0.21**	**−0.13**	−0.02	1			
22. $\text{Productivity}_{2019}$	−0.01	0.01	−0.01	0.04	0.02	**−0.08**	**0.10**	−0.06	0.03	0.03	**−0.14**	**0.13**	**0.14**	**0.12**	**0.15**	**0.09**	**0.13**	**0.19**	**0.33**	**0.13**	**−0.33**	1		
23. Wage Cost_{2019}	0.01	−0.01	0.01	**−0.09**	−0.05	**−0.08**	0.07	0.01	0.04	0.00	−0.02	**−0.11**	0.05	0.06	0.07	0.00	0.03	−0.02	**0.12**	−0.04	−0.02	0.01	1	
24. Red State	0.01	0.02	−0.02	0.00	**0.16**	**−0.10**	−0.04	−0.02	**0.20**	−0.06	−0.02	**0.10**	−0.05	−0.04	−0.03	−0.07	0.01	−0.06	−0.03	0.03	0.02	0.04	**−0.10**	1
25. CEO Age	0.01	0.05	−0.07	**0.09**	−0.03	0.03	**0.08**	−0.06	0.01	0.03	−0.03	**0.12**	−0.03	0.01	−0.02	−0.03	−0.06	−0.04	0.01	0.07	−0.02	0.06	0.01	**0.08**
26. CEO Gender	0.02	**−0.09**	**0.08**	−0.03	0.04	−0.04	−0.06	0.04	0.05	0.03	−0.03	−0.02	0.04	−0.05	−0.05	0.01	−0.02	0.01	0.01	−0.07	0.03	−0.05	0.07	−0.02
27. CEO Duality	−0.02	0.05	−0.04	0.07	−0.04	−0.04	**0.22**	**−0.14**	**0.11**	−0.04	0.01	0.01	0.01	0.05	0.04	0.04	−0.01	−0.03	−0.04	0.05	−0.03	0.00	−0.01	0.01
28. MBA	0.02	0.01	−0.03	0.02	**0.11**	−0.04	0.03	**−0.08**	**0.09**	**0.09**	0.02	**−0.08**	0.03	0.06	0.01	0.04	0.01	0.01	−0.01	−0.04	0.04	−0.01	**0.09**	0.02
29. PhD	−0.05	0.05	−0.01	**−0.12**	−0.07	0.04	0.03	0.01	−0.05	0.02	−0.01	−0.03	0.06	0.01	0.05	0.01	−0.06	−0.01	−0.01	−0.06	0.03	−0.02	0.06	**−0.11**
30. Ivy League	**−0.09**	0.03	0.06	−0.01	−0.05	0.01	0.01	0.03	−0.03	0.01	0.03	−0.01	**0.12**	0.06	0.03	0.06	−0.04	0.00	−0.03	0.01	−0.03	−0.03	0.05	−0.07
31. Professional Qualification	0.02	−0.01	−0.02	0.01	0.03	−0.03	0.03	−0.03	0.02	−0.01	−0.02	0.07	−0.01	−0.04	−0.04	−0.04	**−0.08**	−0.02	−0.06	**0.10**	0.07	0.01	−0.07	−0.01
32. CEO Share Ownership	−0.07	−0.06	**0.14**	0.04	0.01	−0.01	0.01	−0.01	0.00	**0.12**	0.04	0.03	**0.14**	0.00	−0.02	**0.15**	−0.05	−0.01	**−0.08**	0.04	−0.05	**−0.08**	−0.06	−0.01
33. Tobin's Q	−0.01	−0.07	**0.08**	**−0.09**	−0.04	0.04	−0.04	0.04	−0.04	**0.08**	0.03	**−0.25**	0.04	0.04	0.02	−0.03	**−0.10**	−0.01	−0.01	**−0.12**	−0.03	**−0.25**	**0.16**	**−0.19**
34. Cash Holdings	−0.05	**−0.09**	**0.15**	**−0.11**	**−0.11**	**0.17**	**−0.07**	0.05	**−0.17**	**0.09**	0.01	−0.05	0.05	0.04	**0.07**	**0.11**	**0.10**	0.03	**0.16**	**−0.07**	−0.02	**−0.10**	**0.08**	**−0.29**
35. ESG Score	**0.10**	0.05	**−0.18**	−0.04	−0.02	0.02	−0.05	0.04	−0.01	−0.01	**0.12**	**−0.08**	0.06	−0.06	−0.03	**−0.11**	−0.02	−0.05	**0.08**	−0.01	0.03	0.07	**0.17**	−0.04
36. Credit Rating	−0.04	0.02	0.01	−0.03	0.02	−0.03	−0.01	0.01	0.03	−0.01	−0.01	0.01	−0.01	0.02	0.06	−0.04	−0.01	−0.01	0.02	0.03	−0.05	**0.18**	0.01	0.03
37. Firm Size_{2019}	0.03	0.06	**−0.10**	**−0.10**	−0.02	**−0.07**	**0.10**	−0.03	0.03	−0.04	−0.02	0.06	**0.07**	0.02	−0.02	0.03	0.06	**0.09**	**0.25**	−0.02	**−0.16**	**0.42**	**0.08**	−0.01
38. Firm Age_{2019}	**0.13**	0.03	**−0.17**	0.04	0.04	−0.03	0.01	−0.02	**0.07**	0.01	0.01	−0.06	−0.01	−0.02	0.01	−0.05	0.01	−0.05	0.07	0.05	0.07	**0.11**	**0.08**	0.05
39. Market to Book	−0.05	0.04	0.01	0.02	0.01	−0.02	0.01	0.01	0.01	0.01	−0.01	0.01	0.01	−0.01	−0.02	−0.01	0.01	0.01	0.01	−0.01	0.01	−0.04	−0.05	0.01
40. $\text{R\&D}_{2019}$	−0.03	−0.02	0.07	**−0.08**	0.01	0.03	0.07	**−0.08**	−0.04	0.04	0.03	−0.04	**0.46**	−0.01	−0.01	0.03	0.01	**0.13**	**0.25**	−0.06	**−0.17**	**0.28**	0.04	**−0.13**
41. $\text{Foreign Sales}_{2019}$	−0.01	−0.04	0.07	0.01	−0.01	**0.12**	−0.07	0.01	**−0.08**	−0.05	−0.02	−0.03	−0.01	0.01	0.06	−0.02	0.01	−0.02	0.06	**−0.18**	−0.01	0.01	**0.08**	**−0.15**
42. $\text{Capital Expenditures}_{2019}$	0.01	−0.02	0.01	**0.10**	**0.14**	0.01	−0.04	−0.06	**0.07**	**−0.09**	**−0.07**	**0.16**	−0.01	**−0.11**	**−0.09**	**−0.10**	**−0.10**	0.04	**−0.08**	0.07	**−0.10**	0.05	**−0.13**	**0.21**
43. Leverage_{2019}	−0.06	**0.16**	**−0.10**	**0.15**	0.03	−0.03	0.02	−0.02	0.06	−0.03	**−0.07**	**0.10**	**−0.09**	−0.06	−0.07	−0.05	−0.03	0.02	−0.03	0.05	0.04	−0.02	**−0.09**	**0.08**
44. Employee St. Dev.	0.02	−0.06	0.04	0.04	0.01	0.01	−0.01	0.01	−0.01	−0.02	−0.01	0.03	0.01	−0.05	**−0.09**	0.07	0.01	0.01	−0.02	0.06	0.04	−0.02	−0.03	0.06
45. Div. Surprise St. Dev.	**0.09**	0.02	**−0.13**	0.03	0.05	−0.01	0.01	−0.03	0.13	0.57	0.82	0.95	0.26	0.75	0.01	−0.04	−0.03	−0.02	−0.03	0.06	−0.05	0.03	−0.02	0.02
46. Tobin's Q_{2020}	−0.03	**−0.11**	**0.17**	**−0.09**	−0.03	0.04	−0.03	0.03	−0.04	0.05	0.04	**−0.28**	0.06	0.03	0.01	−0.03	**−0.11**	0.00	−0.00	**−0.12**	−0.04	**−0.25**	**0.14**	**−0.19**
47. Tobin's Q_{2021}	−0.02	**−0.09**	**0.12**	−0.06	−0.01	0.02	−0.02	0.02	−0.01	0.07	0.03	**−0.27**	0.07	0.04	0.00	−0.03	**−0.09**	0.00	0.01	**−0.11**	−0.02	**−0.23**	**0.13**	**−0.16**
48. Tobin's Q_{2022}	−0.00	−0.07	**0.09**	−0.07	−0.01	0.02	−0.03	0.02	0.00	0.06	0.04	**−0.26**	0.05	**0.09**	0.06	−0.02	−0.06	0.01	0.03	**−0.11**	−0.04	**−0.19**	**0.14**	**−0.14**
49. ROA_{2020}	0.04	−0.07	0.04	**−0.20**	−0.07	0.04	−0.01	0.04	−0.07	**0.20**	**0.22**	**−0.53**	**0.18**	0.07	0.06	**0.16**	0.06	0.03	0.05	**−0.15**	0.01	**−0.12**	**0.18**	**−0.11**
50. ROA_{2021}	0.01	−0.03	0.02	−0.05	0.04	−0.01	−0.07	0.04	0.02	**0.17**	**0.18**	**−0.28**	**0.19**	**0.16**	**0.13**	**0.12**	**0.14**	0.01	0.04	−0.07	−0.04	−0.02	**0.09**	−0.08
51. ROA_{2022}	0.02	−0.01	−0.01	−0.04	0.07	0.01	−0.06	−0.00	0.03	**0.19**	**0.12**	**−0.12**	**0.09**	**0.16**	**0.12**	0.01	**0.09**	0.00	0.06	−0.03	−0.06	0.01	0.03	−0.01
52. ROE_{2020}	0.06	0.01	−0.07	**−0.10**	−0.05	0.04	0.02	−0.01	−0.03	**0.14**	0.04	**−0.39**	**0.12**	**0.08**	0.02	**0.16**	0.04	0.03	0.04	**−0.10**	0.04	−0.08	**0.10**	**−0.10**
53. ROE_{2021}	0.05	0.03	**−0.08**	**−0.11**	0.07	−0.07	−0.04	0.02	0.07	**0.09**	**0.25**	**−0.14**	**0.11**	**0.10**	0.06	**0.17**	**0.23**	0.01	**0.09**	**−0.12**	−0.01	**0.10**	0.08	0.05
54. ROE_{2022}	−0.00	0.08	**−0.08**	0.01	0.05	**−0.08**	−0.05	0.05	0.07	0.06	**0.13**	−0.05	**0.09**	**0.13**	**0.10**	0.05	**0.21**	−0.02	0.06	0.06	0.00	**0.13**	−0.00	0.03
55. China	−0.05	−0.01	0.07	0.04	−0.05	0.05	−0.01	0.02	**−0.08**	−0.01	−0.01	−0.06	0.01	−0.01	0.04	−0.01	0.02	−0.01	0.07	**−0.07**	0.02	−0.02	0.07	**−0.15**

	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55
25. CEO Age	1																														
26. CEO Gender	0.07	1																													
27. CEO Duality	**0.24**	0.06	1																												
28. MBA	−0.02	−0.04	−0.01	1																											
29. PhD	−0.01	0.04	−0.06	**−0.10**	1																										
30. Ivy League	0.00	0.06	0.03	0.03	0.05	1																									
31. Professional Qualification	0.05	0.06	0.01	−0.01	0.01	−0.06	1																								
32. CEO Share Ownership	**0.24**	0.01	**0.15**	0.02	0.06	**0.17**	−0.04	1																							
33. Tobin's Q	−0.01	−0.01	−0.06	0.07	0.05	0.01	−0.06	**0.08**	1																						
34. Cash Holdings	−0.01	−0.04	−0.01	−0.02	0.05	0.01	−0.07	**0.14**	**0.45**	1																					
35. ESG Score	−0.02	−0.03	−0.05	0.04	0.03	−0.01	**−0.07**	**−0.08**	0.06	0.01	1																				
36. Credit Rating	0.02	−0.04	0.03	**−0.08**	−0.02	−0.02	−0.01	−0.03	0.03	0.04	0.04	1																			
37. Firm Size_{2019}	**0.17**	0.03	0.01	−0.02	**−0.09**	0.01	0.02	**−0.14**	**−0.18**	−0.04	**0.14**	**0.12**	1																		
38. Firm Age_{2019}	**0.13**	0.03	0.03	−0.01	−0.02	**−0.08**	0.06	**−0.10**	−0.05	**−0.09**	**0.31**	**0.09**	**0.09**	1																	

(*continued on next page*)

Table 2 (*continued*).

	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55
39. Market to Book	−0.02	−0.01	0.01	**−0.08**	0.01	0.01	−0.01	−0.01	0.01	−0.06	0.07	0.01	0.01	−0.02	1																
40. $R\&D_{2019}$	−0.04	0.01	−0.04	0.04	0.04	**0.08**	−0.04	**0.07**	**0.10**	**0.24**	**0.11**	**0.10**	**0.19**	0.01	0.02	1															
41. Foreign $Sales_{2019}$	−0.01	**0.07**	−0.04	0.06	**0.12**	−0.05	**−0.12**	−0.03	**0.24**	**0.33**	**0.14**	**0.09**	0.01	−0.03	−0.05	**0.20**	1														
42. Capital $Expenditures_{2019}$	0.02	−0.03	**−0.09**	0.01	−0.02	−0.03	−0.01	0.01	0.03	**−0.12**	0.01	0.02	0.03	0.05	−0.05	0.06	−0.02	1													
43. $Leverage_{2019}$	−0.02	−0.02	**−0.08**	0.02	0.01	**0.08**	0.05	−0.04	**0.12**	**−0.13**	0.03	0.04	**−0.09**	0.02	−0.04	−0.04	−0.01	**0.18**	1												
44. Employee St. Dev.	0.02	0.07	−0.01	0.06	−0.06	**0.08**	0.01	−0.01	−0.05	**−0.08**	**−0.13**	−0.02	**0.08**	−0.05	0.02	0.01	**0.08**	0.01	**0.08**	1											
45. Div. Surprise St. Dev.	0.02	−0.03	−0.04	−0.04	0.04	−0.01	−0.02	−0.04	−0.03	−0.02	−0.04	−0.06	**0.15**	0.02	0.03	−0.0	−0.01	0.04	**0.09**	**0.07**	1										
46. Tobin's Q_{2020}	**−0.05**	−0.01	−0.04	0.07	**0.11**	−0.01	−0.07	**0.11**	**0.96**	**0.42**	0.03	0.02	**−0.44**	**−0.11**	0.02	**0.12**	**0.23**	0.02	**0.08**	−0.06	−0.03	1									
47. Tobin's Q_{2021}	0.01	−0.03	−0.05	**0.10**	0.04	−0.02	−0.06	**0.13**	**0.90**	**0.40**	0.05	0.04	**−0.18**	−0.05	0.03	**0.12**	**0.26**	0.04	**0.12**	−0.04	−0.01	**0.95**	1								
48. Tobin's Q_{2022}	−0.03	0.01	−0.04	0.08	**0.10**	−0.03	−0.07	**0.12**	**0.83**	**0.40**	**0.09**	**0.11**	**−0.39**	**−0.09**	−0.01	**0.10**	**0.23**	0.02	**0.18**	**−0.09**	0.01	**0.85**	**0.89**	1							
49. ROA_{2020}	**−0.10**	−0.03	−0.03	0.07	**0.08**	0.03	**−0.09**	0.01	**0.52**	**0.28**	**0.13**	0.01	**−0.25**	0.05	−0.01	**0.15**	**0.16**	**−0.21**	−0.08	**−0.12**	−0.02	**0.53**	**0.53**	**0.49**	1						
50. ROA_{2021}	**−0.13**	−0.07	−0.05	**0.08**	0.04	−0.01	**−0.13**	0.01	**0.48**	**0.27**	**0.12**	0.06	**−0.31**	0.03	0.02	**0.20**	**0.26**	**0.12**	0.05	−0.06	0.05	**0.49**	**0.55**	**0.53**	**0.67**	1					
51. ROA_{2022}	−0.04	−0.02	−0.04	0.06	0.02	−0.01	**−0.11**	0.01	**0.33**	**0.21**	0.06	0.04	**−0.28**	0.03	−0.01	**0.13**	**0.21**	**0.26**	**0.11**	−0.04	0.06	**0.35**	**0.45**	**0.54**	**0.39**	**0.69**	1				
52. ROE_{2020}	−0.04	−0.02	0.05	0.00	0.03	0.04	−0.01	0.03	**0.10**	0.06	0.07	−0.05	0.01	−0.00	0.02	0.04	**−0.10**	**−0.27**	**−0.16**	**−0.08**	**−0.09**	**0.09**	**0.09**	0.07	**0.55**	**0.19**	−0.03	1			
53. ROE_{2021}	−0.02	−0.02	0.03	0.01	−0.00	0.01	−0.02	0.00	**−0.11**	−0.03	0.01	0.00	**0.23**	−0.01	0.01	0.02	**−0.10**	**−0.13**	**−0.17**	0.05	−0.00	**−0.11**	**−0.13**	**−0.11**	**0.24**	**0.26**	**0.12**	**0.24**	1		
54. ROE_{2022}	−0.07	−0.07	0.00	−0.04	−0.07	−0.01	−0.02	−0.06	**−0.12**	**−0.13**	0.03	−0.03	**0.12**	0.03	−0.01	−0.02	**−0.11**	0.05	−0.07	0.01	0.03	**−0.11**	**−0.10**	**−0.08**	**0.01**	**0.21**	**0.44**	**0.08**	**0.41**	1	
55. China	0.01	0.01	−0.01	0.06	0.01	**−0.09**	−0.05	−0.04	**0.21**	**0.24**	0.07	0.06	−0.01	0.01	0.06	0.06	**0.55**	−0.05	−0.05	0.06	0.02	**0.20**	**0.21**	**0.17**	**0.17**	**0.16**	**0.06**	0.06	−0.04	−0.04	1

The table reports the Pearson correlation coefficients for the COVID-19 period – that is, the calendar year 2020 – unless otherwise specified. Numbers in bold indicate correlation coefficients that are statistically significant at the 10% level. Appendix D provides the definitions of all variables.

Table 3
Reaction to pandemic by CEO conservatism.

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

The table is based on the whole sample. The table categorizes the firms into two groups: firms with *CEO conservatism* > 0.5 and firms with *CEO conservatism* ≤ 0.5 during calendar year 2020. The main numbers are the numbers of firms with a particular combination of dividend and labor cost reduction decision expressed as a percentage of the total number of CEOs with the level of *CEO conservatism* in question. For example, the top left cell reports the number of firms that opted for labor cost reductions, while the firm's actual dividend was below the expected one expressed as a percentage of all firms with *CEO conservatism* > 0.5. Because of rounding errors, the sum of all the percentages for a given type of CEO may not add up to 100%. The numbers in parentheses are the numbers of firms that engage in specific combinations of (no) labor cost reductions and dividend decision.

Table 4
Ways of reducing labor costs by CEO conservatism.

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

The table divides the sample firms into two subsamples: the subsample of firms with *CEO conservatism* > 0.5 and the subsample of firms with *CEO conservatism* ≤ 0.5 during calendar year 2020. It reports the percentages of firms with and without labor cost reductions for each subsample. In addition, it reports the number of firms in each subsample that engaged in a particular way of reducing labor costs expressed as a percentage of the total number of subsample firms that engaged in labor cost reductions. It should be noted that, because firms may engage in more than one way of reducing labor, the sum of the percentages exceeds 100%. The numbers in parentheses in the table refer to the actual numbers of firms. There are some small differences in the percentages of firms that do and do not reduce labor costs between this table and the previous table. These differences are due to missing data on the dividend decision.

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

Table 4 reports the percentages of firms that do and do not reduce their labor costs, including the different ways of doing this, while distinguishing between conservative CEOs (i.e., CEOs for which $CEO\ conservatism$ exceeds 0.5) and all other CEOs. It should be noted that as some firms engage in more than one way of reducing labor costs, the sum of the percentages of firms engaging in the various ways of reducing labor costs exceeds 100%. While temporary labor cost reductions include mostly furloughing and voluntary leaves from work, we also considered shortened working hours and salary reductions as temporary and compulsory labor cost reductions.

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

4.3. Regression analysis

4.3.1. The reaction to the pandemic

Table 5 reports the results from the estimation of Eq. (1). In Panel A, the political ideology of the CEO is measured by $CEO\ conservatism$; in Panel B, the CEO indicator variables are used (i.e., $Conservatives$, $Liberals$, and $Nonpartisans$, with

Zerodonations having been dropped to avoid perfect multicollinearity). It should be noted that the table reports the regression coefficients rather than the marginal effects, which cannot be reported in a straightforward way for multinomial logits. Nevertheless, Fig. E.1 in Appendix E shows the marginal effects, which we discuss below.

Panel A of Table 5 provides consistent evidence in favor of our main hypothesis. In detail, the first column suggests that greater CEO conservatism increases the likelihood of a firm opting for "employee pain" (i.e., it reduces labor costs while meeting dividend expectations) as compared with opting for "shareholder pain" (i.e., paying out a dividend that is below the expected dividend while not engaging in labor cost reductions). Similarly, the second column suggests that CEO conservatism also increases the likelihood of "employee pain" as compared to "shared pain". In other words, a more conservative CEO is more likely to pay a dividend that meets the expected dividend while reducing labor costs compared to the alternative of failing to meet the expected dividend while also reducing labor costs. Finally, the last column of Panel A suggests that firms with more conservative CEOs are more likely to opt for "employee pain" than for "no pain", with the latter consisting of maintaining labor costs while paying out a dividend equal to at least the expected dividend.[27]

Panel B of Table 5, which uses the indicator variables rather than the continuous index, confirms the results from Panel A. First, the indicator variable for conservative CEOs is consistently positive and significant (at the 10% level or better) across all three columns of the panel. This suggests that conservative CEOs were more likely to make their employees bear the negative consequences of the pandemic when compared to all other CEOs. In detail, such CEOs were more likely to opt for "employee pain" rather than the alternatives of "shareholder pain", "shared pain", or "no pain." In contrast, neither of the other two indicator variables of CEO political ideology – that is, *Liberals* or *Nonpartisans* – is significant.

Importantly, in both panels, the indicator variable *Loss* is positive and significant (at the 10% level or better), except in the middle column of Panels A and B. This suggests that firms with negative EPS were more likely to reduce their labor costs. Interestingly, the coefficient on the interaction between *Loss* and *CEO conservatism* in Panel A is negative and significant in two regressions (at the 10% level or better), while the coefficient on the interaction between *Loss* and the indicator variable *Conservatives* in Panel B is negative and significant (at the 10% level or better) in all regressions. This suggests that conservative CEOs may have reduced labor costs to avoid an earnings loss, which would then have enabled them to pay a dividend that met investor expectations from the pre-pandemic year.

Finally, in both panels, we find some evidence that firms with greater *Cash holdings* were less likely to let their employees bear the pain of the pandemic (see the regression coefficient in the rightmost column).

Figs. E.1 (a) to E.1 (b) in Appendix E depict the marginal effects for the 95% confidence intervals for the *Conservatives* indicator variable on the predicted probability for (a) "shareholder pain" and (b) "employee pain" for the entire sample. Figs. E.1 (c) and E.1 (d) show the equivalent effects for the firms that made an earnings loss in at least one of the quarters of calendar year 2020, whereas Figs. E.1 (e) and E.1 (f) report the equivalent effects for the firms that did not make an earnings loss in any of the quarters of calendar year 2020. The marginal effects confirm the results from Table 5.

In particular, Fig. E.1 (a) suggests that conservative CEOs have a 20% likelihood of inflicting shareholder pain compared to a 29% likelihood for nonconservative CEOs. In contrast, conservative CEOs have a 30% likelihood of reducing labor costs compared to a corresponding likelihood of only 12% for nonconservative CEOs (see Fig. E.1 [b]). When focusing on the firms that made an earnings loss in 2020, the likelihood of firms with a conservative CEO engaging in shareholder pain is virtually identical at 18% (see Fig. E.1 [c]), whereas such firms are now more likely to engage in labor cost reductions. The likelihood of doing so increases from 29% to 51% (see Fig. E.1 [d]). In turn, Fig. E.1 (e) suggests that firms that do not make a loss, independent of their CEO's political ideology, have a similar likelihood of engaging in shareholder pain when compared to loss-making firms. Finally, Fig. E.1 (f) suggests that in the absence of an earnings loss, conservative CEOs are more likely to reduce labor costs – the likelihood being 20% compared to a corresponding likelihood of only 7% for nonconservative CEOs. To sum up, the results in Table 5 are not only statistically but also economically significant.

Both panels of Table 6 recode the reaction labeled "employee pain" by distinguishing between temporary and permanent reductions in labor costs.[28] As in the previous table, Panel A uses *CEO conservatism* to measure CEO political ideology, whereas Panel B uses the CEO indicator variables (i.e., *Conservatives*, *Liberals*, and *Nonpartisans*; again, *Zerodonations* has been dropped to avoid perfect multicollinearity). First, we investigate whether (more) conservative CEOs are more likely to use temporary reductions in labor costs in order to meet dividend expectations as compared to maintaining labor costs while paying out a dividend per share that falls below expectations (first column). Second, we investigate whether conservative CEOs are more likely to resort to permanent rather than temporary reductions in labor costs when compared with all other CEOs (second column). For completeness, we also check whether (more) conservative CEOs are more likely to use permanent reductions in labor costs in order to meet dividend expectations as compared to no reductions in labor costs and not meeting dividend expectations (third column).

[27] As discussed in Section 2, the CARES Act provided assistance, such as loans and tax support, for businesses affected by the COVID-19 pandemic. Importantly, firms could not make involuntary dismissals or furloughs while receiving support under the CARES Act. Still, while the CARES Act typically limited compulsory downsizing, Panel A of Table 5 suggests that the *CARES* indicator variable increased the likelihood of the firm engaging in "employee pain" rather than "shareholder pain" at the 5% significance level. This counterintuitive result can be explained by some firms conducting downsizing in an earlier quarter and then applying under the CARES Act and receiving support in later quarters. Other firms initially obtained support via the CARES Act, but because of the absence of additional support, had to downsize. For example, in October 2020, American Airlines Group proceeded with furloughs to reduce its headcount absent an extension of the CARES Act Payroll Support Program (PSP). See https://www.sec.gov/Archives/edgar/data/4515/000000620120000100/a8kerexhibit991q3-20.htm.

[28] Note that the regressions in Table 6 contain the same control variables as the regressions in Table 5. However, these are not reported for the sake of brevity. The full regression results can be found in Table 9 in the online appendix.

Table 5
Likelihood of "employee pain" compared to "shareholder pain," "shared pain," and "no pain".

Panel A: Using CEO Conservatism			
	$ln\left(\frac{P_{employee\ pain}}{P_{shareholder\ pain}}\right)$	$ln\left(\frac{P_{employee\ pain}}{P_{shared\ pain}}\right)$	$ln\left(\frac{P_{employee\ pain}}{P_{no\ pain}}\right)$
Conservatism	1.904*	2.400**	2.156**
	(0.050)	(0.038)	(0.045)
Loss*Conservatism	−2.409	−1.187	−3.446**
	(0.106)	(0.462)	(0.043)
Employee St. Dev.	0.022	−0.005	−0.003
	(0.199)	(0.743)	(0.863)
Div. Sur. St. Dev.	−0.256	−0.102	3.139***
	(0.707)	(0.897)	(0.009)
EPS Surprise	−0.068	−0.214	−0.309*
	(0.690)	(0.257)	(0.097)
Loss	2.549**	0.712	2.918**
	(0.014)	(0.507)	(0.013)
Δ EPS	0.057	−0.073	−0.022
	(0.536)	(0.519)	(0.856)
EPS	−0.129	−0.072	−0.139
	(0.135)	(0.508)	(0.105)
$Repurchases_{2020}$	0.888	0.485	0.682
	(0.159)	(0.475)	(0.347)
$Repurchases_{2019}$	−0.460	−0.983	−0.987
	(0.504)	(0.197)	(0.225)
$Productivity_{2019}$	−0.039	−0.099	−0.105
	(0.849)	(0.651)	(0.630)
Inst. $Ownership\ Ratio_{2019}$	0.295	0.231	0.379
	(0.353)	(0.497)	(0.312)
CARES	1.715***	1.161**	1.541**
	(0.005)	(0.045)	(0.029)
Industry $Labor\ Expense_{2019}$	−0.025	−0.022	−0.021
	(0.360)	(0.464)	(0.489)
Red State	−0.407	−0.575	−0.795*
	(0.310)	(0.185)	(0.082)
CEO Age	0.001	−0.059*	0.001
	(0.971)	(0.078)	(0.978)
CEO Gender	0.693	0.743	−0.955
	(0.425)	(0.410)	(0.432)
CEO Duality	0.135	0.134	0.800*
	(0.745)	(0.768)	(0.098)
MBA	−0.000	−0.305	0.267
	(1.000)	(0.495)	(0.572)
Ivy League	0.284	0.120	−0.315
	(0.741)	(0.897)	(0.730)
Professional Qualification	−0.735	−0.680	−1.170
	(0.427)	(0.482)	(0.242)
CEO Share Ownership	0.692	−0.109	−0.388
	(0.235)	(0.827)	(0.436)
Tobin's Q	−0.001	0.048	−0.075
	(0.993)	(0.780)	(0.616)
Cash Holdings	−2.326	−1.774	−3.755*
	(0.289)	(0.470)	(0.098)
ESG Score	−0.011*	−0.009	−0.002
	(0.083)	(0.206)	(0.786)
Credit Rating	−0.251	0.346	−0.602
	(0.688)	(0.646)	(0.397)
$Firm\ Size_{2019}$	−0.289***	−0.278**	−0.342***
	(0.006)	(0.031)	(0.009)
$Market\ to\ Book_{2019}$	−0.001	0.000	0.000
	(0.884)	(0.999)	(0.928)
$R\&D_{2019}$	−0.000	0.000	0.000
	(0.681)	(0.272)	(0.582)

(*continued on next page*)

Table 5 (*continued*).

Firm Age_{2019}	0.428*	0.062	0.547**
	(0.071)	(0.817)	(0.032)
Foreign $Sales_{2019}$	1.514*	2.579**	2.241**
	(0.094)	(0.017)	(0.033)
Capital $Expenditures_{2019}$	11.720*	7.955	2.737
	(0.060)	(0.232)	(0.700)
$Leverage_{2019}$	−0.037	−0.362	2.899**
	(0.968)	(0.725)	(0.013)
Consumer	0.903	0.288	0.732
	(0.114)	(0.633)	(0.277)
Manufacturing	−0.362	−0.275	0.228
	(0.525)	(0.666)	(0.752)
HiTec	0.933	0.197	−0.570
	(0.179)	(0.803)	(0.434)
Health	−0.037	−1.136	−1.866*
	(0.972)	(0.306)	(0.091)
China	0.499	−0.135	0.165
	(0.295)	(0.799)	(0.758)
Constant	−3.142	4.305	−0.191
	(0.248)	(0.159)	(0.952)
N	459	459	459
Pseudo R^2	0.215	0.215	0.215
Likelihood Ratio χ^2	309.543	309.543	309.543
Panel B: Using CEO Political Ideology Types			
Liberals	0.569	0.663	0.216
	(0.575)	(0.627)	(0.847)
Conservatives	1.708**	3.449***	1.532*
	(0.016)	(0.006)	(0.058)
Nonpartisans	0.739	0.565	−0.213
	(0.294)	(0.474)	(0.778)
Loss*Liberals	13.993	−0.026	0.310
	(0.983)	(0.989)	(0.881)
Loss*Conservatives	−1.714	−3.345**	−2.924**
	(0.137)	(0.036)	(0.024)
Loss*Nonpartisans	−0.154	−1.133	−1.157
	(0.878)	(0.262)	(0.287)
Employee St. Dev.	0.022	−0.006	−0.004
	(0.197)	(0.664)	(0.803)
Div. Sur. St. Dev.	−0.314	−0.189	3.150***
	(0.650)	(0.814)	(0.010)
EPS Surprise	−0.070	−0.244	−0.334*
	(0.685)	(0.209)	(0.079)
Loss	1.453**	0.790	1.731**
	(0.018)	(0.231)	(0.019)
Δ EPS	0.077	−0.046	0.019
	(0.405)	(0.685)	(0.884)
EPS	−0.158*	−0.101	−0.169*
	(0.071)	(0.364)	(0.053)
$Repurchases_{2020}$	0.996	0.684	0.839
	(0.128)	(0.331)	(0.268)
$Repurchases_{2019}$	−0.605	−1.301*	−1.254
	(0.395)	(0.094)	(0.139)
$Productivity_{2019}$	−0.023	−0.075	−0.044
	(0.910)	(0.734)	(0.840)
Inst. Ownership $Ratio_{2019}$	0.302	0.238	0.372
	(0.336)	(0.489)	(0.329)
CARES	1.683***	0.974	1.448**
	(0.007)	(0.100)	(0.046)
Industry Labor $Expense_{2019}$	−0.017	−0.006	−0.010
	(0.548)	(0.834)	(0.740)
Red State	−0.343	−0.530	−0.744
	(0.395)	(0.222)	(0.105)
CEO Age	0.004	−0.064*	0.003
	(0.893)	(0.061)	(0.923)

(*continued on next page*)

Table 5 (*continued*).

CEO Gender	1.068	0.985	−0.982
	(0.281)	(0.336)	(0.447)
CEO Duality	0.183	0.398	1.054**
	(0.668)	(0.402)	(0.034)
MBA	−0.039	−0.322	0.275
	(0.926)	(0.480)	(0.567)
Ivy League	0.435	0.300	−0.156
	(0.629)	(0.755)	(0.869)
Professional Qualification	−0.662	−0.536	−0.980
	(0.481)	(0.586)	(0.336)
CEO Share Ownership	0.619	−0.197	−0.432
	(0.287)	(0.699)	(0.396)
Tobin's Q	−0.000	0.044	−0.060
	(0.998)	(0.801)	(0.692)
Cash Holdings	−2.330	−2.085	−4.043*
	(0.300)	(0.405)	(0.083)
ESG Score	−0.011*	−0.011	−0.004
	(0.078)	(0.115)	(0.581)
Credit Rating	−0.258	0.263	−0.757
	(0.689)	(0.735)	(0.302)
Firm $Size_{2019}$	−0.303***	−0.292**	−0.352***
	(0.004)	(0.023)	(0.007)
Market to $Book_{2019}$	−0.001	−0.000	0.001
	(0.895)	(0.958)	(0.862)
$R\&D_{2019}$	−0.000	0.000	0.000
	(0.506)	(0.250)	(0.628)
Firm Age_{2019}	0.446*	0.191	0.613**
	(0.068)	(0.481)	(0.019)
Foreign $Sales_{2019}$	1.327	2.197**	2.007*
	(0.154)	(0.043)	(0.062)
Capital $Expenditures_{2019}$	11.024*	7.551	2.665
	(0.078)	(0.263)	(0.709)
$Leverage_{2019}$	−0.133	−0.532	2.965**
	(0.886)	(0.620)	(0.014)
Consumer	0.951	0.163	0.456
	(0.106)	(0.794)	(0.516)
Manufacturing	−0.382	−0.344	0.119
	(0.514)	(0.599)	(0.871)
HiTec	0.978	0.285	−0.613
	(0.164)	(0.722)	(0.406)
Health	−0.239	−1.584	−1.918*
	(0.824)	(0.163)	(0.087)
China	0.573	0.011	0.223
	(0.245)	(0.983)	(0.687)
Constant	−3.007	4.984	0.359
	(0.267)	(0.104)	(0.909)
N	459	459	459
Pseudo R^2	0.239	0.239	0.239
Likelihood Ratio χ^2	343.873	343.873	343.873

The table reports the coefficients from estimating various multinomial logits explaining the likelihood of the firm adopting a (more) shareholder-friendly reaction relative to a (more) employee-friendly reaction to the pandemic. Panel A uses *CEO conservatism* as the key variable of interest, whereas Panel B uses the indicator variables for CEO political ideology (i.e., $Conservatives$, $Liberals$, $Nonpartisans$, and $Zerodonations$). *Employee pain* refers to the firm reducing its labor costs while paying out the expected dividend in each quarter of calendar year 2020. *Shareholder pain* refers to the firm not reducing its labor costs while paying out a dividend that is below the 2020 dividend expected in 2019. *Shared pain* refers to the firm reducing its labor costs, while paying out a dividend that is below the 2020 dividend expected in 2019. Finally, *No pain* refers to the firm not reducing its labor costs while paying out the expected dividend in each quarter of calendar year 2020. The numbers in parentheses are the *p*-values. ∗, ∗∗, and ∗∗∗ refer to statistical significance at the 10%, 5%, and 1% levels, respectively.

Similar to the previous table, this table reports the regression coefficients rather than the marginal effects, which cannot be reported in a straightforward way for multinomial logits. Nevertheless, Figs. E.2 (a) to E.2 (f) in Appendix E show the marginal effects, which we discuss below.

The first column of Panel A of Table 6 supports the argument that (more) conservative CEOs use temporary reductions in labor costs to avoid negative earnings per share, enabling them to meet dividend expectations. While the coefficient on $CEO\ conservatism$ is not significant, the coefficient on the indicator variable $Loss$ is positive and significant (at the 1% level), whereas the coefficient on the interaction between $Loss$ and $CEO\ conservatism$ is negative and significant (at the 10% level). This suggests that while firms with nonconservative CEOs are more likely to use temporary reductions in labor costs when there is a loss, the opposite observation applies to firms with conservative CEOs. Altogether, this confirms the argument that conservative CEOs temporarily reduce labor costs to meet dividend expectations. Finally, the second column of Panel A of Table 6 provides evidence that conservative CEOs are

Table 6
Likelihood of temporary and permanent reductions in labor costs.

	$ln\left(\frac{P_{temporary\ reductions}}{P_{shareholder\ pain}}\right)$	$ln\left(\frac{P_{permanent\ reductions}}{P_{temporary\ reductions}}\right)$	$ln\left(\frac{P_{permanent\ reductions}}{P_{shareholder\ pain}}\right)$
Panel A: Using CEO Conservatism			
Conservatism	1.334	3.250*	2.868
	(0.222)	(0.083)	(0.106)
Loss*Conservatism	−3.278*	−0.622	−2.235
	(0.062)	(0.796)	(0.339)
Loss	3.017***	0.761	2.865*
	(0.008)	(0.661)	(0.096)
N	459	459	459
Pseudo R^2	0.211	0.211	0.211
Likelihood Ratio χ^2	321.744	321.744	321.744
Panel B: Using CEO Political Ideology Types			
Liberals	−0.028	2.209	1.991
	(0.982)	(0.249)	(0.238)
Conservatives	1.020	4.890***	3.395**
	(0.194)	(0.007)	(0.024)
Nonpartisans	−0.689	2.327*	2.458*
	(0.466)	(0.098)	(0.071)
Loss*Liberals	15.181	−0.159	16.098
	(0.993)	(0.951)	(0.993)
Loss*Conservatives	−15.949	−3.005	−1.920
	(0.982)	(0.172)	(0.315)
Loss*Nonpartisans	−0.004	−1.198	−0.279
	(0.998)	(0.479)	(0.869)
Loss	1.563**	1.285	2.065
	(0.015)	(0.373)	(0.147)
N	459	459	459
Pseudo R^2	0.238	0.238	0.238
Likelihood Ratio χ^2	362.695	362.695	362.695

This table reports the coefficients from estimating two multinomial logits with two different base cases. The first column estimates the likelihood of the firm reducing its labor costs temporarily to meet the expected dividend (*Temporary reductions*) compared to avoiding reductions in labor costs while paying out a dividend below the expected dividend (*Shareholder pain*). The second column estimates the likelihood of permanent reductions in labor costs while meeting the expected dividend (*Permanent reductions*) compared to *Temporary reductions*. The last column estimates the likelihood of *Permanent reductions* compared to *Shareholder pain*. Panel A uses *CEO conservatism* as the key variable of interest, whereas Panel B uses the indicator variables for CEO political ideology (i.e., $Conservatives$, $Liberals$, $Nonpartisans$, and $Zerodonations$). *Temporary reductions* refers to the firm reducing its labor costs temporarily (e.g., via furloughing) in at least one of the four quarters of the 2020 calendar year, whereas *Permanent reductions* refers to the firm reducing its labor costs permanently in at least one of the four quarters of the 2020 calendar year. *Shareholder pain* refers to the firm not reducing its labor costs while paying out a dividend that is below the 2020 dividend as expected in 2019 in at least one of the 2020 quarters. The regressions include the same control variables as those in Table 5, but these are not reported for the sake of brevity. The numbers in parentheses are the *p*-values. ∗, ∗∗, and ∗∗∗ refer to statistical significance at the 10%, 5%, and 1% levels, respectively.

more likely to use permanent rather than temporary reductions in labor costs. Albeit the coefficient in question just falls short of significance at the 10% level, there is some suggestion in the last column that conservative CEOs are more likely to use permanent reductions in labor costs than cause "shareholder pain".

Panel B of Table 6 confirms the results from Panel A. The indicator variable for conservative CEOs is positive and significant (at the 5% level or better) across the last two columns of the panel. We find that conservative CEOs are more likely to use permanent rather than temporary reductions in labor costs. In addition, conservative CEOs are more likely to permanently reduce their labor costs than let their shareholders bear the cost of the pandemic.

Figs. E.2 (a) to E.2 (f) in Appendix E show the marginal effects for the 95% confidence intervals for the $Conservatives$ indicator variable on the predicted probability for temporary and permanent reductions in labor costs for the entire sample (Figs. E.2 [a] and E.2 [b]), for the subsample of firms that made an earnings loss in at least one of the quarters of calendar year 2020 (Figs. E.2 [c] and E.2 [d]), and the subsample of firms that did not make an earnings loss in any of the quarters of calendar year 2020 (Figs. E.2 [e] and E.2 [f]). While the difference between the likelihood of conservative CEOs to engage in temporary labor reductions and the corresponding likelihood for nonconservative CEOs is relatively small (see Fig. E.2 [a], where the difference is four percentage points), the equivalent difference in the likelihoods for permanent reductions in labor costs is economically significant, as it amounts to 18 percentage points (see Fig. E.2 [b]). When the subsample of firms that made an earnings loss in 2020 is considered (see Fig. E.2 [d]), this difference is even greater at 27 percentage points. Still, even in the absence of an earnings loss, conservative CEOs are more likely to engage in permanent reductions in labor costs (see Fig. E.2 [f]), the difference in the likelihood being 12 percentage points.

4.4. Robustness tests

We perform a battery of robustness tests. First, we reestimate the regressions from both Tables 5 and 6 by dropping the 48 firms that applied for government support under the CARES Act. We find qualitatively similar results (not tabulated), albeit with the interaction between $CEO\ conservatism$ and $Loss$ being less significant[29] and one regression (i.e., the second regression in Table 6) struggling with high standard errors because of the substantial drop in observations.

Second, we include the pre-pandemic cumulative abnormal returns (CARs) and their equivalent for the pandemic period in the regression analysis. The pre-pandemic period covers January 2, 2017, to December 31, 2019. Like Dechow et al. (2021), we define the pandemic period as January 2, 2020, to March 31, 2020. The CARs are based on the Fama–French three-factor model (Fama and French, 1993), and alternatively, the Fama–French–Carhart four-factor model (Carhart, 1997).[30] When we include the CARs, the number of observations in the regression analysis in Tables 5 and 6 drops from 459 to 418. These augmented regressions, which are not tabulated, confirm our key results. As expected, the coefficients on the pre-pandemic and pandemic CARs – when significant – are negative, suggesting that firms that experienced negative CARs in either or both periods were more likely to reduce their labor costs during the calendar year 2020. Again, it should be noted that we find some evidence (at the 10% level) that conservative CEOs are more likely to opt for permanent rather than temporary reductions in labor costs. Importantly, there is also evidence (again at the 10% level) that conservative CEOs may engage in permanent downsizing to meet or exceed dividend expectations.

Third, 20 of the 459 sample firms operate in *Investment Banking and Securities Dealing* and *Commercial Banking*. Since the U.S. government imposed caps on dividends and suspended stock repurchases for bank holding companies during the pandemic (Federal Reserve, 2020), we rerun the regressions from Tables 5 and 6 by excluding these 20 firms from our sample (these regressions are not tabulated). We find qualitatively similar results to those in our main analysis.

Fourth, we recode $CEO\ conservatism$ by setting to 0.5 values of the index between 0.4 and 0.6. The rationale behind this is that CEOs with values close to 0.5 do not have strong political leanings and may therefore be de facto nonpartisan. Put differently, we now allow for a margin of error. We classify CEOs who made identical or nearly identical political contributions to both parties as nonpartisan CEOs. When we reestimate the multinomial logits in Panel A of Table 5 (the results are not tabulated for the sake of brevity), we still find results that are qualitatively similar to our main results.

Fifth, we reestimate the multinomial logits in Tables 5 and 6 by including the contemporaneous levels (i.e., the 2020 levels of R&D expenditures, cash holdings, cash flow, and capital expenditures). The regression results (not tabulated) uphold our key results regarding the effect of CEO political ideology. When it comes to the interaction(s) between *CEO conservatism* (the CEO political ideology indicator variables) and the *Loss* indicator variable, we find that the coefficient(s) on the interaction(s) is (are) no longer significant in some regressions, although they gain significance in one regression. However, this change in the results can be explained by the high correlation (−0.488) between the loss indicator variable and cash flow in 2020.

Sixth, given that Compustat does not report labor costs for many firms, we use the logarithm of the industry average for the sum of salaries and wages plus additional costs for such firms. However, when the 2019 labor costs are excluded from the regressions in Tables 5 and 6, the results (which are not tabulated) do not change qualitatively.

Finally, it could be the case that CEO share ownership affects the likelihood that dividends met or exceeded expectations during the pandemic. While the regressions in Tables 5 and 6 already include CEO share ownership, the coefficient on this variable was consistently nonsignificant. Nevertheless, it could be the case that CEO share ownership becomes significant when this variable is interacted with the loss indicator variable. While our original results are upheld, the coefficient on the interaction between CEO share ownership and the loss indicator variable is not significant in any of these regressions (not tabulated).

4.5. Further analysis

Below, we perform additional analysis to investigate the following: (i) whether CEO political ideology had an effect on alternative outcome variables (i.e., the number of employees, dividend surprise, and restructuring costs, all relating to the year 2020), (ii) whether CEO political ideology affected the likelihood of labor cost reductions combined with a salary cut for the board when compared to (a) combined labor cost reductions without a salary cut for the board and (b) no labor cost reductions, and (iii) whether the various categories of CEO and types of reactions affected firm value and firm performance in 2021 and 2022.

The rationale behind using alternative outcome variables is twofold. First, this exercise enables us to assess the *economic* significance of CEO political ideology, which cannot be determined via the use of our main dependent variable. Second, when it comes to the effect of CEO political ideology on the number of employees, it also enables us to evaluate value added from our granular dataset. Indeed, the main analysis suggests that S&P 500 firms used various approaches to reduce their labor costs, some of which did not affect employee numbers (e.g., reductions in the number of hours worked). Hence, the question arises as to whether CEO political ideology has similar explanatory power for the number of employees or whether the explanatory power is limited to our measure of broader labor cost reductions, which include reductions that do not necessarily affect the number of employees.

Table 7 reports the ordinary least squares (OLS) regressions explaining the natural logarithm of the number of employees in 2020 in the first column, the natural logarithm of one plus the dividend surprise in 2020 in the second column, and the natural

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

[30] Further details about the estimation window, and so on, can be found in Appendix D.

Table 7
Regressions estimating number of employees, restructuring costs, and dividend surprise in 2020.

	Number of Employees$_{2020}$	Restructuring Costs$_{2020}$	Dividend Surprise$_{2020}$
Conservatism	0.008	0.776**	0.040**
	(0.838)	(0.043)	(0.019)
Loss*Conservatism	−0.064	−0.509	−0.036
	(0.376)	(0.450)	(0.223)
Number of Employees$_{2019}$	0.973***		
	(0.000)		
Restructuring Costs$_{2019}$		0.569***	
		(0.000)	
Dividend Surprise$_{2019}$			0.682***
			(0.000)
EPS Surprise	0.005	−0.054	−0.001
	(0.406)	(0.360)	(0.774)
Loss	−0.056	1.141**	0.009
	(0.246)	(0.013)	(0.648)
N	442	459	429
R^2	0.986	0.558	0.542

This table reports the coefficients of three regressions explaining the natural logarithm of the number of employees in 2020 in the first column, the natural logarithm of one plus the 2020 restructuring costs in the second column, and the natural logarithm of one plus the dividend surprise in 2020 in the last column. *CEO conservatism* is the key variable of interest. The regressions include the same control variables as those in Table 5, but these are not reported for the sake of brevity. The numbers in parentheses are the *p*-values. ∗, ∗∗, and ∗∗∗ refer to statistical significance at the 10%, 5%, and 1% levels, respectively.

logarithm of one plus the 2020 restructuring costs in the final column.[31] As the first column suggests, there is no significant effect of CEO conservatism on the number of employees. This highlights the importance of the granularity of our data, especially in light of the temporary nature of the pandemic, as well as the much more sudden, large economic fallout compared to, for example, the Great Recession. In contrast, we find a significant and positive effect of CEO conservatism on the restructuring costs and the dividend surprise. The regression results suggest that an increase of one standard deviation in the CEO conservatism index (the standard deviation is 0.273, per Table 1) results in an increase in the 2020 restructuring costs of 22.8%. As the sample average for the 2020 restructuring costs is US$ 134.7 million, this corresponds to an increase of US$ 30.7 million. Hence, the effect of CEO conservatism is also economically significant. When it comes to the economic significance of the regression results for the dividend surprise, the third column of Table 7 shows that an increase of one standard deviation in the CEO conservatism index (again, the standard deviation is 0.273) results in a 1.1% increase in the dividend surprise.

Note that we do not find that CEO political ideology affects the likelihood of labor cost reductions being combined with a salary cut for the board when compared to (i) labor cost reductions without a salary cut for the board and (ii) no labor cost reductions. These results are not tabulated.

Finally, we investigate whether the various categories of CEO, as well as the main types of reaction to the pandemic (i.e., employee vs. shareholder pain) affected firm value and performance following the pandemic (i.e., in the fiscal years 2021 and 2022). To this end, we perform an additional regression analysis, which is reported in Table 8. The regressions in Panel A use *CEO conservatism*, whereas the regressions in Panel B use the CEO political ideology indicator variables. The regressions in the first two columns of each panel explain firm value, measured by Tobin's Q in 2022 and 2021 against firm performance in 2021 and 2020, respectively, and two indicator variables stating whether the firm reduced its labor costs in 2020 (*Reduced Labor Costs*) and whether the firm did not meet dividend expectations in the same year (*Actual Div. Below Exp.*). The regressions also include the interaction of these two indicator variables. The equivalent regressions for the return on assets (ROA) can be found in the third and fourth columns, while the equivalent regressions for the return on equity (ROE) are reported in the final two columns of Table 8. Both variables are defined in Appendix D.

There is evidence in Panel A using *CEO conservatism* that firms with conservative CEOs had a higher Tobin's Q (the coefficient is just not significant at the 10% level) and a significantly higher (at the 5% level) ROA in 2021. Note that the coefficient on the indicator variable for reduced labor costs is also significant (at the 5% level) for the same regression explaining ROA in 2021. In addition, in Panel B, firms with conservative CEOs have a significantly higher Tobin's Q (at the 10% level) and a higher ROA (the coefficient is just not significant at the 10% level) in 2021. Again, the coefficient on the indicator variable for reduced labor costs is also significant (at the 5% level) for the same regression explaining ROA in 2021. All in all, these results suggest that conservative CEOs did a somewhat better job when it came to the financial performance of their firms for 2021.

[31] Note that the regressions in Table 7 contain the same control variables as the regressions in Table 5. However, these are not reported for the sake of brevity. The full regression results can be found in Table 10 in the online appendix.

Table 8
Regressions explaining firm value and firm performance by CEO political ideology.

Panel A: Using CEO conservatism						
	Tobin's Q		ROA		ROE	
	2022	2021	2022	2021	2022	2021
Conservatism	0.132	0.295	0.002	0.018**	−0.002	0.017
	(0.389)	(0.101)	(0.878)	(0.045)	(0.871)	(0.229)
Tobin's Q_{2021}	0.694***					
	(0.000)					
Tobin's Q_{2020}		1.127***				
		(0.000)				
ROA_{2021}			0.761***			
			(0.000)			
ROA_{2020}				0.541***		
				(0.000)		
ROE_{2021}					0.383***	
					(0.000)	
ROE_{2020}						0.128***
						(0.000)
Reduced Labor Costs	−0.023	0.120	0.012	0.015**	0.008	−0.019
	(0.859)	(0.426)	(0.181)	(0.046)	(0.488)	(0.111)
Actual Div. Below Exp.	0.100	0.016	0.007	0.005	0.007	0.004
	(0.323)	(0.893)	(0.301)	(0.409)	(0.406)	(0.659)
Red.Lab.Cost*Act.Div.Below.Exp.	0.007	−0.177	−0.023*	−0.008	−0.006	0.007
	(0.969)	(0.411)	(0.076)	(0.460)	(0.686)	(0.678)
Consumer	0.416***	−0.098	−0.002	0.043***	0.007	−0.017
	(0.001)	(0.498)	(0.869)	(0.000)	(0.472)	(0.110)
Manufacturing	0.178	−0.081	0.022***	0.039***	0.022**	0.011
	(0.105)	(0.536)	(0.004)	(0.000)	(0.018)	(0.268)
HiTec	0.083	0.331**	−0.009	0.042***	−0.015	−0.002
	(0.512)	(0.024)	(0.325)	(0.000)	(0.154)	(0.823)
Health	0.118	−0.216	−0.012	0.043***	−0.016	−0.002
	(0.483)	(0.277)	(0.323)	(0.000)	(0.266)	(0.902)
Constant	0.233*	−0.243	0.007	0.002	0.028**	0.038***
	(0.081)	(0.135)	(0.418)	(0.813)	(0.011)	(0.001)
N	427	459	387	436	429	436
R^2	0.789	0.804	0.509	0.531	0.184	0.082
Panel B: Using CEO Political Ideology Types						
	Tobin's Q		ROA		ROE	
	2022	2021	2022	2021	2022	2021
Liberals	0.105	−0.146	0.018	−0.010	0.013	−0.020
	(0.571)	(0.481)	(0.176)	(0.317)	(0.429)	(0.217)
Conservatives	0.047	0.268*	0.010	0.012	0.003	0.009
	(0.702)	(0.066)	(0.245)	(0.102)	(0.774)	(0.401)
Nonpartisans	0.046	0.174	0.005	−0.005	−0.006	−0.012
	(0.654)	(0.150)	(0.456)	(0.436)	(0.497)	(0.195)
Tobin's Q_{2021}	0.695***					
	(0.000)					
Tobin's Q_{2020}		1.130***				
		(0.000)				
ROA_{2021}			0.765***			
			(0.000)			
ROA_{2020}				0.542***		
				(0.000)		
ROE_{2021}					0.381***	
					(0.000)	
ROE_{2020}						0.130***
						(0.000)
Reduced Labor Costs	−0.024	0.118	0.012	0.016**	0.008	−0.018
	(0.853)	(0.436)	(0.169)	(0.041)	(0.474)	(0.128)
Actual Div. Below Exp.	0.105	0.027	0.009	0.005	0.008	0.004
	(0.306)	(0.822)	(0.216)	(0.417)	(0.366)	(0.703)
Red.Lab.Cost*Act.Div.Below.Exp.	−0.001	−0.186	−0.023*	−0.008	−0.006	0.007
	(0.997)	(0.387)	(0.066)	(0.471)	(0.701)	(0.657)
Consumer	0.422***	−0.061	−0.001	0.042***	0.006	−0.020*
	(0.001)	(0.677)	(0.943)	(0.000)	(0.573)	(0.069)

(*continued on next page*)

Table 8 (*continued*).

Manufacturing	0.179	−0.078	0.022***	0.038***	0.021**	0.010
	(0.105)	(0.553)	(0.004)	(0.000)	(0.024)	(0.315)
HiTec	0.068	0.335**	−0.010	0.041***	−0.016	−0.003
	(0.594)	(0.022)	(0.272)	(0.000)	(0.130)	(0.782)
Health	0.111	−0.253	−0.013	0.044***	−0.015	0.000
	(0.514)	(0.205)	(0.286)	(0.000)	(0.302)	(0.997)
Constant	0.286***	−0.163	0.004	0.012**	0.027***	0.051***
	(0.008)	(0.213)	(0.581)	(0.030)	(0.002)	(0.000)
N	427	459	387	436	429	436
R^2	0.789	0.805	0.513	0.533	0.187	0.089

This table reports the coefficients for regressions explaining Tobin's Q, ROA, and ROE as a function of *CEO conservatism* in the years 2022 and 2021. The numbers in parentheses are the *p*-values. ∗, ∗∗, and ∗∗∗ refer to statistical significance at the 10%, 5%, and 1% levels, respectively.

5. Discussion and conclusion

In this paper, we studied how the CEOs of S&P 500 firms reacted to the COVID-19 pandemic, distinguishing between (more) shareholder-friendly reactions and (more) employee-friendly reactions. Shareholder-friendly reactions are those that prioritize meeting dividend expectations over safeguarding jobs in the firm. In contrast, employee-friendly reactions prioritize safeguarding jobs. We argued that during the pandemic, the CEO's political ideology affected the choice between shareholder-friendly and employee-friendly reactions. We hypothesized that conservative CEOs were more likely to prioritize the interests of the shareholders over those of the workers during the height of the pandemic (i.e., during the calendar year 2020).

We used political donations made by CEOs during their lifetime up to and including the calendar year 2019 as a measure of their political ideology. Our study benefits from granular data on labor cost reductions obtained from Form 8-K filings and quarterly data on actual dividends per share and dividends per share forecasts for 2020 made at the end of 2019. Our dataset covers a range of different forms of labor cost reductions, including those that affected worker numbers (e.g., permanent downsizing) and those that did not (e.g., reductions in the number of working hours per week). We uncovered several findings. First, we consistently found that conservative CEOs favored shareholders over workers during the pandemic. Second, when deciding on quarterly dividends for 2020, CEOs used the consensus dividend per share for the various quarters of 2020 (as forecast by financial analysts in 2019) rather than the actual quarterly dividends per share as their target dividends. Importantly, *ceteris paribus*, conservative CEOs were more likely to pay out a dividend per share equal to the expected dividend per share with the workforce facing possible labor cost reductions, including downsizing. Finally, we also found some evidence that conservative CEOs used temporary downsizing to reduce labor costs, thereby avoiding negative earnings per share; this, in turn, enabled them to meet dividend expectations.

Our paper makes an important contribution to the sparse literature on how extreme events affect corporate decision-making by studying how CEOs with different political ideologies reacted to the COVID-19 pandemic. Did they let investors bear the brunt of the pandemic, or did they allow workers to do so?

Our paper also contributes to the literature on dividend and payout policy. Again, our findings showed that CEOs used the dividend forecasts for 2020 made in the pre-pandemic year as their benchmark to decide on the 2020 dividends. This contrasts with Lintner (1956), who argues that the current dividend level is guided by past dividend levels. Furthermore, our paper makes an important contribution to the growing literature suggesting that CEO characteristics, including CEO political orientation, affect firm strategy and decision-making. In contrast to previous research describing differences in behavior between conservative and liberal CEOs, our findings suggest that conservative CEOs as a category are different from *all other* categories of CEOs, not just liberal ones, in their reaction to an extreme event. Finally, our paper suggests that labor cost reductions and dividend decisions during periods of crisis should not be studied in isolation, as the findings illustrate that CEOs considered both options during the crisis.

CRediT authorship contribution statement

Ali Bayat: Writing – review & editing, Writing – original draft, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Marc Goergen:** Writing – review & editing, Writing – original draft, Validation, Supervision, Resources, Project administration, Methodology, Investigation, Funding acquisition, Formal analysis, Data curation, Conceptualization. **Panagiotis Koutroumpis:** Writing – review & editing, Writing – original draft, Visualization, Methodology, Formal analysis, Data curation. **Xingjie Wei:** Writing – review & editing, Writing – original draft, Methodology, Formal analysis, Data curation.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Appendix A. Sample selection process

The steps in the sample selection of the S&P firms for the period of the COVID-19 pandemic only (i.e., calendar year 2020) and the resultant number of firm-year observations lost are as follows:

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

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

Appendix B. Excerpts from 8-K forms and mapping of labor cost reduction variables

See Table B.1.

Appendix C. Multinomial logit

The first multinomial logit uses the absence of labor cost reductions and the actual dividend being equivalent to the expected dividend as the base case. In particular, the values that the dependent variable of this multinomial logit can take range from 0 to 4, and their corresponding reaction type is defined in the following table (see Table C.1):

Appendix D. The definition of variables

Dependent Variables

See Table C.1 in Appendix C for the definition of our main dependent variable.

Dividend measures

- **Dividend exceeds expectations**: An indicator variable that is set to one if the DPS for at least one of the four quarters of the 2020 calendar year is higher than the expected DPS for that quarter (the expected DPS being the latest available in the calendar year 2019) and zero otherwise (Source: Compustat and I/B/E/S).
- **Dividend meets expectations**: An indicator variable that is set to one if the DPS for at least one of the four quarters of the 2020 calendar year is equal to the expected DPS for that quarter (the expected DPS being the latest available in the calendar year 2019) and zero otherwise (Source: Compustat and I/B/E/S).
- **Dividend below expectations**: An indicator variable that is set to one if the DPS for at least one of the four quarters of the 2020 calendar year is lower than the expected DPS for that quarter (the expected DPS being the latest available in the calendar year 2019) and zero otherwise (Source: Compustat and I/B/E/S).

Measures for labor cost reductions

- **Labor cost reductions**: An indicator variable that is set to one if labor costs were reduced in any of the following ways in at least one of the four quarters of the 2020 calendar year and zero otherwise. A reduction in salary is viewed as a type of downsizing (Source: Form 8-K).
  - **Temporary**: An indicator variable that is set to one if there was a temporary reduction in labor costs (e.g., via furloughing) in at least one of the four quarters of the 2020 calendar year and zero otherwise (Source: Form 8-K).
  - **Permanent**: An indicator variable that is set to one if there was a permanent reduction in labor costs in at least one of the four quarters of the 2020 calendar year and zero otherwise (Source: Form 8-K).
  - **Voluntary**: An indicator variable that is set to one if employees were offered voluntary leave in at least one of the four quarters of the 2020 calendar year and zero otherwise (Source: Form 8-K).

Table B.1
Excerpts from 8-K forms and mapping of labor cost reduction variables.

Indicator variables	Labor cost reduction	Temporary	Permanent	Voluntary	Compulsory	Shortened	Reduced salary	Reduced salary board
	1	0	1	1	1	0	0	0
Excerpt	The company's structural changes will result in the reallocation of some people and resources, which will include **voluntary** and **involuntary reductions** in employees ... The **voluntary program** will first be offered to approximately 4,000 employees in the United States, Canada and Puerto Rico who have a most-recent hire date on or before September 1, 2017.							
Source	The Coca-Cola Company, https://www.sec.gov/ix?doc=/Archives/edgar/data/21344/000155278120000463/e20478_ko-8k.htm							
Indicator variables	Labor cost reduction	Temporary	Permanent	Voluntary	Compulsory	Shortened	Reduced salary	Reduced salary board
	1	1	0	0	0	0	0	0
Excerpt	During second quarter of 2020, there were on average 307 employees on **temporary** emergency reserve boards, who are included in the average employee count for the nine months ending September 30, 2020 in the above table. Employees on these boards received 7 days of guarantee pay in each 28-day cycle and were eligible, if qualified, for Railroad Retirement Board unemployment benefits for the other 21 days, during which they were considered **furloughed**. Excluding these employees, the average **headcount** for the nine months ending September 30, 2020, would be 19,658.							
Source	CSX Corporation, https://www.sec.gov/ix?doc=/Archives/edgar/data/277948/000027794820000046/csx-20201021.htm							
Indicator variables	Labor cost reduction	Temporary	Permanent	Voluntary	Compulsory	Shortened	Reduced salary	Reduced salary board
	1	1	1	0	1	0	0	1
Excerpt	Cost containment efforts included **furloughs**, **layoffs**, elimination of non-essential travel and capital expenditures, and **temporary** salary reductions for upper management...							
Source	Rollins, Inc., https://www.sec.gov/ix?doc=/Archives/edgar/data/84839/000117120020000486/i20444_rol-8k.htm							
Indicator variables	Labor cost reduction	Temporary	Permanent	Voluntary	Compulsory	Shortened	Reduced salary	Reduced salary board
	1	0	0	0	0	1	0	0
Excerpt	Due to fact that a significant majority of the Company's stores were closed or operating under **shortened** operating hours over the course of the second half of the fiscal year, net sales changes for the Company, and each segment is based on absolute sales dollar changes and is not presented in accordance with the Company's comparable sales definition utilized in prior quarters.							
Source	Tapestry, Inc., https://www.sec.gov/Archives/edgar/data/1116132/000115752320001178/a52265820ex99_1.htm							
Indicator variables	Labor cost reduction	Temporary	Permanent	Voluntary	Compulsory	Shortened	Reduced salary	Reduced salary board
	1	0	1	0	0	0	1	0
Excerpt	...we had strong operating leverage on our expense for base payroll, benefits and tax at 150 basis points, which reflects **decreased headcount** and **temporary** salary reductions across a broad range of our agencies and employees in response to the pandemic.							
Source	The Interpublic Group of Companies, Inc., https://www.sec.gov/ix?doc=/Archives/edgar/data/51644/000005164420000055/ipg-20201021.htm							
Indicator variables	Labor cost reduction	Temporary	Permanent	Voluntary	Compulsory	Shortened	Reduced salary	Reduced salary board
	0	0	0	0	0	0	0	0
Excerpt	Headcount increased 5% compared with the end of the second quarter of 2020, primarily reflecting the timing of campus hires.							
Source	The Goldman Sachs Group, Inc., https://www.sec.gov/Archives/edgar/data/886982/000119312520268983/d38229dex991.htm							
Indicator variables	Labor cost reduction	Temporary	Permanent	Voluntary	Compulsory	Shortened	Reduced salary	Reduced salary board
	0	0	0	0	0	0	0	0
Excerpt	Operating profit decreased 7% to $151 million and the operating profit margin declined 510 basis points to 64.6% primarily due to increased legal related costs, higher compensation from increased headcount and incentives, as well as professional fees.							
Source	S&P Global Inc., https://www.sec.gov/ix?doc=/Archives/edgar/data/64040/000006404020000180/spgi-20201027.htm							

Table C.1
Definition of the main dependent variable.

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

We estimate various multinomial logits varying according to their base case — that is base case 0, base case 1, and base case 4.

  - **Compulsory**: An indicator variable that is set to one if there were compulsory redundancies in at least one of the four quarters of the 2020 calendar year and zero otherwise (Source: Form 8-K and Compustat).
  - **Shortened**: An indicator variable that is set to one if the firm applied a shortened workweek in at least one of the four quarters of the 2020 calendar year and zero otherwise (Source: Form 8-K).
  - **Reduced salary**: An indicator variable that is set to one if the firm reduced salaries for all staff in at least one of the four quarters of the 2020 calendar year and zero otherwise (Source: Form 8-K).
  - **Reduced salary board**: An indicator variable that is set to one if the firm reduced the salaries for the board only in at least one of the four quarters of the 2020 calendar year and zero otherwise (Source: Form 8-K).

Key Variables

- **CEO conservatism**: Considering all the donations made by a CEO during their entire lifetime up to and including calendar year 2020, but excluding the donations made one year before the U.S. presidential elections, CEO conservatism is measured as the total amount donated to the Conservative party divided by the sum of the total amounts donated to the Republican Party and Democratic Party. For CEOs who did not make any donations, this variable is set to 0.5 (Source: FEC).
- **CEO political ideology — CEO types**: A set of four indicator variables based on the following types of CEOs:
  - **Conservatives**: An indicator variable taking the value of one if CEOs' donations were to the Republican Party only and zero otherwise (Source: Federal Election Commission [FEC]).
  - **Liberals**: An indicator variable taking the value of one if CEOs' donations were to the Democratic Party only and zero otherwise (Source: FEC).
  - **Nonpartisans**: An indicator variable taking the value of one if CEOs' donations were to both the Democratic and Republican parties and zero otherwise (Source: FEC).
  - **Zerodonations**: An indicator variable taking the value of one if CEOs made no donations to any political party and zero otherwise (Source: FEC).

Control Variables

- **ΔEPS**: $EPS_{2020} - EPS_{2019}$ (Source: Compustat and the researcher's own calculations).
- **Capital expenditures**: The ratio of capital expenditures over total assets for the fiscal year 2019 (Source: Compustat).
- **CARES**: An indicator variable that is set to one if the firm applied for assistance under the CARES Act during calendar year 2020 and zero otherwise (Source: Form 8-K and the U.S. Department of the Treasury website).
- **Cash flow**: Cash flow is defined as net cash flow from operating activities less cash flow from extraordinary items and discontinued operations (Source: Compustat).
- **Cash holdings**: The ratio of cash and short term investments over total assets for the fiscal year 2019 (Source: Compustat).
- **CEO age**: The age of the CEO in 2019 (Source: Execucomp and BoardEx).
- **CEO duality**: An indicator variable that is set to one if the CEO is also the chair and zero otherwise (Source: BoardEx).
- **CEO gender**: An indicator variable that is set to one if the CEO is male and zero if female (Source: Form 8-K and the U.S. Department of the Treasury website).
- **CEO share ownership**: The natural logarithm of one plus the percentage of shares outstanding held by the CEO at year end 2019. We set the value of the percentage of shares outstanding held by the CEO to zero for 18 observations with missing values (Source: Execucomp).
- **Credit rating**: An indicator variable that is set to one if firms have a credit rating of investment grade for 2019 (i.e., a grade rating of at least BBB-) and zero otherwise (Source: Capital IQ).
- **Div. Sur. St. Dev.**: The standard deviation of the dividend surprise for 2015–2019. The standard deviation is computed for firms with at least three observations for the percentage change in the number of employees or the dividend surprise for the period 2015–2019, and it is set to zero otherwise (Source: Compustat).
- **Employee St. Dev.**: The standard deviation of the percentage change in the number of employees for 2015–2019. The standard deviation is computed for firms with at least three observations for the percentage change in the number of employees or the dividend surprise for the period 2015–2019, and it is set to zero otherwise (Source: Compustat).
- **EPS surprise**: The difference between EPS for fiscal year 2020 and the expected EPS for the same year (Source: Compustat, I/B/E/S, and the researcher's own calculations).
- **EPS**: Earnings per share (EPS) for fiscal year 2020 (Source: Compustat).
- **ESG score**: This score ranges from 0 to 100, with scores between zero and 25 indicating poor ESG performance and insufficient transparency in reporting ESG data, scores above 25 and up to 50 indicating satisfactory ESG performance and moderate transparency in reporting ESG data, scores above 50 and up to 75 indicating good ESG performance and above-average transparency in reporting ESG data, and scores above 75 indicating excellent ESG performance and high transparency in reporting ESG data (Source: ASSET4/Refinitiv ESG).
- **Firm age**: The natural logarithm of the number of years that the firm has been covered by CRSP up to and including the year 2019 (Source: Compustat).
- **Firm size**: The natural logarithm of total assets for the fiscal year 2019 (Source: Compustat).

- **Foreign sales**: The ratio of foreign sales over foreign and domestic sales for the fiscal year 2019 (Source: Compustat).
- **Industry indicator variables**: We assign each firm to an industry based on its four-digit Standard Industry Classification (SIC) code in 2020 based on the Fama and French five industries. The industries are Consumer, Manufacturing, HiTec, Health, and Other (Source: Compustat and Kenneth French's data library at http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html).
- **Industry labor expense$_{2019}$**: The natural logarithm of wages in fiscal year 2019. If the data are missing in Compustat, we use data from the Annual Survey of Manufactures (ASM) conducted by the U.S. Census Bureau. More specifically, we estimate the total cost to the employer, using data for the U.S. at the two-digit NAICS level as the industry average of the sum of salaries and wages plus additional costs. That is the sum of the annual payroll, total fringe benefits, the employer's cost for health insurance, the employer's cost for defined benefit pension plans, and the employer's cost for other fringe benefits (Source: Compustat and U.S. Census Bureau).
- **Institutional ownership ratio$_{2019}$**: The ratio of institutional ownership at the end of calendar year 2019 to the total shares outstanding at the end of the same calendar year (Source: Thomson Reuters Institutional (13f) Holdings).
- **Ivy League**:
  An indicator variable that is set to one if the CEO has graduated from an Ivy League university and zero otherwise (Source: BoardEx).
- **Leverage**: The book value of long-term debt over the book value of total assets for the fiscal year 2019 (Source: Compustat).
- **Loss**: An indicator variable that is set to one if EPS is negative in at least one of the four quarters of calendar year 2020 and zero otherwise (Source: Compustat).
- **Market to book**: The ratio of total market value of equity over book value of equity for the fiscal year 2019 (Source: Compustat).
- **MBA**: An indicator variable that is set to one if the CEO has an MBA degree and zero otherwise (Source: BoardEx).
- **Pandemic CARs**: The cumulative abnormal returns (CARs) based on the Fama–French three-factor model and the Fama–French–Carhart four-factor model, respectively. The pandemic period is defined as in Dechow et al. (2021), and it runs from January 2, 2020, to March 31, 2020. The estimation window has a length of 250 trading days, and it ends 50 trading days before the start of the event window. A minimum of 70 non-missing return observations within the estimation window is required (Source: CRSP).
- **PhD**: An indicator variable that is set to one if the CEO has a PhD degree and zero otherwise (Source: BoardEx).
- **Pre-pandemic CARs**: The cumulative abnormal returns (CARs) based on the Fama–French three-factor model (Fama and French, 1993) and the Fama–French–Carhart four-factor model (Carhart, 1997), respectively. The pre-pandemic period covers January 2, 2018, to December 31, 2019. The estimation window has a length of 250 trading days, and it ends 50 trading days before start of the event window. A minimum of 70 non-missing return observations within the estimation window is required (Source: CRSP).
- **Productivity$_{2019}$**: The natural logarithm of net sales turnover in calendar year 2019 (Source: Compustat).
- **Professional qualification**: An indicator variable that is set to one if the CEO has a chartered accountant or certified public accountant qualification and zero otherwise (Source: BoardEx).
- **R&D**: Research and development expenses for the fiscal year 2019. This variable is set to zero if the firm does not report this item. (Source: Compustat).
- **Red state**: An indicator variable that is set to one if the firm's headquarters are located in a state where a majority voted for Republicans in the 2019 elections and zero otherwise.
- **Repurchases$_t$**: An indicator variable that is set to one if there were stock repurchases in calendar year t (t = 2019, 2020) and zero otherwise (Source: Compustat).
- **ROA**: The return on assets calculated as the ratio of earnings before interest and taxes (EBIT) to total assets.
- **ROE**: The return on equity calculated as the ratio of net income (loss) to common shares outstanding multiplied by the stock close price.
- **Shares repurchased$_t$**: The ratio of total shares repurchased in calendar year t to common shares outstanding in year $t-1$ (Source: Compustat).
- **Tobin's Q**: The ratio of total assets plus the product of common shares outstanding and the 2019 end-of-year closing price minus the book value of common equity over total assets. All accounting variables refer to the fiscal year 2019. (Source: Compustat).
- **Value shares repurchased$_t$**: The product of total shares repurchased in calendar year t and the average price paid for the repurchased shares (Source: Compustat).

Appendix E. Marginal effects

See Figs. E.1 and E.2.

Appendix F. Supplementary data

Supplementary material related to this article can be found online at https://doi.org/10.1016/j.jcorpfin.2024.102692.

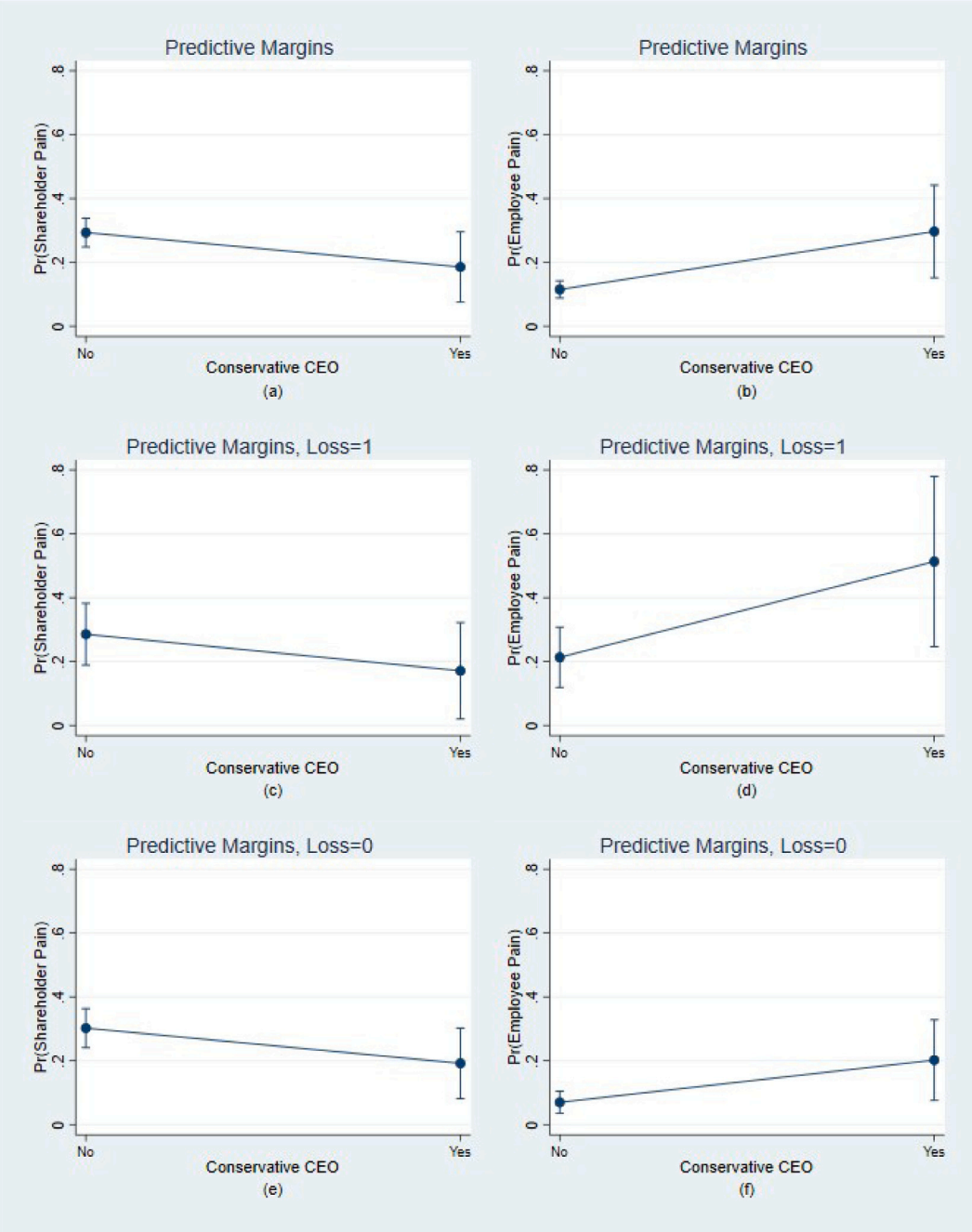

Fig. E.1. Marginal effects for multinomial logit from Panel A of Table 5.
This set of figures reports the marginal effects for the 95% confidence intervals for the *Conservatives* indicator variable based on the multinomial logit in Panel A of Table 5. In the figure, (a) and (b) show the marginal effect of *Conservatives* switching from a zero to a one based on the likelihood of *Shareholder pain* and the likelihood of *Employee pain*, respectively, for the entire sample. Figs. E.1 (c) and (d) are the equivalents for the subsample of firms *with* an earnings loss in at least one quarter during calendar year 2020, and Figs. E.1 (e) and (f) are the equivalents for the subsample of firms *without* an earnings loss during calendar year 2020.

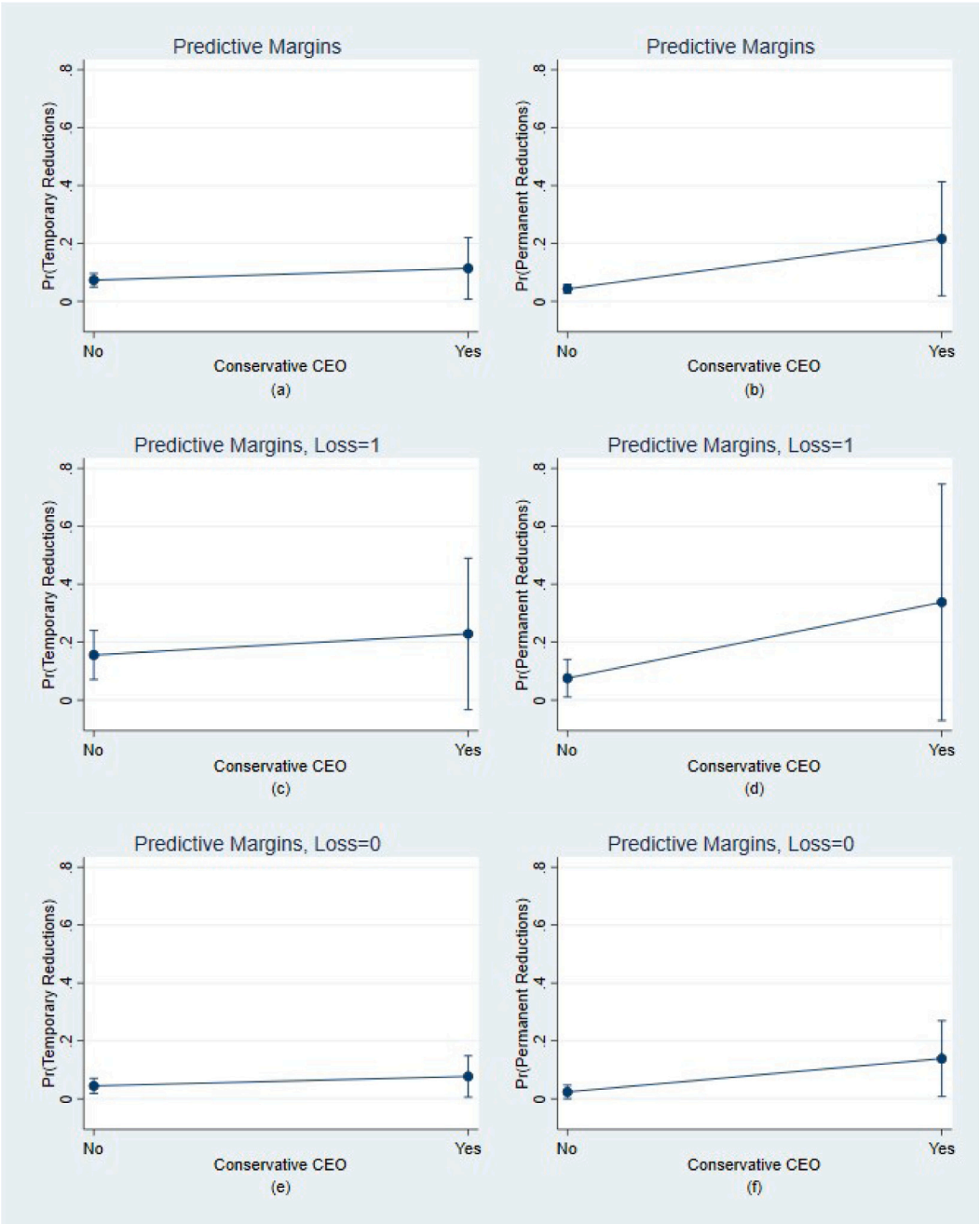

Fig. E.2. Marginal effects for multinomial logit from Panel A of Table 6.
This set of figures reports the marginal effects for the 95% confidence intervals for the *Conservatives* indicator variable based on the multinomial logit in Panel A of Table 6. Figs. E.2 (a) and (b) show the marginal effect of Conservatives switching from a zero to a one based on the likelihood of *Temporary reductions* and the likelihood of *Permanent reductions* in labor costs, respectively, for the entire sample. Figs. E.2 (c) and (d) are the equivalent figures for the subsample of firms with an earnings loss in at least one quarter during calendar year 2020, and Figs. E.2 (e) and (f) are the equivalent figures for the subsample of firms without an earnings loss during calendar year 2020.

Data availability

The authors are unable or have chosen not to specify which data has been used.

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