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CEO POLITICAL IDEOLOGY

AND

FIRMS' FINANCIAL REPORTING PRACTICE

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CEO Political Ideology

And

Firms' Financial Reporting Practice

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CERTIFICATE OF ORIGINALITY

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___Yu (Tony)___ZHANG_____ (Name of Student)

DEDICATIONS

For Xiaoman, Mom and Dad

ABSTRACT

Existing literature suggests that political conservatism is associated with the psychological trait of risk aversion. Meanwhile, *behavioral consistency theory* conjectures that managerial personal risk attitude may influence corporate risk-takings. Accordingly, this study investigates whether CEO political ideology, measured by individual political donations, affects firm's propensity of risk-takings on financial reporting practice. In particular, I examine two major aspects of financial reporting practice: accounting conservatism and annual report readability. Using a sample of federal-level campaign contributions by historical S&P 500 CEOs, I find that Republican oriented CEOs, who tend to have conservative ideology, are associated with more accounting conservatism and higher annual report readability than Democratic oriented CEOs. These results are also consistent with the prediction of *upper echelons theory* that managers' individual values have influence on corporate strategies and outcomes. Further tests demonstrate that the empirical results are robust to alternative measures of conditional conservatism, annual report readability, and political ideology. Taken together, the empirical findings of this study suggest that managers with strong political preference have discretion to translate their personal risk attitude into firm's accounting decisions.

Keywords: *Accounting Conservatism, Annual Report Readability, Behavioral Consistency, Campaign Contributions, Political Ideology, Risk Aversion, Upper Echelons Theory*

Data Availability: *Data used are from public sources identified in this paper*

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF APPENDICES

1. INTRODUCTION

Political ideology is one of most stable and endurable personal values (Burris, 2001; Jost, 2006). In the U.S., people with conservative orientation[1] tend to favor the core values of the Republican Party (Abramowitz and Saunders, 2006). Poll evidence also shows that Republicans tend to hold a set of more conservative beliefs relative to Democrats (Hutton, Jiang and Kumar, 2014). According to upper echelons theory, managers' individual characteristics, including experiences, personalities and values, have considerable influence on corporate strategies and outcomes (Hambrick and Mason, 1984). Although empirical studies have been extensively done under the framework of upper echelons theory, most of them focus on the influence of managers' demographic background (e.g. age, education, and military experience) with much less attention on the role of personal values during their decision-making process (Chin, Hambrick and Trevino, 2013). Some recent studies accordingly start to explore the impact of political ideology on different aspects of corporate behaviors, such as financing and investment policies (Hutton et al., 2014) and tax avoidance (Christensen, Dhaliwal, Boivie and Graffin, 2014). These studies argue that individual political conservatism has influence on managers' strategic decision making, and in turn leads to less risk-taking corporate behaviors. This study complements this line of literature by investigating whether managers' personal political ideology, as indicated by their individual campaign contributions, has influence on firms' strategies of financial reporting practice. Specifically, this paper examines whether Republican oriented CEOs, who tend to have conservative ideology, are associated with more accounting conservatism and higher annual report readability than Democratic oriented CEOs.

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[1] Hereafter, political orientation and political preference are the two equivalent expressions of political ideology that can substitute for each other throughout the rest of this paper.

Existing literature on psychology and political science suggests that political conservatism is associated with less risk tolerance (e.g. Wilson, 1973; Jost, Glaser, Kruglanski and Sulloway, 2003; Jost, Napier, Thorisdottir, Gosling, Palfai and Ostafin, 2007; Jost, Nosek and Gosling, 2008; Kam and Simas, 2010; Briscoe, Chin and Hambrick, 2014). Wilson (1973) is among the first to document the risk-averse tendency of conservative people, characterized by their intolerance of ambiguity, uncertainty and complexity. Meanwhile, behavioral consistency theory suggests that individuals generally demonstrate stable behavioral tendency between different situations (Epstein, 1979, 1980; Funder and Colvin, 1991). Inspired by these early studies, recent studies in accounting and finance provide evidence that managerial personal risk attitudes are consistent with their risk-takings on corporate strategies and decisions (Cronqvist, Mahhija and Yonker, 2012; Cain and McKeon, 2014; Chyz, 2013; Graham, Harvey and Puri, 2013). Carney, Jost, Gosling and Potter (2008) point out that the differences between conservatism and liberalism may stem from the different psychological roots that work as the main determinants and motivators for economics and financial behaviors. Thus, we can expect that political conservatism is related to more conservative corporate strategies and decisions, which is also consistent with the prediction of upper echelons theory.

According to upper echelons theory (Hambrick and Mason, 1984), managers' political ideology, to some extent, may influence their interpretations of firm situations, and, in turn, affect corporate strategies and outcomes. For long run, the United States has strong culture of individualism, facilitating a business environment in favor of upper echelons theory (Hambrick, 2007). CEOs in such environment are more likely to blend their professional judgment with personal preference or attitude when making corporate decisions. Following behavioral consistency theory, finance

scholars employ some alternative measures of personal risk attitude, such as leverage on home mortgage (Cronqvist et al., 2012), individual tax avoidance (Chyz, 2013) and holding of private pilot license (Cain and McKeon, 2014), and find the influence of managers' risk preference on firms' corporate decisions. The evidence under these two theories suggests that mangers' risk attitude may link with their firms' risk-taking decisions. On the other hand, existing literature demonstrates that business leaders in the US have alternative political orientations, and political orientation is an important predictor on their personal risk attitude (Chin et al., 2013). Republican managers, for instance, are much more conservative oriented than Democratic managers (Christensen et al., 2014). Therefore, it is meaningful to understand managers' risk attitude associated with their political ideology, and explore the role of managerial political conservatism on firms' risk-taking behaviors. In this study, I examine whether managers' political conservatism, as captured by their political donations, influences firms' financial reporting practice.

Accounting conservatism is a major component of firm's financial reporting mechanism, involving the use of more timely recognition for bad news as losses than for good news as gains (Basu, 1997; Watts, 2003). Managers' estimates and discretions play an important role in applying conservative accounting policy. For example, managers estimate the net realizable value of inventory when applying the "lower of cost or market" rule for recognizing inventory. Empirical evidence shows that firm's tendency on accounting conservatism can be influenced by some managerial characteristics, such as stock ownership (Lafond and Roychowdhury, 2008), overconfidence (Ahmed and Duellman, 2013), board membership (Ahmed and Duellman, 2007), and gender diversity (Francis, Hasan, Park and Wu, 2015; Ho, Li, Tam and Zhang, 2015). If politically conservative managers are less risk-tolerant, then

we can expect that these managers may implement more conservative accounting policy to avoid uncertainty associated with timely recognition of good news. This study therefore conjectures that CEOs, whose political ideology is aligned with the Republican Party, tend to adopt less risky accounting policy, and they are more likely to translate their political conservatism attitude into accounting conservatism decisions.

Readability[2] is another critical dimension to measure and assess the financial reporting quality. Lower readability is usually associated with the complex, lengthy or verbose expressions in financial statements, indicating that investors and other market participates need more time and efforts to extract and interpret the full information from firms' public disclosures. For instance, Callen, Khan and Lu (2013) find that firms with less readable annual reports are associated with higher stock price delay. Lehavy, Li and Merkley (2011) find that lower annual report readability leads to financial analysts' underperformance, evidenced by larger dispersion, lower accuracy, and greater uncertainty in their earnings forecasts. Understanding the insufficiency of readability across most of the current financial reporting practice, the U.S Securities and Exchange Commission (SEC) continually adopts new rules to enforce the use of plain English in firms' financial disclosures[3]. In 1998, the SEC Office of Investor Education and Assistance even published a handbook to guide the effective use of plain English in different SEC filing documents. On the other hand, Nelson and

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[2] Loughran and McDonald (2014) point out that readability is not a precisely defined concept, and they classify the alternative definitions among literature into three categories. The first category highlights the importance of writing style in determining readability, and the relevant measures are mainly based on sentence length and word complexity. The second category highlights the importance of targeted audience in determining readability. The third category, in the broadest sense, highlights the importance of effective communication between authors and readers. Loughran and McDonald, according to the third category, define readability as "the ability of individual investors and analysts to assimilate valuation-relevant information from a financial disclosure".

[3] SEC has adopted a series of rules to regulate the use of plain English on different aspects of firms' public disclosures, such as executive compensation (*Rule 13a-20*; *Rule 15d-20*), offerings (*Rule 421*), shareholder communication (*Rule 14a-16*), periodic reports (*Item 406 of Regulation S-K*), etc.

Pritchard (2007) are among the first to find that firms' discretion on readability can be partially explained by their risk levels. Nelson and Pritchard point out that firms facing to greater litigation risk tend to use more cautionary and readable language in voluntary disclosures. In addition, firms use more cautionary language when litigation risk increases, but do not remove such kind of language when the risk decreases. Hence, we can expect that managers with risk-averse attitude may use more readable annual reports to mitigate potential risk due to the inefficient communication of value-relevant information embedded in firms' complex disclosures, and the SEC enforcement may strengthen the managerial concerns on financial reporting readability. Upper echelons theory tells us that managers' personal values can be reflected in firm's corporate decisions, and this study conjectures that Republican oriented CEOs, who tend to have a conservative political attitude, are more likely to use more readable language in firms' annual reports to effectively deliver the complete information to the markets.

Following prior research (Hong and Kostovetsky, 2012; Hutton et al., 2014), I focus on the historical S&P 500 CEOs, and identify CEOs' political ideology using their federal-level campaign contributions to Republican/Democratic affiliated senate/house/presidential election candidates and party committees. Specifically, CEO political ideology is proxied by using three alternative measures: (i) net contribution to Republicans scaled by total contribution to both parties (*R_RATIO*), (ii) net contribution to Republican candidates scaled by total contribution to candidates of both parties (*CAND_R_RATIO*), and (iii) net contribution to Republican committees scaled by total contribution to committees of both parties (*PARTY_R_RATIO*). Meanwhile, conditional accounting conservatism is measured by using the asymmetric timeliness coefficient (Basu, 1997) and the firm-specific *CSCORE* (Khan

and Watts, 2009). In addition, following existing studies of annual report readability (Loughran and McDonald, 2014; Li, 2008), I use three proxies to measure the readability of 10-K filing document, including file size (*FILE_SIZE*), Gunning-Fog index (*FOG*) and word counts (*LNWORD*).

Using a sample of federal-level campaign contributions from 2,071 individual CEOs spanning 11 election cycles from 1992 to 2012, I find that firms with Republican oriented CEOs, who tend to be politically conservative, are positively associated with higher degree of conditional accounting conservatism than firms with Democratic oriented CEOs. The results are consistently significant across all three measures of political ideology and both measures of accounting conservatism, except when ideology is measured by *PARTY_R_RATIO* and conservatism is measured by Basu model. Moreover, I find that firms with Republican oriented CEOs are positively associated with higher degree of annual report readability. These results are consistently significant across all the measures of political ideology and annual report readability, except when ideology is measured by *PARTY_R_RATIO* and readability is measured by *FOG* and *LNWORD* respectively. All the above findings are consistent with the prediction of upper echelons theory, and suggest that managers have discretion to embed personal political preference into their financial reporting decisions.

To check the robustness of the empirical results, I also conduct two additional tests. First, I substitute three new measures of CEO political ideology for the three original measures, and rerun the previous regressions. These new measures are based on the cumulative amount of CEO campaign contributions across election cycles, and give each individual CEO a fixed value of political ideology during the whole sample period. Since some studies (Burris, 2001; Jost, 2006) argue that political identification

is relatively stable over the entire life course, the substitution of ideology measures reduces the risk of potential bias. As expected, the results with the new ideology measures are in line with the previous results, except for some minor changes on the level of significance. Second, I rerun the previous regressions by controlling for CEO overconfidence, CEO power, and state effect, respectively. CEO overconfidence and CEO power are the important CEO characteristics affecting firms' risk-taking behaviors (Ahmed and Duellman, 2013; Chen and Zheng, 2012), and these two variables are controlled to test the incremental effect of political ideology. Meanwhile, geographic location may become another important factor influencing the validity of main findings, since the state-to-state difference on political ideology is significantly large (Erikson, McIver and Wright Jr., 1987). I therefore control for state effect to mitigate this potential bias invalidating the main findings. The new results of robustness tests demonstrate that the previous findings on accounting conservatism and annual report readability are still held, suggesting that managers with strong political preference can translate their personal attitude into firm's accounting strategies and decisions.

This study contributes to the literature in several ways. First, this study provides a new dimension, managers' political orientation, to examine the influence of managerial individual attributes on firms' financial reporting policy. Existing studies on this line of literature employ some traditional measures of managerial attributes. For instance, LaFond and Roychowdhury (2008) document the negative impact of managerial ownership on accounting conservatism. Similarly, Ahmed and Duellman (2013) find the negative relation between CEO overconfidence and accounting conservatism. These scholars demonstrate that ownership and overconfidence have significant influence on accounting conservatism; however,

firms might fluctuate the influence through better contract design and intensive monitoring mechanism. Other scholars use managers' demographic information to proxy for their psychological traits, and examine the influence of these managerial traits on financial reporting policy. Huang, Rose-Green and Lee (2012) argue that older individuals are more ethical and conservative, evidenced by a positive relation between CEO age and financial reporting quality. Francis et al. (2015) suggest that female CFOs are more risk averse, associated with higher degree of accounting conservatism. Although demographic variables can capture individual psychological traits, the measurement are noisy and problematic as these variables contain tons of other information (Achen, 1992; Christensen et al., 2014). On the other hand, political ideology is a major aspect of personal value system, an individual belief that relatively stable and consistent throughout the entire life. Compared to some extensively investigated psychological attributes (e.g. personality), political ideology is observable ex ante with public data, making it a more appropriate choice to proxy for managerial psychological traits.

Second, this study provides evidence that managerial psychological attributes have influence on firms' financial reporting readability. In accounting literature, existing studies of readability launch investigations from three different aspects. The first aspect focuses on the validity and accuracy between different readability measurements (Li, 2008; Loughran and McDonald, 2014). The second aspect suggests that lower readability on financial documents adds obstacles to the effective interpretation of information contents, and thereby affects the reaction of whole markets (Callen et al., 2013; Tan, Wang and Zhou, 2015) or any particular report users (Lehavy et al., 2011). The third aspect, a growing body of works, discusses the determinants or influencing factors on readability, such as earnings management (Lo,

Ramos and Rogo, 2015), short selling pressure (Li and Zhang, 2015), litigation risk (Nelson and Pritchard, 2007), and pay incentives (Laksmana, Tietz and Yang, 2012; Chakrabarty, Seetharaman, Swanson and Wang, 2015). This emerging aspect examines the influencing factors that mainly associated with managers' pay-performance incentives or career concerns, while does not consider any factors that related to managers' inherent psychological preference. To this extent, the findings here on readability enrich our understanding that managers have discretion to embed their personal beliefs or values into the tone of firms' financial statements.

Third, this study complements behavioral consistency research, by showing that managers' individual risk attitude associated with their political orientation has impact on firm's risk-taking decisions. In this line of research, prior works employ managers' choice on some private affairs as the proxy of their personal risk preference, such as leverage on home mortgage (Cronqvist et al., 2012), individual tax avoidance (Chyz, 2013) and holding of private pilot license (Cain and McKeon, 2014). These proxies can gauge managers' individual taste of risk-taking, while such kind of taste may fluctuate due to the change of personal wealth, geographic location, corporate environment and many other factors. It is problematic to use these proxies predict a life-long risk attitude for any managers. Political ideology, by contrast, is likely to form in the early stage of life, keep stable through the entire life, and transfer from generation to generation (Burris, 2001). These features make political ideology an ideal psychological trait to gauge personal risk attitude. This study hence identifies an effective way to capture managerial ideological information for future studies under the behavioral consistency framework.

The rest of this paper proceeds as follows. Section 2 reviews the relevant literature and develops the hypotheses. Section 3 describes the data and research

design. Section 4 presents the main empirical results and additional analyses. Section 5 concludes the article.

2. BACKGROUND AND HYPOTHESIS DEVELOPMENT

2.1 Background Literature

Political Ideology and Psychological Traits

Political ideology is one of most stable and endurable personal values. Scholars conclude that political ideology is likely to form in the early stage of life and keep relatively stable over the entire life (Burris, 2001; Green, Palmquist and Schickler, 2002; Jost, 2006). Burris (2001), in particular, finds that political ideology is usually transferred from elder to younger generations within a family.

Chin et al. (2013) suggest that being a key perspective of political belief system, liberalism-conservatism is very important for understanding individuals' central values. For instance, people with liberal orientation and people with conservative orientation usually have some different (even opposite) psychological traits (Jost et al., 2003; Jost, 2006; Chin et al., 2013). One of the major psychological differences between these two groups of people is their risk attitude.

Extant literature suggests that political conservatism is associated with less risk tolerance. Wilson (1973) is among the first to document the risk-averse tendency among conservative people, characterized by their intolerance of ambiguity, uncertainty and complexity. Wilson particularly defines conservatism as "resistance to change and the tendency to prefer safe, traditional and conventional forms of institutions and behavior". Jost et al. (2003), in addition, point out that political conservatism has two major ideological components: resistance to change and

acceptance of inequality, both are motivated by psychological attempts to mitigate uncertainty and fear[4]. Similarly, Jost et al. (2007) and Jost et al. (2008) in tandem argue that the preference on stability induces conservative people to maintain what is familiar and known while reject what is risky and uncertain. By conducting survey experiment, Kam and Simas (2010) provide further evidence on the relation between political conservatism and risk tolerance. Specifically, they develop a questionnaire with seven questions evaluating different aspects of risk orientations, and use the respondents' answers to construct a new index capturing individual's risk acceptance. Their results show that conservatives are less risk accepting than liberals, and Republicans are less risk accepting than Democrats. Following this line of study, Briscoe et al. (2014) apply a unique setting to deliver the most recent evidence. They argue that employees' social activism is costly and risky, and therefore the CEOs' tendency to advocate activism is a good proxy for managerial risk attitude[5]. Using a sample of Fortune 500 firms, Briscoe et al. find strong evidence that firms with more politically liberal (conservative) CEOs are associated with higher (lower) likelihood of employee activism, suggesting the negative relation between political conservatism and managers' risk tolerance.

Risk Attitude and Behavioral Consistency

Behavioral consistency theory suggests that individuals generally demonstrate stable behavioral tendency between different situations (Epstein, 1979, 1980; Funder and Colvin, 1991). In other words, the tendency that an individual exhibits a specific

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[4] Jost et al. (2003) conduct a meta-analytic study that includes 22,818 cases across 12 countries for the time period between 1958 and 2002. Their results suggest that the tendency to support conservative ideology is positively related to uncertainty avoidance, intolerance of ambiguity, and needs for order, structure and closure.

[5] Briscoe et al. (2014) investigate the creation of employee groups for equality of sexual rights (e.g. lesbian, gay, bisexual and transgender groups) among Fortune 500 firms between 1985 and 2004. They point out that during that period, the creation of such group is perceived to be risky for both managers and participants because of the high possibility of social reprisal and harassment.

behavior in one situation can be used to predict the tendency that this individual exhibits the similar behavior in another situation. Accordingly, a few emerging studies in accounting and finance start to investigate whether managerial personal risk attitudes are consistent with their risk-takings on corporate strategies and decisions (Cronqvist et al., 2012; Cain and McKeon, 2014; Chyz, 2013; Graham et al., 2013).

Cronqvist et al. (2012) use CEOs' mortgage decision for the most recent primary home purchase (i.e. mortgage to purchase price ratio) to measure their personal debt preference, and examine the behavioral consistency between CEO personal and corporate leverage. Cronqvist et al. find that CEOs with lower personal debt preference manage firms with less corporate leverage, and attribute this result to the economic mechanism of an endogenous matching between CEOs and firms. In their words, firms preferring conservative capital structure seek for CEOs with similar debt preference. In addition, they find that this behavioral consistency on debt preference becomes stronger when corporate governance is weak.

Cain and McKeon (2014) use another interesting setting to examine the behavioral consistency between managerial individual and corporate risk-takings. They use CEOs' private pilot license to proxy for personal risk-taking preference, and find that firms with pilot CEOs are associated with higher leverage. They further test the effect of pilot CEOs on firms' total risk, and find that after controlling for leverage and compensation structure, pilot CEOs are still significantly associated with higher stock return volatility, implying that the effect of pilot CEOs on firms' total risk-taking cannot be fully explained by their pay incentives. Cain and McKeon finally find that a significant portion of increased stock return volatility is associated with the acquisition activities managed by these pilot CEOs, suggesting that leverage and

acquisition are two channels that CEOs can affect firms' risk-takings according to their own risk preference.

Chyz (2013) then focuses on the behavioral consistency of tax avoidance. He uses tax-induced stock option backdating and corporate tax sheltering to proxy for personal and corporate aggressiveness in tax avoidance respectively, and examines the relation between individual and firm's practice. Chyz first finds that managers who exhibit aggressiveness in personal tax savings, known as suspect managers, are more like to manipulate corporate taxes in the same way. Then, Chyz examines the timing of corporate tax sheltering, and find that the likelihood of tax sheltering during suspect manager tenure is higher than the likelihood of tax sheltering before or after suspect manager tenure. Finally, Chyz examines the firm value implication of managers' personal tax aggressiveness, and finds that the increase of tax sheltering is incrementally more valuable among firms with suspect managers than the similar increase among firms without such suspect managers.

Different from traditional empirical approach, Graham et al. (2013) conduct an experimental study to investigate the relation between managerial psychological attitudes and corporate financial policies. They design a specific questionnaire and survey CEOs and CFOs in both public and private sectors, including either US domestic or international firms. By doing this, Graham et al. make it possible to measure alternative aspects of psychological traits simultaneously that it is hard to do with archival data. Their results demonstrate that executives' psychological attitudes are significantly associated with some standard corporate policies, such as leverage, debt maturity and acquisitions. In particular, they find that executives who exhibit more risk tolerance tend to initiate more acquisition activities.

Political Conservatism and Managerial Risk-Taking

The idea that managerial political conservatism matters in corporate policies and choices has triggered an emerging focus in accounting and finance, and the recent investigations has covered several aspects of managerial activities, such as corporate policies (Hutton et al., 2014), tax avoidance (Christensen et al., 2014), and analyst forecasts (Jiang, Kumar and Law, 2013).

Specifically, Hutton et al. (2014) examine whether political conservatism affect firms' financing and investment policies, and find that: (1) firms with Republican oriented managers, who are politically conservative, tend to have lower leverage, less capital and R&D expenditure, safer investment, and higher profitability; and (2) firms' leverage declines right after the succession of a more conservative CEO. Hutton et al. further employ the 9/11 attack and the Lehman Brothers bankruptcy as two exogenous shocks to identify the causal effect of political conservatism on investment policies. Their results show that when these shocks dramatically increase the market uncertainty, firms with Republican oriented CEOs cut more investments subsequently.

As noted above, Chyz (2013) investigates whether managers' personal tax aggressiveness is related to more corporate tax sheltering. Christensen et al. (2014) also focus on corporate tax avoidance, but explore the opposite effect by providing evidence that managers' political conservatism is related to less tax avoidance. Christensen et al. also find that: (1) the political orientation of current top managers and that of new top managers are positively related, and (2) the political orientation of outgoing CEO and that of incoming CEO are positively related. Finally, they find that the change of political orientation brought by a CEO turnover will lead to a change on the level of tax avoidance.

Jiang et al. (2013), particularly, study the influence of political orientation from a new perspective other than corporate behaviors. They test the link between political conservatism and analyst forecasts, and find that Republican oriented analysts have a more conservative forecasting style, highlighted by lower likelihood of bold earning forecast revisions, and more modest upgrades and downgrades in stock recommendations. They further find that earnings forecasts by Republican oriented analysts are more accurate since their conservative forecasts dilute the analyst optimism bias, but the market reaction to Republican oriented analysts' revisions is weaker.

2.2 Hypothesis Development

Existing literature on psychology and political science suggests that political conservatism is associated with less risk tolerance (e.g. Wilson, 1973; Jost et al., 2003; Jost et al., 2007; Jost et al., 2008; Kam and Simas, 2010; Briscoe et al., 2014). Meanwhile, behavioral consistency theory tells us that managerial psychological attitudes may affect firm's corporate decision making (e.g. Cronqvist et al., 2012; Chyz, 2013; Cain and McKeon, 2014; Graham et al., 2013). Carney et al. (2008) point out that the differences between conservatism and liberalism may stem from the different psychological roots that work as the main determinants and motivators for economics and financial behaviors. Thus, we can expect that political conservatism is related to more conservative corporate strategies and decisions, which is consistent with the prediction of upper echelons theory.

According to upper echelons theory (Hambrick and Mason, 1984), managers' political ideology, to some extent, may influence their interpretations of firm

situations, and, in turn, affect corporate strategies and outcomes. Hambrick (2007) documents that the United States has a business environment that is in favor of upper echelons theory. With a national culture of individualism, CEOs in the US firms have more discretionary power during their decision-making process. On the other hand, Chin et al. (2013) point out that the business leaders in the US have alternative political orientations, while the majority is conservative oriented. Christensen et al. (2014) confirm this trend by showing a sample of 10,253 top managers from S&P 1500 firms, where 62% are Republican oriented. Therefore, it is important and meaningful to explore the role of managerial political conservatism on firm's risk-taking behaviors in the US setting.

Political Ideology and Accounting Conservatism

Earlier discussions suggest that managers' risk aversion, as a major behavioral trait of their political conservatism, might be associated with less corporate risk-takings. Current studies, however, only test the influence of managerial conservatism on a few aspects of firms' risk-taking practice (e.g. tax avoidance and financing/investment policies), without providing further evidence on other aspects that managers could make decisions with respect to their own risk preference.

Accounting conservatism is a major component of firm's financial reporting mechanism, involving the use of more timely recognition for bad news as losses than for good news as gains (Basu, 1997; Watts, 2003). Managers' estimates and discretions play an important role in applying conservative accounting policy. For example, managers estimate the net realizable value of inventory when applying the "lower of cost or market" rule for recognizing inventory. Empirical evidence accordingly shows that firm's tendency on accounting conservatism can be influenced by some managerial characteristics, such as stock ownership (Lafond and

Roychowdhury, 2008), overconfidence (Ahmed and Duellman, 2013), board membership (Ahmed and Duellman, 2007), and gender diversity (Francis et al., 2015; Ho et al., 2015). If politically conservative managers are less risk-tolerant, then we can expect that these managers may implement more conservative accounting policy to avoid uncertainty associated with timely recognition of good news. This study therefore conjectures that CEOs, whose political ideology is aligned with the Republican Party, tend to adopt less risky accounting policy, and they are more likely to translate their political conservatism attitude into accounting conservatism decisions.

H1: Firms with Republican oriented CEOs are associated with higher degree of accounting conservatism.

Political Ideology and Annual Report Readability

Readability is another critical component in firm's financial reporting mechanism. Higher readability of financial statements is usually characterized by the writing style of shorter sentences and simple words, providing effective communication between authors and readers. Loughran and McDonald (2014) point out that higher readability facilitates the ability of investors and analysts to assimilate valuation-relevant information in financial disclosures. Lower readability, by contrast, is usually associated with the complex, lengthy or verbose expressions in financial statements, indicating that investors and other market participates need more time and efforts to extract and interpret the full information from firms' public disclosures. For instance, Callen et al. (2013) find that firms with less readable annual reports are associated with higher stock price delay. Similarly, Lehavy et al. (2011) find that lower annual report readability leads to financial analysts' underperformance,

evidenced by larger dispersion, lower accuracy, and greater uncertainty in their earnings forecasts.

Financial disclosure readability also gains regulators' attention. A SEC in-house study regarding financial literacy among investors summarizes that "investors prefer that disclosures be written in clear, concise, understandable language, using bullet point, tables, charts, and/or graphs". Thereby, to enhance the information transparency associated with disclosure simplification, SEC makes efforts to promote the use of plain English by continually adopting rules and issuing guidance. For instance, a SEC advisory committee, in its final report on improvements to financial reporting, recommends that both annual report and quarterly report should include an executive summary at the beginning of the statements to summarize the most important information in plain English and provides context for the following disclosures.

The majority contents of financial reports are qualitative information rather than quantitative information, and this nature gives managers much flexibility to manipulate readability. Current studies also suggest that managers have alternative risk incentives to tuning the readability of financial disclosures. For instance, Nelson and Pritchard (2007) indicate that managers may tune up the disclosure readability due to the threat of litigation risk. Specifically speaking, they find that firms facing to greater litigation risk tend to use more cautionary and readable language in voluntary disclosures. In addition, firms use more cautionary language when litigation risk increases, but do not remove such language when the risk decreases. Chakrabarty et al. (2015), on the other hand, suggest that when managers make more risk-taking decisions due to pay incentives, they have to disclose those decisions through periodic reports, and therefore tend to tune down the report readability to cover up the

increased firm risk. The empirical results show that firms with CEOs who have higher options compensation to stock volatility sensitivity are associated with lower annual report readability. Further results indicate that the negative effect of incentive pay on readability might be diluted by the effective governance mechanism, such as the increase of institutional ownership and shareholder rights.

Behavioral consistency theory and upper echelons theory, in different ways, tell us that managers' personal risk attitude has impact on their risk-taking on corporate activities. We also know that Hence, we can expect that managers with risk-averse attitude may use more readable annual reports to mitigate potential risk due to the inefficient communication of value-relevant information within firms' complex disclosures, and the SEC enforcement may strengthen their concerns on annual report readability. This study therefore conjectures that Republican oriented CEOs, who tend to have a conservative political attitude, are more likely to use more readable language in firms' annual reports to effectively deliver the complete information to the markets.

H2: Firms with Republican oriented CEO are associated with higher degree of annual report readability.

3. DATA AND RESEARCH DESIGN

3.1 Data and Sample Selection

Campaign Contribution Data

Current literature on political contribution identifies campaign contribution as a form of political consumption[6], suggesting that donators make such payment to express political preference rather than strengthen political connections (Ansolabehere, de Figueiredo and Snyder, 2003; Groseclose, Milyo and Primo, 2000). Ansolabehere et al., in particular, provide evidence that managers only spend a little money on political contributions. They examine managerial campaign contribution with a sample of 94 top managers, and find that those top managers, on average, only donate $51 for every $100,000 of annual compensation. In addition, the average total annual donation per manager is far below the federal campaign contribution limit. Groseclose et al. point out that corporate spending on campaign contributions is far less than the spending on lobbying activities, and thereby the little money of campaign contributions is not enough for influencing the policy-making process. To measure managerial political ideology, prior studies categorize managers as either Republican oriented or Democratic oriented based on their contribution patterns (e.g. Christensen et al., 2014; Hutton et al., 2014). This study follows prior research and uses the federal-level campaign contributions to proxy for individual political orientations.

In the federal-level election campaigns, individuals can make political contributions to different types of recipients, including election candidates, political parties, or other political interest groups[7]. However, campaign contributions are highly restricted by federal campaign finance laws. To ensure accounting transparency, all the recipients must create political action committees (PAC) and use

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[6] On the other hand, a few studies identify managers' political donations as a form of political investment, and argue that managers strategically decide the recipients of donations according to their expectations on future political benefits. Fremeth, Kelleher Richter and Schaufele (2013), for instance, analyze the campaign contribution patterns along CEOs' career horizon, and suggest the coexistence of political consumption and political investment behaviors.

[7] These political interest groups usually include business corporations, labor unions, trade associations, health organizations and other groups with ideological missions.

their PACs' account to accept funds from contributors. Furthermore, the Federal Election Campaign Act (FECA) was passed in 1971 to strengthen the disclosure of campaign finance. Then, the amendments to the FECA in 1974 lead to the creation of Federal Election Commissions (FEC), a special authority to enforce the federal monitoring system. The amendments also regulate the PAC operation by putting limits on campaign contributions. As Appendix A shows, individual contributions within each election cycle are subject to the upper limits. These upper limits cap not only the donations to a specific recipient, but also the aggregated donations to a certain group of recipients. For instance, in the 2011-2012 election cycle, an individual contributor can give a maximum of $46,200 to different candidates in total, with respect to a maximum of $2,500 to each candidate per election.

According to the amendments to the FECA, all the PACs must disclose their contributions, receipts, and expenditures to the FEC. In particular, the FEC requires the filings of campaign contributions on each transaction over $200, and makes the data available online. The FEC data include individual contributor's biographical information (name/address/occupation), transaction information (date/money amount), and recipient's information, but do not have a unique identifier for each contributor. Hence, some prior studies identify their sample data by searching the FEC database with managers' biographical information (e.g. Hutton et al., 2014; Di Giuli and Kostovetsky, 2014). The contribution data used in this study, on the other hand, come from the Center for Responsive Politics (CRP) database (www.opensecrets.org), and this attempt is due to the recording errors of biographical information on the FEC data[8]. Specifically, I download the list of historical S&P 500

---

[8] The FEC data have two problems: data incompleteness and data errors. For instance, some transaction records miss the contributors' occupation or employer information. Some transaction records misspell the contributors' names. The CRP database contains the FEC data beginning from 1990, and provides

CEOs[9] for the period of 1992–2012 from the *Compustat ExecuComp* database to obtain their biographical information, and follow this list to manually collect the CEO contribution data[10].

Sample Selection

The raw dataset of CEO contributions spans of 12 election cycles from 1990 to 2012, and covers all the campaign contributions from individuals who had ever been the S&P 500 CEOs anytime between 1992 and 2012. In this raw dataset, each observation represents a single transaction. As noted before, CEOs can make campaign contributions to different groups of recipients. Following prior literature (e.g. Hutton et al., 2014; Jiang et al., 2013), I first keep all the transactions paid to the Republican and Democratic recipients (i.e. payment to both individual candidates and party committees) and drop all the other transactions[11] in the raw dataset.

Then, I aggregate the contributions by CEO and election cycle, and get a new dataset consisting of CEO-cycle-specific observations. For each observation, the total amount of aggregated contributions can be decomposed into four components: amount to Republican candidates, amount to Republican committees, amount to Democratic candidates, and amount to Democratic committees. Next, I correct some

---

an advanced search function to track the transaction records. To my knowledge, when the FEC data have recording errors on CEO biographical information, the sample dataset collected from the CRP database through its advanced search function is much more complete and accurate than the sample collected directly from the FEC database.

[9] I only focus on the S&P 500 CEOs since (1) hand collection on the CEO contribution data is very time-consuming, and (2) S&P 600 midcap and S&P 400 Small-Cap CEOs, with lower level of compensation, usually make very small amount of campaign contributions or even no contributions.

[10] I follow the data collection procedure in Fremeth et al. (2013) to improve the data accuracy.

[11] For business executives, a significant percentage of their campaign contributions are paid to their own firms' corporate PACs, but these payments are less likely to truly reflect their political preference. Hutton et al. (2014) suggest that firms' corporate PACs usually make contributions to both parties to hedge risks, while executives make most of their contribution to one party. A news report by *Financial Times* in 2014 point out that executives in hi-tech industry are typically Democratic oriented, while their firms in the latest election cycle are donating more to Republicans or giving equally to the two parties. The CRP data shows that in 2014, 52% of tech PAC contributions are paid to Republican federal candidates, while only 48% of the contributions are paid to Democrats.

abnormal observations in the new dataset. Specifically, if the total amount (or decomposed amount) of aggregated contributions is greater than the FEC regulated upper limit in that cycle, it is set to the upper limit; and if the total or decomposed amount is negative, it is set to zero[12]. I further change this dataset into panel data by giving each CEO an observation for each of the 12 election cycles. For those cycles without any contributions, the total and decomposed amounts are set to zero. Finally, I merge the CEO contribution dataset with the *Compustat ExecuComp* database by executive ID and date to drop the observations for the time period that these individuals are not working as an S&P 500 CEO, and the final sample of CEO contributions for regression analysis includes 11,451 CEO-firm year observations representing 964 historical S&P 500 firms and 2,071 individual CEOs.

3.2 Measurement of Variables

Measurement of political ideology

The empirical analysis uses three different measures of CEO political ideology. Hutton et al. (2014) classify the Republican oriented mangers as those making all the contributions to the Republican Party, without any donations to the Democratic Party. Christensen et al. (2014), however, indicate that mangers' choices on recipients sometimes can be attributed to opportunistic reasons rather than political

---

[12] The appearance of these abnormal amounts may attribute to the asymmetric timelessness between donation and refund. For instance, when an individual's total contributions in an election cycle are more than the FEC restricted amount, the refunds from the recipients might be processed and recorded in the next cycle rather than the current one.

preferences. Hence, this study assumes that the Republican (Democratic) oriented CEOs can also donate to the Democrats (Republicans)[13].

Following the approach of Lee, Lee and Nagarajan (2014), the first measure *R_RATIO* is defined as the net campaign contributions made by a CEO to the Republicans divided by the total campaign contributions to both the Republicans and the Democrats in a specific election cycle, shown as Equation (1).

$$R\_RATIO_i = \frac{(CAN\_R_i + CMT\_R_i) - (CAN\_D_i + CMT\_D_i)}{(CAN\_R_i + CMT\_R_i) + (CAN\_D_i + CMT\_D_i)} \tag{1}$$

where *CAN_R_i* and *CMT_R_i* are the contributions to the Republican candidates and party committees in election cycle *i* respectively; *CAN_D_i* and *CMT_D_i* are the contributions to the Democratic candidates and party committees in election cycle *i* respectively. The value of *R_RATIO* ranges from -1 to +1, with higher value indicating more individual orientation to the Republican Party.

The second and third measures then split the whole payments to a party into the payments to the candidates and the payments to the committees. In particular, the second measure *CAND_R_RATIO* is defined as the net contributions to the Republican candidates divided by the total contributions to the candidates of both parties in a specific election cycle, shown as Equation (2); and the third measure *PARTY_R_RATIO* is the net contributions to the Republican party committees divided by the total contributions to the party committees in both parties in a specific election cycle, shown as Equation (3). The values of these two measures also range from -1 to +1, with higher value indicating more Republican orientation.

---

[13] Di Giuli and Kostovetsky (2014) provide the anecdotal evidence that Wendy's founder Dave Thomas, a well-known Republican supporter, once donated $2,000 to the Democrats. The sample data in this paper also supports this assumption.

$$CAND\_R\_RATIO_i = \frac{CAN\_R_i - CAN\_D_i}{CAN\_R_i + CAN\_D_i} \qquad (2)$$

$$PARTY\_R\_RATIO_i = \frac{CMT\_R_i - CMT\_D_i}{CMT\_R_i + CMT\_D_i} \qquad (3)$$

Measurement of accounting conservatism

I use two measures of conditional conservatism in the empirical tests. The first measure is the Basu (1997) model, which is designed to capture the asymmetric timeliness of earnings in recognizing bad news versus good news, and shown as Equation (4).

$$NI_t = \beta_1 + \beta_2 NEG_t + \beta_3 RET_t + \beta_4 NEG_t * RET_t + \varepsilon \qquad (4)$$

where *NI* is earnings before extraordinary items divided by the market value of equity at the beginning of fiscal year; *RET* is the buy-and-hold return over the fiscal year, calculated using the CRSP monthly return data; *NEG* is a dummy that equals one if *RET* is negative, and zero otherwise. The coefficient β_3 measures the timeliness of good news (positive returns), and the coefficient β_4 measures the incremental timeliness of bad news (negative returns).

The second measure of conditional conservatism *CSCORE* is the firm-specific asymmetric timeliness score developed by Khan and Watts (2009). To obtain the *CSCORE* measure, the coefficients β_3 and β_4 in Equation (4) are then expressed by linear functions of firm–specific characteristics that are correlated with the timeliness of good news (*GSCORE*) and bad news (*CSCORE*), estimated as follows:

$$GSCORE_t = \beta_3 = \mu_1 + \mu_2 MV_t + \mu_3 MTB_t + \mu_4 LEV_t + \varepsilon \qquad (5)$$

$$CSCORE_t = \beta_4 = \lambda_1 + \lambda_2 MV_t + \lambda_3 MTB_t + \lambda_4 LEV_t + \varepsilon \qquad (6)$$

where *MV* is the natural logarithm of the market value of equity; *MTB* is the

market value of equity divided by the book value of equity; *LEV* is the total debt

divided by total assets. Plugging Equation (5) and (6) into Equation (4) yields the

following Equation (7). The estimations from Equation (7), using the five-year rolling

panel regressions, are then applied back to Equation (6) to calculate the firm-specific

conservatism measure *CSCORE*, with higher value of *CSCORE* indicating higher

level of accounting conservatism.

$$
\begin{aligned}
NI_t = \beta_1 &+ \beta_2 NEG_t + RET_t(\mu_1 + \mu_2 MV_t + \mu_3 MTB_t + \mu_4 LEV_t) \\
&+ NEG_t * RET_t(\lambda_1 + \lambda_2 MV_t + \lambda_3 MTB_t + \lambda_4 LEV_t) + (\delta_1 MV_t + \delta_2 MTB_t \\
&+ \delta_3 LEV_t + \delta_4 NEG_t * MV_t + \delta_5 NEG_t * MTB_t + \delta_6 NEG_t * LEV_t) + \varepsilon
\end{aligned} \qquad (7)
$$

Measurement of annual report readability

I use three measures[14] of annual report readability in the empirical tests.

Loughran and McDonald (2014) find that the 10-K document file size, due to its

easiness to calculate without parsing of 10-K filings, outperforms the other alternative

readability measures in terms of effective communication of value-relevant

information[15]. Following their suggestion, the first measure of readability *FILE_SIZE*

is defined as the natural logarithm of the file size in megabytes of SEC EDGAR

"complete submission text file" for the 10-K filing. Higher value of *FILE_SIZE*

indicates more document complexity and lower readability.

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[14] Bill McDonald and Feng Li provide their data of readability measures publicly available online, respectively.

[15] Loughran and McDonald argue that when readability is defined as the capability of effective communication of value-relevant information, file size is a better proxy for readability in financial disclosures than a group of alternative readability proxies, including Fog index, average words per sentence, percent complex words, common words, financial terminology, vocabulary, and log (# of words). The appendix in Loughran and McDonald (2014) provides detailed definitions of these alternative proxies.

Although Loughran and McDonald point out the potential weakness of Gunning-Fog index being a proxy for the readability of financial disclosures[16], it is still the most commonly applied measure in current accounting and finance literature (e.g. Li, 2008; Lehavy et al., 2011; Lawrence, 2013). Thereby, the second measure of readability *FOG* is Fog index, shown as the following Equation (8).

$$FOG\ index = 0.4 * (average\ number\ of\ words\ per\ sentence$$
$$+percenet\ of\ complex\ words) \tag{8}$$

where *average number of words per sentence* is to measure the sentence length, defined as the number of words in the 10-K divided by the total number of sentence termination characters after removing those associated with headings and abbreviations; and *percent of complex words* is to measure the word complexity, defined as the percentage of 10-K words with more than two syllables. Higher value of *FOG* indicates lower document readability.

The third measure of readability *LNWORD* is another simple and popular proxy used by recent literature (e.g. Li, 2008; You and Zhang, 2009; Loughran and McDonald, 2014). *LNWORD* is to measure the document length, defined as the natural logarithm of the number of words in the 10-K filing. Li (2008) argue that longer documents are associated with more information-processing cost, and therefore higher value of *LNWORD* means less readable text.

Other variables

---

[16] Loughran and McDonald argue that Fog index is a poorly specified proxy for readability measure on financial disclosures. They point out that the first component of Fog index is to measure sentence length, and this component is often inaccurately measured in financial filings. In addition, the second component of Fog index is to measure word complexity through counting the number of multisyllabic words, while most of these words in 10-K filings are the common business words easy to understand, such as *company*, *operation* and *management*, etc.

Following prior studies on accounting conservatism, I control for several firm-level characteristics since these characteristics potentially explain some firm-level variations on accounting conservatism. Specifically, I control for firm CEO ownership, market-to-book ratio, leverage, firm size and litigation risk in the regression analysis. CEO ownership (*OWN*) is included in the analysis due to its negative influence on accounting conservatism (LaFond and Roychowdhury, 2008). Market-to-book ratio (*MTB*) is included in the analysis since Roychowdhury and Watts (2007) find that the composition of equity value is partially determined by the past asymmetric timeliness of earnings, and will affect the future asymmetric timeliness of earnings. Existing evidence suggests that debt holders demand for accounting conservatism due to the interest conflicts between debt holders and shareholders (e.g. Ahmed, Billings, Morton and Stanford, 2002; Ball, Robin and Sadka, 2006), and I therefore control for leverage (*LEV*) in the analysis. Firm size (*SIZE*) is also included due to its negative association with asymmetric timeliness of earnings (Givoly, Hyan and Natarajan, 2007). Since firms with higher litigation risk are more likely to recognize bad news in a timely manner (Watts, 2003), I also control for litigation risk (*LIT*) in the analysis. Following Francis, Philbrick and Schipper (1994), *LIT* is an indicator variable that identifies firms in high litigation risk industries, with SIC codes falling in 2833-2836, 3570-3577, 3600-3674, 5200-5961, and 7370-7374. According to Ahmed and Duellman (2013), I also control for sales growth, level of research and development, cash flow from operations, and operating uncertainty. Ahmed and Duellman point out that sale growth (*SALE_GR*) may lead to the change of accruals in certain accounts like inventory and accounts receivable, and further influence the measure of conservatism; level of research and development (*RDAD*) may affect the measure of conservatism utilizing accruals; operating uncertainty (*STDREV*), indexed by standard

deviation of revenue, may strengthen the debt holder-shareholder conflict of interest on dividend payout, leading to more accounting conservatism; cash flow from operations (*CFO*) is controlled for firm profitability.

Following Li (2008), I control for several firm-level characteristics that potentially affect annual reporting readability. Specifically, I control for firm size, market-to-book, firm age, special items, volatility of business, complexity of operations, and incorporation state in the regression analysis. Firm size (*SIZE*) is controlled for a firm's business environment. Market-to-book (*MTB*) is controlled for a firm's investment growth opportunities. Firm age (*AGE*) is controlled for information asymmetry and information uncertainty. Special items (*SPI*) are controlled for a firm's unusual events. Volatility of business is controlled for the nature of complex communication to investors, and measured by firm-specific stock return volatility (*STDRET*) and earnings volatility (*STDEARN*) respectively. Similarly, complexity of operations is controlled and measured by the number of business segments (*BUSSEG*) and the number of geographic segments (*GEOSEG*) respectively. Finally, incorporation state (*DLW*) is controlled as firms headquartered in the state of Delaware are more likely to be the acquisition targets due to different corporate laws and investor protections, and may have annual reports with different level of readability. In summary, larger firms, growth firms, younger firms, firms with more negative special items, firms with more volatile business, firms with more business and geographic segments, and firms headquartered in Delaware are expected to have less readable annual reports (i.e. more complexity of annual reports). Detailed definitions of all main variables are shown in Appendix B.

4. EMPIRICAL RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Table 1 reports the descriptive statistics of main variables in the regression analysis. I first present the variables to measure political ideology (*R_RATIO*, *CAND_R_RATIO*, *PARTY_R_RATIO*), followed by the variables to measure accounting conservatism (*CSCORE*), annual report readability (*FILE_SIZE*, *FOG*, *LNWORD*), and stock price crash risk (*FCRASH*, *NCSKEW*), and ended with other control variables. The main ideology measure *R_RATIO* has a mean (median) value of 0.352 (0.744), indicating that on average, S&P 500 CEOs tend to make more contributions to the Republicans. The mean (median) values of the two alternative ideology measures *CAND_R_RATIO* and *PARTY_R_RATIO* are 0.306 (0.573) and 0.506 (1.000) respectively, indicating that S&P 500 CEOs on average are more Republican oriented when they decide to make contributions to the party committees. These results are consistent with the conclusion in prior studies that the majority business leaders in the US are conservative oriented (Chin et al., 2013; Christensen et al., 2014). For readability measures, the first variable *FILE_SIZE* has a mean (median) value of 3.392 (1.098) with a standard deviation of 7.298, suggesting large variation and high skewness on annual report file size. The values of the other two readability variables *FOG* and *LNWORD* are similar to those reported in Li (2008), and exhibit much less variation and skewness.

<Insert Table 1 here>

Table 2 presents the Pearson and Spearman correlations among political ideology measure (*R_RATIO*), accounting conservatism measure (*CSCORE*), readability measures (*FILE_SIZE*, *FOG*, *LNWORD*), and several other measures. Specifically, consistent with the previous predictions, *R_RATIO* and *CSCORE* is positively correlated, with the Pearson (Spearman) correlation coefficient of 0.037

(0.067). Furthermore, *R_RATIO* is negatively associated with *FILE_SIZE*, *FOG*, and *LNWORD*, with the Pearson (Spearman) correlation coefficients of -0.026 (-0.097), -0.053 (-0.088), and -0.087 (-0.129), respectively. These univariate correlations provide preliminary evidence that firms with Republican oriented CEOs are associated with more conservative accounting policy and higher annual report readability.

<Insert Table 2 here>

4.2 Main Results

4.2.1 Accounting Conservatism

To test the association between CEO political ideology and accounting conservatism, I follow the approach of Ahmed and Duellman (2013), and first use the Basu model to measure conditional conservatism. Specifically, I estimate Equation (9) as follows:

$$
\begin{aligned}
NI_t = \ &\beta_0 + \beta_1 NEG_t + \beta_2 ID_{t-1} + \beta_3 OWN_{t-1} + \beta_4 MTB_{t-1} + \beta_5 LEV_{t-1} \\
&+ \beta_6 SIZE_{t-1} + \beta_7 LIT_{t-1} + \beta_8 NEG_t * ID_{t-1} + \beta_9 NEG_t * OWN_{t-1} \\
&+ \beta_{10} NEG_t * MTB_{t-1} + \beta_{11} NEG_t * LEV_{t-1} + \beta_{12} NEG_t * SIZE_{t-1} \\
&+ \beta_{13} NEG_t * LIT_{t-1} + \beta_{14} RET_t + \beta_{15} RET_t * ID_{t-1} + \beta_{16} RET_t * OWN_{t-1} \\
&+ \beta_{17} RET_t * MTB_{t-1} + \beta_{18} RET_t * LEV_{t-1} + \beta_{19} RET_t * SIZE_{t-1} \\
&+ \beta_{20} RET_t * LIT_{t-1} + \beta_{21} NEG_t * RET_t + \beta_{22} NEG_t * RET_t * ID_{t-1} \\
&+ \beta_{23} NEG_t * RET_t * OWN_{t-1} + \beta_{24} NEG_t * RET_t * MTB_{t-1} \\
&+ \beta_{25} NEG_t * RET_t * LEV_{t-1} + \beta_{26} NEG_t * RET_t * SIZE_{t-1} \\
&+ \beta_{27} NEG_t * RET_t * LIT_{t-1} + \varepsilon
\end{aligned}
\tag{9}
$$

where *ID* is the CEO political ideology, measured by *R_RATIO*, *CAND_R_RATIO*, and *PARTY_R_RATIO*, respectively. In an election cycle,

R_RATIO is the ratio of the net contributions to the Republican Party to the total contributions to both parties. *CAND_R_RATIO* is the ratio of the net contributions to the Republican candidates to the total contributions to the candidates of both parties. *PARTY_R_RATIO* is the ratio of the net contributions to the Republican committees to the total contributions to the committees of both parties. All other variables are previously defined in Section 3.2, and all detailed definitions are listed in Appendix B.

Table 3 reports the regression results of Equation (9). Specifically, when CEO political ideology *ID* is measured by *R_RATIO* and *CAND_R_RATIO*, the coefficients estimated of *NEG*RET*ID* are 0.021 (t = 2.15) and 0.021 (t = 2.07) respectively, both significantly positive. When ideology is measured by *PARTY_R_RATIO*, the coefficient estimated of *NEG*RET*ID* is 0.006 (t = 0.45), although insignificant but still positive[17]. These results are consistent with the former prediction, indicating that Republican oriented CEOs, who are politically conservative, tend to adopt conservative accounting policy. Furthermore, the coefficients estimated of *NEG*RET*OWN* are uniformly negative throughout all the three measures of political ideology, which are consistent with the findings of Lafond and Roychowdhury (2008) that managerial ownership diminishes the demand of accounting conservatism.

<Insert Table 3 here>

Next, I use the firm-specific score of asymmetric timeliness of earnings *CSCORE* to measure conditional conservatism, and estimate Equation (10) as follows:

$$
\begin{aligned}
CSCORE_t = \beta_0 + \beta_1 ID_{t-1} + \beta_2 OWN_t + \beta_3 MTB_t + \beta_4 LEV_t \\
+ \beta_5 SIZE_t + \beta_6 LIT_t + \beta_7 SALE\_GR_t + \beta_8 RDAD_t + \beta_9 CFO_t \\
+ \beta_{10} STDREV_t + \varepsilon \qquad\qquad (10)
\end{aligned}
$$

---

[17] This insignificant result might be attributed to the loss of test power when the number of observations shrinks from 7,996 to 3,641, since many CEOs is the sample do not make contributions to the party committees.

where *CSCORE* is calculated by Equation (4) − (7), and *ID* is proxied by *R_RATIO*, *CAND_R_RATIO*, and *PARTY_R_RATIO*, respectively. All other variables are as previously defined, and details are listed in Appendix B.

<Insert Table 4 here>

Table 4 reports the regression results of Equation (10). Specifically, when CEO political ideology is measured by *R_RATIO*, *CAND_R_RATIO* and *PARTY_R_RATIO*, their coefficients estimated in Model (1), (2) and (3) are 0.013 (t = 3.99), 0.010 (t = 3.16) and 0.019 (t = 4.22) respectively, all significantly positive. These results are also consistent with the previous conjecture that politically conservative CEOs, due to their personal trait of risk aversion, are more likely to be associated with accounting conservatism. Overall, when Basu model and CSCORE are respectively used to proxy for conditional conservatism, the consistent results in Table 3 and Table 4 suggest that when politically conservative CEOs are less risk tolerant, their risk attitude may affect their tendency on corporate risk-taking, demonstrated by more accounting conservatism.

4.2.2 Annual Report Readability

To test the association between CEO political ideology and annual report readability, I first use the 10-K document file size (*FILE_SIZE*), as suggested by Loughran and McDonald (2014), to proxy for annual report readability. In particular, I follow the approach of Li (2008) and estimate Equation (11) as follows:

$$
\begin{aligned}
READ_t = {} & \beta_0 + \beta_1 ID_{t-1} + \beta_2 SIZE_t + \beta_3 MTB_t + \beta_4 AGE_t + \beta_5 SPI_t \\
& + \beta_6 STDEARN_t + \beta_7 STDRET_t + \beta_8 BUSSEG_t + \beta_9 GEOSEG_t \\
& + \beta_{10} DLW_t + \varepsilon
\end{aligned}
\tag{11}
$$

where *READ* is annual report readability, defined as the natural logarithm of file size in megabytes of SEC EDGAR "complete submission text file" for the 10-K filing. *ID* is the CEO political ideology, proxied by *R_RATIO*, *CAND_R_RATIO*, and *PARTY_R_RATIO*, respectively. These three proxies of CEO political ideology, along with all other variables, are previously defined in Section 3.2.

Table 5 reports the regression results of Equation (11). The results show that when CEO political ideology is measured by *R_RATIO*, *CAND_R_RATIO* and *PARTY_R_RATIO* respectively, the corresponding coefficients estimated in Model (1), (2) and (3) are -0.286 (t = -2.78), -0.010 (t = -2.57) and -0.328 (t = -2.10), which are uniformly negative and strongly significant. Since Loughran and McDonald (2014) point out that large 10-K file size is associated with longer and more complex annual reports, the results in Table 5 indicate that firms with Republican oriented CEOs tend to issue more readable annual reports, mitigating the potential firm risks associated with lower readability. These results are also consistent with the conclusion of previous studies that according to the behavioral consistency theory, managers with conservative risk attitude prefer less corporate risk-takings (Cronqvist et al., 2012; Cain and McKeon, 2014; Chyz, 2013).

<Insert Table 5 here>

Then, I use two alternative measures of annual report readability, Fog index (*FOG*) and 10-K word count (*LNWORD*) respectively, to substitute for the dependent variable *FILE_SIZE*, and re-estimate Equation (11). FOG and LNWORD are also defined previously in Section 3.2, and the regression results are shown in Table 6.

<Insert Table 6 here>

In Table 6, when annual report readability is measured by Fog index (*FOG*), the coefficients estimated of *R_RAITO* and *CAND_R_RATIO* in Model (1) and (2) are -0.066 (t = -1.73) and -0.082 (t = -2.09) respectively, both significantly negative, while the coefficient estimated of *PARTY_R_RATIO* is -0.068 (t = -1.33), insignificant but still negative. Similarly, when readability is measured by document length (*LNWORD*), the coefficients on *R_RAITO* and *CAND_R_RATIO* are significantly negative with the values of -0.048 (t = -3.20) and -0.060 (t = -3.98) respectively, while the coefficient on *PARTY_R_RATIO* is insignificantly positive with the value of 0.026 (t = 1.11). Taken together, the results in Table 6, consistent with the results in Table 5, and provide evidence that CEO political conservatism is associated with higher annual report readability.

4.3 Further Analysis

4.3.1 Alternative Measures of Political Ideology

The measures of CEO political ideology previously defined in Section 3.2 are based on the specific amount of CEO campaign contributions per election cycle. These measures consider the heterogeneity of CEO political orientation across election cycles, and avoid the look-ahead bias (Hutton et al., 2014; Di Giuli and Kostovetsky, 2014). Some prior studies, on the other hand, conclude that political identification is relatively stable over the entire life course (Burris, 2001; Jost, 2006). Accordingly, I apply three alternative measures of political ideology to reduce the potential bias. The new measures are based on the cumulative amount of CEO campaign contributions across election cycles, and give each CEO a fixed value of political ideology during the whole sample period.

Specifically, the first measure *R_DUM* is defined as a dummy that equals one if the net amount of cumulative campaign contributions made by a CEO to the Republicans across election cycles is positive, and zero otherwise. The second measure *R_PER* is defined as the net amount of cumulative campaign contributions made by a CEO to the Republicans across election cycles, divided by the total amount of cumulative campaign contributions to both the Republicans and the Democrats across cycles. The value of *R_PER* ranges from -1 to +1, with higher value indicating more individual orientation to the Republican Party. The third measure *R_AVE* is defined as the mean of all the election-cycle-specific *R_PER*s. For each election cycle that a CEO makes campaign contributions, the election-cycle-specific *R_PER* is the net amount of cumulative contributions to the Republicans up to that cycle, divided by the total amount of cumulative contributions to both the Republicans and the Democrats up to that cycle. The calculation of *R_AVE* considers the time-series heterogeneity of CEO political orientation, and reduces the risk that the measure is biased by CEO opportunistic donations in any particular cycle.

Using the above new proxies, I reexamine the effect of CEO political ideology on accounting conservatism, annual report readability and stock price crash risk, respectively. The empirical results are reported in Table 7.

<Insert Table 7 here>

Table 7 Panel A and Panel B present the regression results on the relation between political ideology and accounting conservatism. In Panel A, when accounting conservatism is measured by Basu model, the coefficients estimated of *NEG*RET*ID* are consistently significant and positive across all the three alternative measures of political ideology (*ID*), namely *R_DUM*, *R_PER* and *R_AVE*. However, in Panel B, when conservatism is measured by *CSCORE*, only the coefficient of *R_PER* is

marginally significant at 10% level, while the coefficients of *R_DUM* and *R_AVE* are both insignificant. Table 7 Panel C and Panel D, furthermore, present the regression results on the relation between political ideology and annual report readability. In Panel C, when readability is measured by 10-K file size, the negative coefficients of *R_DUM*, *R_PER* and *R_AVE* are all strongly significant at 1% level. In Panel D, when readability is alternatively measured by Fog index and document length, the negative coefficients on *R_DUM*, *R_PER* and *R_AVE* from Model (1) to (6) are also uniformly significant at 1% level, except for the coefficient on *R_DUM* in Model (4). To sum up, although Table 6 contains some weak results, the major results in this table are similar to the previous corresponding results from Table 3 to Table 6, and provide evidence that CEO political conservatism is associated with more accounting conservatism and higher annual report readability.

4.3.2 Sensitivity Tests

CEO Overconfidence

Ahmed and Duellman (2013) find a negative relation between CEO overconfidence and accounting conservatism. They argue that overconfident managers tend to overestimate the future returns of firms' investment, and thereby, these managers may adopt less conservative accounting policy that delays the loss recognition. Since overconfidence is an important proxy for CEO characteristics, I rerun the former regressions by controlling for overconfidence to test the incremental effect of political ideology.

Following Ahmed and Duellman, I use two investment-based measures of managerial overconfidence. The first measure *OVER_CAPX* is defined as a dummy

that equals one if firm's capital expenditure scaled by lagged total assets in a given year is greater than the median value of capital expenditure to lagged total assets within firm's Fama–French industry in that year, and zero otherwise. The second measure *OVER_INVEST* is also a dummy that equals one if the residual of a regression of total assets growth on sales growth run by industry-year is greater than zero, and zero otherwise. The residual from the above regression is the amount of overinvestment in assets, and a positive residual indicates that a firm's assets are growing faster than sales compared with its industry peers.

<Insert Table 8 here>

Table 8 reports the regression results of Equation (9), (10) and (11) after adding the measures of overconfidence as a new control variable. Panel A presents the results when accounting conservatism is measured by Basu model. Specifically, the coefficients of *RET*NEG*ID* are significantly positive across all different measures of political ideology (*ID*) and overconfidence (*OVER*). Meanwhile, the coefficients of *RET*NEG*OVER* are significantly negative across all different measures of *ID* and *OVER*, consistent with the findings of Ahmed and Duellman (2013). Panel B presents the results when accounting conservatism is measured by *CSCORE*. In this panel, the positive coefficients of *R_RATIO*, *CAND_R_RATIO* and *PARTY_R_RATIO* are strongly significant for both measures of overconfidence *OVER_CAPX* and *OVER_INVEST*. And, the negative coefficients of *OVER* are similar to the previous findings in Ahmed and Duellman (2013). Panel C finally presents the results when annual report readability is measured by *FILE_SIZE*. As expected, the coefficients of *R_RATIO*, *CAND_R_RATIO* and *PARTY_R_RATIO* keep significantly negative between both measures of overconfidence. Table 8 thereby provides evidence that the

previous findings on accounting conservatism and annual report readability still hold even after considering CEO overconfidence.

CEO Power

Hill and Phan (1991) argue that CEOs with longer tenure are more likely to have power to pursue their own interests at cost of shareholders. In accounting, Ali and Zhang (2103) document that CEOs change the discretion of earnings management along their tenures. Chen and Zheng (2012), on the other hand, point out that the association between tenure and risk-taking may be attributed to diminishing career concerns rather than incremental CEO power. Since CEO tenure is an important characteristics that may affect managers' risk-taking behaviors, I rerun the former regressions by controlling for this variable to test the incremental effect of political ideology. The measure *TENURE* is defined as the number of years that a person has been working as the CEO of a firm.

<Insert Table 9 here>

Table 9 reports the regression results of Equation (9), (10) and (11) after adding tenure as a new control variable. Panel A presents the results when accounting conservatism is measured by Basu model. Specifically, the coefficients of *RET*NEG*ID* are significantly positive when ideology (*ID*) is measured by *R_RATIO* and *CAND_R_RATIO* in Model (1) and (2) respectively. Meanwhile, the coefficients of *RET*NEG*TENURE* are significantly negative across all different measures of *ID*. Panel B presents the results when accounting conservatism is measured by *CSCORE*. In this panel, the coefficients of *R_RATIO*, *CAND_R_RATIO* and *PARTY_R_RATIO* are uniformly positive, while the coefficients of *TENURE* are all negative. The coefficients of *TENURE* in Panel A and B suggest that longer CEO tenure may

diminish accounting conservatism. Panel C presents the results when annual report readability is measured by *FILE_SIZE*. As expected, the coefficients of *R_RATIO*, *CAND_R_RATIO* and *PARTY_R_RATIO* keep significantly negative. Table 9 thereby provides evidence that the main findings on accounting conservatism and annual report readability still hold even after considering CEO power.

State Effect

Erikson et al. (1987) point out that geographic location (i.e. state of residence) might be a critical predictor of ideological identification, and the state-to-state heterogeneity on political culture is significantly large. They find that in their sample, about 50% of the variations on the presidential election voting can be attributed to state effect. Since geographic location is likely to affect the validity of previous findings, I control for state effect to mitigate the potential bias.

<Insert Table 10 here>

Table 10 reports the regression results of Equation (9), (10) and (11) after controlling for state effect. Panel A presents the results when accounting conservatism is measured by Basu model. The coefficients of *RET*NEG*ID* are significantly positive when *ID* is measured by *R_RATIO* and *CAND_R_RATIO* in Model (1) and (2) respectively. Panel B presents the results when accounting conservatism is measured by *CSCORE*. The coefficients of *R_RATIO*, *CAND_R_RATIO* and *PARTY_R_RATIO* are all significantly positive. Panel C presents the results when annual report readability is measured by *FILE_SIZE*. The coefficients of *R_RATIO* and *CAND_R_RATIO* keep strongly negative. The results here in Table 10 demonstrate that the early findings on accounting conservatism and annual report readability are still held after considering state effect.

5. CONCLUSION

It is well known that the United States has a nationwide culture of individualism. In the business sector, managers in the US firms are usually identified as a group of business leaders that are much more powerful and influential than their colleagues in other nations. Upper echelons theory and behavior consistency theory, meanwhile, both assert that managers' psychological attributes may have impacts on corporate choices and outcomes. Hence, scholars and practitioners are interested in understanding the association between managers' psychological preference and corporate decision-making process. Previous studies use managers' demographic information to capture their personal attitude, making the measurement very noisy. By contrast, political ideology, a core component in personal value system, can be observable ex ante with public data, making it a better proxy for examining individual psychological traits.

This study investigates whether CEO political ideology, measured by their federal-level campaign donations, is associated with two specific aspects of firms' financial reporting practice: accounting conservatism and annual report readability. In particular, I find that Republican oriented CEOs, who tend to have conservative ideology, are associated with more accounting conservatism and higher annual report readability than Democratic oriented CEOs. These results are consistent with the prediction of upper echelons theory that managers' individual values have influence on corporate strategies and outcomes. To check the validity of the main findings, I also take two additional robustness tests. First, I retake the empirical tests by using three new measures of CEO political ideology. Second, I retake the empirical tests by

controlling for CEO overconfidence, CEO power, and state effect, respectively. As expected, the new results in the robustness tests show that the previous findings on accounting conservatism and annual report readability are still held. Taken together, the empirical findings here suggest that managers with strong political preference have discretion to translate personal attitude into firm's accounting decisions.

As noted in Chin et al. (2013), no existing evidence suggests that personal values are one of assessment criteria in the CEO hiring process by most firms. The findings in this study however tells us that managerial psychological traits do have impacts on corporate risk-taking behaviors. In addition, regular governance mechanism has little way to influence managerial personal values since personal values are relatively stable and consistent throughout the entire individual life. Therefore, understanding the relation between mangers' psychological traits and corporate decision-making process is still an important and fruitful area for future studies.

Tables

Table 1. Descriptive Statistics

Variable	Mean	Std Dev	Q1	Median	Q3
Ideology Measures					
R_RATIO	0.352	0.766	-0.273	0.744	1.000
CAND_R_RATIO	0.306	0.760	-0.333	0.573	1.000
PARTY_R_RATIO	0.506	0.828	0.143	1.000	1.000
Conservatism Measures					
CSCORE	0.005	0.197	-0.092	0.016	0.056
Readability Measures					
FILE_SIZE	3.392	7.298	0.403	1.098	2.644
FOG	19.545	2.110	18.527	19.414	20.475
LNWORD	10.368	0.819	9.972	10.416	10.857
Other Variables					
OWN	0.013	0.044	0.000	0.000	0.003
MTB	3.531	3.717	1.687	2.599	4.165
LEV	0.243	0.172	0.119	0.229	0.343
SIZE	8.809	1.532	7.765	8.713	9.792
LIT	0.183	0.386	0.000	0.000	0.000
SALE_GR	0.118	0.236	0.006	0.079	0.178
RDAD	0.051	0.071	0.000	0.022	0.067
CFO	0.113	0.083	0.063	0.105	0.155
STDREV	0.228	0.209	0.096	0.167	0.291
AGE	3.309	0.676	2.833	3.526	3.850
SPI	-0.034	0.124	-0.027	-0.001	0.000
STDEARN	0.036	0.047	0.010	0.020	0.040
STDRET	0.095	0.053	0.058	0.081	0.115
BUSSEG	1.475	0.948	0.693	1.386	2.303
GEOSEG	1.633	0.810	1.099	1.386	2.197
DLW	0.003	0.051	0.000	0.000	0.000

This table presents descriptive statistics for key variables over the sample period of 1992-2012. *R_RATIO* is the net amount of contributions by a CEO to the Republican Party, scaled by the total amount of contributions to both parties in an election cycle. *CAND_R_RATIO* is the net amount of contributions to the Republican candidates, scaled by the total amount of contributions to candidates of both parties in an election cycle. *PARTY_R_RATIO* is the net amount of contributions to the Republican committees, scaled by the total amount of contributions to party committees of both parties in an election cycle. *CSCORE* is the firm-specific asymmetric timeliness score. *FILE_SIZE* equals to the natural log of file size in megabytes for 10-K filing. *FOG* is the Fog index that equals to 0.4 times the sum of the average number of words per sentence and the percentage of complex words in 10-K filing. *LNWORD* equals to the natural log of the number of words in 10-K filing. *OWN* is the percentage of firm's outstanding shares held by CEO. *MTB* is the ratio of market value of equity to book value of equity. *LEV* is the ratio of total long-term debts to total assets. *SIZE* is the natural log of total assets. *LIT* is an indicator variable that equals one if a firm is in a litigious industry, and zero otherwise. *SALE_GR* is the percentage of annual growth in total sales. *RDAD* is total research and development expense plus advertising expense, weighted by total sales. *CFO* is cash flows from operations divided by total assets. *STDREV* is the standard deviation of the natural log of revenues in the last five fiscal years. *AGE* is the number of years since a firm appears in CRSP monthly stock return files. *SPI* is special items weighted by total assets. *STDEARN* is the standard deviation of

operating earnings in the last five fiscal years. *STDRET* is the standard deviation of the monthly stock returns in the last year. *BUSSEG* is the log of one plus the number of business segments. *GEOSEG* is the log of one plus the number of geographic segments. *DLW* equals one if a firm's headquarter is located in Delaware, and zero otherwise. See Appendix B for more details of variable definition.

Table 2. Pearson and Spearman Correlations

Variable	R_RATIO	CSCORE	FILE_SIZE	FOG	LNWORD	OWN	MTB	LEV	SIZE	LIT
R_RATIO	-	**0.067**	**-0.097**	**-0.088**	**-0.129**	**-0.066**	0.021	0.009	**-0.106**	0.005
CSCORE	**0.037**	-	**0.031**	0.004	0.014	**0.084**	**-0.381**	**0.197**	**-0.249**	**-0.120**
FILE_SIZE	**-0.026**	**-0.023**	-	**0.322**	**0.439**	**0.102**	**-0.147**	**0.100**	**0.394**	-0.009
FOG	**-0.053**	**0.021**	0.003	-	**0.415**	0.006	**-0.090**	**0.032**	**0.163**	-0.005
LNWORD	**-0.087**	**0.024**	**0.047**	**0.353**	-	**-0.067**	**-0.168**	**0.173**	**0.312**	0.006
OWN	**-0.052**	-0.012	**-0.045**	**-0.028**	**-0.089**	-	**0.057**	**-0.090**	**-0.210**	0.005
MTB	0.013	**-0.218**	**-0.057**	**-0.044**	**-0.086**	**0.071**	-	**-0.169**	**-0.200**	**0.151**
LEV	-0.017	**0.192**	**0.075**	**0.031**	**0.160**	**-0.089**	**-0.101**	-	**0.204**	**-0.170**
SIZE	**-0.077**	**-0.110**	**0.234**	**0.112**	**0.261**	**-0.116**	**-0.161**	**0.210**	-	**-0.083**
LIT	0.008	**-0.095**	-0.004	-0.001	0.000	**-0.044**	**0.136**	**-0.158**	**-0.082**	-

This table presents Pearson (lower diagonal) and Spearman (upper diagonal) correlations. The bold numbers are statistically significant at 1% or 5% levels. *R_RATIO* is the net amount of contributions by a CEO to the Republican Party, scaled by the total amount of contributions to both parties in an election cycle. *CSCORE* is the firm-specific asymmetric timeliness score. *FILE_SIZE* equals to the natural log of file size in megabytes for 10-K filing. *FOG* is the Fog index that equals to 0.4 times the sum of the average number of words per sentence and the percentage of complex words in 10-K filing. *LNWORD* equals to the natural log of the number of words in 10-K filing. *OWN* is the percentage of firm's outstanding shares held by CEO. *MTB* is the ratio of market value of equity to book value of equity. *LEV* is the ratio of total long-term debts to total assets. *SIZE* is the natural log of total assets. *LIT* is an indicator variable that equals one if a firm is in a litigious industry, and zero otherwise. See Appendix B for more details of variable definition.

Table 3. Political Ideology and Accounting Conservatism – Basu Model

Variable	(1) ID=R_RATIO	(2) ID=CAND_R	(3) ID=PARTY_R
NEG	-0.022	-0.021	0.000
	(-1.32)	(-1.26)	(0.01)
ID	0.001	0.001	0.001
	(0.40)	(0.45)	(0.54)
OWN	-0.018	-0.020	0.007
	(-0.66)	(-0.75)	(0.15)
MTB	-0.001***	-0.001***	-0.001**
	(-2.76)	(-2.67)	(-1.98)
LEV	-0.026***	-0.026***	0.004
	(-3.35)	(-3.37)	(0.28)
SIZE	0.002**	0.002**	0.002
	(2.36)	(2.41)	(1.11)
LIT	-0.003	-0.004	0.005
	(-0.88)	(-1.03)	(0.95)
NEG×ID	0.002	0.002	-0.002
	(0.68)	(0.67)	(-0.45)
NEG×OWN	-0.110*	-0.111*	0.016
	(-1.93)	(-1.93)	(0.19)
NEG×MTB	-0.001	-0.001	-0.002**
	(-1.02)	(-1.09)	(-2.06)
NEG×LEV	-0.004	-0.006	-0.012
	(-0.24)	(-0.37)	(-0.50)
NEG×SIZE	0.004**	0.004**	0.003
	(2.14)	(2.12)	(0.99)
NEG×LIT	-0.014**	-0.016**	-0.015
	(-1.96)	(-2.24)	(-1.44)
RET	-0.032**	-0.031**	-0.041**
	(-2.25)	(-2.16)	(-2.01)
RET×ID	-0.003	-0.004*	-0.003
	(-1.33)	(-1.65)	(-1.02)
RET×OWN	-0.016	-0.015	-0.062
	(-0.53)	(-0.49)	(-0.82)
RET×MTB	-0.000	-0.000	0.000
	(-0.27)	(-0.40)	(0.39)
RET×LEV	-0.005	-0.006	-0.043**
	(-0.67)	(-0.79)	(-2.07)
RET×SIZE	0.005***	0.005***	0.008***
	(3.41)	(3.31)	(3.18)
RET×LIT	-0.010**	-0.009**	-0.022***
	(-2.20)	(-2.07)	(-3.08)
RET×NEG	0.165***	0.171***	0.082

	(3.48)	(3.56)	(1.16)
RET×NEG×ID	**0.021****	**0.021****	**0.006**
	(2.15)	(2.07)	(0.45)
RET×NEG×OWN	-0.364**	-0.369**	0.071
	(-2.36)	(-2.39)	(0.30)
RET×NEG×MTB	-0.019***	-0.019***	-0.025***
	(-7.39)	(-7.37)	(-6.83)
RET×NEG×LEV	0.160***	0.150***	0.101*
	(4.28)	(3.99)	(1.70)
RET×NEG×SIZE	0.001	0.001	0.012*
	(0.30)	(0.27)	(1.66)
RET×NEG×LIT	0.009	-0.005	0.053*
	(0.43)	(-0.23)	(1.75)
CONSTANT	0.011	0.011	0.024
	(0.48)	(0.46)	(0.65)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	7,996	7,771	3,641
R-squared	0.184	0.183	0.185

This table presents the regression results of accounting conservatism on political ideology. Two-tailed t-statistics are presented in the parentheses. *, **, and *** indicates significance at 10%, 5% and 1% level, respectively. Dependent variable *NI* is the net income before extraordinary items divided by the market value of equity at the beginning of fiscal year. Independent variables are defined as follows: *RET* is the buy-and-hold return over the fiscal year. *NEG* is an indicator variable that equals one if *RET* is negative, and zero otherwise. *ID* is the CEO political ideology, measured by *R_RATIO*, *CAND_R_RATIO*, and *PARTY_R_RATIO*, respectively. In an election cycle, *R_RATIO* is the net amount of contributions to the Republican Party, scaled by the total amount of contributions to both parties. *CAND_R_RATIO* is the net amount of contributions to the Republican candidates, scaled by the total amount of contributions to candidates of both parties. *PARTY_R_RATIO* is the net amount of contributions to the Republican committees, scaled by the total amount of contributions to party committees of both parties. *OWN* is the percentage of firm's outstanding shares held by CEO. *MTB* is the ratio of market value of equity to book value of equity. *LEV* is the ratio of total long-term debts to total assets. *SIZE* is the natural log of total assets. *LIT* is an indicator variable that equals one if a firm is in a litigious industry, and zero otherwise. See Appendix B for more details of variable definition.

Table 4. Political Ideology and Accounting Conservatism – CSCORE

Variable	(1) CSCORE	(2) CSCORE	(3) CSCORE
R_RATIO	0.013***		
	(3.99)		
CAND_R_RATIO		0.010***	
		(3.16)	
PARTY_R_RATIO			0.019***
			(4.22)
OWN	0.004	0.004	0.031
	(0.09)	(0.08)	(0.42)
MTB	-0.009***	-0.010***	-0.008***
	(-12.79)	(-13.07)	(-7.75)
LEV	0.226***	0.221***	0.217***
	(13.17)	(12.77)	(8.12)
SIZE	-0.041***	-0.041***	-0.043***
	(-21.15)	(-20.65)	(-15.18)
LIT	-0.007	-0.008	-0.000
	(-0.99)	(-1.10)	(-0.00)
SALE_GR	0.054***	0.056***	0.061***
	(4.60)	(4.71)	(3.63)
RDAD	-0.008	0.003	0.062
	(-0.18)	(0.08)	(0.90)
CFO	-0.274***	-0.267***	-0.289***
	(-7.64)	(-7.44)	(-5.39)
STDREV	-0.020	-0.021	-0.014
	(-1.53)	(-1.63)	(-0.73)
CONSTANT	0.297***	0.291***	0.351***
	(5.72)	(5.63)	(4.02)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	5,608	5,437	2,599
R-squared	0.162	0.162	0.163

This table presents the regression results of accounting conservatism on political ideology. Two-tailed t-statistics are presented in the parentheses. *, **, and *** indicates significance at 10%, 5% and 1% level, respectively. Dependent variable *CSCORE* is the firm-specific asymmetric timeliness score. Independent variables are defined as follows: *R_RATIO* is the net amount of contributions by a CEO to the Republican Party, scaled by the total amount of contributions to both parties in an election cycle. *CAND_R_RATIO* is the net amount of contributions to the Republican candidates, scaled by the total amount of contributions to candidates of both parties in an election cycle. *PARTY_R_RATIO* is the net amount of contributions to the Republican committees, scaled by the total amount of contributions to party committees of both parties in an election cycle. *OWN* is the percentage of firm's outstanding shares held by CEO. *MTB* is the ratio of market value of equity to book value of equity. *LEV* is the ratio of total long-term debts to total assets. *SIZE* is the natural log of total assets. *LIT* is an indicator variable that equals one if a firm is in a litigious industry, and zero otherwise. *SALE_GR* is the percentage of annual growth in total sales. *RDAD* is total research and development expense plus

advertising expense, weighted by total sales. *CFO* is cash flows from operations divided by total assets. *STDREV* is the standard deviation of the natural log of revenues in the last five fiscal years. See Appendix B for more details of variable definition.

Table 5. Political Ideology and Annual Report Readability – File Size

Variable	(1) FILE_SIZE	(2) FILE_SIZE	(3) FILE_SIZE
R_RATIO	-0.286***		
	(-2.78)		
CAND_R_RATIO		-0.274**	
		(-2.57)	
PARTY_R_RATIO			-0.328**
			(-2.10)
SIZE	1.406***	1.429***	1.568***
	(20.05)	(19.73)	(14.23)
MTB	-0.045**	-0.049**	-0.036
	(-1.97)	(-2.09)	(-0.97)
AGE	0.256*	0.266*	0.794***
	(1.76)	(1.77)	(3.34)
SPI	0.326	0.317	-0.084
	(0.49)	(0.46)	(-0.08)
STDEARN	12.507***	12.810***	11.451***
	(6.49)	(6.47)	(3.94)
STDRET	-4.595***	-4.802***	-3.227
	(-2.66)	(-2.67)	(-1.17)
BUSSEG	-0.161	-0.173	-0.199
	(-1.49)	(-1.55)	(-1.13)
GEOSEG	-0.743***	-0.780***	-1.274***
	(-5.64)	(-5.73)	(-6.00)
DLW	0.256	0.174	-2.562
	(0.19)	(0.13)	(-1.11)
CONSTANT	-2.843*	-2.929*	4.287
	(-1.71)	(-1.73)	(1.23)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	4,817	4,660	2,233
R-squared	0.125	0.126	0.166

This table presents the regression results of annual report readability on political ideology. Two-tailed t-statistics are presented in the parentheses. *, **, and *** indicates significance at 10%, 5% and 1% level, respectively. Dependent variable *FILE_SIZE* is the natural log of file size in megabytes for 10-K filing. Independent variables are defined as follows: *R_RATIO* is the net amount of contributions by a CEO to the Republican Party, scaled by the total amount of contributions to both parties in an election cycle. *CAND_R_RATIO* is the net amount of contributions to the Republican candidates, scaled by the total amount of contributions to candidates of both parties in an election cycle. *PARTY_R_RATIO* is the net amount of contributions to the Republican committees, scaled by the total amount of contributions to party committees of both parties in an election cycle. *SIZE* is the natural log of total assets. *MTB* is the ratio of market value of equity to book value of equity. *AGE* is the number of years since a firm appears in CRSP monthly stock return files. *SPI* is special items weighted by total assets. *STDEARN* is the standard deviation of operating earnings in the last five fiscal years. *STDRET* is the standard deviation of the monthly stock returns in the last year. *BUSSEG* is the log of one plus the number of

business segments. *GEOSEG* is the log of one plus the number of geographic segments. *DLW* equals one if a firm's headquarter is located in Delaware, and zero otherwise. See Appendix B for more details of variable definition.

Table 6. Political Ideology and Annual Report Readability – Fog Index & Word Count

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	*FOG*	*FOG*	*FOG*	*LNWORD*	*LNWORD*	*LNWORD*
R_RATIO	**-0.066***			**-0.048****		
	(-1.73)			(-3.20)		
CAND_R_RATIO		**-0.082****			**-0.060****	
		(-2.09)			(-3.98)	
PARTY_R_RATIO			**-0.068**			**0.026**
			(-1.33)			(1.11)
SIZE	0.118***	0.116***	0.156***	0.127***	0.120***	0.142***
	(4.45)	(4.28)	(4.27)	(12.33)	(11.53)	(9.38)
MTB	-0.021**	-0.022**	-0.022*	-0.008**	-0.009***	-0.005
	(-2.46)	(-2.56)	(-1.91)	(-2.52)	(-2.68)	(-1.07)
AGE	-0.122**	-0.138**	0.020	-0.086***	-0.082***	-0.085**
	(-2.18)	(-2.42)	(0.25)	(-3.98)	(-3.75)	(-2.55)
SPI	-0.341	-0.347	-0.435	-0.447***	-0.422***	-0.399***
	(-1.40)	(-1.39)	(-1.24)	(-4.73)	(-4.41)	(-2.74)
STDEARN	0.291	0.283	-0.066	1.507***	1.459***	1.143***
	(0.39)	(0.38)	(-0.07)	(5.23)	(5.06)	(2.74)
STDRET	0.410	0.571	0.021	1.236***	1.186***	1.634***
	(0.64)	(0.87)	(0.02)	(4.98)	(4.71)	(4.36)
BUSSEG	0.181***	0.193***	0.274***	0.083***	0.078***	0.112***
	(4.46)	(4.64)	(4.71)	(5.27)	(4.88)	(4.64)
GEOSEG	0.051	0.011	0.022	0.049**	0.053***	0.067**
	(1.03)	(0.23)	(0.30)	(2.54)	(2.70)	(2.25)

DLW	0.289	0.298	0.313	0.258	0.325	0.254
	(0.40)	(0.41)	(0.37)	(0.92)	(1.15)	(0.72)
CONSTANT	17.048***	17.141***	14.656***	9.169***	9.203***	8.315***
	(17.46)	(17.53)	(8.02)	(24.20)	(24.54)	(10.99)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
Observations	4,508	4,350	2,062	4,501	4,343	2,060
R-squared	0.093	0.092	0.141	0.189	0.191	0.220

This table presents the regression results of annual report readability on political ideology. Two-tailed t-statistics are presented in the parentheses. *, **, and *** indicates significance at 10%, 5% and 1% level, respectively. Dependent variable are *FOG* and *LNWORD* respectively, where *FOG* is the Fog index that equals to 0.4 times the sum of the average number of words per sentence and the percentage of complex words in 10-K filing, and *LNWORD* equals to the natural log of the number of words in 10-K filing. Independent variables are defined as follows: *R_RATIO* is the net amount of contributions by a CEO to the Republican Party, scaled by the total amount of contributions to both parties in an election cycle. *CAND_R_RATIO* is the net amount of contributions to the Republican candidates, scaled by the total amount of contributions to candidates of both parties in an election cycle. *PARTY_R_RATIO* is the net amount of contributions to the Republican committees, scaled by the total amount of contributions to party committees of both parties in an election cycle. *SIZE* is the natural log of total assets. *MTB* is the ratio of market value of equity to book value of equity. *AGE* is the number of years since a firm appears in CRSP monthly stock return files. *SPI* is special items weighted by total assets. *STDEARN* is the standard deviation of operating earnings in the last five fiscal years. *STDRET* is the standard deviation of the monthly stock returns in the last year. *BUSSEG* is the log of one plus the number of business segments. *GEOSEG* is the log of one plus the number of geographic segments. *DLW* equals one if a firm's headquarter is located in Delaware, and zero otherwise. See Appendix B for more details of variable definition.

Table 7. Alternative Measures of Political Ideology

Panel A. Ideology and Conservatism – Basu Model

Variable	(1) ID=R_DUM	(2) ID=R_PER	(3) ID=R_AVE
NEG	-0.014	-0.009	-0.009
	(-0.85)	(-0.58)	(-0.56)
ID	0.001	0.003	0.002
	(0.45)	(1.44)	(1.29)
OWN	-0.029	-0.025	-0.025
	(-1.09)	(-0.95)	(-0.97)
MTB	-0.001	-0.000	-0.000
	(-1.47)	(-1.26)	(-1.26)
LEV	-0.022***	-0.027***	-0.027***
	(-2.72)	(-3.78)	(-3.79)
SIZE	0.003***	0.004***	0.004***
	(3.05)	(3.80)	(3.81)
LIT	-0.004	-0.005	-0.005
	(-1.11)	(-1.43)	(-1.45)
NEG×ID	0.006	0.005	0.005
	(1.10)	(1.46)	(1.37)
NEG×OWN	-0.080	-0.077	-0.078
	(-1.44)	(-1.39)	(-1.40)
NEG×MTB	-0.002**	-0.001**	-0.001*
	(-2.30)	(-1.97)	(-1.94)
NEG×LEV	-0.014	-0.006	-0.006
	(-0.99)	(-0.42)	(-0.43)
NEG×SIZE	0.003*	0.002	0.002
	(1.80)	(1.48)	(1.46)
NEG×LIT	-0.010	-0.009	-0.009
	(-1.51)	(-1.36)	(-1.36)
RET	-0.030**	-0.026**	-0.026**
	(-2.35)	(-2.15)	(-2.15)
RET×ID	-0.009**	-0.004*	-0.004*
	(-2.21)	(-1.90)	(-1.82)
RET×OWN	0.007	0.005	0.005
	(0.26)	(0.20)	(0.18)
RET×MTB	-0.000	-0.000	-0.000
	(-0.54)	(-1.22)	(-1.21)
RET×LEV	-0.027**	-0.011	-0.011
	(-2.39)	(-1.51)	(-1.51)
RET×SIZE	0.006***	0.005***	0.005***
	(4.25)	(3.76)	(3.75)
RET×LIT	-0.013***	-0.011***	-0.011***
	(-3.04)	(-2.61)	(-2.59)

RET×NEG	0.182***	0.174***	0.174***
	(4.05)	(4.08)	(4.08)
RET×NEG×ID	**0.030***	**0.033****	**0.035****
	(1.91)	(3.34)	(3.41)
RET×NEG×OWN	-0.328**	-0.290**	-0.287**
	(-2.25)	(-1.98)	(-1.97)
RET×NEG×MTB	-0.022***	-0.019***	-0.019***
	(-10.19)	(-9.00)	(-8.97)
RET×NEG×LEV	0.200***	0.205***	0.204***
	(5.41)	(5.91)	(5.89)
RET×NEG×SIZE	-0.003	-0.002	-0.002
	(-0.72)	(-0.52)	(-0.51)
RET×NEG×LIT	0.030	0.028	0.028
	(1.59)	(1.54)	(1.53)
CONSTANT	0.007	0.003	0.003
	(0.28)	(0.12)	(0.12)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	10,053	10,053	10,053
R-squared	0.184	0.185	0.185

Panel B. Ideology and Conservatism – CSCORE

	(1)	(2)	(3)
Variable	*CSCORE*	*CSCORE*	*CSCORE*
R_DUM	**0.003**		
	(0.66)		
R_PER		**0.004***	
		(1.70)	
R_AVE			**0.003**
			(0.80)
OWN	-0.011	-0.009	-0.011
	(-0.23)	(-0.20)	(-0.24)
MTB	-0.009***	-0.009***	-0.009***
	(-15.08)	(-15.00)	(-15.00)
LEV	0.220***	0.216***	0.216***
	(14.65)	(14.50)	(14.51)
SIZE	-0.042***	-0.042***	-0.042***
	(-25.04)	(-24.94)	(-24.88)
LIT	-0.005	-0.005	-0.005
	(-0.75)	(-0.86)	(-0.86)
SALE_GR	0.043***	0.044***	0.044***

	(1)	(2)	(3)
	(4.26)	(4.32)	(4.30)
RDAD	-0.033	-0.028	-0.030
	(-0.88)	(-0.75)	(-0.79)
CFO	-0.277***	-0.281***	-0.280***
	(-9.11)	(-9.27)	(-9.24)
STDREV	-0.010	-0.011	-0.011
	(-0.91)	(-1.00)	(-1.02)
CONSTANT	0.303***	0.304***	0.303***
	(5.99)	(6.02)	(6.01)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	7,205	7,205	7,205
R-squared	0.163	0.162	0.162

Panel C. Ideology and Readability – File Size

Variable	**(1)** *FILE_SIZE*	**(2)** *FILE_SIZE*	**(3)** *FILE_SIZE*
R_DUM	**-0.789***		
	(-5.16)		
R_PER		**-0.392***	
		(-3.94)	
R_AVE			**-0.354***
			(-3.44)
SIZE	1.344***	1.323***	1.320***
	(22.10)	(21.86)	(21.77)
MTB	-0.040**	-0.042**	-0.043**
	(-2.08)	(-2.22)	(-2.27)
AGE	0.191	0.207*	0.206*
	(1.52)	(1.67)	(1.66)
SPI	0.160	0.160	0.157
	(0.29)	(0.29)	(0.29)
STDEARN	11.657***	11.643***	11.603***
	(7.31)	(7.36)	(7.33)
STDRET	-3.926***	-3.785***	-3.765***
	(-2.70)	(-2.62)	(-2.61)
BUSSEG	-0.130	-0.110	-0.107
	(-1.39)	(-1.19)	(-1.15)
GEOSEG	-0.647***	-0.627***	-0.629***
	(-5.74)	(-5.59)	(-5.60)
DLW	0.570	0.478	0.394
	(0.44)	(0.37)	(0.31)

CONSTANT	-1.865	-2.335	-2.321
	(-1.18)	(-1.48)	(-1.47)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	6,134	6,134	6,134
R-squared	0.122	0.119	0.118

Panel D. Ideology and Readability – Fog Index & Word Count

Variable	(1) FOG	(2) FOG	(3) FOG	(4) LNWORD	(5) LNWORD	(6) LNWORD
R_DUM	-0.194***			-0.028		
	(-3.03)			(-1.15)		
R_PER		-0.122***			-0.037**	
		(-2.91)			(-2.35)	
R_AVE			-0.121***			-0.058***
			(-2.81)			(-3.62)
SIZE	0.089***	0.089***	0.088***	0.127***	0.127***	0.125***
	(3.50)	(3.52)	(3.45)	(13.37)	(13.39)	(13.22)
MTB	-0.016**	-0.016**	-0.017**	-0.012***	-0.012***	-0.012***
	(-2.02)	(-2.09)	(-2.14)	(-3.96)	(-4.01)	(-4.07)
AGE	-0.126**	-0.128**	-0.127**	-0.104***	-0.105***	-0.103***
	(-2.39)	(-2.43)	(-2.42)	(-5.28)	(-5.38)	(-5.29)
SPI	-0.578***	-0.584***	-0.587***	-0.486***	-0.486***	-0.486***
	(-2.60)	(-2.62)	(-2.64)	(-5.83)	(-5.85)	(-5.86)
STDEARN	0.900	1.015	0.994	1.049***	1.031***	1.011***
	(1.34)	(1.51)	(1.48)	(4.14)	(4.11)	(4.03)
STDRET	-0.033	-0.080	-0.081	1.296***	1.278***	1.274***
	(-0.06)	(-0.14)	(-0.14)	(5.85)	(5.80)	(5.78)
BUSSEG	0.167***	0.164***	0.164***	0.080***	0.080***	0.079***
	(4.32)	(4.23)	(4.24)	(5.53)	(5.52)	(5.50)
GEOSEG	0.042	0.036	0.036	0.043**	0.041**	0.041**
	(0.90)	(0.76)	(0.76)	(2.43)	(2.37)	(2.35)

DLW	-0.166	-0.151	-0.177	0.143	0.150	0.145
	(-0.22)	(-0.20)	(-0.23)	(0.51)	(0.54)	(0.52)
CONSTANT	17.334***	17.267***	17.270***	9.290***	9.276***	9.265***
	(16.76)	(16.59)	(16.59)	(23.92)	(23.93)	(23.92)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
Observations	5,769	5,769	5,769	5,751	5,751	5,751
R-squared	0.076	0.075	0.075	0.162	0.164	0.165

This table presents the regression results in Table 3, 4, 5 and 6, by using alternative measures of political ideology. Two-tailed t-statistics are presented in the parentheses. *, **, and *** indicates significance at 10%, 5% and 1% level, respectively. *ID* is the CEO political ideology, measured by *R_DUM*, *R_PER*, and *R_AVE*, respectively. *R_DUM* is a dummy that equals one if the net amount of cumulative contributions by a CEO to the Republican Party across election cycles is positive, and zero otherwise. *R_PER* is the net amount of cumulative contributions by a CEO to the Republican Party across election cycles, divided by total amount of cumulative contributions to both parties across cycles. *R_AVE* is the mean of all the cycle-specific *R_PER*s. All other variables are previously defined. See Appendix B for more details of variable definition.

Table 8. Sensitivity Test on CEO Overconfidence

Panel A. Ideology and Conservatism – Basu Model

	OVER_CAPX		OVER_INVEST	
Variable	ID=R_RATIO	ID=CAND_R	ID=R_RATIO	ID=CAND_R
NEG	-0.032*	-0.025	-0.031*	-0.024
	(-1.79)	(-1.48)	(-1.74)	(-1.39)
ID	0.001	0.000	0.001	0.001
	(0.48)	(0.27)	(0.63)	(0.32)
OWN	-0.007	-0.017	-0.010	-0.019
	(-0.27)	(-0.61)	(-0.36)	(-0.71)
MTB	-0.001***	-0.001***	-0.001**	-0.001**
	(-2.63)	(-2.69)	(-2.55)	(-2.56)
LEV	-0.022***	-0.026***	-0.022***	-0.027***
	(-2.70)	(-3.39)	(-2.72)	(-3.42)
SIZE	0.002*	0.002**	0.002*	0.003**
	(1.68)	(2.43)	(1.74)	(2.50)
LIT	-0.003	-0.003	-0.004	-0.003
	(-0.78)	(-0.70)	(-0.97)	(-0.83)
NEG×ID	0.003	0.003	0.003	0.003
	(0.91)	(0.79)	(0.87)	(0.76)
NEG×OVER	0.003	0.011**	0.003	0.010*
	(0.67)	(2.23)	(0.54)	(1.93)
NEG×OWN	-0.113*	-0.120**	-0.114*	-0.120**
	(-1.93)	(-2.11)	(-1.93)	(-2.10)
NEG×MTB	-0.001	-0.001	-0.001	-0.001
	(-0.80)	(-0.88)	(-0.86)	(-0.91)
NEG×LEV	-0.012	-0.003	-0.014	-0.005
	(-0.75)	(-0.18)	(-0.91)	(-0.30)
NEG×SIZE	0.005**	0.004**	0.005***	0.004**
	(2.56)	(2.06)	(2.58)	(2.04)
NEG×LIT	-0.015**	-0.012*	-0.017**	-0.015**
	(-2.08)	(-1.71)	(-2.35)	(-2.05)
RET	-0.033**	-0.032**	-0.031**	-0.031**
	(-2.19)	(-2.26)	(-2.04)	(-2.15)
RET×ID	-0.004	-0.003	-0.005*	-0.004
	(-1.52)	(-1.10)	(-1.80)	(-1.43)
RET×OVER	0.001	0.004	0.000	0.005
	(0.35)	(1.13)	(0.11)	(1.31)
RET×OWN	-0.013	-0.020	-0.011	-0.019
	(-0.41)	(-0.64)	(-0.34)	(-0.61)
RET×MTB	-0.000	-0.000	-0.000	-0.000
	(-0.48)	(-0.42)	(-0.58)	(-0.60)
RET×LEV	-0.006	-0.004	-0.007	-0.005
	(-0.72)	(-0.55)	(-0.86)	(-0.67)

RET×SIZE	0.005***	0.005***	0.005***	0.005***
	(3.30)	(3.27)	(3.16)	(3.13)
RET×LIT	-0.010**	-0.011**	-0.009*	-0.010**
	(-2.16)	(-2.38)	(-1.94)	(-2.29)
RET×NEG	0.185***	0.173***	0.192***	0.181***
	(3.71)	(3.66)	(3.82)	(3.78)
RET×NEG×ID	**0.028***	**0.018***	**0.028***	**0.017***
	(2.80)	(1.88)	(2.71)	(1.74)
RET×NEG×OVER	-0.061***	-0.058***	-0.068***	-0.063***
	(-3.77)	(-3.52)	(-4.14)	(-3.80)
RET×NEG×OWN	-0.327**	-0.397***	-0.332**	-0.399***
	(-2.08)	(-2.58)	(-2.11)	(-2.59)
RET×NEG×MTB	-0.017***	-0.017***	-0.017***	-0.017***
	(-6.47)	(-6.68)	(-6.43)	(-6.57)
RET×NEG×LEV	0.137***	0.164***	0.124***	0.153***
	(3.57)	(4.39)	(3.22)	(4.06)
RET×NEG×SIZE	0.003	0.002	0.003	0.002
	(0.62)	(0.41)	(0.64)	(0.38)
RET×NEG×LIT	0.013	0.014	-0.002	-0.001
	(0.60)	(0.70)	(-0.08)	(-0.06)
CONSTANT	0.008	0.011	0.008	0.011
	(0.36)	(0.49)	(0.33)	(0.47)
Year Fixed Effects	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES
Observations	7,533	7,994	7,317	7,769
R-squared	0.182	0.191	0.181	0.190

Panel B. Ideology and Conservatism – CSCORE

	OVER_CAPX			OVER_INVEST		
Variable	*CSCORE*	*CSCORE*	*CSCORE*	*CSCORE*	*CSCORE*	*CSCORE*
R_RATIO	**0.013***			**0.012***		
	(4.13)			(3.79)		
CAND_R_RATIO		**0.011***			**0.010***	
		(3.37)			(2.97)	
PARTY_R_RATIO			**0.019***			**0.019***
			(4.22)			(4.11)
OVER	-0.029***	-0.029***	-0.038***	-0.026***	-0.024***	-0.027***
	(-5.44)	(-5.45)	(-4.77)	(-4.86)	(-4.54)	(-3.37)
OWN	0.002	0.001	0.030	0.008	0.007	0.039
	(0.03)	(0.02)	(0.41)	(0.16)	(0.14)	(0.54)
MTB	-0.009***	-0.010***	-0.008***	-0.009***	-0.010***	-0.008***
	(-12.62)	(-12.89)	(-7.72)	(-12.66)	(-12.95)	(-7.72)
LEV	0.228***	0.223***	0.220***	0.228***	0.223***	0.216***
	(13.23)	(12.84)	(8.18)	(13.28)	(12.89)	(8.10)
SIZE	-0.042***	-0.041***	-0.045***	-0.041***	-0.040***	-0.043***
	(-21.31)	(-20.78)	(-15.59)	(-21.14)	(-20.64)	(-15.21)
LIT	-0.005	-0.006	0.001	-0.010	-0.011	-0.003
	(-0.68)	(-0.77)	(0.12)	(-1.40)	(-1.50)	(-0.31)
SALE_GR	0.059***	0.061***	0.068***	0.057***	0.059***	0.063***
	(5.00)	(5.12)	(4.03)	(4.85)	(4.96)	(3.76)
RDAD	0.007	0.018	0.098	-0.005	0.007	0.062
	(0.15)	(0.40)	(1.41)	(-0.11)	(0.16)	(0.91)

CFO	-0.236***	-0.229***	-0.232***	-0.269***	-0.263***	-0.279***
	(-6.45)	(-6.25)	(-4.23)	(-7.52)	(-7.33)	(-5.22)
STDREV	-0.020	-0.021	-0.016	-0.016	-0.018	-0.010
	(-1.56)	(-1.64)	(-0.82)	(-1.26)	(-1.37)	(-0.53)
CONSTANT	0.316***	0.309***	0.371***	0.299***	0.293***	0.353***
	(6.06)	(5.96)	(4.25)	(5.77)	(5.68)	(4.06)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
Observations	5,560	5,390	2,581	5,608	5,437	2,599
R-squared	0.166	0.166	0.171	0.166	0.165	0.167

Panel C. Ideology and Readability – File Size

	OVER_CAPX			OVER_INVEST		
Variable	FILE_SIZE	FILE_SIZE	FILE_SIZE	FILE_SIZE	FILE_SIZE	FILE_SIZE
R_RATIO	**-0.297***			**-0.284***		
	(-2.87)			(-2.77)		
CAND_R_RATIO		**-0.289***			**-0.273**	
		(-2.69)			(-2.56)	
PARTY_R_RATIO			**-0.345**			**-0.325**
			(-2.18)			(-2.08)
OVER	0.306*	0.326*	0.461*	0.159	0.170	0.233
	(1.84)	(1.89)	(1.70)	(0.95)	(0.98)	(0.86)
SIZE	1.412***	1.434***	1.570***	1.407***	1.429***	1.571***

	(19.95)	(19.64)	(14.15)	(20.04)	(19.72)	(14.24)
MTB	-0.048**	-0.053**	-0.041	-0.046**	-0.050**	-0.037
	(-2.11)	(-2.25)	(-1.11)	(-2.01)	(-2.14)	(-1.01)
AGE	0.266*	0.278*	0.819***	0.270*	0.281*	0.808***
	(1.80)	(1.83)	(3.41)	(1.84)	(1.86)	(3.38)
SPI	0.255	0.232	-0.198	0.297	0.284	-0.113
	(0.38)	(0.33)	(-0.18)	(0.45)	(0.41)	(-0.10)
STDEARN	12.687***	12.983***	11.813***	12.578***	12.892***	11.547***
	(6.54)	(6.52)	(4.05)	(6.52)	(6.51)	(3.97)
STDRET	-4.619***	-4.828***	-3.367	-4.731***	-4.950***	-3.460
	(-2.65)	(-2.66)	(-1.20)	(-2.73)	(-2.74)	(-1.24)
BUSSEG	-0.154	-0.167	-0.187	-0.167	-0.179	-0.211
	(-1.41)	(-1.48)	(-1.06)	(-1.54)	(-1.60)	(-1.20)
GEOSEG	-0.772***	-0.809***	-1.323***	-0.749***	-0.786***	-1.277***
	(-5.79)	(-5.88)	(-6.15)	(-5.68)	(-5.77)	(-6.01)
DLW	0.104	0.012	-2.695	0.264	0.183	-2.569
	(0.08)	(0.01)	(-1.16)	(0.20)	(0.13)	(-1.11)
CONSTANT	-3.081*	-3.174*	4.143	-2.890*	-2.980*	4.184
	(-1.84)	(-1.86)	(1.18)	(-1.74)	(-1.76)	(1.20)
Year Fixed Effects	YES	YES	YES	YES	YES	YES
Industry Fixed Effects	YES	YES	YES	YES	YES	YES
Observations	4,768	4,614	2,214	4,814	4,657	2,231
R-squared	0.125	0.127	0.167	0.125	0.127	0.167

This table presents the regression results in Table 3, 4, and 5, by controlling for CEO overconfidence. Two-tailed t-statistics are presented in the parentheses. *, **, and *** indicates significance at 10%, 5% and 1% level, respectively. *OVER* is the investment measure of overconfidence, indexed by *OVER_CAPX* and *OVER_INVEST* respectively. *OVER_CAPX* is a dummy that equals one if a firm's ratio of capital expenditures to lagged total assets in a fiscal year is greater than the median of capital expenditures to lagged total assets for the firm's Fama–French industry in that year, and zero otherwise. *OVER_INVEST* is also a dummy that equals one if the residual of a regression of

total assets growth on sales growth run by industry-year is greater than zero, and zero otherwise. All other variables are previously defined. See Appendix B for more details of variable definition.

Table 9. Sensitivity Test on CEO Power

Panel A. Ideology and Conservatism – Basu Model

Variable	(1) ID=R_RATIO	(2) ID=CAND_R	(3) ID=PARTY_R
NEG	-0.000	0.001	0.054*
	(-0.00)	(0.06)	(1.92)
ID	0.001	0.001	0.001
	(0.71)	(0.82)	(0.37)
OWN	-0.024	-0.025	0.017
	(-0.82)	(-0.85)	(0.36)
MTB	-0.001***	-0.001***	-0.001**
	(-3.14)	(-3.08)	(-2.05)
LEV	-0.031***	-0.032***	0.004
	(-3.92)	(-3.98)	(0.30)
SIZE	0.005***	0.006***	0.003*
	(5.72)	(5.70)	(1.71)
LIT	-0.003	-0.004	0.005
	(-0.94)	(-1.08)	(0.76)
NEG×ID	0.001	0.001	-0.005
	(0.26)	(0.37)	(-1.06)
NEG×TENURE	-0.002	-0.003	-0.006
	(-0.84)	(-1.00)	(-1.59)
NEG×OWN	-0.012	-0.010	-0.002
	(-0.18)	(-0.15)	(-0.02)
NEG×MTB	-0.001	-0.001	-0.002**
	(-0.79)	(-0.81)	(-2.04)
NEG×LEV	0.015	0.014	0.007
	(0.98)	(0.87)	(0.27)
NEG×SIZE	0.001	0.001	-0.002
	(0.66)	(0.65)	(-0.85)
NEG×LIT	-0.011	-0.013*	-0.010
	(-1.52)	(-1.80)	(-0.89)
RET	-0.034**	-0.032**	-0.067***
	(-2.26)	(-2.13)	(-3.03)
RET×ID	-0.004	-0.005*	-0.002
	(-1.51)	(-1.78)	(-0.55)
RET×TENURE	0.001	0.001	0.009**
	(0.67)	(0.24)	(2.44)
RET×OWN	-0.042	-0.041	-0.197**
	(-1.34)	(-1.30)	(-2.15)
RET×MTB	0.000	0.000	0.001
	(0.30)	(0.19)	(0.85)
RET×LEV	0.002	0.000	-0.035

Panel A. Ideology and Conservatism – Basu Model

	(0.21)	(0.02)	(-1.60)
RET×SIZE	0.005***	0.005***	0.009***
	(3.31)	(3.29)	(3.45)
RET×LIT	-0.015***	-0.013***	-0.027***
	(-3.10)	(-2.82)	(-3.64)
RET×NEG	0.286***	0.304***	0.299***
	(5.45)	(5.75)	(3.56)
RET×NEG×ID	**0.018***	**0.021****	**-0.015**
	(1.89)	(2.07)	(-1.03)
RET×NEG×TENURE	-0.023**	-0.027***	-0.034**
	(-2.57)	(-3.01)	(-2.40)
RET×NEG×OWN	**-0.282**	**-0.273**	**0.069**
	(-1.48)	(-1.43)	(0.26)
RET×NEG×MTB	-0.016***	-0.016***	-0.023***
	(-6.05)	(-5.88)	(-6.01)
RET×NEG×LEV	0.167***	0.156***	0.144**
	(4.30)	(3.98)	(2.31)
RET×NEG×SIZE	-0.009*	-0.010*	-0.007
	(-1.71)	(-1.83)	(-0.81)
RET×NEG×LIT	0.029	0.009	0.019
	(1.35)	(0.43)	(0.76)
CONSTANT	0.000	0.001	0.012
	(0.02)	(0.05)	(0.32)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	7,163	6,960	3,271
R-squared	0.184	0.183	0.191

Panel B. Ideology and Conservatism – CSCORE

	(1)	**(2)**	**(3)**
Variable	***CSCORE***	***CSCORE***	***CSCORE***
R_RATIO	0.013***		
	(3.69)		
CAND_R_RATIO		0.010***	
		(2.93)	
PARTY_R_RATIO			0.018***
			(3.63)
TENURE	-0.010***	-0.010***	-0.017***
	(-3.43)	(-3.32)	(-3.79)
OWN	0.010	0.003	0.129
	(0.17)	(0.05)	(1.53)

MTB	-0.009***	-0.009***	-0.008***
	(-11.56)	(-11.83)	(-6.85)
LEV	0.217***	0.213***	0.211***
	(12.08)	(11.74)	(7.55)
SIZE	-0.041***	-0.040***	-0.043***
	(-19.82)	(-19.44)	(-14.13)
LIT	-0.012	-0.014*	-0.006
	(-1.64)	(-1.82)	(-0.54)
SALE_GR	0.055***	0.057***	0.062***
	(4.47)	(4.60)	(3.44)
RDAD	-0.008	0.007	0.072
	(-0.16)	(0.15)	(0.98)
CFO	-0.276***	-0.272***	-0.282***
	(-7.24)	(-7.13)	(-5.02)
STDREV	-0.014	-0.017	-0.007
	(-1.06)	(-1.22)	(-0.37)
CONSTANT	0.309***	0.304***	0.383***
	(5.87)	(5.81)	(4.32)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	5,052	4,898	2,359
R-squared	0.156	0.158	0.156

Panel C. Ideology and Readability – File Size

Variable	(1) FILE_SIZE	(2) FILE_SIZE	(3) FILE_SIZE
R_RATIO	-0.306***		
	(-2.72)		
CAND_R_RATIO		-0.282**	
		(-2.41)	
PARTY_R_RATIO			-0.289*
			(-1.70)
TENURE	0.230**	0.209**	0.345**
	(2.25)	(1.99)	(2.07)
SIZE	1.499***	1.523***	1.691***
	(19.76)	(19.41)	(14.31)
MTB	-0.050**	-0.055**	-0.053
	(-2.03)	(-2.12)	(-1.35)
AGE	-0.565	-0.621	0.298
	(-0.72)	(-0.77)	(0.24)
SPI	0.061	0.045	-0.935

	(0.08)	(0.06)	(-0.76)
STDEARN	12.782***	12.992***	12.501***
	(6.03)	(5.97)	(3.90)
STDRET	-5.157***	-5.302***	-4.839
	(-2.73)	(-2.69)	(-1.59)
BUSSEG	-0.136	-0.141	-0.128
	(-1.15)	(-1.15)	(-0.67)
GEOSEG	-0.858***	-0.900***	-1.389***
	(-5.94)	(-6.03)	(-6.01)
DLW	0.524	0.433	-2.517
	(0.36)	(0.29)	(-1.06)
CONSTANT	-0.775	-0.590	3.816
	(-0.23)	(-0.17)	(0.64)
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	4,270	4,129	2,016
R-squared	0.127	0.128	0.166

This table presents the regression results in Table 3, 4, and 5, by controlling for CEO power. Two-tailed t-statistics are presented in the parentheses. *, **, and *** indicates significance at 10%, 5% and 1% level, respectively. *TENURE* is the number of years that a person has been working as the CEO of a firm. All the other variables are previously defined. See Appendix B for more details of variable definition.

Table 10. Sensitivity Test on State Effect

Panel A. Ideology and Conservatism – Basu Model

Variable	(1) ID=R_RATIO	(2) ID=CAND_R	(3) ID=PARTY_R
NEG	-0.026	-0.024	0.000
	(-1.53)	(-1.44)	(0.02)
ID	-0.000	-0.000	0.001
	(-0.07)	(-0.06)	(0.48)
OWN	-0.016	-0.016	0.007
	(-0.57)	(-0.57)	(0.17)
MTB	-0.001**	-0.001**	-0.001*
	(-2.35)	(-2.29)	(-1.72)
LEV	-0.027***	-0.027***	0.010
	(-3.41)	(-3.39)	(0.74)
SIZE	0.003***	0.003***	0.002
	(2.76)	(2.81)	(1.32)
LIT	-0.003	-0.004	0.004
	(-0.87)	(-1.00)	(0.61)
NEG×ID	0.003	0.003	-0.001
	(0.84)	(0.80)	(-0.31)
NEG×OWN	-0.120**	-0.120**	0.003
	(-2.11)	(-2.09)	(0.03)
NEG×MTB	-0.001	-0.001	-0.002**
	(-0.94)	(-0.98)	(-2.02)
NEG×LEV	-0.005	-0.006	-0.017
	(-0.31)	(-0.43)	(-0.71)
NEG×SIZE	0.004**	0.004**	0.003
	(2.38)	(2.33)	(1.06)
NEG×LIT	-0.014**	-0.016**	-0.017
	(-2.00)	(-2.31)	(-1.63)
RET	-0.032**	-0.031**	-0.041**
	(-2.28)	(-2.18)	(-2.00)
RET×ID	-0.003	-0.004	-0.003
	(-1.26)	(-1.57)	(-0.93)
RET×OWN	-0.017	-0.016	-0.058
	(-0.55)	(-0.52)	(-0.77)
RET×MTB	-0.000	-0.000	0.000
	(-0.35)	(-0.45)	(0.34)
RET×LEV	-0.005	-0.006	-0.047**
	(-0.57)	(-0.69)	(-2.26)
RET×SIZE	0.005***	0.005***	0.008***
	(3.47)	(3.36)	(3.23)
RET×LIT	-0.010**	-0.009**	-0.023***
	(-2.16)	(-2.07)	(-3.11)

	(1)	(2)	(3)
RET×NEG	0.155***	0.162***	0.073
	(3.27)	(3.37)	(1.03)
RET×NEG×ID	**0.021****	**0.021****	**0.007**
	(2.14)	(2.04)	(0.53)
RET×NEG×OWN	**-0.371****	**-0.371****	**0.054**
	(-2.41)	(-2.40)	(0.22)
RET×NEG×MTB	-0.018***	-0.019***	-0.024***
	(-7.34)	(-7.28)	(-6.69)
RET×NEG×LEV	0.157***	0.149***	0.105*
	(4.21)	(3.96)	(1.76)
RET×NEG×SIZE	0.002	0.002	0.013*
	(0.47)	(0.40)	(1.73)
RET×NEG×LIT	0.007	-0.007	0.053*
	(0.34)	(-0.33)	(1.72)
CONSTANT	-0.000	-0.000	0.015
	(-0.00)	(-0.02)	(0.39)
State Fixed Effects	YES	YES	YES
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	7,996	7,771	3,641
R-squared	0.194	0.193	0.198

Panel B. Ideology and Conservatism – CSCORE

	(1)	(2)	(3)
Variable	*CSCORE*	*CSCORE*	*CSCORE*
R_RATIO	0.014***		
	(4.18)		
CAND_R_RATIO		0.012***	
		(3.40)	
PARTY_R_RATIO			0.021***
			(4.29)
OWN	-0.018	-0.017	0.010
	(-0.34)	(-0.31)	(0.14)
MTB	-0.009***	-0.010***	-0.008***
	(-12.44)	(-12.69)	(-7.40)
LEV	0.218***	0.212***	0.218***
	(12.34)	(11.89)	(7.82)
SIZE	-0.041***	-0.040***	-0.044***
	(-19.55)	(-18.99)	(-13.88)
LIT	-0.010	-0.012	0.004
	(-1.38)	(-1.59)	(0.32)

SALE_GR	0.056***	0.058***	0.065***
	(4.72)	(4.89)	(3.81)
RDAD	-0.001	0.015	0.099
	(-0.03)	(0.31)	(1.34)
CFO	-0.258***	-0.247***	-0.276***
	(-7.03)	(-6.72)	(-5.00)
STDREV	-0.018	-0.019	-0.009
	(-1.34)	(-1.46)	(-0.43)
CONSTANT	0.305***	0.294***	0.361***
	(5.67)	(5.51)	(4.04)
State Fixed Effects	YES	YES	YES
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	5,608	5,437	2,599
R-squared	0.169	0.171	0.177

Panel C. Ideology and Readability – File Size

Variable	(1) FILE_SIZE	(2) FILE_SIZE	(3) FILE_SIZE
R_RATIO	-0.291***		
	(-2.71)		
CAND_R_RATIO		-0.289***	
		(-2.58)	
PARTY_R_RATIO			-0.204
			(-1.23)
SIZE	1.428***	1.452***	1.614***
	(19.58)	(19.25)	(13.79)
MTB	-0.062***	-0.071***	-0.042
	(-2.69)	(-2.96)	(-1.11)
AGE	0.487	0.360	1.692
	(0.74)	(0.53)	(1.57)
SPI	-0.378	-0.444	-0.911
	(-0.56)	(-0.64)	(-0.82)
STDEARN	12.059***	12.531***	10.622***
	(6.10)	(6.17)	(3.52)
STDRET	-4.820***	-5.115***	-4.277
	(-2.77)	(-2.83)	(-1.51)
BUSSEG	-0.149	-0.151	-0.278
	(-1.33)	(-1.31)	(-1.50)
GEOSEG	-0.988***	-1.033***	-1.419***
	(-7.14)	(-7.24)	(-6.24)

DLW	1.954	1.885	-0.142
	(1.44)	(1.37)	(-0.06)
CONSTANT	-5.537*	-5.108	-2.886
	(-1.76)	(-1.58)	(-0.51)
State Fixed Effects	YES	YES	YES
Year Fixed Effects	YES	YES	YES
Industry Fixed Effects	YES	YES	YES
Observations	4,702	4,548	2,181
R-squared	0.163	0.164	0.211

This table presents the regression results in Table 3, 4, and 5, by controlling for state fixed effect. Two-tailed t-statistics are presented in the parentheses. *, **, and *** indicates significance at 10%, 5% and 1% level, respectively. All the variables are previously defined. See Appendix B for more details of variable definition.

Appendix A: Federal Campaign Contribution Limits

Election Cycle	Candidate committee	Candidate committees - aggregated limit	National party committee	State, district or local party committee	other PAC	State, district or local party committees and other PACs - aggregated limit	All party committees and other PACs - aggregated limit	Total aggregated limit
				Recipients				
	(per election)	(per cycle)	(per year)	(per year)	(per year)	(per cycle)	(per cycle)	(per cycle)
Individual may give								
Pre-BCRA								
1974-2002	$1,000	No Limit	$20,000	$5,000	$5,000	No Limit	No Limit	$50,000*
Post-BCRA								
2003-2004	$2,000	$37,500	$25,000	$10,000	$5,000	$37,500	$57,500	$95,000
2005-2006	$2,100	$40,000	$26,700	$10,000	$5,000	$40,000	$61,400	$101,400
2007-2008	$2,300	$42,700	$28,500	$10,000	$5,000	$42,700	$65,500	$108,200
2009-2010	$2,400	$45,600	$30,400	$10,000	$5,000	$45,600	$69,900	$115,500
2011-2012	$2,500	$46,200	$30,800	$10,000	$5,000	$46,200	$70,800	$117,000
Multicandidate PAC may give								
Pre-BCRA								
1974-2002	$5,000	No Limit	$15,000	$5,000	$5,000	No Limit	No Limit	No Limit
Post-BCRA								
2003-2012	$5,000	No Limit	$15,000	$5,000	$5,000	No Limit	No Limit	No Limit

*subject to $25,000 per calendar year

In 1971, the Congress passed the Federal Election Campaign Act (FECA) to strengthen the disclosure on both campaign contributions and campaign expenditures. The FECA was amended in 1974, leading to two major updates. The first is the creation of the Federal Election Commissions (FEC), a special authority to enforce the federal monitoring system. The second is the restriction on the maximum amounts of individual and PAC contributions. This attempt is to prevent campaign finance from being over-influenced by wealthy individuals, and the FEC is then responsible to set and release these contribution limits. In 2002, the Congress passed the Bipartisan Campaign Reform Act (BCRA) to eliminate unregulated contributions (i.e. known as "soft money") to national political party committees. According to the BCRA, the campaign contribution limits were largely increased in 2003, and subject to an increase for inflation in each of the following election cycle.

Appendix B: Variable Definition

Variable	Definition
Ideology Measures	
R_RATIO	Net amount of campaign contributions made by a CEO to the Republican Party in an election cycle (i.e. net of contributions to the Democratic Party), both candidates and party committees, divided by total amount of campaign contributions to both parties in that cycle
CAND_R_RATIO	Net amount of campaign contributions made by a CEO to the Republican candidates in an election cycle, divided by total amount of campaign contributions to candidates of both parties in that cycle
PARTY_R_RATIO	Net amount of campaign contributions made by a CEO to the Republican party committees in an election cycle, divided by total amount of campaign contributions to party committees of both parties in that cycle
R_DUM	Dummy variable that equals one if the net amount of cumulative campaign contributions made by a CEO to the Republican Party across election cycles (i.e. net of cumulative contributions to the Democratic Party) is positive, and zero otherwise
R_PER	Net amount of cumulative campaign contributions made by a CEO to the Republican Party across election cycles, divided by total amount of cumulative campaign contributions to both parties across cycles
R_AVE	The mean of all the cycle-specific *R_PER*s (i.e. for each election cycle that a CEO makes contributions, the cycle-specific *R_PER* refers to net amount of cumulative contributions to the Republican Party up to that cycle, divided by total amount of cumulative contributions to both parties up to that cycle)
Conservatism Measures	
RET	The buy-and-hold return over the fiscal year
NEG	Dummy variable that equals one if *RET* is negative, and zero otherwise
NI	Net income before extraordinary items divided by the market value of equity at the beginning of fiscal year

CSCORE	The firm-specific asymmetric timeliness score developed by Khan and Watts (2009)

Readability Measures

FILE_SIZE	The natural logarithm of the file size in megabytes of SEC EDGAR "complete submission text file" for the 10-K filing
FOG	The Gunning-Fog index that equals to *0.4 X (average number of words per sentence + percent of complex words)*, where *average number of words per sentence* equals to the number of words in the 10-K divided by the total number of sentence termination characters after removing those associated with headings and abbreviations, and *percent of complex words* equals the percentage of 10-K words with more than two syllables
LNWORD	The natural logarithm of the number of words in the 10-K filing

Other Variables

OWN	The percentage of firm's outstanding shares held by the CEO
MTB	The market value of equity divided by the book value of equity
LEV	Total long-term debts divided by total assets
SIZE	The natural logarithm of total assets
LIT	Dummy variable that equals one if a firm is in a litigious industry (i.e. SIC codes 2833–2836, 3570–3577, 3600–3674, 5200–5961 and 7370–7374), and zero otherwise.
SALE_GR	The percentage of annual growth in total sales
RDAD	Total research and development expense plus advertising expense weighted by total sales
CFO	Cash flows from operations divided by total assets
STDREV	Standard deviation of the natural logarithm of revenues in the last five fiscal years
AGE	The number of years since a firm appears in CRSP monthly stock return files
SPI	Special items weighted by total assets
STDEARN	Standard deviation of the operating earnings in the last five fiscal years
STDRET	Standard deviation of the monthly stock returns in the last year
BUSSEG	The logarithm of one plus the number of business segments
GEOSEG	The logarithm of one plus the number of geographic segments

DLW	Dummy variable that equals one if a company is incorporated in Delaware, and zero otherwise
OVER_CAPX	Dummy variable that equals one if the capital expenditures deflated by lagged total assets in a given year is greater than the median level of capital expenditures to lagged total assets for the firm's Fama–French industry in that year, and zero otherwise
OVER_INVEST	Dummy variable that equals one if the residual of a regression of total assets growth on sales growth run by industry-year is greater than zero, and zero otherwise
TENURE	Number of years that a person has been working as the CEO of a firm

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