Examining the Impact of CEO Values on Corporate Social and Financial Outcomes: A Focus on S&P 500 Companies

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St. Gallen, July 29, 2019 Olga Kalogeraki

Abstract

This dissertation combines upper echelons theory with research into political psychology and team diversity to advance our knowledge about how the political ideology of executives affect firm level social and financial outcomes. In three empirical studies the dissertation explores: (a) the effects of CEO political ideology on corporate discrimination lawsuits and the moderating role of the board of directors; (b) the role of CEO political ideology (liberal versus conservative) as an antecedent of the gender-pay gap in organizational upper echelons; and (c) how organizational performance is affected by the presence of ideology-based TMT faultlines, as well as the moderating role of CEO ideology in this process.

The empirical setting is based on a longitudinal dataset of S&P 500 firms from different industries. Three core findings are drawn from the dissertation research. First, CEO ideology affects a firm's exposure to the so-called "diversity crisis" defined as the number of corporate discrimination lawsuits filed against the organization. Second, it is not the gender of the CEO in isolation, but its interaction with their political ideology that acts as a driver of the gender-pay gap in the executive group. Third, to minimize team conflict and increase firm performance as regards the existence of ideology-based TMT faultlines, companies should focus on the ideology of the executive group leader (i.e. the CEO). Overall, the core message of the dissertation is that organizations should consider not only the importance of surface-level demographic traits, but also the deep-level ideological values of executives, as these values are likely to affect both social and financial corporate outcomes.

Zusammenfassung

Diese Dissertation kombiniert die Upper Echelons Theory mit der Forschung der politischen Psychologie und der Teamvielfalt, um neue Erkenntnisse über die Auswirkungen der politischen Ideologien von Führungskräften auf soziale und finanzielle Resultate von Unternehmen zu erweitern. Die Dissertation umfasst drei empirische Studien: (a) Die Auswirkung der politischen Ideologie des CEO auf Diskrimierungsklagen von Unternehmen und den Einfluss der Rolle des Verwaltungsrats. (b) die Rolle der politischen Ideologie des CEO (liberal versus konservativ) als Indikator zur Geschlechter Gleichstellung der Gehaltszahlungen an Führungskräfte von Unternehmen. (c) wie die organisatorische Leistung durch das Vorhandensein ideologiebasierter TMT-Faultlines beeinflusst wird, sowie die moderierende Rolle der CEO-Ideologie in diesem Prozess.

Die wissenschaftliche Längsschnittstudie basiert auf einem Datensatz, welcher die S&P 500 Unternehmen aus mehreren Industrien umfasst. Aus dieser Dissertation ergeben sich drei Haupterkenntnisse. Erstens, die CEO-Ideologie beeinflusst die Stellung eines Unternehmens gegenüber der so genannten - Diversity-Krise - definiert als die Anzahl der gegen das Unternehmen eingereichten Klagen hinsichtlich Diskriminierung. Zweitens, nicht nur das Geschlecht des CEO sondern auch das Zusammenspiel mit dessen politischer Ideologie treibt Gehaltsunterschiede zwischen Geschlechtern in der Unternehmensführung an. Drittens, um Teamkonflikte zu minimieren und die Unternehmensleistung durch die Existenz ideologiebasierter TMT-Faultlines zu steigern, sollten Unternehmen die Aufmerksamkeit auf die Ideologie der Vorsitz der Geschäftsleitung (d.h. des CEO) richten. Zusammengefasst ist die Kernaussage dieser Dissertation, dass Unternehmen nicht nur die Bedeutung oberflächlichen demographischer Merkmale, sondern auch die ideologischen Werte von Führungskräften berücksichtigen sollten - da diese Werte wahrscheinlich sowohl soziale als auch finanzielle Unternehmensergebnisse beeinflussen.

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Alphabetical list of acronyms and abbreviations

CEO	Chief Executive Officer
CEO-TMT	Chief Executive Officer and Top Management Team
$	American dollars
DWH	Durbin-Wu-Hausman
EEOC	Equal Employment Opportunity Commission
Fau	Faultlines
FS/TS	Foreign sales to total sales
GLS	Generalized least-squares
GVKEY	Global Company Key
JDF	Justia Dockets and Filings
log	Logarithm
min.	Minimum xi
OLS	Ordinary least squares
PACER	Public Access to Court Electronic Records
PhD	Doctor of Philosophy
ROA	Return on Assets
SIC	Standard Industry Classification
SMEs	Small and Medium-sized Enterprises
S&P 500	Standard & Poor's 500
TMT	Top Management Team
US	United States of America
VIF	Variance Inflation Factor

1 Introduction

1.1 Importance of the study

To what extent do the personal values and beliefs of top executives affect their organizational decisions, and how do they reflect firm level social and performance outcomes? These questions are of utmost importance. As Hambrick (2007:334) notes "If we want to understand why organizations do the things they do, or why they perform the way they do, we must consider the biases and dispositions of their most powerful actors – their top executives". There is therefore a move for academics to examine not only the surface level demographic characteristics of an organization`s top executives, but also how their personalities, values, and preferences affect organizational strategy and outcomes. This dissertation helps to increase our knowledge about how firms can optimize and benefit from the diverse values of top executives. In doing so, the dissertation addresses the following research gaps.

The first empirical paper examines how the political ideology of the CEO (i.e. liberalism vs conservativism) influences a key unexplored concept related to a firm`s social outcomes – how CEOs with different political ideologies and their different emphasis on equality at work, trigger a diversity litigation crisis, which is defined as the emergence of corporate discrimination lawsuits. Drawing from prior research which demonstrates that ideology guides preferences about equality and social justice, I anticipate that the ideology of the CEO will affect whether or not an organization is exposed to a diversity litigation crisis. I also posit that the increase in corporate discrimination lawsuits may be affected by the political ideology of the board of directors, which is the main monitoring body in a firm, and shapes CEO behavior.

The second empirical study of the dissertation investigates whether the political ideology of an organization`s leader affects an important strategic decision, which is also related to equal opportunities, the widely assessed gender-pay gap at the top. According to prior studies, the leader of the executive team, the CEO, who is in a powerful position, affects organizational strategy, team dynamics and pay structure in the executive group (Chin & Semadeni, 2017). Following the premise that the CEO is the main person determining how the TMT is composed, and how executives are paid, the dissertation investigates how CEO political ideology in parallel with CEO gender, affects the gender-pay gap (i.e., pay differences between male and female executives). By doing so, the dissertation addresses the debate around the social identity and queen bee streams of thought over whether female CEOs support female managers. It stresses that it is not gender itself, but the values of corporate leaders that shape whether the gender-pay gap widens, or is reduced, in organizations.

The third empirical study introduces a new concept, ideology-based faultlines. According to Carton and Cummings (2012) there are different types of subgroups (or faultlines) and each type has different effects on organizational performance (Carton & Cummings, 2012). I postulate that ideology-based TMT faultlines, which is a type of identity-based subgroups, will negatively affect the performance of an organization. I further propose that this underlying relationship will become less pronounced when the leader of the team (i.e. the CEO) has malleable political beliefs. In other words, when they are able to identify with more than one ideological subgroup in the TMT. This enables the CEO to act as an integrator, who bridges the conflicting views of ideological faultlines, reduces intra-team conflict and thereby promotes desirable firm level financial outcomes.

Together, these empirical studies focus on upper echelons research. According to Hambrick (2007:334) "upper echelons theory has two interconnected parts: (1) executives act on the basis of their personalized interpretations of the strategic situations they face, and (2) these personalized construals are a function of the executives' experiences, values and personalities". While the demographic characteristics have long been tested, the values and preferences of the top executives need to be further examined and integrated in the upper echelons model. These empirical studies therefore expand our understanding of how the values and beliefs of top executives can affect their strategic decisions, and subsequent outcomes.

1.2 Overall target and research questions

The aim of the doctoral dissertation is to add to the field of upper echelons theory by increasing our awareness of how and under which conditions the political ideology of top executives can affect organizational outcomes. In the first paper I look at how the political ideologies of CEOs affect the emergence of corporate discrimination lawsuits, and how the political ideology of the board of directors moderates this relationship. In the second empirical paper, I examine how the political ideology of the CEO can affect an important social issue – the gender-pay gap at the top. Finally, the third empirical paper contributes to the CEO-TMT interface by looking at the importance of the political ideology of the CEO in the performance implications of ideology-based TMT faultlines.

Generally, the three empirical papers of the dissertation aim to answer the following research questions:

> *Research Question 1:* How do a CEO`s political ideologies affect the emergence of corporate discrimination lawsuits? What impact does the political ideology of the board of directors have in this process?

> *Research Question 2:* How does the political ideology of the leader affect the gender-pay gap in the executive suite?

> *Research Questions 3:* How do ideology-based TMT faultlines affect organizational outcomes, and how does CEO political ideology moderate this relationship?

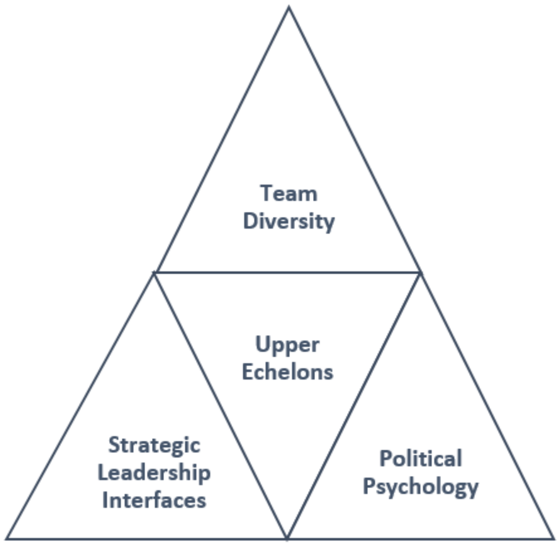
By answering these research questions, the dissertation highlights the importance of deep level characteristics, such as the political ideology of top executives, which is an indicator of an individual`s values, and which has recently gained attention in the upper echelons literature (Chin, Hambrick, & Treviño, 2013; Hambrick, 2007). This is in line with Hambrick (2007:335) who suggests that "the use of demographic indicators leaves us at a loss as to the real […] social processes that are driving executive behavior, which is the well-known black-box problem." By focusing on these three empirical studies, the dissertation further contributes to the upper echelons literature by looking inside the upper echelons black box, and by placing emphasis on the ideological values and predispositions of executives.

1.3 Scope of the dissertation

This dissertation focuses mainly on three different research streams: (a) team diversity, (b) political psychology and (c) strategic leadership interfaces (see Figure 1.1). These three research streams consider how the values, beliefs and personalities of CEOs and other executives affect strategic decisions and firm outcomes.

Indeed, these research streams have previously been connected in the literature. First, the research streams of political psychology and upper echelons have been linked to explain how the political ideology of executive leaders can affect their strategic decisions and leadership behaviors. For instance, studies have found that the political ideology of the CEO affects both TMT diversity and the way that executives respond to corporate social responsibility issues within the organization (Carnahan & Greenwood, 2018; Chin et al., 2013). At the same time, according to a recent study, the political ideology of the board can influence important strategic decisions, such as the way the CEO is compensated based on performance driven outcomes and performance-sensitive measures of pay (Gupta & Wowak, 2017). Building on these arguments, the dissertation explores how the political ideology of the top leader (i.e. the CEO), in interaction with the board, can affect corporate discrimination lawsuits. In doing so, the dissertation acts as a bridge between upper echelons theory, political psychology and the notion of strategic leadership interfaces.

Figure 1.1: Main conceptual foundations



Source: Author

Second, the notion of team diversity has been repeatedly considered in the upper echelons literature to explain how different forms of team composition affect organizational outcomes. The notion of gender has also been assessed, albeit to a lesser extent, given the low presence of women at the top of organizations. Given that gender pay disparities are likely to start from the top of the firm, however, and have cascading effects at lower levels of the organization, the dissertation does not see the low proportion of female executives as an aspect that prevents research in this area. The literature in this field has connected upper echelons theory with team diversity literature to explore how CEO gender can affect TMT pay structure and outcomes (Derks, Van Laar, & Ellemers, 2016; Shin, 2012). For example, based on the implications of social identity theory, one can assume that women pay their female subordinates more highly, as they tend to support in-group rather than out-group members (Tajfel, 1981; Tajfel, Turner, Austin, & Worchel, 1979). Conversely, the queen bee perspective suggests that female CEOs tend to be obedient to a male-dominated culture and thereby penalize female subordinates in order to signal masculine qualities, and justify their presence as gender-minority leaders (Staines, Tavris, & Jayaratne, 1974). The present dissertation advances knowledge in this area by linking these contradictory streams of thought, and by drawing on arguments from the field of political psychology.

Third, TMT faultlines (i.e. the separation between team members) have been demonstrated as factors of conflict in executive teams that cause negative organizational performance (for a review, see Thatcher & Patel, 2012). By introducing the concept of ideology-based TMT faultlines, we assess how the moderating impact of a CEO`s political ideology can affect the relationship between ideology-based TMT faultlines and firm performance. By linking the team diversity, political psychology and upper echelons research, this paper thus reveals to my knowledge for the first time, the effects of ideological TMT faultiness for organizations.

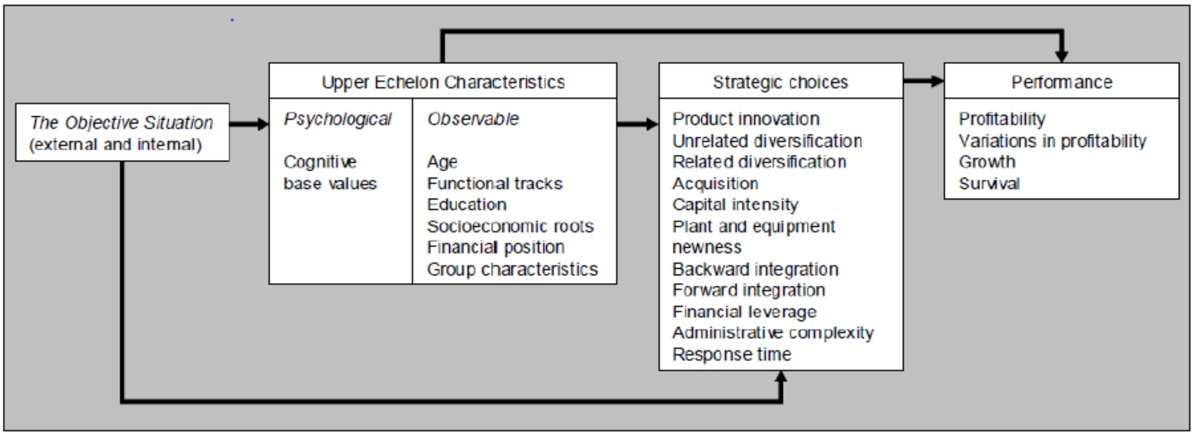
Finally, upper echelons theory is located in the middle of the model, as it is the main theory used in all papers of the dissertation (see Figure 1.1). The upper echelons perspective explains how top managers affect organizations through: (a) composition and diversity; (b) values and (c) interfaces. Although several theories are used, the dissertation draws consistently on the upper echelons perspective and ultimately contributes to it.

1.4 Conceptual background

Upper echelons theory is the main theoretical perspective applied to explain the effects of TMTs on firm outcomes. This theory implies that the characteristics of the most important decision makers can affect strategic choices and organizational outcomes (see Figure 1.2). According to March and Simon (1958), the way managers deal with a number of challenges mirrors their preferences, values and predispositions. Consequently, their decisions and organizational outcomes are reflections of behavioral aspects "rather than a mechanical quest for economic optimization" (Hambrick & Mason, 1984:194). This argument is also in line with Hodgkinson and Healey (2011:1512), who argue that individuals "are governed by thoughts *and* feelings: always boundedly rational, but manifestly driven by emotion".

According to upper echelons theory, an executive`s values can influence their choices and actions (Hambrick & Mason, 1984). Individuals interpret information based on their values, and these values in turn affect their choices. These processes may act as drivers of an individual`s interpretation of contextual conditions, and drive their decisions. As Wilson (1973:92) argues, “An ideology is both a cognitive map of sets of expectations and a scale of values in which standards and imperatives are proclaimed. Ideology thus serves both as a clue to understanding and as a guide to action, developing in the minds of its adherents an image of the process by which desired changes can best be achieved.” This dissertation thereby advances our knowledge about how the different political values, beliefs and predispositions of executives affect their strategic decisions, ethical frames, and subsequent firm outcomes. Figure 1.2 presents the original model by Hambrick and Mason (1984:198) where values and cognitive dispositions take central place in the process of interpreting and filtering information to derive strategic decisions and impact firm performance.

Figure 1.2: Upper echelons perspective of organizations



Source: Hambrick & Mason, (1984), p. 198

1.5 Analytical context

The sample used in the dissertation is based on the S&P 500 firms. The S&P 500 is one of the largest indices (Adhikari, Agrawal, & Malm, 2019). As firm size is an important indicator of the demands that executives face within the organization (James & Wooten, 2006), focusing on large firms in the S&P500 index improves comparability between organizations in the selected sample. This sample selection therefore offers an appropriate context in which to examine diversity issues at the top of large organizations.

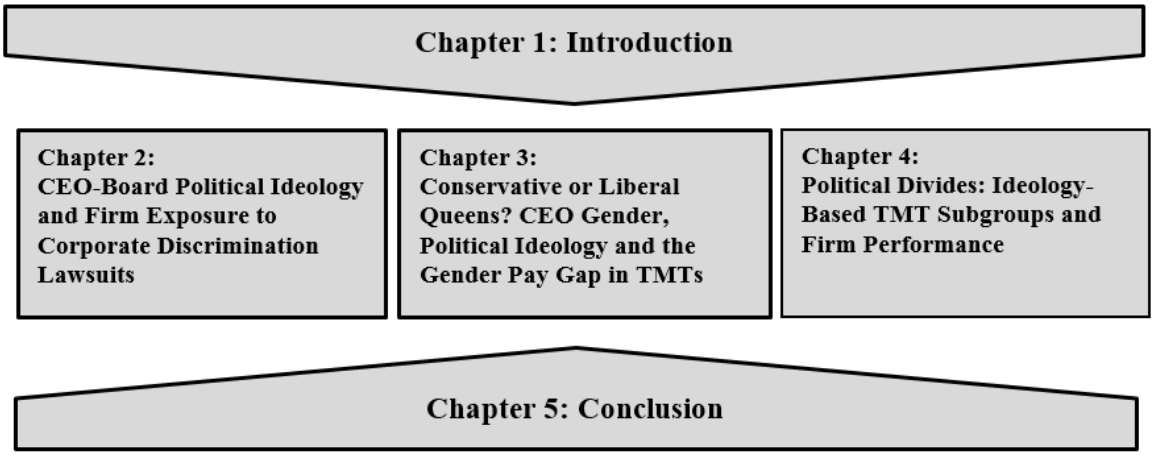
Another important strength of the dissertation is that it uses longitudinal data from companies that operate in different industries (Hambrick, 2007; Nielsen, 2010a). In the first paper, we focus on the period from 2007 to 2015. This is because the data for the dependent variable – corporate discrimination lawsuits – began to be available in the Justia Dockets and Filings (JDF) database from 2007 onwards. In the second paper, the data time-period is 2003 to 2015, given the introduction of the Sarbanes Oxley Act in 2002 – where gender-pay gap issues began to be considered as important elements of effective corporate governance. Finally, the third paper includes data from 2000 to 2013. The sample begins in 2000, to capture the corporate governance advances that occurred in US firms with the new century. The focus lasts until 2013 because our dependent variable (firm performance) is lagged by two years after each respective year. This approach is common in research (Georgakakis, Greve, & Ruigrok, 2017; Georgakakis & Ruigrok, 2017).

Data about executives and directors was retrieved from the ExecuComp and the BoardEx databases respectively (Christensen, Dhaliwal, Boivie, & Graffin, 2015; Hambrick, Humphrey, & Gupta, 2015). We used the donations of executives, as reported in the Federal Election Commission (FEC) database, to measure political ideology (Gupta, Briscoe, & Hambrick, 2017). Data about corporate discrimination lawsuits was collected from the Justia Dockets and Filings (JDF) database. Finally, firm and industry data was retrieved from the Compustat database. Generalized least squares (GLS) regression techniques were employed to analyze the data in all the papers of the dissertation.

1.6 Structure of the dissertation

The dissertation has five chapters: the introduction, three empirical papers and the conclusion (see Figure 1.3). The second and following chapter examines how the political ideology of the CEOs affects corporate discrimination lawsuits and how this relationship can be moderated by the political ideology of the board. The third chapter focuses on whether the political ideology of a female CEO affects the gender-pay gap at the top. By comparing the two contradictory streams of thought (i.e. social identity and the queen bee perspective), the paper adds to the literature by informing our understanding of how ideology and gender conjointly determine the gender-pay inequalities at the top of organizations. Chapter four focuses on a new concept of diversity faultlines – ideology-based TMT subgroups – and examines its performance implications. Finally, the conclusion chapter summarizes the key findings and offers theoretical and practical implications.

Figure 1.3: Structure of the dissertation



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CEO - BOARD POLITICAL IDEOLOGY AND FIRM EXPOSURE TO CORPORATE DISCRIMINATION LAWSUITS

Abstract: Drawing on upper echelons theory and research into political psychology we postulate that as conservative CEOs embrace less egalitarian values in their approach to strategic leadership, their firms are more prone to the emergence of a '*diversity-litigation-crisis*' — defined as the number of corporate-discrimination lawsuits filed against the organization. We also suggest that the relationship between CEO conservativism and corporate-discrimination lawsuits is attenuated when the board of directors is liberal-leaning. Overall, our research reveals that, in an era where organizations strive to realize value from diversity, the CEO-Board ideology interface plays a key role in affecting corporate social outcomes.

Keywords: CEO political ideology; diversity management; corporate discrimination lawsuits; strategic leadership; upper echelons; corporate responsibility

2.1 Introduction

Corporate discrimination lawsuits have drawn the attention of scholars, stakeholders and the business press in recent years (Dobbin & Kalev, 2016; James & Wooten, 2006). Such lawsuits arise when an individual, or group of individuals, legally object to a firm's leadership as being against equal opportunity rights (Sipe, Larson, Mckay, & Moss, 2016). According to the US Equal Employment Opportunity Commission (EEOC, 2019), corporate discrimination lawsuits have increased sharply over the last decade. This is an important phenomenon for strategic leadership scholars, as discrimination lawsuits can elicit dire consequences that negatively affect a firm's financial and reputational capital (Dobbin & Kalev, 2016; Wooten & James, 2008). Indeed, scholars have claimed that discrimination lawsuits constitute a critical challenge for strategic leaders, not just because of the direct financial costs they incur (Burstein, 1989), but perhaps most importantly, because they can significantly damage "the image, effectiveness, and in some cases, the survival, of an organization and its leadership" (James & Wooten, 2006:1106).

Given the severe consequences of corporate discrimination lawsuits, it has been argued that more research is required to investigate the reasons for them (Wooten & James, 2008). Although scholars have examined the macro-level factors that drive such disadvantageous organizational events — including workforce size (Deitch & Hegewisch, 2013), the rising awareness of equal opportunity rights (DiTomaso & Hooijberg, 1996), and increasing stakeholder demands for diversity and inclusion (Nason, Bacq, & Gras, 2018) — distinctly less emphasis has been placed on the role of corporate leaders in preventing of such events (Avery, McKay, & Wilson, 2008; Kunze, Boehm, & Bruch, 2011). This omission is important, as organizational priorities and responses to social demands are reflections of the values, beliefs and attitudes of a firm's strategic leadership (Hambrick, 2007; Hambrick & Mason, 1984; Treviño, Brown, & Hartman, 2003).

Our study contributes to this area of research. Drawing on upper echelons theory and research in political psychology, we argue that political ideology — a key indicator of CEO egalitarian values (Briscoe & Joshi, 2017; Chin et al., 2013; Chin & Semadeni, 2017; Hirsch, DeYoung, Xu, & Peterson, 2010) and "mental discriminant function" (Carnahan & Greenwood, 2018:289) — plays a central role in explaining how strategic leaders emphasize the provision of equal opportunities at work. Given that conservative CEOs place less "emphasis on civil rights and associated social issues, including diversity [and] social justice" (Briscoe, Chin, & Hambrick, 2014:1789), we postulate that their firms will be more prone to the emergence of a "*diversity-litigation-crisis" –* – defined as the number of corporate discrimination lawsuits filed against the organization (James & Wooten, 2006). We also posit that the positive effect of CEO conservativism on the occurrence of corporate discrimination lawsuits decreases when the board of directors is liberal in ideology — and thereby embraces egalitarian values in exercising corporate governance. Namely, given a board's monitoring and advisory roles (Boyd, Haynes, & Zona, 2011), as well as the tendency of conservative leaders to value order and hierarchy (Hirsch et al., 2010), we postulate that conservative-leaning CEOs will pay more attention to avoiding corporate discrimination lawsuits when they operate under a liberal-leaning board. We test our framework using data from S&P 500 firms between 2007 and 2015.

Our study makes several contributions to the field. First, it sheds light on how CEO values affect a key, yet relatively unexplored, dimension of corporate social justice — adherence to equal opportunity rights (Nason et al., 2018). Recent upper echelons studies have revealed that CEOs with conservative values are more risk averse, and thereby less likely to engage in risky financial behaviors that place a firm's reputation at stake (Christensen et al., 2015; Hutton, Jiang, & Kumar, 2014). Scholars have also shown that, compared to liberals, conservative CEOs are less likely to become targets for employee social activism, as they do not signal sensitivity to issues related to equal opportunities at work (Briscoe et al., 2014; Briscoe & Joshi, 2017). Our study contributes to this ongoing discussion by revealing that corporate social outcomes derive from the values of strategic leaders.

Second, our work contributes to the behavioral perspective of corporate governance (Westphal & Zajac, 2013) by enhancing our understanding of the important role of the CEO-Board ideology interface in strategic leadership (Boyd et al., 2011; Finkelstein, Hambrick, & Cannella, 2009). Scholars have recognized that, given their monitoring and advisory roles, boards significantly affect a CEO's managerial priorities and strategic decisions (Finkelstein et al., 2009). According to Westphal and Zajac (2013), the way directors exercise their monitoring and advisory duties is strongly influenced by their personal biases, ideological beliefs and dispositions, yet, the governance dimension at the CEO-Board ideology interface has been widely overlooked in previous research (Chin & Semadeni, 2017). Our work adds to this research, by revealing that the CEO-Board ideology interface plays a central role in determining the degree to which corporate leaders emphasize the establishment of organizational routines and processes that prevent corporate discrimination litigation. To this end, our study contributes to the behavioral perspective of corporate governance (Westphal & Zajac, 2013) by highlighting the interactive effect of the values of both CEOs and boards on firm-level social outcomes.

Third, studies have shown that firms vary in their responses to “corrective feedback” (Barr, Stimpert, & Huff, 1992), and that these responses are mainly shaped through the deep-level values and predispositions of a firm’s upper echelons (Chen, Crossland, & Luo, 2015). Along these lines, scholars have argued that some “firms may fail to learn how to manage diversity challenges effectively, such as [the emergence and recurrence] of discrimination lawsuits” (Wooten & James, 2004:23). Contributing to knowledge in this area, our supplementary analyses show that conservative leaders are less likely to learn from the past, and develop practices that avoid the recurrence of corporate discrimination litigation. To this end, our work describes the implications of the way that CEO and board ideological beliefs conjointly determine organizational responses to corrective feedback in managing diversity. Finally, our study’s findings have practical implications that are relevant for the area of organizational leadership, and the demands facing CEOs in managing diversity (DiTomaso & Hooijberg, 1996). As prior studies have stressed, win or lose, corporate discrimination lawsuits send a signal to the market that a firm violates the norms related to equal opportunity rights in the workplace — and thereby damage the organization’s reputation as an employer (Bundy, Pfarrer, Short, & Coombs, 2017; James, Wooten, & Dushek, 2011b; Ng & Sears, 2012). Predicting and preventing their occurrence is therefore of central importance.

2.2 Theory and hypotheses

2.2.1 Corporate discrimination lawsuits

Research has highlighted the key role of executives in affecting different forms of corporate litigation (O'Reilly, Doerr, & Chatman, 2018; Shi, Connelly, & Sanders, 2016), predominantly related to aspects of finance, such as financial fraud (Hsieh, Bedard, & Johnstone, 2014), irregularities in accounting statements, and corporate financial misconduct (Ham, Lang, Seybert, & Wang, 2017; Koch-Bayram & Wernicke, 2018). Little attention, however, has been placed on the role of strategic leaders in shaping organizational responses to the diversity demands of internal stakeholders

(DiTomaso & Hooijberg, 1996) – such as an organization's adherence to equal opportunities at work (James, Wooten, & Dushek, 2011). This omission is important, as corporate leaders play a key role in defining a firm's moral boundaries, and in shaping organizational responses to stakeholder expectations (Demuijnck, 2009; Goldman, Gutek, Stein, & Lewis, 2006; Ng & Sears, 2012). Regardless of whether a firm wins or loses in court, frequent discrimination lawsuits imply that organizational members perceive a firm's leadership to be violating social rights against minority groups, and thus threaten the firm's reputation as an employer (James & Wooten, 2006; Wooten & James, 2008).

There are two main costs associated with corporate discrimination lawsuits. First, studies have shown that corporate discrimination litigation can result in significant financial outlay for the defending firm. Texaco in 1994 (New York Times, 1996), Coca Cola in 1999, Home Depot in 2004, and Walmart in 2011 are well-known examples of firms that have experienced major financial losses from corporate discrimination lawsuits (EEOC, 2019). Second, beyond the direct financial costs, studies have shown that corporate discrimination lawsuits can significantly threaten a firm's reputational standing, as well as its ability to attract a diverse pool of valuable and qualified human capital (Deephouse, 2000). In a recent study, for example, Hirsh and Cha (2015) found that discrimination lawsuits have a direct effect on a firm's stock price and performance. Discrimination lawsuits can reduce a firm's ability to attract and retain the valuable and diverse human capital that is essential for gaining competitive advantage (Neves & Story, 2015).

Scholars have emphasized the need to examine the various determinants of this phenomenon due to the importance of corporate discrimination lawsuits, and the increasing workforce diversity in large corporations (Goldman et al., 2006). In this study we theorize that a key, albeit largely unexplored, determinant of corporate social outcomes pertains to the values of the firm's most prominent strategic leaders — the CEO and the board of directors. Our work builds on the notion that CEOs and boards operate in "parallel universes" (Boyd et al., 2011), and that their common pattern of interaction is sequential — the CEO depends on the board not only as a source of authority and oversight, but also as the main source of advice and resources in strategic leadership (Finkelstein et al., 2009). Based on this premise, we argue that – since political ideology serves as a direct indicator of egalitarian values (Briscoe & Joshi, 2017; Carnahan & Greenwood, 2018), and as CEOs and boards interactively shape organizational priorities and responses to stakeholder demands (Boyd et al., 2011; Simsek, Heavey, & Fox, 2018) — the CEO-Board ideology interface plays a central role in a firm's attention to equal-opportunity and diversity issues, and thus determines its vulnerability to corporate discrimination litigation. Below, we discuss the connection between CEO political ideology and egalitarian values, and develop our hypotheses.

2.2.2 CEO political ideology and corporate egalitarianism

Political ideology is an indicator of an individual's values and attitudes (Chin et al., 2013) that, when combined with the notion of egalitarianism, acts as a direct indicator of a manager's "*mental discriminant function*" (Bielby & Baron, 1986:781; Carnahan & Greenwood, 2018:289). Since each ideology has its own discrete set of ethical foundations (Graham, Haidt, & Nosek, 2009), scholars have shown that conservatives and liberals exhibit noticeable differences pertaining to the perceived importance of equal opportunities at work (Jost, Banaji, & Nosek, 2004). These different perceptions are likely to affect the degree to which managers prioritize the establishment of a 'safety net' that ensures corporate equality and social justice (Carnahan & Greenwood, 2018) – or whether they believe that individual discipline and performance is a more effective means by which to establish equal opportunities at work compared to forced regulation (Graham et al., 2009).

Indeed, scholars have shown that deeply held values and ideologies influence an executive's decisions, priorities and actions in two main ways (Finkelstein et al., 2009). The first way is through *direct influence* — or what England (1967) labeled "*behavioral channeling*" — in which, after judging a variety of information, the executive consciously selects the course of action that aligns to their own personal values. The second way is through indirect influence — or what England (1967) called "*perceptual filtering*" — in which executives unconsciously perceive and interpret information to arrive at a particular decision that fits their values. According to Skitka and Tetlock (1993), there are three main value-related differences between conservative and liberal ideologies. Conservative-leaning leaders tend to: (a) place less emphasis on equal rights and affirmative action in managing organizations (Goren, Federico, & Kittilson, 2009), (b) emphasize stability and social order rather than change and reform, and (c) exhibit a preference for hierarchical structures (Hirsch et al., 2010; Jost, Federico, & Napier, 2009). The conservative ideology asserts that individual accountability and discipline is a more efficient way to establish equality in the workplace than enforced regulation (Jost et al., 2009). Conservative leaders exhibit a higher "resistance to change and acceptance of inequality" (Jost et al., 2007:990), as they embrace the notion that changing social order often leads to risky and undesirable results (Tetlock, 2000). In direct contrast, liberals adopt a more progressive set of views in managing organizations (Sowell, 2007). Due to their more egalitarian orientation, rejection of inequality, and sensitivity toward equal rights (Jost et al., 2004), liberal-leaning leaders are more likely to emphasize the development of an inclusive organizational culture that inherently values equal opportunities and social justice (Briscoe & Joshi, 2017; Carnahan & Greenwood, 2018).

Building on this premise, we argue that, through perceptual filtering processes, conservative CEOs are less likely to see events such as corporate discrimination lawsuits as critical for an organization. Due to their inherent belief that discipline is superior to enforce regulation in developing equality at work (Jost et al., 2009), they are expected to devote less attention to the establishment of processes and routines that prevent the occurrence of corporate discrimination lawsuits. On the contrary, liberals are likely to inherently consider the emergence of discrimination lawsuits as an important indicator of inadequate social performance — and thus, place most priority on establishing mechanisms that prevent such events. Indeed, our argument that conservative CEOs place less emphasis on egalitarianism and equality at work is supported by prior studies (Carnahan & Greenwood, 2018). Contributing to this ongoing discussion, we suggest that a conservative CEO's less egalitarian orientation to corporate leadership will make them devote less attention to the establishment of routines that prevent the occurrence of corporate discrimination lawsuits. This will in turn increase the firm's vulnerability to corporate discrimination litigation.

Hypothesis 1. *There is a positive relationship between CEO conservativism and corporate discrimination lawsuits.*

2.2.3 The CEO-Board ideology interface

CEOs and boards operate in "parallel universes" with sequential patterns of interaction (Boyd et al., 2011) – the CEO depends on the board not only as a source of authority, but also as a source of advice and counsel (Daily, Dalton, & Cannella, 2003). Building on the notion that boards influence executive behavior, we expect that the effect of CEO conservativism on corporate discrimination lawsuits will be attenuated when the board of directors is liberal-leaning. Our argument derives from the following logic.

First, scholars have long recognized the key role of the board in delegating decision-making authority to management, and in evaluating the degree to which executives effectively act in alignment with stakeholder interests (Finkelstein et al., 2009). A liberal-leaning board, for example, is likely to perceive a conservative CEO's insufficient attention to equal opportunities as an important factor that requires improvement in order to meet the diversity-demands of internal stakeholders (DiTomaso & Hooijberg, 1996). The inherent inclination of liberal boards toward egalitarianism and social justice will make them perceive the emergence of corporate discrimination lawsuits as a critical threat to the social performance of the organization. They are therefore expected to steer CEOs toward the establishment of internal policies and practices that ensure adherence to equal opportunity rights and prevent a firm's exposure to corporate discrimination litigation. Meanwhile, given that conservativism is associated with greater "respect for authority" (Hirsch et al., 2010:656), conservative CEOs are likely to adhere to the recommendations of liberal boards — and thereby start considering the avoidance of discrimination lawsuits as a critical element of their duties. Under these conditions, the positive relationship between CEO conservativism and corporate discrimination lawsuits will thus be attenuated.

Second, apart from the monitoring and authority dimensions, extant literature has recognized the key role of the board in providing advice and counsel to the CEO (Daily et al., 2003; Hillman, Withers, & Collins, 2009). Due to bounded rationality and means-ends ambiguity (Hambrick & Mason, 1984; March & Simon, 1958), CEO decisions and actions are likely to be influenced by other corporate governance bodies in the firm (Arendt, Priem, & Ndofor, 2005), and particularly by the board of directors (Boyd et al., 2011). Driven by their deeply held egalitarian values, liberal boards are likely to emphasize issues related to social justice when they execute their advisory duties, influencing conservative CEOs to take actions that ensure adherence to equal opportunities. On this basis, we hypothesize the following:

Hypothesis 2. *The positive relationship between CEO conservativism and corporate discrimination lawsuits attenuates when the board of directors is liberal-leaning.*

2.3 Methods

2.3.1 Sample and data sources

Our sample consists of CEOs in firms listed in the S&P 500 index between 2007 and 2015. Firms in the S&P 500 index face comparable challenges in managing the expectations of diverse internal stakeholders. Focusing on S&P 500 firms therefore allows us to examine the effects of CEO and board ideology in organizations that face similar stakeholder demands. To ensure that all firms in our sample are large organizations with comparable workforce size, we excluded firms that had less than 500 employees, as such firms fall within the small and medium sized enterprises (SMEs) category (United States International Trade Commission, 2019). Given that workforce size is an important dimension of the workforce demands facing organizations (James & Wooten, 2006), focusing on organizations with large workforce size enhances comparability among the firms included in our sample.

A total of 4,235 CEO-year observations were identified from the initial sample. Due to missing data, some cases were omitted, resulting in a final sample of 3,175 CEO-year observations from 426 firms. Data on CEOs and boards of directors was retrieved from the *ExecuComp* and the *BoardEx* databases (Christensen et al., 2015; Hambrick et al., 2015). To measure political ideology, we obtained data on the political donations of CEOs, executives and directors from the *Federal Election Commission* (FEC) website, which provides information on all individual's political donations higher than $200 (Gupta et al., 2017). Information about corporate discrimination lawsuits was collected from the *Justia Dockets and Filings* (JDF) database, which provides information on all lawsuits filed in federal appellate and district courts with a direct link to the *Public Access to Court Electronic Records* (PACER). With daily updated records, JDF allowed us to assess and track all cases filtered by court and lawsuit type. As our aim was to capture only lawsuits related to workforce discrimination, we limited our focus to cases labeled under the *workplace discrimination* category in the JDF database, and included only lawsuits where the firm was listed as a *defendant*. Firm and industry data was gathered from the *Compustat* database.

2.3.2 Dependent variable

Our dependent variable – *corporate discrimination lawsuits* – was measured as the difference between the average number of discrimination lawsuits in the two years after each year of observation (t1, t2), and the number of lawsuits in the observation year (t). We used a lagged and dynamic approach to capture the evolving nature of this variable, by considering the time needed for a lawsuit to be filed against the firm (James & Wooten, 2006)[1]. The dynamic measure of corporate discrimination lawsuits also allowed us to capture how changes in CEOs, and board composition subsequently impact the increase (or decrease) in the firm's exposure to corporate discrimination litigation. Based on the information provided in the JDF database, we focused only on lawsuits for which the focal firm was named as *defendant* under the broad *workplace discrimination* category, comprising: age, equal pay, gender, disability, genetic information, sexual orientation, ethnicity, nationality, race, religion, retaliation, sexual harassment and other forms of discrimination. While these categories may differ from each other in terms of the nature of discrimination, scholars have stressed that considering all categories simultaneously creates a more complete and reliable measure of a firm's exposure to various forms of discrimination litigation (James & Wooten, 2006).

2.3.3 Independent variable

In keeping with extant research, *CEO conservativism* was measured by examining each CEO's donations to the two major political parties in the United States – the republican party and the democratic party (Chin et al., 2013; Gupta et al., 2017). Research in political science has shown that differences between republicans and democrats in the United States reflect differences in stable political attitudes (Goren et al., 2009) – with the former leaning toward conservativism, and the latter espousing liberalism (Chin et al., 2013; Gupta et al., 2017). Indeed, scholars have both quantitatively and qualitatively verified that political donations act as a valid indicator of an individual's political beliefs (Bermiss & McDonald, 2018; Chin et al., 2013).

We included donations to federal or state offices, campaign finance committees, contributions to candidates, and political action committees (PACs) (Christensen et al., 2015). To ensure that we accurately capture a CEO`s stable ideological leanings, we used political donations data between 1990 and 2015 (Gupta & Wowak, 2017). After we retrieved data on political donations, we calculated the conservativism ratio for each CEO using the approach suggested by Christensen et al. (2015) and Lee, Lee, and

[1] As a robustness check, we ran our analyses by employing a static rather than a dynamic dependent variable (i.e., the average number of lawsuits two years after the year of observation (t1+t2)/2). Results were consistent with those presented in Table 2.2 and are available in Appendix 2.2.

Nagarajan (2014). We calculated the total donations (in US dollars) made by each CEO to the republican party, and to the democratic party. Next, CEO conservativism was measured as the sum of the CEO's donations to the republican party minus the sum of donations to the democratic party, divided by the total sum of donations to both parties: $\left(\frac{\sum \$ \text{ donated to the Republican party - } \sum \$ \text{ donated to the Democratic party}}{\sum \$ \text{ donated to both parties}}\right)$. This gives each CEO a political ideology score ranging from +1 (high conservativism) to -1 (high liberalism) (Christensen et al., 2015).

2.3.4 Moderator variable

To measure *board liberalism*, we first calculated each individual director's ideology ratio. Similar to the calculation of CEO political ideology, we first gathered data on the political donations made by each individual director from the FEC and the *Political Moneyline* databases for the period 1990 to 2015. Next, we calculated the sum of donations (in US dollars) made by each director to the democratic party and to the republican party. Director liberalism was measured as the sum of the director's donations to the democratic party minus the sum of the director's donations to the republican party, divided by the total sum of the director's donations to both parties (Christensen et al., 2015; Lee et al., 2014). This calculation gives us each director's ideology score ranging from +1 (highly liberal) to -1 (highly conservative). We measured board liberalism by adding the score of all board members in each firm in our sample. To avoid overlapping measures, we excluded the CEO's political ideology in all cases where the CEO was a member of the board of directors.

2.3.5 Control variables

We employed several control variables to account for potential confounding factors. First, we controlled for the *past number of corporate discrimination lawsuits* filed against the firm – assuming that firms with a high number of lawsuits in a preceding year are less likely to experience a further increase in lawsuits in subsequent years. This variable allows us to observe how our dependent variable is causally affected by CEO and board ideology, when the number of past corporate discrimination lawsuits of the firm is controlled – and thereby account for the potential threats of regression to the mean (Brown, 1982; Shen & Cannella, 2002). Firms with a large *workforce size* are more likely to experience diverse workforce expectations (James & Wooten, 2006). To account for this, we controlled for workforce size, measured as the *number of employees* in the organization. We logarithmically transformed this variable to capture diminishing effects at high levels of workforce size (Child, 1973; Collins & Clark, 2003). Similarly, some firms may be more exposed to workforce diversity than others due to a larger representation of minority group labor in their primary industry. To account for this, we controlled for the *industry proportion of minority labor* in each firm's NAICS-2 industry sector. Annual data on workforce minority representation in different NAICS-2 industries was retrieved from the *EEOC website* (EEOC, 2019).

When the workforce of a firm is predominantly liberal in ideology, its members are more likely to exhibit sensitivity toward equal opportunity rights – and are thus more likely to protect these rights when needed. We therefore controlled for *workforce liberalism*, calculated based on the amount of donations made by organizational members (excluding CEO, executives and directors) to the democratic party divided by the amount of donations made to both parties (Bermiss & McDonald, 2018; Gupta et al., 2017). Similar to prior studies, data on the donations of organizational members was gathered from the FEC and the Political Moneyline databases (Gupta et al., 2017).

To ensure that the predicted effect of CEO political ideology is not driven by other CEO characteristics, we controlled for various CEO attributes. *CEO female* was measured as 1 if the CEO was a female and 0 otherwise. *CEO power* in the firm was measured as the sum of the following three standardized components: (a) CEO compensation; (b) CEO board membership; and (c) CEO tenure. First, CEO compensation was measured as the total compensation of the CEO using the *tdc1* variable provided in the *ExecuComp* database (Gupta & Wowak, 2017). Second, CEO board membership was coded as 1 if the CEO was a member of the board of directors in the focal firm and 0 otherwise. Finally, CEO tenure was calculated as the number of years from the time the CEO assumed their position in the focal firm up to each respective year of observation.

To account for the potential impact of other top managers beyond the CEO, we controlled for *TMT conservativism*. Similar to the calculation of CEO and board ideology, this variable was measured by calculating the total sum of donations (in US dollars) that each executive had made to the republican party minus the sum of their donations (in US dollars) to the democratic party, divided by the total sum of the executive's donations to both parties (Christensen et al., 2015; Lee et al., 2014). *TMT conservativism* was calculated as the average ideology score of all TMT members (excluding the CEO). We controlled for *TMT size* and *board size*, measured as the number of executives and directors in the firm's TMT and board in each respective year of observation. We logarithmically transformed these variables to capture diminishing effects at high levels of TMT and board size.

Scholars have argued that vigilant boards are more likely to strongly monitor and influence CEO behavior (Baysinger & Hoskisson, 1990; Carpenter & Sanders, 2002). We therefore controlled for *the proportion of non-executive directors* on the board (Weng & Lin, 2014; Zajac & Westphal, 1996; Zhang & Rajagopalan, 2010). To account for board gender effects, we controlled for the *proportion of male directors* in the board. Poorly performing organizations are more resource-constrained and may be more exposed to negative social outcomes (Wooten & James, 2008). To account for this aspect, we controlled for *return on assets* (ROA).

In heavily regulated industries, corporate leaders exhibit higher levels of political engagement (Hillman, 2005; Joskow, Rose, & Wolfram, 1996). To account for this aspect, we used a dummy variable taking the value of 1 if the firm operates in a *heavily regulated industry* and 0 otherwise. Consistent with Luoma and Goodstein (1999), heavily regulated industries were defined as those with 4 and 6 as primary SIC codes, as well as those in the 2830 SIC category (pharmaceuticals). Following Dess and Beard (1984a), *industry munificence* was calculated as the regression coefficient of time on the annual mean of sales in the primary 2-digit SIC code of a firm for the period 2007–2015, divided by the mean sales of all years. *Industry dynamism* was measured by dividing the standard error of the regression slopes calculating munificence by the mean value of sales (Dess & Beard, 1984; Nielsen & Nielsen, 2013). To account for macro-level factors that may impact the emergence of discrimination lawsuits, we also controlled for headquarters *state ideology.* As in Gupta et al. (2017), this variable was measured as the percentage of votes for the republican party in the most recent presidential election in the firm's headquarters state. Finally, to capture year effects, we controlled for *year dummies*.

2.3.6 Analytical strategy

We adopted the following analytical approach to account for potential endogeneity, recognizing that the number of discrimination lawsuits may be affected by factors that simultaneously affect the presence of a CEO with a given political ideology (i.e., conservative versus liberal). Notably, board liberalism and workforce liberalism may have a (negative) effect on the presence of a conservative CEO and, at the same time, may directly affect the occurrence of corporate discrimination lawsuits – raising potential endogeneity concerns.

To check whether endogeneity was present, we first conducted Durbin-Wu-Hausman tests (Davidson & MacKinnon, 1993; Semadeni, Withers, & Certo, 2014). To identify appropriate instruments, we followed the recommendation of prior studies to use the macro-level average of the focal predictor variable in the focal firm's context, excluding the focal firm, to instrument for the focal independent variable (Liu, Miletkov, Wei, & Yang, 2015; Zorn, Shropshire, Martin, Combs, & Ketchen, 2017). Accordingly, we employed the *average CEO conservativism ratio among industry peers* in the focal firm's primary industry (excluding the focal firm) and the *average CEO conservativism ratio among firms headquartered in the same state* as the focal firm (excluding the focal firm), as instruments. Our logic is that, mimetic tendencies (Williamson & Cable, 2003) means that firms which operate in the same industry and are headquartered in the same state as the focal firm are likely to affect the focal firm's likelihood of appointing CEOs with similar attitudes and ideologies. Such industry- and state-level mimetic tendencies (excluding the focal firm) are unlikely to directly affect the number of discrimination lawsuits filed against the focal organization, however. To ensure the appropriateness of our instruments, we tested their exogeneity using the Sargan and Basmann tests. Both tests provided support for the appropriateness of the selected instruments (i.e., *chi square=* 0.82, $p = .365$; and *chi square=* 0.81, $p = .370$). The Durbin-Wu-Hausman (DWH) tests confirmed that endogeneity was not present in any of our models.

We ran a Heckman two stage model to further ensure that our results remain robust when potential endogeneity is controlled. While the Heckman two stage model has mainly been used for dealing with sample selection bias (Certo, Busenbark, Hyun-Soo, & Semadi, 2016), it has also been employed to control for endogeneity in complete samples (Zhang & Qu, 2016). The first stage is a Probit regression that predicts the likelihood of appointing a conservative CEO in our sample. As shown in Appendix 2.1, average CEO conservativism in industry peers in a firm's primary industry (excluding the focal firm), and average CEO conservativism in firms with the same state headquarters as the focal firm (excluding the focal firm) (i.e., instrumental variables) are strongly and positively related to the selection of a conservative CEO in the focal firm. Since these variables are not included in the Heckman second stage models, they effectively act as exclusion restrictions – an aspect that prior studies have considered essential for the appropriateness of Heckman two-stage analyses (Certo et al., 2016). Workforce liberalism and board liberalism are negatively associated with CEO conservativism. We calculated the inverse Mills ratio from the first stage model and added it as a control variable in the main analysis (second stage model, see Table 2.2) – allowing us to control and correct for potential endogeneity[2].

2.4 Results

2.4.1 Main analysis

We employed a panel (a pooled cross-sectional time series) dataset to test our hypotheses. The use of panel data allows control for unobserved heterogeneity and enhance statistical estimates (Kmenta & Rafailzadeh, 1997). While panel data provide certain advantages, however, attention must be paid to cross-sectional heteroscedasticity, and intra-unit serial correlation (Greene, 2003). In such cases, the Ordinary least square (OLS) assumptions of constant variance and uncorrelated error terms are violated – making the use of a simple OLS regression inadequate (Cannella, Park, & Lee, 2008; Neter, Kutner, Nachtsheim, & Wasserman, 1996). We therefore employed a generalized least square (GLS) regression for the data analysis (Kmenta & Rafailzadeh, 1997). In GLS regression, attention must be paid to the choice between fixed- and random-effect approaches (Certo, Withers, & Semadeni, 2017). Random-effects are recommended when time invariant variables are included (Greene, 2003). Since our analysis includes time invariant variables, and given that our theory focuses on between-firm effects (rather than within-firm-year effects) (Certo et al., 2017), we adopted a random effects approach.

Table 2.1 presents descriptive statistics and correlations, and Table 2.2 presents results of the GLS regression. We ran variance inflation factor (VIF) tests using OLS regression to check for multicollinearity (Cannella et al., 2008). The highest VIF score was 2.04, with a mean of 1.47, indicating that multicollinearity is not a concern (Cohen, Cohen, West, & Aiken, 2003). Hypothesis 1 posits a positive relationship between CEO conservativism and the occurrence of corporate discrimination lawsuits. Our results substantiate this hypothesis (*b= 0.14; std.err.= 0.06; p= .030*) (see Table 2.2).

[2] Our results with and without the inverse Mills ratio included in the analyses are consistent in both directions and significance levels – supporting our hypotheses.

Table 2.1: Descriptive statistics and correlations

Variables	$\bar{x}$	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1. Change in discr. lawsuits	-0.04	0.77	-																		
2. Past # of discr. lawsuits	2.43	6.10	*-0.25*	-																	
3. Workforce liberalism	0.45	0.14	0.01	-0.01	-																
4. Industry % of minority labor	34.31	8.78	0.01	*0.15*	*0.11*	-															
5. State ideology	0.44	0.08	-0.03	*0.12*	*-0.27*	*-0.12*	-														
6. Heavily regulated industry	0.35	0.48	0.01	*0.04*	*0.07*	*0.29*	0.02	-													
7. Industry munificence	0.05	0.09	-0.03	0.02	*0.04*	0.02	*-0.05*	*-0.19*	-												
8. TMT size (log)	1.80	1.18	-0.01	*0.10*	-0.02	*-0.04*	0.01	0.03	-0.02	-											
9. Industry dynamism	0.11	0.09	0.01	*-0.06*	-0.03	-0.01	*-0.08*	*-0.38*	*0.15*	0.01	-										
10. Prop. of male directors	0.84	0.09	0.02	*-0.15*	-0.00	*-0.11*	*0.06*	-0.03	-0.00	*-0.10*	-0.03	-									
11. Board size (log)	2.35	0.21	-0.01	*0.17*	*-0.10*	*0.07*	-0.03	*0.11*	-0.02	*0.12*	*-0.04*	*-0.30*	-								
12. ROA	6.06	7.23	0.00	-0.00	0.02	0.01	*-0.11*	*-0.29*	*0.10*	*-0.07*	*0.15*	-0.03	*-0.04*	-							
13. CEO power	0.22	1.34	-0.00	-0.00	-0.02	-0.00	0.01	*-0.05*	-0.03	*-0.15*	-0.01	0.03	0.00	0.02	-						
14. Number of employees (log)	3.03	1.37	-0.01	*0.46*	-0.03	*0.17*	-0.01	*-0.16*	*0.07*	*0.12*	0.02	*-0.27*	*0.27*	*0.09*	*0.07*	-					
15. Prop. of non-exec. directors	0.87	0.07	-0.00	*0.09*	*-0.06*	*-0.09*	*0.09*	*0.07*	-0.03	*0.15*	-0.03	*-0.16*	*0.21*	*-0.08*	*-0.10*	*0.16*	-				
16. CEO female	0.03	0.17	0.01	-0.00	-0.00	*0.05*	*-0.09*	*-0.04*	0.00	*0.04*	*0.06*	*-0.17*	*0.01*	0.03	*-0.06*	*0.13*	*0.06*	-			
17. TMT conservativism	0.62	0.28	-0.01	*0.08*	*-0.25*	*-0.10*	*0.29*	*-0.15*	*-0.04*	*0.09*	*0.05*	0.02	*0.04*	*0.08*	0.02	*0.12*	*0.09*	0.01	-		
18. Board liberalism	-0.61	2.06	-0.00	*-0.10*	*0.08*	*0.07*	*-0.10*	*0.04*	*0.04*	-0.03	-0.00	*0.06*	*-0.08*	0.00	-0.01	*-0.15*	*-0.08*	*0.08*	*-0.22*	-	
19. CEO conservativism	0.11	0.56	0.00	*0.06*	*-0.21*	*-0.10*	*0.25*	*-0.08*	-0.03	0.00	0.03	0.03	-0.03	0.03	*0.05*	0.01	0.03	*-0.04*	*0.43*	*-0.17*	-

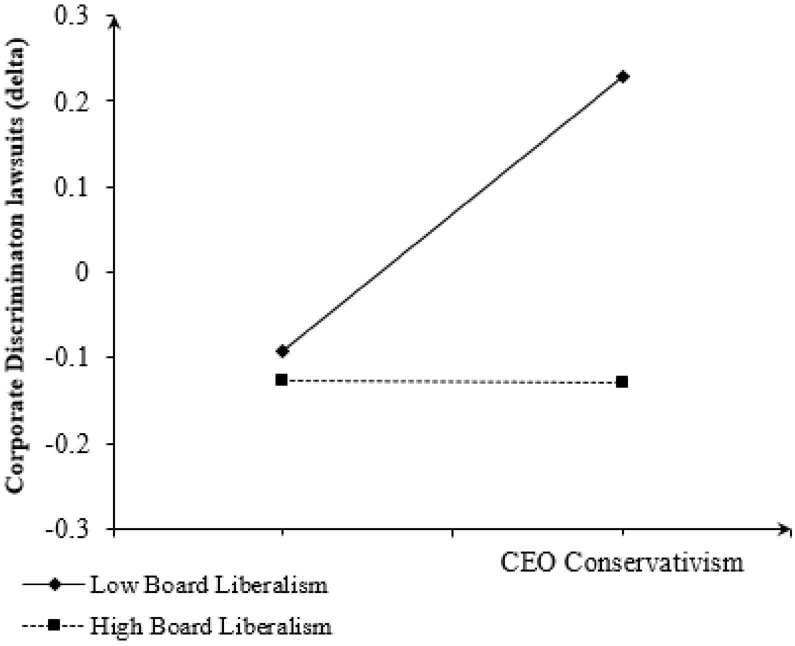
N= 3,175; Correlations at $p<.050$ are italicized

Table 2.2: GLS analysis with change in discrimination lawsuits as dependent variable

Variables	Model 1			Model 2			Model 3		
	β	*Std.Err*	*p-value*	*β*	*Std.Err*	*p-value*	*β*	*Std.Err*	*p-value*
Intercept	-2.36	1.05	.025	-2.64	1.05	.010	-2.73	1.05	.009
Inverse Mill's ratio	0.28	0.26	.266	0.44	0.25	.077	0.43	0.25	.085
Past # of discrimination lawsuits	-0.15	0.03	.000	-0.15	0.03	.000	-0.15	0.03	.000
Workforce liberalism	-0.03	0.28	.921	-0.09	0.28	.742	-0.06	0.28	.827
Industy % of minority labor	0.01	0.01	.112	0.01	0.01	.121	0.01	0.01	.094
State ideology	1.02	0.78	.187	1.15	0.78	.140	1.16	0.77	.133
Heavily regulated industry	0.18	0.12	.128	0.20	0.12	.089	0.19	0.12	.107
Industry munificence	-0.92	0.53	.084	-0.94	0.53	.080	-0.89	0.54	.097
Industry dynamism	-0.45	0.43	.296	-0.50	0.43	.240	-0.49	0.43	.247
CEO power	-0.01	0.03	.854	-0.01	0.03	.814	-0.01	0.03	.724
Proportion of male directors	0.04	0.36	.915	0.06	0.35	.865	0.04	0.35	.915
TMT size (log)	0.12	0.25	.620	0.13	0.25	.587	0.15	0.25	.545
Board size (log)	0.03	0.24	.894	0.07	0.24	.762	0.07	0.24	.770
ROA	0.00	0.00	.447	0.00	0.00	.418	0.00	0.00	.382
Number of employees (log)	0.27	0.05	.000	0.27	0.05	.000	0.27	0.05	.000
Proportion of non-exec. directors	0.34	0.46	.466	0.34	0.47	.468	0.39	0.47	.403
CEO female	-0.14	0.16	.371	-0.16	0.16	.312	-0.19	0.17	.250
TMT conservativism	0.05	0.12	.670	-0.03	0.12	.801	-0.01	0.12	.957
Board liberalism	-0.04	0.02	.091	-0.04	0.02	.054	-0.02	0.02	.263
Year dummies	*Included*			*Included*			*Included*		
CEO conservativism				0.14	0.06	.030	0.10	0.06	.104
CEO conservativism X Board liberalism							-0.07	0.03	.010
Wald chi-square	149.83			155.07			161.01		
P-value	.000			.000			.000		
N	3,175			3,175			3,175		

To check the practical significance of our results, we first set all variables to their mean (Christensen et al., 2015) and evaluated the effect size of CEO conservativism on the change in corporate discrimination lawsuits (our dependent variable). The results show that as CEO conservativism increases by one standard deviation, the change in corporate discrimination lawsuits increases by 0.14 (-0.09 to 0.05). Given that the average change in lawsuits is -0.04 in our sample, the observed effect is of significant relevance. To assess the effect size using static terms of the dependent variable, we calculated the effect size in the analysis of the static (rather than the dynamic) measure of corporate discrimination lawsuits (see Appendix 2.2). The results show that as CEO conservativism increases by one standard deviation, the number of corporate discrimination lawsuits increases by 0.71. Given that that the average corporate discrimination lawsuits in our sample is 2.28, this effect appears to be of significant relevance.

Figure 2.1: Interaction effects at the CEO-Board ideology interface



Source: Author

Further, hypothesis 2 postulates that the positive relationship between CEO conservativism and corporate discrimination lawsuits becomes less pronounced when the board of directors is liberal-leaning. Our results substantiate this hypothesis (*b = -0.07; std.err= 0.03; p= .010*). As Figure 2.1 shows, the positive main relationship between CEO conservativism and corporate discrimination lawsuits is attenuated when the board adopts a strong liberal orientation. The observed interaction effect is of substantial relevance, as it shows that when board liberalism increases at one standard deviation the positive effect of CEO conservativism on corporate discrimination lawsuits is reduced by 70 percent. This implies that board ideology does play an important role in influencing the impact of CEO values on corporate social outcomes.

2.4.2 Robustness checks

We performed additional analyses to check the robustness of our findings. First, we re-ran our analyses with a static measure of our dependent variable – the average number of corporate discrimination lawsuits in the two years after each respective year of observation [(t2+t1)/2]. This enabled us to check whether our results hold when we replace our dynamic dependent variable with the static measure of a firm’s exposure to corporate discrimination ligation. The results of this analysis are consistent with those presented in Table 2.2, as shown in Appendix 2.2.

To fully capture macro-economic effects, we ran our models with the dependent variable – corporate discrimination lawsuits – adjusted to the firm's industry average, recognizing that firms in some industries may be more vulnerable to corporate discrimination litigation. The results were consistent with those presented in Table 2.2. We also adjusted our dependent variable to the year average and the firm's headquarter-state average of corporate discrimination lawsuits. Our assumption is that corporate discrimination lawsuits may be more frequent in some years and in some states than in others. Adjusting our dependent variable to the year and the firm's headquarter-state average allows us to detect whether such potential systematic variation drives our results. The results of these analyses were consistent with those presented in Table 2.2. Overall, these supplementary tests confirm that our results remain robust when macro-economic factors are considered in the measurement of the dependent variable, and are available from the authors on request.

2.4.3 Supplementary analysis examining responses to "corrective feedback"

Studies have shown that some firms "fail to learn" from past corporate discrimination lawsuits (James & Wooten, 2004:23). Based on the notion that conservative leaders exhibit greater "acceptance of inequality" (Jost et al., 2009:990), we examined whether the "fail to learn" likelihood from the occurrence of past discrimination lawsuits (Wooten & James, 2004:23) is higher for conservative than for liberal CEOs – and how this varies with the political ideology of the board of directors. Specifically, we examined the interaction effect between CEO conservativism and the number of past corporate discrimination lawsuits (i.e., number of lawsuits at year t) on the increase (or decrease) in discrimination lawsuits within the subsequent two years (our dependent variable).

As Model 2 in Appendix 2.3 shows, there is a negative relationship between the number of lawsuits in year t and the change in the average number of lawsuits in the subsequent two-year period (t1 and t2) (*b= -0.17; std.err.= 0.04 ; p= .000*). This negative relationship implies that, in general, companies do learn from past exposure to discrimination lawsuits and prevent their further increase. The observed negative relationship becomes less pronounced, however, when CEO conservativism is high *(b= 0.10; std.err. =0.03; p= .005*). This provides preliminary evidence indicating that –

compared to their liberal counterparts – conservative CEOs are less likely to learn from past corporate exposure to discrimination lawsuits, and to take actions to avoid their further increase and recurrence. We re-ran the same analysis by splitting the sample into: (a) firms governed by conservative boards of directors (i.e., boards with an average liberalism ratio below 0), and (b) firms governed by liberal boards (i.e., boards with an average liberalism ratio above 0) (see Models 3 and 4 in Appendix 2.3). The results show that the 'fail to learn' tendency of conservative CEOs is only significant in firms led by conservative boards (*b= 0.15; std.err. = 0.07; p= .028*) and not significant in firms led by liberal boards (*b= 0.00; std.err. = 0.05; p= .942*). We interpret these results further in the next section.

2.5 Discussion

With the rising awareness of equal opportunity rights in developed economies, corporate discrimination litigation constitutes a critical challenge for organizations (Wooten & James, 2008). Indeed, as James and Wooten (2006:1103) noted, "discrimination lawsuits now rank among the leading types of crises faced by business leaders." While scholars have examined the macro-level determinants of corporate discrimination lawsuits, however, distinctly less emphasis has been placed on the role of corporate leaders in preventing their incidence. Building on the notion that conservative CEOs embody less egalitarian values in their approach to strategic leadership (Briscoe & Joshi, 2017; Chin & Semadeni, 2017), and place less emphasis on the diversity dimensions of corporate responsibility (Chin et al., 2013), we demonstrate that CEO conservativism increases a firm's vulnerability to corporate discrimination litigation. We also find that the observed relationship is significantly attenuated (by 70 percent) when the board of directors is liberal-leaning (see Figure 2.1). Overall, our study reveals that – in an era where organizations strive to realize value from diversity – the CEO-Board ideology interface plays a central role in affecting corporate social behavior and outcomes. In this regard, our work offers several contributions to upper echelons, corporate governance, and organizational diversity research.

First, our study re-affirms a central tenet of upper echelons theory by highlighting that CEO values matter in defining corporate social behavior and moral boundaries. Recent upper echelons studies show that firms led by conservative CEOs are less likely to become targets for social activism – as they do not create "*opportunity structures*" for minority employees (Briscoe et al., 2014; Briscoe & Gupta, 2016). Others have shown that – as conservative CEOs are more risk averse compared to liberals – they are less likely to threaten their firm`s reputational capital by engaging in risky financial behaviors, such as tax avoidance (Christensen et al., 2015). Our study contributes to this ongoing discussion by showing that as conservative leaders embody less egalitarianism in organizational leadership (Briscoe & Joshi, 2017; Carnahan & Greenwood, 2018; Chin & Semadeni, 2017) and inherently pay less attention to diversity aspects of corporate responsibility (Chin et al., 2013), their firms are more likely to be exposed to the socio-reputational risk of workforce discrimination litigation – a social dimension of the firm's legitimacy as an employer. This finding confirms the notion that organizational priorities and responses to social demands are defined by the underlying "behavioral channeling" or "perceptual filtering" processes through which the values of corporate leaders impact organizations.

Second, our work advances our understanding toward a *behavioral perspective of corporate governance* (Westphal & Zajac, 2013) by showing that corporate social outcomes (i.e., discrimination litigation) are reflections of the ideological interface between the CEO and the board of directors. In their *behavioral theory of corporate governance*, Westphal and Zajac (2013) stressed that the values, biases, and ideologies of directors influence CEO decisions, actions and behavior. Our findings support this assertion. As Figure 2.1 shows, the positive relationship between CEO conservativism and corporate discrimination lawsuits substantially diminishes when the board has a liberal political orientation – and thereby embraces egalitarian values in exercising corporate governance. In this regard, our study contributes to the behavioral governance literature and the ongoing discussion regarding the interactive influence of the political ideologies of corporate leaders` on firm-level social outcomes. It highlights that scrutinizing the CEO-Board ideology interface can help to move toward a behavioral understanding of corporate governance – by appreciating how CEOs and boards interactively, and interdependently, impact organizations.

Relatedly, our post-hoc analyses goes a step further to enhance our understanding of the micro-foundations of corporate responses to corrective feedback. Our supplementary findings show that conservative CEOs are less likely to learn from past corporate discrimination lawsuits – and thus to adopt practices that prevent their recurrence (see Appendix 2.3). This corroborates the notion that corporate learning is an outcome of the values and attitudes of a firm's upper echelons (Chen et al., 2015).

From an adaptive organizational learning perspective (Glynn, Lant, & Milliken, 1994), organizational adaptation is a function of changing behavior in response to experience. While some organizations may take substantive action and develop robust practices in response to corporate discrimination lawsuits, others may adopt more "defensive stands" – by neglecting to establish robust routines that ensure effective diversity management (Wooten & James, 2004). In this regard, our results provide preliminary evidence suggesting that – either through conscious behavioral channeling or unconscious perceptual filtering mechanisms – the less egalitarian nature of conservative CEOs is likely to affect organizational responses to adaptive feedback with regard to corporate discrimination litigation. Future research could further extend our framework by investigating whether conservative versus liberal CEOs adopt more adaptive or defensive communication responses to corporate discrimination litigation – as well as how such litigation is in turn resolved.

Beyond our contribution to the strategic leadership and corporate governance literatures, our work has implications that are relevant for workforce diversity and leadership research. A number of studies have posed corporate discrimination litigation as a direct indicator of the degree to which an organization needs to establish processes that ensure effective diversity management (Wooten & James, 2008), and thereby respond to stakeholder demands for diversity and inclusion. Regardless of whether a firm wins or loses in court, the frequent occurrence of corporate discrimination lawsuits implies that a firm's leadership needs to take stronger action toward the provision of equal opportunities (James & Wooten, 2006) – and thus avoid confrontations with the workforce on diversity management issues. In this regard, our work highlights that strategic leadership factors (i.e., CEO-Board ideological complementarity) reflect a firm's ability to establish a robust organizational diversity climate and avoid the emergence of what James and Wooten (2006) called a diversity litigation crisis.

Our study provides some intriguing new ideas for scholars working in the area of egalitarian leadership (Mendez & Busenbark, 2015; Von Rueden & Van Vugt, 2015) and diversity misconduct (Bermiss & McDonald, 2018). It implies that a direct indicator of the egalitarian values of leaders – political ideology – has an effect on a firm's exposure to an important, yet infrequently studied form of corporate litigation (James et al., 2011). Although it is difficult to adopt a precise measure of CEO egalitarian values, future leadership studies can draw on our framework to determine which specific dimensions of conservativism and liberalism in an individual's ideologies translate into inclusive leadership behaviors (Weiss, 2018), which in turn affect corporate social outcomes.

Our study is subject to some limitations that open promising research avenues. First, the use of archival data does not allow us to measure the actual processes through which CEO conservativism translates into workforce reactions with regard to diversity issues. While such processes are difficult to gauge using archival sources, future studies can adopt other research designs, such as qualitative case studies (Gibbert, Ruigrok, & Wicki, 2008) to open the black-box processes through which CEO and board ideologies trigger corporate social outcomes – and how firms, in turn, respond to corporate discrimination litigation.

Second, our study focuses only on actual corporate discrimination lawsuits – and thus does not consider potential discrimination cases that were raised, but never taken to court. We also focus on the number of lawsuits that took place without considering which of these lawsuits were settled, and triggered financial outlays for the organization. Our logic is that, regardless of whether a firm wins or loses in court, frequent discrimination lawsuits imply that the workforce perceives equal opportunities at work to be inadequately developed – resulting in legal confrontations with the firm's leadership. It may be that due to their greater attention to financial issues in managing the organization (Gupta & Wowak, 2017), conservative CEOs learn more from past experience when discrimination lawsuits are coupled with financial outlays for the firm – and then take more substantive action to avoid their recurrence. Future studies could expand on our research by distinguishing between lawsuits that were upheld by the court and those that were not – and whether conservative CEOs respond differently depending on the outcome of corporate litigation.

Third, following recent developments in strategic leadership research (Chin et al., 2013), we have focused on CEO political ideology as a key indicator of CEO egalitarian values (Chin & Semadeni, 2017) and mental discriminant function (Carnahan & Greenwood, 2018). Upper echelons studies have shown, however, that other deep-level factors beyond political ideology, such as narcissism (Chatterjee & Hambrick, 2007), overconfidence (Chen et al., 2015) or emotions (Lange, Boivie, & Westphal, 2015), also reflect a CEO's cognitive frames and personal dispositions. In a recent study, for example, O'Reilly et al. (2018) found that due to their overconfident nature, narcissistic CEOs are more likely to expose their firm to different forms of litigation. While the impact of personality traits is distinct from the underlying values of CEOs (Gupta, Nadkarni, & Mariam, 2018), and is beyond the scope of the current study, future work can expand on our framework by examining whether CEO personality interacts with CEO ideology to affect organizational responses to corporate discrimination lawsuits.

Finally, our sample was limited to S&P 500 firms and thus, our results are not necessarily generalizable to SMEs or privately held companies. Future research could therefore expand on our framework by examining how CEO political ideology affects corporate behavior in firms of different sizes and other types of ownership. Given the rise of workforce diversity, and the increasing awareness of equal opportunity rights, understanding how strategic leadership values reflect workforce reactions to diversity issues is a worthwhile research endeavor. We hope that our study will stimulate future research in this important area.

CONSERVATIVE OR LIBERAL QUEENS? CEO GENDER, POLITICAL IDEOLOGY AND THE GENDER PAY GAP IN TOP MANAGEMENT TEAMS

Abstract: Are female CEOs more likely to promote equal pay in top management team (TMT) compared to males? Drawing on social identity theory, some scholars note that female CEOs are more likely to eliminate the gender-pay gap in organizational upper echelons. Others, however, adopt a queen-bee perspective to argue that female CEOs may strengthen gender pay inequality by compensating female executives even less. In this study, we reconcile these opposing streams of thought to argue that whether female versus male CEOs compensate female executives more, or less, depends on their political ideology. Data from S&P 500 firms between 2003 and 2015 supports our predictions – showing that female CEOs with conservative ideologies are more likely to promote queen bee tendencies. At the same time, female CEOs with liberal ideologies are more likely to support social identity tendencies and thus eliminate the gender-pay gap at the top. Overall, our research shows that whether queen bee versus social identity tendencies prevail is not only a matter of the leader's gender but also of their values and beliefs about equality at work.

Keywords: TMT; CEO ideology; executive compensation; queen bee perspective; social identity theory

3.1 Introduction

Despite scholars demonstrating that there is a gender-pay gap in top management teams (TMT), this gender-pay gap continues to persist (Gayle, Golan, & Miller, 2012; Shin, 2012). Indeed, studies have shown that there is an important wage gap between male and female executives, with approximations varying from 5 percent to 45 percent (Bertrand & Hallock, 2001; Blau & Kahn, 2006). Studies interpret these figures as an indication of gender discrimination (Elvira & Saporta, 2001; Muñoz–Bullón, 2010), while others stress the need to examine the several elements that affect compensation differences between male and female executives (Elkinawy & Stater, 2011). The complexity of understanding why there is a gender-pay gap in the most senior executive posts can be appreciated when observing that individuals emphasize and perceive inequality and demographic differences from different angles – according to their deeply held values and ideological predispositions (Carnahan & Greenwood, 2018). For this reason, scholars have stressed that research should move away from examining whether a gender-pay gap exists, to assess why this gap emerges, owing to the 'personal givens' of decision makers (Blau & Kahn, 2006; Leicht, 2008). As decision makers are boundedly rational actors (Cyert & March, 1963), their decisions about how they perceive members who belong to the same or to a different demographic category than themselves will be influenced by their behavioral filtering processes (Carnahan & Greenwood, 2018). Understanding the gender-pay gap in upper echelons without considering the values of leaders is therefore unlikely to fully capture the complex nature of this construct.

There are two conflicting streams of thought about whether female CEOs remunerate female executives more highly, or lower than males. First, social identity theory posits that individuals tend to evaluate other members who belong into the same social category (e.g., same gender) more favorably (Tajfel & Turner, 1985). As individuals like, trust and interact with those who are similar to themselves (Schneider, 1987), a female CEO is expected to be inclined more toward attraction with in-group members (i.e., with other females) and ensure that these "in-groups" are treated with equality, given that the leader seeks to protect their own esteem and social identity (Tajfel & Turner, 1985). Second, another stream of thought involves the so-called "queen bee" perspective. Staines et al. (1974) observed that women in positions of authority tend to be less favorable to their female subordinates, and treat them with inequality in an effort to signal masculine behavior (Derks, Ellemers, Van Laar, & De

Groot, 2011). By considering stereotypes associated with female-gender in upper tier positions of authority, some female leaders tend to instead favor out-groups (males) more than in-groups (females) – which in turn allows them to demonstrate their masculine quality and adherence to social norms (Cooper, 1997; Duguid, 2011; Staines et al., 1974). The degree to which individuals are inclined to adhere to or deviate from social norms, however, depends on their personal values and ideological predispositions (Jost, 2006).

In this study, we argue that a leader's ideology will act as a critical means through which social-identity versus queen bee mechanisms will be generated. Studies in political science and political psychology, for example, have shown that conservativism (as opposed to liberalism) is associated with greater obedience to social norms – and drives individuals to retain social order (Sowell, 2007). The greater obedience to social norms which is inherent in conservative values (Jost et al., 2004) may activate queen bee tendencies – as they will drive female leaders to support, and thus better compensate, out-group members, in their effort to demonstrate their masculine qualities, and prevent the perceived stigma of breaking social order. Conversely, liberal female leaders will be more inclined towards supporting in-groups – as their egalitarian values inherently embedded in liberalism will drive them to deviate from social norms, identify within their minority status, and thereby treat similar others favorably.

Specifically, we postulate that as conservative leaders are inclined toward traditional approaches favoring status and social order, female CEOs with conservative values will develop processes that allow them to signal masculine qualities, obedience to social norms, and the retention of social status in gender pay associations. Compared to their male-conservative counterparts, conservative female leaders will inherently perceive a greater need to signal masculine qualities that compensate for their minority-status leadership. A conservative female leader is thus expected to pay female subordinates even less favorably than a conservative male leader in order to signal masculine qualities. Such inclinations will give raise to queen bee tendencies – by increasing the gender-pay gap in upper echelons. We highlight this as an interaction effect, where the gender-pay gap in top management teams is determined not only by the gender of the leader (i.e., the CEO) in isolation, but alongside their values and ideology.

We test our model using data from S&P500 firms over the period 2003 to 2015. Our study makes several contributions. First, we contribute to resolving the debate on the determinants of the gender-pay gap in organizational upper echelons. Our findings suggest that the degree to which social identity theory has more explanatory power than the queen bee perspective depends on the ideology of the team leader (i.e., the CEO) (Carpenter & Wade, 2002). Female leaders with conservative values are even more likely to promote unequal pay – even compared to their conservative male counterparts – as their effort to demonstrate masculine quality drives them to more strongly support the attitude that "male means more pay". Our study thus challenges the core assumption that hiring female leaders will not necessarily lead to a reduction in pay inequality in the organizational upper echelons. It stresses that promoting female CEOs is not necessarily the means to eliminating gender pay inequalities in upper-most organizational ranks.

Second, our study also acts as a first bridge between the conflicting theoretical streams of thought – social identity theory and the queen bee perspective – by revealing inroads between them. It stresses that whether an individual will support, or prevent, similar others being treated equally in an organization depends on their deep level values. To this end, our research contributes to the theory of leadership, by highlighting the important role that deep level factors at the leader-member interface are likely to play in determining compensation arrangements.

3.2 Theory and hypotheses

3.2.1 Explaining the gender-pay gap at the top: Social identity theory

Studies highlight economic factors concerning executive income and pay inequalities in organizations (Bertrand & Hallock, 2001; Muñoz–Bullón, 2010; Renner, Rives, & Bowlin, 2002). These studies have found that (a) there is an important gender inequality in terms of pay, especially in leadership positions of authority, and (b) economic factors cannot explain all the determinants of the pay gaps at upper-most organizational levels. For instance, Bertrand and Hallock (2001) found that women at the top of an organization are paid 45 percent less than their male counterparts. Most of this percentage was explained by the characteristics of the firm (e.g. firm size) and by the attributes of executives (e.g. age, gender, and tenure in the firm). Although prior studies have offered valuable insights into the gender-pay gap by highlighting economic drivers, we suggest that behavioral factors should also be considered – as they are likely to play a critical role (Devers, Cannella, Reilly, & Yoder, 2007). In this study, we therefore add to the literature about executive pay, by examining how CEO values and predispositions can help to resolve the debate between the two main contradictory streams of thought (i.e. social identity vs queen bee) on whether female CEOs compensate female managers more highly, or lower than their male counterparts.

According to social identity theory, individuals tend to evaluate members who belong in the same group more positively than those who belong to another category (Hogg & Terry, 2000; Tajfel, 1981; Tajfel et al., 1979). Gender is a visible demographic attribute that clusters individuals into in- or out-group members (Ashforth & Mael, 1989; Tajfel et al., 1979), with managers who belong into the same in-group category as the CEO being more positively evaluated than out-groups (Bielby, 2000; Hewstone, Rubin, & Willis, 2002; Reskin, 2000). In other words, male CEOs evaluate their male subordinates better than their female subordinates, and thus male compared to female executives receive higher salary (Powell & Butterfield, 1994; Tharenou, 1997). From a social identity lens, female CEOs are therefore expected to evaluate female managers more positively owing to similarity attraction inclinations, which results in a diminishing gender-pay gap. According to Reskin (2000: 321), this classification procedure is unconscious, “independently of decision makers’ group interests or their conscious desire to favor or harm others”.

Studies have shown that social identity inclinations are more likely to be activated in teams with power, and status, where members are well-aware of their in-group membership – such as top managers (Goodwin, Operario, & Fiske, 1998) – and thereby maintain the status quo of the organization (Jost & Banaji, 1994). A recent report shows that 25 percent of executives globally are female, which is higher than the 19 percent in 2004 but remains low (Grant Thornton, 2019). The increasing percentage supports the notion of social identity theory by suggesting that having more women at the top of the organization ultimately results in greater gender diversity in executive teams. Indeed, studies have shown that this increasing trend of women at the top is mainly a result of the presence of more female CEOs, who act as mentors in the appointment and promotion of female executives (Ely, 1994; Sealy & Singh, 2010).

3.2.2 Explaining the gender-pay-gap at the top: Queen bee perspective

Research into female leadership argues that there is a sympathy and team spirit among women (Mavin, 2006, 2008), however, when this expectation among females is not met, female can act more as “opponents” to their female counterparts. In other words, even though there is a tendency for people to identify with others who are similar to themselves, individuals sometimes may favor out-group members instead of in-groups, depending on their perceptions about the social status of their own demographic category (Tajfel & Turner, 1985). For instance, gender is not only a characteristic that splits individuals into two distinct and externally observable categories (i.e. males vs females) but also indicates social status among individuals in the group (Berger, Cohen, & Zelditch Jr, 1972; Correll, Ridgeway, & Delamater, 2003). Although people with the same gender belong in the same group, an individual who belongs to a lower status group (i.e., the minority group within the team) may prefer members who belong to status-dominant gender categories. Since women are often the minority and less dominant group in managerial positions, they are perceived as members of a lower-status category – driving some of them to favor the dominant status group (i.e., male instead of female) (Chattopadhyay, Tluchowska, & George, 2004; Kanter, 1977).

Research into leadership argues that the tendencies of females to evaluate their female subordinates as lower in status become more pronounced when females are in a powerful managerial position. This argument is in line with the "queen bee" perspective which implies that females can sometimes act as opponents to other female subordinates through three different mechanisms: (a) by adopting a relatively masculine leadership style, (b) by keeping a distance from other women, and (c) by reinforcing inequality in an organization (Kanter, 1977; Staines et al., 1974). This is supported by recent empirical studies, which find that female managers tend to promote more inequality between male and female subordinates – placing females at a constant disadvantage (Chattopadhyay et al., 2004; Duguid, Loyd, & Tolbert, 2012).

A "queen bee" is therefore defined as a successful manager who has created a successful career by giving emphasis to her own career progress, and by adjusting to a masculine culture within the organization (Ellemers, Van den Heuvel, De Gilder, Maass, & Bonvini, 2004; Staines et al., 1974). This queen bee leader will attempt to constantly signal masculine qualities in order to compensate for her relatively disadvantageous gender-status. From a queen bee perspective, female managers tend to keep other females away from the corporate hierarchy (England, 1994), and when there are females in the executive group, to compensate them less than males. Whether or not queen bee tendencies will become prevalent, however, depends on the values of the leader, an aspect that, to the best or our knowledge, has not yet been considered in the literature.

3.2.3 Gender-ideology interaction in explaining female executive compensation

Although studies have focused on the gender-pay gap (Bertrand & Hallock, 2001; Blau & Kahn, 2006; Elkinawy & Stater, 2011; Muñoz–Bullón, 2010), little attention has been paid to the conditions under which the predictions of social identity theory are more prevalent compared to those of the queen bee perspective. In this study, we suggest that an important yet relatively unexplored factor that may determine the effects of gender differences in executive pay is the ideology of a group's leader (i.e. the CEO). We argue that the degree to which female CEOs will pay female managers less than their male counterparts depends on their political attitude and ideological leaning. When a female CEO is liberal, the gender-pay gap will be mitigated, and when a female CEO is conservative in ideology, the gender-pay gap between males and females will increase. This argument pertains to the following reasons.

First, conservative CEOs believe that there is no perfect human nature and that changing social order can have detrimental outcomes that may cause social problems within an organization (Detomasi, 2008; Jost, Glaser, Kruglanski, & Sulloway, 2003; Murtha & Lenway, 1994). Driven by their political ideologies, conservative female leaders will tend to identify ways that allow them to exhibit masculine qualities, and treat female subordinates unequally, in an effort to compensate for their perceived lower minority status (Derks et al., 2011). CEOs with conservative political beliefs and values, and especially those who belong to minority groups (i.e., female leaders), will therefore act more favorably toward subordinates who fit into the general norm that "leadership means male". By doing so, conservative females will fulfil their inherent need to demonstrate obedience to social order, compensate for their minority leadership status by showing masculine qualities and thus increase the gender-pay gap in upper echelons. Conversely, a liberal CEO prefers social change and equality (Jost, 2006). A CEO with a liberal view may structure executive pay with equality. Based on this premise, a liberal CEO is supportive of allocating executive compensation with equality, and will support minorities, while a conservative CEO is more likely to promote inequality in terms of pay. This is in line with the findings of a recent paper by Chin and Semadeni (2017:1609), who argue that "… TMT pay arrangements across firms may also result from CEO`s different personal values".

Second, psychological research argues that females have typically managed to climb to the top of the organizational hierarchy despite experiencing unequal treatment (Ellemers et al., 2004; Staines et al., 1974). Since females suffer to achieve high positions as a result of social order and stereotypes, they rely on the perception that other women may have to suffer – as they did – in order to arrive at the top of the organization. This is the mechanism that drives the queen bee behavior. Such inclinations are more likely to arise when the female is conservative in ideology, and when she believes in conserving social order. As mentioned earlier, how managers react with organizational choices and strategies depends on their values and beliefs. A conservative female supports the dominant group (i.e. males), prefers social order, and thereby strengthens queen bee inclinations in treating minority groups (e.g., other females). Such queen bee inclinations and beliefs, that minorities need to make an extra effort to achieve top tier positions are reinforced when the female CEO is conservative in ideology (i.e., embraces the notion that minority groups should experience difficulties in career advancement). Conservativism is thus likely to act as a factor that reinforces queen bee inclinations and drives female CEOs to compensate female executives less than their male counterparts.

In contrast, while liberal female CEOs may also have risen in the organizational hierarchy by experiencing unequal treatment, their liberal orientation will drive them to consider inequality processes as undesirable, and to fight for their own rights for equal treatment, as well as those of other minority groups. Such values in favor of the equality of liberal female CEOs will drive them to support their in-groups, promote similarity attraction inclination in making pay decisions, and thus, eliminating the gender-pay gap in organizational upper echelons. On this basis, we suggest that while liberalism drives female CEOs to diminish inequality in the gender-pay gap, conservativism will promote more queen-bee tendencies – thereby strengthening the pay gap between male and female executives. We note that this is a three-way interaction effect, where female conservative CEOs compensate their female subordinates less than other gender-ideology combinations: female liberal, male liberal and male conservative.

Hypothesis 1. *The gender-pay gap in TMTs becomes more pronounced when the CEO is both female and conservative in political ideology.*

3.3 Methods

3.3.1 Sample and data sources

Our sample consisted of non-CEO executives in S&P 500 firms from 2003 to 2015. We focus on the years after 2002, as the Sarbanes Oxley Act was introduced in 2003 and altered the way TMTs and boards are governed – encouraging gender equality in the executive suite. Given that the S&P 500 index is one of the largest indices worldwide, this sample allows us to adequately assess the gender-pay gap in large organizations. Data about executives was retrieved from the ExecuComp database – which provides information about the top five (or more) best paid top managers in large listed organizations, as well as their respective compensation. Although using ExecuComp does not allow us to capture the gender-pay gap of executives who are not in the list of the top five best paid, it allows a conservative test of our hypotheses – given that the top five best paid executives are ultimately those who are most influential in the firm. Data about a CEO's political ideologies was gathered from the FEC website, which provides all political donations of individuals that equal or exceed the amount of 200 US dollars. The initial sample consists of 28,765 non-CEO executive-year combinations in 500 firms. A number of observations were omitted due to missing data, resulting in a final sample of 26,568 non-CEO executive-year combinations and 7,143 firm/years. Firm level data was obtained from the Compustat database, which was merged with *ExecuComp* using the *gvkey* common identifier.

3.3.2 Dependent variable

Our dependent variable, *executive pay* was gathered from the ExecuComp database. The name of this variable in ExecuComp is TDC1, and it reports the total compensation received by an executive – including fixed salary, bonus, long term incentives and stock options valued using the Black Scholes option pricing model. This approach to measuring executive pay has been widely applied in prior studies on CEO compensation (Wowak, Hambrick, & Henderson, 2011). Other studies have also used the same approach in examining gender differences in terms of pay – by considering the direct effects of executive gender (male versus female) on their total compensation, instead of the absolute difference between male and female in the same team (Kulich, Trojanowski, Ryan, Alexander Haslam, & Renneboog, 2011).

3.3.3 Independent and moderator variables

Similar to prior studies, our independent variable is *non-CEO executive gender*. This variable is dichotomous, taking the value of 1 if the executive is female and 0 otherwise. As we adopt a three-way interaction approach, our study used two different moderators. *CEO conservativism* was measured by examining each CEO's donations to the two major political parties in the United States – the republican party and the democratic party (Chin et al., 2013; Gupta et al., 2017). We included donations to federal or state offices, campaign finance committees, contributions to candidates, and political action committees (PACs) with the stated aim of supporting one of the two major political parties (Christensen et al., 2015).

After we retrieved data on political donations, we calculated the conservativism ratio for each CEO using the approach suggested by Christensen et al. (2015). Specifically, we measured the total donations (in US dollars) made by each CEO to the republican party and to the democratic party. CEO conservativism was measured as the sum of the CEO's donations to the republican party minus the sum of donations to the democratic party, divided by the total sum of donations to both parties. High scores indicate high levels of CEO conservativism, while low scores indicate CEO liberalism (Christensen et al., 2015). The other moderator was the *CEO's gender*, taking a value of 1 if the CEO is female and 0 otherwise.

3.3.4 Control variables

Several variables were controlled to account for potential confounding factors. F*irm size* was measured as the number of total employees in the firm in each respective year of observation. To capture diminishing effects at high levels of firm size, we transformed this variable to its natural logarithm. Scholars have shown that firms operating in heavily regulated industries are often led by corporate leaders who are more engaged in political donations (Hillman, 2005; Joskow et al., 1996). To account for this, we controlled for a dichotomous variable taking the value of 1 if the firm operates in a *heavily regulated industry* and 0 otherwise. In keeping with Luoma and Goodstein (1999), heavily regulated industries were defined as those with 4 and 6 as primary SIC codes, as well as those in the 2830 SIC category (pharmaceuticals). We also controlled for industry munificence and dynamism in the firm's 2-digit SIC industry to consider the environmental (industry) factors highlighted by Dess and Beard (1984). *Industry munificence* was calculated as the regression coefficient of time on the annual mean of sales for the five year period starting two years before each year of observation, divided by the overall mean sales for this period (Nielsen, 2009). *Industry dynamism* was measured by dividing the standard error of the regression slopes calculating munificence by the mean value of sales (Dess & Beard, 1984; Nielsen & Nielsen, 2013).

We also controlled for *past firm performance* to account for potential effects of prior performance on executive pay. This variable was measured as the return on assets

(ROA) on the year before each year of observation (Shen & Cannella, 2002). We also controlled for *CEO age* measured as the exact age of the CEO as reported in ExecuComp. Studies have shown that in TMTs where female representation is high, CEOs are more likely to promote pay equality (Chin & Semadeni, 2017). We therefore controlled for the proportion of female executives in the TMT as a separate variable in our model. We included a dummy variable taking the value of 1 if of observation is after 2007 and 0 otherwise to account for the potential effects of the 2007 economic crisis.

3.3.5 Analytical strategy

To test our hypotheses, we employed a generalized least square (GLS) regression (Kmenta & Rafailzadeh, 1997). While the use of panel data has advantages in that it allows unobserved heterogeneity to be accounted for and enhances statistical estimates, scholars must pay attention to intra-unit correlation and cross-sectional heteroscedasticity (Greene, 2003). Since our analysis includes time invariant variables, and given that our theory focuses on between-firm effects (rather than within-firm-year effects) (Certo et al., 2017), we adopted a random effects approach. This makes the use of a simple OLS regression inappropriate – due to its assumptions of constant variance and uncorrelated error terms – and calls for advanced modeling using GLS regression techniques (Kmenta & Rafailzadeh, 1997).

In GLS regression analysis attention should be paid to the choice between fixed- and random-effect approaches (Greene, 2003). Since our analysis includes time-invariant variables (e.g., highly regulated industry, or gender itself), we adopted a random effects approach to analyzing our data. Below, we describe both descriptive and GLS regression results in testing our hypotheses.

3.4 Results

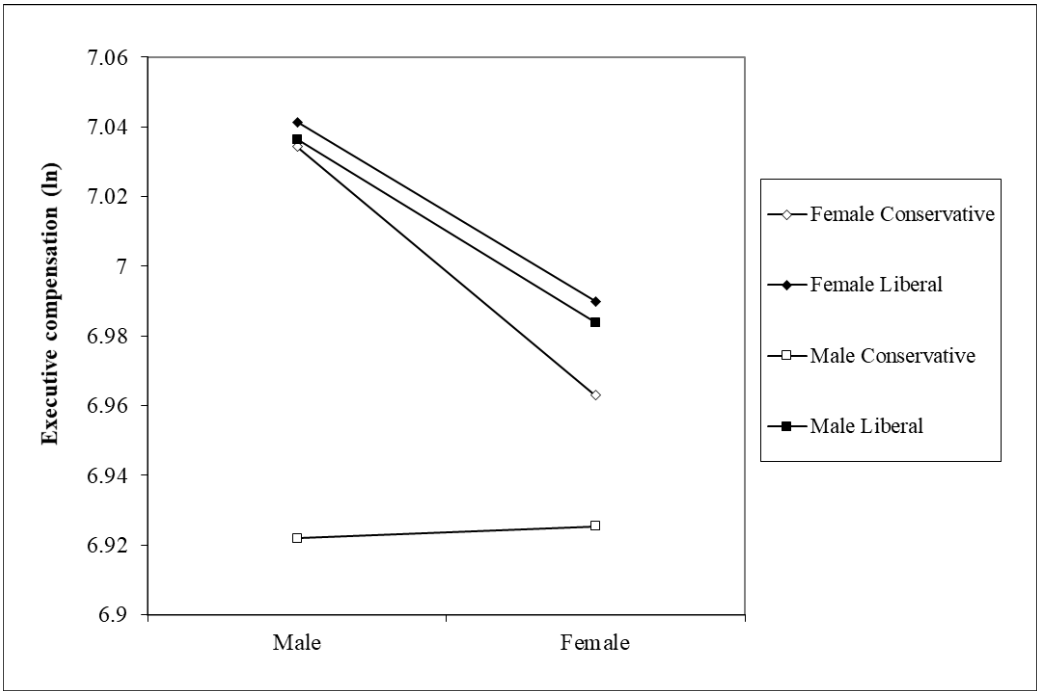
3.4.1 Main analysis

Table 3.1 provides descriptive statistics and correlations, and Table 3.2 reports the results of the GLS regression analysis with three-way interactions. As can be seen in Table 3.1, there are no variables with very high correlations (the largest is at r=0.47), confirming that collinearity is not an issue. Correlation analysis reveals some highly expected patterns. Specifically, executive compensation is positively related to firm size, suggesting that executives in large organizations have jobs that are administratively complex (Georgakakis, Greve, & Ruigrok, 2018) and thereby receive higher pay.

Executives in highly performing organizations also tend to receive higher compensation – which is in line with the arguments of prior studies that firms compensate executives based on performance (Conyon, Peck, & Sadler, 2001).

Table 3.2 presents the results of the main relationship and the three-way interactions. As can be seen, we find significant support for the existence of a gender-pay gap, suggesting that female executives tend to receive lower compensation (b= -0.08; std. err. = 0.04; p=0.03). The three-way interaction between CEO gender, CEO ideology and executive gender is also significant (b= -0.33; std.err. = 0.17; p=0.04). This implies that female executives are more likely to receive lower pay, when they are led by a CEO who is both female and conservative.

Figure 3.1: Three-way interaction: Executive gender, CEO gender and CEO ideology



Source: Author

As further shown in Figure 3.1, conservative female CEOs are more likely to promote a larger pay gap between male and female executives – favoring males more than females. Figure 3.1 shows that male conservative leaders compensate female executives at an equally low rate, as they compensate male executives, and generally provide compensation that is lower on average, regardless of gender differences. The gap between male and female executives is substantially higher when the CEO is a female conservative, however, than when the CEO is a male conservative (see Figure 3.1). Further, the gap between male and female executives reduces when the CEO is female and liberal. Overall, these results support our predictions that queen bee tendencies are more likely to emerge when the CEO is female and conservative in political ideology. We further interpret these results in the discussion section.

3.4.2 Supplementary analysis

To examine the robustness of our results in a context outside the focus on three-way interaction, we also looked at a sample that includes at least one female executive, and calculated the gender-pay gap as the difference between males and females in terms of total compensation. Specifically, the gender-pay gap was measured as follows: [average non-CEO male executive total compensation (exact amount) in year t – average non-CEO female executive total compensation (exact amount) in year t]. Our focus on firms with at least one non-CEO female executive reduced the sample to 1,934 firm-year observations. We tested the interaction effect between CEO female gender and CEO conservativism (Table, 3.3), and the results were in a similar direction to those observed in the main analysis (b=1215.5; std.err. = 799.5; p= 0.128), albeit with a p-value higher than the 0.10 threshold. We believe that the insignificant effects are due to the smaller sample size of this analysis, while the similar direction of the results demonstrate – at least to some degree – the robustness of our findings. The results of this analysis can be seen in Table 3.3 below.

Table 3.1. Descriptive statistics and correlations

Variables	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Executive Pay	7.87	0.91	~										
(2) CEO conserve.	0.22	0.64	-0.05	~									
(3) Heavily reg. ind.	0.34	0.47	0.03	-0.08	~								
(4) Industry Muni.	0.05	0.06	-0.07	-0.00	-0.13	~							
(5) Industry Dyna.	0.06	0.05	0.05	0.07	0.03	-0.25	~						
(6) Year after 2007	0.65	0.48	0.12	-0.03	0.02	-0.43	-0.01	~					
(7) Employees(ln)	2.89	1.49	0.31	0.02	-0.17	0.09	-0.10	0.01	~				
(8) ROA (t-1)	5.76	8.75	0.02	0.01	-0.23	0.05	-0.03	0.03	0.09	~			
(9) CEO female	0.03	0.16	0.04	-0.08	-0.03	-0.03	-0.03	0.06	0.06	0.02	~		
(10) Pro. Fem. exec.	0.08	0.13	0.02	-0.04	0.04	-0.04	-0.03	0.03	0.02	0.00	0.01	~	
(11) Female gender	0.08	0.28	-0.01	-0.02	0.02	-0.02	-0.01	0.02	0.01	0.01	0.01	0.47	~

N=26’568; p values with r>0.01 are significant at p>0.05

Table 3.2: GLS regression with executive pay as dependent variable

	Model 1			Model 2			Model 3			Model 4			Model 5		
	b	Std.err.	p-value	b	Std.err.	p-value	b	Std.err.	p-value	b	Std.err.	p-value	Coef.	Std.err.	p-value
CEO conservativism	-0.04***	0.01	0.000	-0.04***	0.01	0.000	-0.04***	0.01	0.000	-0.04***	0.01	0.000	-0.05***	0.01	0.000
Heavily regulated industry	0.15***	0.02	0.000	0.15***	0.02	0.000	0.15***	0.02	0.000	0.15***	0.02	0.000	0.15***	0.02	0.000
Industry munificence	0.01	0.08	0.901	0.01	0.08	0.915	0.01	0.08	0.901	0.01	0.08	0.905	0.01	0.08	0.934
Industry dynamism	0.07	0.10	0.499	0.07	0.10	0.506	0.07	0.10	0.498	0.07	0.10	0.480	0.07	0.10	0.489
Year after 2007	0.22***	0.01	0.000	0.22***	0.01	0.000	0.22***	0.01	0.000	0.22***	0.01	0.000	0.22***	0.01	0.000
Number of employees (ln)	0.23***	0.01	0.000	0.23***	0.01	0.000	0.23***	0.01	0.000	0.23***	0.01	0.000	0.23***	0.01	0.000
ROA (t-1)	0.00***	0.00	0.000	0.00***	0.00	0.000	0.00***	0.00	0.000	0.00***	0.00	0.000	0.00***	0.00	0.000
CEO female	0.08*	0.04	0.025	0.10*	0.04	0.010	0.08*	0.04	0.025	0.08*	0.04	0.030	0.10**	0.04	0.008
Proportion of female exec.	0.00	0.04	0.998	0.00	0.04	0.998	0.00	0.04	0.999	0.00	0.04	0.943	0.00	0.04	0.924
Female	-0.08*	0.04	0.030	-0.07*	0.04	0.050	-0.08*	0.04	0.026	-0.08*	0.04	0.030	-0.08*	0.04	0.033
Female x Female CEO				-0.18	0.12	0.149							-0.13	0.14	0.325
Female x CEO conservativism							0.02	0.04	0.607				0.03	0.04	0.368
Female CEO x CEO conservativism										0.14**	0.05	0.008	0.20***	0.06	0.000
Female x Female CEO x CEO conserv.													-0.33*	0.17	0.044
Constant	7.00***	0.03	0.000	7.00***	0.03	0.000	7.00***	0.03	0.000	7.01***	0.03	0.000	7.01***	0.03	0.000
Wald Chi-Square	2234.50***			2236.53***			2234.83***			2243.81***			2252.08***		
N	26568			26568			26568			26568			26568		

Notes: Standard errors in parentheses; Year dummies are included but not shown
*=p<0.05 ** p<0.01; *** p<0.001

Table 3.3: GLS regression with gender-pay gap as dependent variable

	Model 1		Model 2	
	Coef	Std.Err.	Coef	Std.Err.
CEO compensation (ln)	86.54	(59.21)	85.88	(59.17)
CEO conservativism	-107.0	(189.3)	-178.5	(194.8)
Heavily regulated industry	911.1***	(253.6)	899.7***	(253.3)
Industry Munificence	1264.3	(1263.4)	1254.5	(1263.0)
Industry Dynamism	-705.2	(1548.9)	-724.7	(1548.6)
Year after 2007	-245.0	(156.0)	-246.8	(155.9)
lnemp	54.02	(78.16)	54.50	(78.06)
ROA (t-1)	-6.324	(6.382)	-6.207	(6.381)
CEO female	208.2	(657.3)	253.4	(657.1)
Prop. of female exec.	357.5	(656.7)	344.5	(656.6)
Female CEO x CEO conservativism			1215.5	(799.5)
Constant	-401.6	(599.5)	-375.6	(599.3)
Wald Chi-Square	24.26*		23.63*	
Observations	1934		1934	

Standard errors in parentheses
* p<0.05; ** p<0.01; *** p<0.001

3.5 Discussion

Despite the observation that organizations have increasingly started to introduce diversity practices to promote equality in the workplace, the gender-pay gap in organizational upper echelons continues to be a "top priority". Indeed, while the representation of women at the top has increased in recent decades, the gender wage gap between executives has actually increased (Srivastava & Sherman, 2015). Although studies have examined the link between pay inequality and gender (Bertrand & Hallock, 2001; Blau & Kahn, 2006; Elkinawy & Stater, 2011; Muñoz–Bullón, 2010), this is – to the best of our knowledge – the first study that examines the conditions under which the arguments of social identity theory are more explanatory than the queen bee perspective in predicting gender pay differences in executive teams. In this study, we propose that neither the social identity theory nor the queen bee perspective alone can provide a clear explanation of the gender-pay gap. Instead, we suggest that a key determinant of the effects of gender differences in executive pay is the values and ideology of the group's leader (i.e. the CEO).

The study offers several contributions. First, it examines two contradictory theories that present opposing views of how leaders respond to diversity issues. On the one hand, the social identity theory argues that executives support and treat equally those members who belong in the same category as themselves, and mistreat out-group members (Hogg & Terry, 2000; Tajfel, 1981; Tajfel et al., 1979). Conversely, the queen bee perspective argues that minority individuals who belong to lower social status groups (e.g., female versus male) prefer the dominant groups within the organization (i.e. males) and adopt a masculine culture (Ellemers et al., 2004; Staines et al., 1974). Our study demonstrates that neither of these two theories separately can fully explain the gender-pay gap at the top. Instead, it argues that whether a leader can affect the gender-pay gap among executives depends on their political ideology (i.e. liberal vs conservative). A conservative female will be more prone to adopt queen-bee behavior in determining whether to pay females less (or to the same as) males – driven by their inherent preference toward social order. A liberal female will be more likely to promote social identity tendencies, and support their in-groups in an effort to establish social justice. On this basis, the study responds to the calls to consider what factors are likely to determine the strategic choices and decisions of the leader in evaluating and rewarding subordinates (Carnahan & Greenwood, 2018; Chin et al., 2013; Chin & Semadeni, 2017; Christensen et al., 2015).

Second, the study also contributes to upper echelons theory by demonstrating the impact of the CEO`s gender and political ideology on the gender-pay gap in TMTs. Research on team diversity has paid relatively little attention to how female leaders compensate their female subordinates (Staines et al., 1974; Tajfel, 1981; Tajfel et al., 1979). Building on this premise, the study argues that the personal values, beliefs and preferences of the leader are a key factor that research should take into account. To this end, the study acts as a bridge between the diversity, political science and psychology literatures by highlighting the important role of the leader in the firm's upper echelons.

Apart from the theoretical implications, the study makes also practical contributions. Recent studies demonstrate that the representation of women at the top of companies is increasing over time but the gender wage gap among executives remains high (Srivastava & Sherman, 2015). Studies also suggest that the political ideology of the CEO can affect executive compensation (Chin & Semadeni, 2017; Graffin, Wade, Porac, & McNamee, 2008; Wade, O'Reilly, & Pollock, 2006). Our results suggest that organizations should consider not only demographic (e.g. age, gender) and informational (e.g. education, functional background) characteristics at the time of CEO selection, but also the deep level attributes (i.e. political ideology) of CEO candidates. To this end, the study opens the black box of why gender-pay inequalities exist. It is important to note that our study does not imply that conservative CEOs are those responsible for gender-pay differences at the top. Instead their inclination to retain social order and conserve the current status will mean that they make less effort to reduce gender-pay differences.

The study has a number of limitations that create further research opportunities. A key limitation is that it focuses only on one individual characteristic of CEOs – the political ideology - and does not take into account other organizational and environmental characteristics that may affect the gender-pay gap. Future research could develop multilevel frameworks that consider how individual, organizational and environmental factors simultaneously affect the gender-pay gap at the top. We focus on how the political ideology (liberalism vs conservativism) of female CEOs affects TMT compensation. According to other studies, male and female executives may have different power and status within an organization, and their own decisions may be affected by their values and beliefs (i.e. their political ideology) (Elliott & Smith, 2004). Further research should therefore examine how the power and the status of the leader can be affected by the gender of the CEO, and how this, in turn, enables the CEO to involve their political beliefs when making executive pay arrangements.

To conclude, our findings demonstrate that gender differences in executive compensation become more or less pronounced with the values of the group`s leader (i.e. the CEO). We hope that our study will inspire future research to continue examining how the political beliefs and values of managers can minimize the gender-pay gap across different conditions.

POLITICAL DIVIDES: IDEOLOGY - BASED TOP MANAGEMENT SUBGROUPS AND FIRM PERFORMANCE

Abstract: Research into top management team (TMT) faultlines has gained momentum, yet little is known about how differences in terms of the values and ideologies of TMT members impact organizations. Drawing on faultlines theory and research into political psychology, we establish a new, timely dimension of TMT faultlines – ideology-based subgroups – and develop a contingency framework explaining how its performance implications vary with the ideological predispositions of the group's leader (i.e., the CEO). We argue that the presence of strong subgroups based on the core values of TMT members (conservative versus liberal subgroups) will promote separation in the executive team– and will trigger disadvantageous firm level financial outcomes. Building on the notion of "ideological malleability", we postulate that CEOs who exhibit "flexibility in political beliefs" will act as cross-cutting integrators, promoting cohesion between the two TMT political stands, and thereby reducing the negative effects of ideology-based subgroups. Data from S&P 500 firms over the period 2000 to 2013 supports our predictions. Overall, our research provides new insights into how ideological interfaces at the top impact organizations.

Keywords: TMT political ideology; CEO-TMT interface; firm performance; upper echelons

4.1 Introduction

Strategic leadership scholars have focused on understanding the effects of top management team (TMT) composition on firm-level actions and outcomes (Carpenter, Geletkanycz, & Sanders, 2004; Finkelstein et al., 2009; Hambrick, 2007). Within this broad scope, there has been a particularly strong interest in examining the effects of diversity faultlines, – defined as the perceived dividing lines that separate the team into subgroups based on team member alignments in attitudes and backgrounds (Carton & Cummings, 2012; Lau & Murnighan, 1998; Thatcher & Patel, 2012). On the one hand, some upper echelons scholars have empirically tested and found support for the central assumption of faultlines theory (Lau & Murnighan, 1998) – arguing that the presence of TMT subgroups promotes separation among team members (Li & Hambrick, 2005), and thereby triggers negative team- and firm-level outcomes (Georgakakis et al., 2017; Minichilli, Corbetta, & MacMillan, 2010). Other studies have directly opposed this view, stressing that TMT faultlines can also serve as "healthy divides" (Gibson & Vermeulen, 2003:202) that – under a given set of conditions (Cooper, Patel, & Thatcher, 2014) – can promote team learning behavior and higher performance (Van Knippenberg, Dawson, West, & Homan, 2011).

This theoretical and empirical controversy in the current literature has led to calls to examine how and under what conditions different forms of TMT subgroups affect organizations (Thatcher & Patel, 2012). Two main suggestions for further development have emerged. First, scholars have highlighted that there is a need to decompose the faultlines construct (Van Knippenberg et al., 2011), and examine how different types of subgroups affect team functioning and performance (Carton & Cummings, 2012). Given that group processes are not affected the same way by every type of subgroups (Van Dijk, Meyer, Van Engen, & Loyd, 2017), treating TMT faultlines as an aggregated, unidimensional construct is unlikely to fully capture its complex nature (Bezrukova, Jehn, Zanutto, & Thatcher, 2009b; Van Knippenberg et al., 2011). Second, most research has focused on externally-observable demographic traits (such as age, gender and ethnicity), or other personality aspects (Thatcher & Patel, 2012) in examining the effects of TMT faultlines, but scholars have stressed that separation in teams is more likely to occur when team members differ in terms of their underlying values and beliefs (Carton & Cummings, 2012). To appreciate the impact of faultlines, researchers should therefore go beyond demographic and personality traits (Homan et al., 2008), and examine how deep-level values subgroup formation affects team processes and outcomes (Thatcher & Patel, 2012).

We contribute to this area of research in the following ways. First, drawing on recent insights in upper echelons research into the political ideologies of executives, we introduce the construct of ideology-based faultlines – defined as the degree to which the TMT is split into subgroups based on political leanings of executives (i.e., liberal versus conservative values of TMT members). Scholars have stressed that political ideology acts as a valid proxy for the "interrelated set of values" and predispositions of executives (Chin et al., 2013:201), and reflects how people "think, feel and behave" at the time of decision making (Jost, Nosek, & Gosling, 2008:127). Based on this premise, we postulate that the presence of strong ideology-based faultlines in the TMT triggers value-related splits among executives – thereby promoting low levels of integration, and poor subsequent performance.

Second, drawing on the notions of crosscutting diversity (Mäs, Flache, Takács, & Jehn, 2013) and "ideological malleability"(Greenberg & Jonas, 2003), we reveal another dimension highlighted in the literature of political psychology – whether individuals have flexible versus rigid political beliefs. According to the notion of ideological rigidity (Greenberg & Jonas, 2003) some individuals tend to reach extremes in terms of political orientations, while others have ideological-hopping tendencies which make them flexible in terms of political orientation. Using this premise, we examine how CEOs with malleable political ideology are likely to attenuate the negative performance effects of ideology-based subgroups. Specifically, drawing on the literature regarding the key role of the CEO as the integrator of the executive group (Buyl, Boone, Hendriks, & Matthyssens, 2011; Georgakakis et al., 2017), we postulate that the CEO`s flexibility in political ideology will allow them to identify with more than one subgroup in the TMT – and to act as a cross-cutter and integrator who attenuates the negative effects of ideological splits in the TMT on firm performance. We test these hypotheses using data from the S&P 500 firms over a fourteen years period (2000–2013).

Our study makes several contributions. First, drawing on insights from upper echelons research (Chin et al., 2013), and political psychology (Jost et al., 2008), we introduce the notion of ideology-based faultlines and reveal its performance implications. Our theory and results suggest that compared to the widely examined form of faultlines in surface-level demographic traits, ideology-based subgroups seem to have more detrimental performance implications. This supports the central argument of faultlines theory (Lau & Murnighan, 1998) by showing that splitting teams into subgroups in terms of deep-level values and predispositions has more disadvantageous performance effects (Carton & Cummings, 2012; Harrison, Price, Gavin, & Florey, 2002).

Second, our study contributes to the upper echelons research tradition by highlighting the importance of the CEO-TMT interface in strategic leadership. Recently, scholars have argued that the CEO-TMT interaction plays a key role in affecting the relationship between TMT composition and firm outcomes (Buyl et al., 2011; Georgakakis et al., 2017; Simsek et al., 2018). While the importance of the CEO-TMT interface has been well-recognized, however, little attention has been placed on the ideological boundaries that define the interaction between the CEO and the executive team. Our study contributes to this area of research, by stressing that the CEO-TMT ideological interface has a key effect on the relationship between TMT faultlines and firm performance. In this regard, our results stress that, in order to appreciate the impact of top managers on organizations, research should pay attention to the integrative role of the CEO in the executive group (Buyl et al., 2011; Cannella & Holcomb, 2005; Georgakakis et al., 2017).

Finally, our study highlights the importance of diversity as separation in executive teams. It demonstrates that TMT subgroups, in terms of the ideology of executive members, can hurt team processes, and thus have undesirable financial outcomes. It also shows that, in teams with strong identity-based faultlines, an integrative force is required to reduce fragmentation and mitigate disadvantageous effects. To this end, our work provides a set of practical parameters regarding how firms can overcome the challenges and realize the potential benefits of the presence of ideology-based TMT faultlines.

4.2 Theory and hypotheses

4.2.1 Ideology-based faultlines

Strategic leadership research has long argued that organizational outcomes reflect the values, beliefs and cognitive dispositions of the members of the dominant coalition (i.e., the central group of executives who make key decisions that impact the fate of organizations). Within this broad area, a number of studies have built on the notion of diversity, to examine how diverse TMTs perform and affect organizations (Nielsen, 2010). Within this broad area of TMT diversity, a number of studies have focused on the notion of faultlines (Gibson & Vermeulen, 2003; Lau & Murnighan, 2005), which are defined as the development of clusters within the team based on its members' backgrounds and characteristics (Turner, Hogg, Oakes, Reicher, & Wetherell, 1987). Rooted in the theory of social identity and similarity attraction, faultlines theory suggests that individuals tend to work together with members of the same subgroup who share common characteristics and backgrounds with themselves – while at the same time they tend to dislike and infrequently interact with out-group members. Such self-categorization develops the self-identity of an individual (Tajfel et al., 1979), and generates separation in teams (Lau & Murnighan, 1998).

Research in this area (Barkema & Shvyrkov, 2007; Carton & Cummings, 2012; Lau & Murnighan, 1998) has shown that there are different forms of subgroups that can significantly affect how managers in the executive suite make strategic decisions to impact organizations (Barkema & Shvyrkov, 2007; Cooper et al., 2014; Georgakakis et al., 2017; Hutzschenreuter & Horstkotte, 2013). Forms of subgroups that have been examined include subgroups according to demographic traits (Lau & Murnighan, 2005) informational subgroups based on team member knowledge and backgrounds (Bezrukova et al., 2009b), and, to a lesser extent, subgroups in personality traits (Thatcher & Patel, 2012). Although research has recognized the importance of distinguishing how different types of subgroups impact team processes and outcomes in different ways (Milliken & Martins, 1996; Tsui, Egan, & O'Reilly, 1992; Williams & O'Reilly, 1998), little attention is devoted on the importance of subgroups in terms of the values and dispositions of executive members. This omission is important, as value-related differences are likely to define how people "think, feel and behave" (Jost, Nosek, & Gosling, 2008:127) – and affect how decision making groups come together to form unitary decisions that impact organizations (Cannella & Holcomb, 2005).

We aim to address this gap by considering an important dimension that has been seen in the upper echelons literature as a direct indicator of executives values – the political ideology of TMT members based on where they stand in the conservativism versus liberalism spectrum (Chin et al., 2013; Gupta & Wowak, 2017). Our framework builds on the premise that, as the ideologies of executives "shape their beliefs about how corporations should be governed" (Gupta & Wowak, 2017:3), faultlines in the TMT in terms of ideology-based values and predispositions are likely to promote negative team dynamics and low performance. This is in line with recent studies which found that the creation of faultlines based on values, beliefs and attitudes may result in a number of undesirable processes, such as identity-threat and disintegration, conflict and difficulties in communication, and other negative dynamics, which in turn may be detrimental to organizational performance (Bezrukova et al., 2009b; Carton & Cummings, 2012).

Studies of political psychology show that a person's beliefs and values can be categorized along the conservativism versus liberalism spectrum (Detomasi, 2008; Tetlock, 2000), and these approaches can be contradictory based on how values and beliefs are constrained (Graham et al., 2009; Skitka & Tetlock, 1993; Weber & Federico, 2013). According to Sowell (2007), conservatives tend to adopt traditional approaches when governing organizations. Driven by their inherent tendency to believe that unnecessary risks that challenge social order can be harmful for organizations (Detomasi, 2008; Tetlock, 2000), they tend to adopt less risk-seeking strategies, and approach problems in a way that mitigates uncertainty. On the other hand, liberals are more open-minded about how they perceive social issues, as well as risky strategic changes (Sowell, 2007). They tend to challenge social order, and seek social change. These opposing political views (conservative vs liberal) are likely to trigger conflicts between liberal and conservative TMT members with regard to strategic decisions – such as an emphasis on corporate social responsibility, increasing equality among minority organizational members, and performance-driven indicators in evaluating the organization's competitive standing (Gupta et al., 2017).

According to recent research, the antipathy between these groups (conservative vs liberal) has increased over the past two decades (Pew Research, 2017). Over time, individuals categorize themselves as strongly conservative vs strongly liberal – and the distance between the ideological beliefs of the two parties becomes larger (Pew Research, 2017). This increasingly strong separation leads the supporters of one ideological stand to look at the supporters of the other more as out-group members – causing political schisms. Building on this premise, we argue that such ideological separation will also occur at the TMT level – where executive team members will tend to differ in terms of values and ideology. Such differences will give raise to the development of ideology-based faultlines – triggering "us versus them" attitudes in the team, and promoting more conflict, lower decision-making quality and thus lower subsequent performance. Indeed, in a recent paper Johnson and Roberto (2018) demonstrate that political ideology is an important dimension through which individuals in companies behave, and where ideological differences between them can have detrimental effects – such as conflict, misunderstanding, difficulty in communication, turnover intension and low overall group performance.

Such differences in political ideology can give raise to ideological subgroups in the executive group – and lead team members to infrequently interact, disagree, and oppose each other in core decisions that impact organizations. Such "us versus them" attitudes are expected to reduce overall TMT performance, promoting lower quality decision making and thus undesirable firm-level financial outcomes (Barkema & Shvyrkov, 2007; Carton & Cummings, 2012; Johnson & Roberto, 2018; Lau & Murnighan, 1998). Based on this logic, we hypothesize that there is a negative relationship between TMT ideology-based faultlines and firm performance, as follows:

> **Hypothesis 1.** *The strength of ideology-based TMT faultlines has a negative effect on firm performance.*

4.2.2 The CEO-TMT ideology interface

Scholars have recognized the key role of the CEO in acting as the leader of the executive group (Cannella & Holcomb, 2005; Hambrick, 1994; Klimoski & Koles, 2001). CEOs are in charge not only to build a strong TMT by hiring and firing executives (Finkelstein et al., 2009) but also as the group's leader, who creates the appropriate interactive processes to impact organizational outcomes (Cannella & Holcomb, 2005). In an early study, Hambrick (1995:123) stressed that the CEO's key role is "to conciliate and soothe the aftermath of intense exchanges among team members [… and] for avoiding group fragmentation and destructive rivalries." From this statement, it becomes clear that a CEO has a key role as the leader of the executive team, who can generate or mute the interactive processes that prevents the negative effects of TMT subgroups from occurring. We therefore see the role of the CEO as centrally important in determining whether ideology-based faultlines will become activated, or stay dormant, in affecting firm level outcomes.

Specifically, by taking a crosscutting perspective (Mäs et al., 2013), we examine how CEO political beliefs impact the relationship between TMT ideology faultlines and firm performance. Crosscutting is defined as "a decategorization strategy" which determines the process through which cross-subgroup integration, or deterioration, occurs in teams (Rico, Sánchez-Manzanares, Antino, & Lau, 2012:409). Decategorization is achieved when at least one person in the team, who is often in a position of power, has the appropriate attributes and characteristics to overcome cross-subgroup identification and promote cohesion and effective information exchange (Crawford & LePine, 2013:39; Hornsey & Hogg, 2000). Crosscutters are therefore individuals who can cause the informational benefits of diverse subgroups to emerge – by acting as bridge-builders. We propose that a CEO can act as an integrator when they hold ideological beliefs that do not identify strictly with a particular ideology – but rather demonstrate ideological-hopping across different situations.

Indeed, studies in political psychology have argued that while some individuals remain stable supporters of a given political leaning, others tend to exhibit ideological flexibility, and to possess malleable political beliefs. According to Greenberg and Jonas (2003) there are three types of political ideology: (a) the pure conservative leaning which represents only the conservativism perspective, (b) the liberal leaning which represents only the liberalism perspective and (c) non-ideologically rigid leaning, which exhibits mixed tendencies in political ideology. Individuals who belong to the third category are different from agnostics. They do have a political orientation that is flexible and malleable across conditions. As Greenberg and Jonas (2003:381) pointed out "low ideological rigidity people are open-minded and tolerant; […]willing to consider and acknowledge the possible virtues of alternative views. They are ideologically malleable". We will argue that a CEO who exhibits low levels of ideological rigidity will be better equipped to overcome the disadvantageous effects of TMT ideology-based faultlines and promote higher levels of performance in executive groups.

First, the fragmentation costs of ideology based-faultlines can be reduced when a CEO has malleable political beliefs and thus, they will not be identified with one subgroup. An ideologically malleable CEO will be able to understand both political views among TMT members, set a common means of communication and information sharing across the two subgroups, and integrate the different views to make decisions that are beneficial for the organization. This process will promote the quality of strategic decisions (Li & Hambrick, 2005), and will thus attenuate the negative performance effects of TMT ideology/based faultlines.

Second, a CEO with malleable political preferences will be more able to link the diverse opinions of subgroups with different political values, as they will not belong to one side of the faultline. In a recent study, Meyer, Shemla, Li, and Wegge (2015) found that when the leader of a group exhibits more similarity to one of the subgroups in the team, members of the opposite subgroup tend to exhibit lower performance. This mechanism is more likely to occur when the CEO does not have malleable political beliefs, as they will support one of the two parties in the executive group. On the other hand, a CEO with malleable political ideology will not act as a supporter of one subgroup over the other, and will thereby promote cohesion and higher performance. Flexibility in political ideology will allow them to overcome the conflict and reduces fragmentation across subgroups – which will in turn reduces the negative effects of ideology-based faultlines. This argument is in line with Lawrence and Lorsch (1967), who argue that an integrator needs to be open to the different groups that exist in the team, synthesize existing value-related schemas, and integrate the various opinions in a way that is beneficial for the organization. Building on these arguments, we postulate that a CEO who is ideologically malleable will have a positive effect on the relationship between ideology-based faultlines and firm performance.

Hypothesis 2. *The negative relationship between ideology-based TMT faultlines and firm performance will become less pronounced when the CEO has malleable political beliefs.*

4.3 Methods

4.3.1 Sample and data sources

Our sample consists of executives in large S&P500 firms between 2000 and 2013. The S&P 500 index offers an adequate setting for examining the effects of TMT political ideology on firm outcomes. Importantly, focusing on S&P500 firms enhances within sample comparability – allowing us to address the impact of ideology-based TMT faultlines on firm outcomes among large organizations. Data about executives was retrieved from the ExecuComp database – which provides information about top managers in large listed organizations. To enhance consistency, we included only firms that appeared for at least five years in the S&P 500 index over the studied period, and had a TMT size of more than three members – as this is the minimum size that allows the emergence of equally sized TMT subgroups (Bezrukova, Jehn, Zanutto, & Thatcher, 2009; Georgakakis et al., 2017; Hutzschenreuter & Horstkotte, 2013). Data about the political ideology of executives was gathered from the FEC website, which reports on the political donations that equal or exceed the 200 US dollars of all individuals. The initial sample consisted of 6,092 firm-year combinations. Due to missing data, our final sample was 5,147 firm year observations. Firm level data was obtained from the

Compustat database, which was merged with ExecuComp using the *gvkey* common identifier.

4.3.2 Dependent variable

Similar to prior studies, *firm performance* was measured as the two years average ROA after each respective year of observation (t1, t2)(Georgakakis et al., 2017). We used this lagged approach to capture the subsequent effects of TMT faultlines on subsequent firm outcomes, and avoid the common problem of 'regression to the mean' in studies examining firm performance (Shen & Cannella, 2002). Calculating subsequent firm performance is a common approach in strategic leadership studies that examine the effects of CEOs and executives on firm level financial outcomes (Georgakakis et al., 2017; Georgakakis & Ruigrok, 2017; Karaevli, 2007).

4.3.3 Independent variable

To calculate *ideology based TMT faultlines,* we first coded the general orientation of executive ideology, defined as liberal versus conservative. Similar to prior work in the area of TMT political ideology, each executive's ideology score was measured as the total amount of donations that the individual had made to the republican party divided by the total amount of donations to both parties. Individuals who had not contributed to either of the two parties were assigned the value of 0.5. An individual's overall political ideology was coded into three dichotomous variables – (a) liberal ideology (those with an ideology score of below 0.5), (b) conservative ideology (those with an ideology score higher than 0.5) and (c) neutral ideology (those who made no donations to either of the two parties: i.e., ideology score of 0.5). To calculate TMT faultlines strength we adopted the approach suggested by Thatcher, Jehn, and Zanutto (2003) expressed as:

$$Fau_g = \left(\frac{\sum_{j=1}^{p} \sum_{k=1}^{2} n_k^g \left(\bar{x}_{\bullet jk} - \bar{x}_{\bullet j \bullet} \right)^2}{\sum_{j=1}^{p} \sum_{k=1}^{2} \sum_{i=1}^{n_k^g} \left(x_{ijk} - \bar{x}_{\bullet j \bullet} \right)^2} \right) \qquad g = 1, 2, \ldots S,$$

where *xijk* represents the amount of the *jth* ideology of each individual *i* in the respective subgroup *k, x*j** denotes the average of the team in the attribute *j, x*jk* represents the average of the ideology *j* in the *kth* subgroup, and *nkg* is the number of members in this subgroup with split g. Faultlines strength was then calculated based on the Fau_g which amounts all potential splits g = 1, 2, … S (Meyer & Glenz, 2013). High scores indicate high faultlines strengths in political ideology, and low scores indicate low faultlines strength. We decided to treat the neutral ideology as a separate category and subgroup, as these individuals are likely to share "agnostic" ideological tendencies and are therefore likely to form their own intra-team subgroup that may affect team dynamics.

4.3.4 Moderator and control variables

CEO malleable political ideology was measured as a dummy variable taking the value of 1 if the CEO had donated to more than one political parties over the studied period (2000 to 2013) and 0 otherwise. To capture only CEOs who are malleable as those who donate to two different parties simultaneously, and differentiate them from those who are agnostic and neutral, we developed four different dummy categories: (a) purely republican (when the CEO has donated only to the republican party), (b) purely democrat (when the CEO has donated only to the democratic party), (c) agnostic (when the CEO has no donations to any of the two parties), and (d) malleable (when the CEO has donated to both parties). Our logic is that CEOs with stable political beliefs will remain consistently committed to one of the political parties, and will therefore never donate to other parties. This is consistent with the notion of ideological rigidity, where some individuals are strong and consistently committed supporters to one ideological leaning, while others are more open to considering other ideologies beyond their dominant political preferences, and others are simply agnostic (Greenberg & Jonas, 2003). To test the malleability hypothesis, we focus on the CEOs who have malleable political beliefs as reflected in their donations to both parties – while treating the neutral, purely conservative and purely liberal as controls in our models.

We also added several control variables to account for potential confounding factors. We controlled for *CEO compensation*, using the TDC1 variable provided in the ExecuComp database. This variable calculates the total CEO pay in a given year of observation, by calculating the ex-ante value of the restricted stock and option grants that an individual receives in a given year of observation using the Black-Scholes option pricing model (Conyon et al., 2001). To account for potential diminishing effects at high levels of CEO pay, we transformed this variable to its natural logarithm (Wowak et al., 2011). We controlled for *CEO tenure* to account for CEO longevity in the firm. To capture potential diminishing effects at high levels of CEO tenure, we transformed this variable to its natural logarithm. As the faultlines measure does not account for equally sized subgroups, we added *equal subgroup size* as an additional control variable in our models.

We also controlled for several firm and industry factors that may affect organizational performance. *Firm size*, measured as the natural logarithm of the total *number of employees* was controlled. *Prior firm performance* measured as the return on assets in the year of observation, was added as a control variable to account for potential issues of regression to the mean (Shen & Cannella, 2002). We followed the approach suggested by Dess and Beard (1984) concerning industry characteristics, to control for *industry munificence* and *industry dynamism*. Industry munificence was measured as the coefficient of the regression slope of the annual average sales in a firm's two-digit industry over the studied period (2000 to 2013), divided by the overall average sales of this year-period (Nielsen & Nielsen, 2013). Industry dynamism was measured as the standard error of the regression slope in the calculation of munificence divided by the average sales in the respective year period. Including these variables allowed us to account for attributes in the industry context that may affect organizational performance. Finally, to account for year effects we included *year dummies*, and to consider differences between states, we included *state dummies* for the state in which each firm was headquartered.

4.3.5 Analytical strategy

We employed a GLS regression technique to analyze our data. The use of longitudinal and panel data allows us to observe within and between year variance and thus control for unobserved heterogeneity, which allows us to improve statistical estimates (Kmenta & Rafailzadeh, 1997). Despite this advantage, however, the use of panel data requires attention to cross-sectional heteroscedasticity, and serial correlation between firm and year units (Greene, 2003). This makes the use of a simple OLS regression inappropriate.

We therefore used a generalized least squares (GLS) regression technique to analyze our panel data. In GLS regression, attention is required to the selection of fixed versus random effects. Where the researcher pays attention to the between effects (i.e., between firms), and when time-invariant variables are included in the analysis, the use of a random effects approach is recommended (Greene, 2003). As our purpose is to consider the between firm effects, we adopted a random effects GLS approach.

4.4 Results

4.4.1 Main analysis

Table 4.1 presents descriptive statistics and correlations while Table 4.2 presents the results of the GLS regression analysis. As can be seen in Table 4.1, some expected correlations were observed. For example, industry dynamism has a negative correlation to firm performance, while industry munificence exhibits a positive correlation. CEO compensation is positively correlated to firm size (number of employees), which is in line with the arguments of prior studies suggesting that in large firms, where job demands are higher, CEOs receive higher compensation on average. Table 4.1 also shows that there are no variables with high correlation that may trigger multicollinearity issues.

Hypothesis 1 suggests that ideology based faultlines have a negative effect on firm performance. While our results are in the predicted direction, the obtained p-value does not provide support for this hypothesis (*b= -0.16; std.err. =0.39; p=0.671*). Hypothesis 2 predicts that CEO ideology plays a key role in activating, or keeping dormant the effect of ideology-based faultlines. Our results support this hypothesis, suggesting that when the ideological leaning of the group leader is flexible, the detrimental effects of TMT ideology based faultlines on firm performance weaken (*b= 1.76; std.err. =0.76; p=0.021*).

As further shown in Figure 4.1, the malleability of a CEO`s political ideology plays a key role in affecting the performance implications of TMT ideology based faultlines. In particular, our results show that the strength of TMT faultlines in political ideology has a negative effect when the CEO identifies with one of the two political orientations. When the CEO has malleable political beliefs, however, faultlines have a positive effect on firm performance. The overall average performance is lower when the team is led by a CEO who lacks stable political beliefs. This finding shows that instability in leadership traits and leader ideology may have, overall, negative performance consequences. We further interpret these results in the discussion section.

Table 4.1: Descriptive statistics and correlations

Variables	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Subseq. firm performance (ROA)	5.84	8.18	~									
(2) ROA (t)	5.74	11.25	0.40	~								
(3) Industry munificence	0.06	0.06	0.11	0.06	~							
(4) Industry dynamism	0.07	0.05	-0.12	-0.05	-0.25	~						
(5) CEO compensation (log)	8.81	1.23	0.01	0.06	-0.06	-0.00	~					
(6) CEO tenure (log)	1.56	0.87	0.05	0.03	-0.03	0.03	0.02	~				
(7) Employees (log)	2.90	1.47	0.07	0.06	0.11	-0.13	0.23	-0.09	~			
(8) Equally sized subgroups	0.14	0.35	-0.00	0.00	0.03	0.04	-0.03	-0.01	-0.01	~		
(9) CEO malleable	0.52	0.50	-0.08	-0.07	-0.02	0.01	0.07	0.07	0.07	-0.01	~	
(10) Ideol. based faultlines (strength)	0.76	0.27	-0.02	0.00	-0.03	-0.00	-0.02	-0.01	-0.04	-0.04	-0.05	~

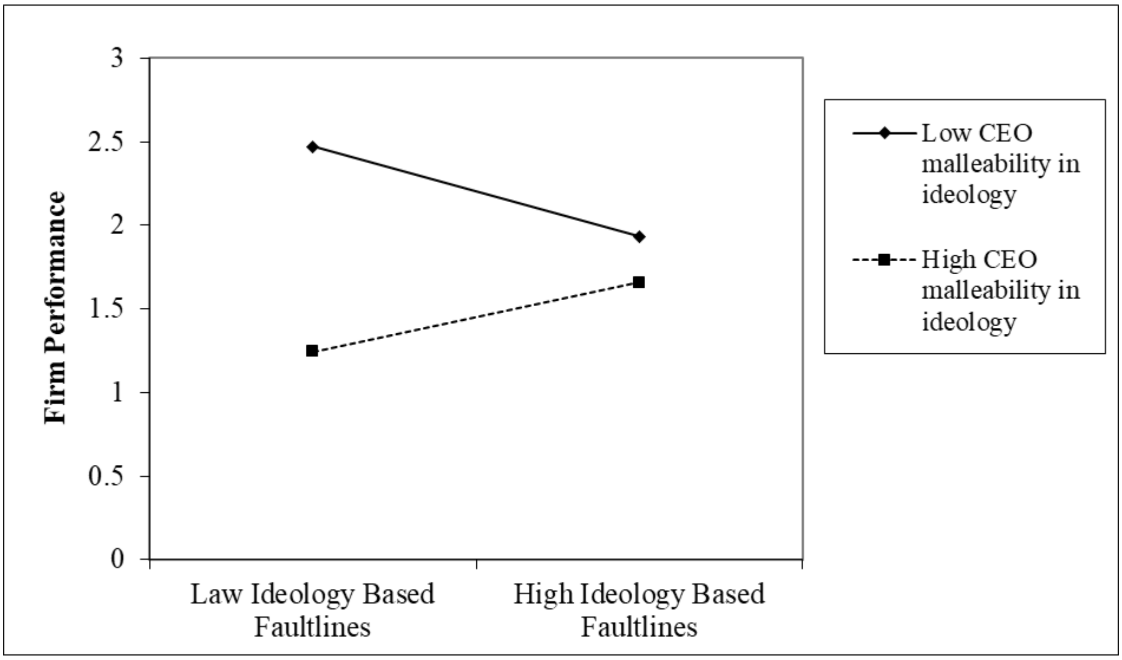
Notes: N=5147; Correlations with r>0.01 are significant at p<0.05

Table 4.2: GLS regression with subsequent firm performance as dependent variable

	Model 1			Model 2		
	b	Std.Err	p-value	b	Std.Err	p-value
ROA (t)	0.26***	(0.01)	0.000	0.26***	(0.01)	0.000
Industry munificence	15.10***	(2.20)	0.000	15.13***	(2.19)	0.000
Industry dynamism	-6.13**	(2.23)	0.006	-6.03**	(2.23)	0.007
Total compensation (log)	-0.16	(0.09)	0.064	-0.16	(0.088)	0.063
CEO tenure (log)	0.42***	(0.12)	0.000	0.41***	(0.12)	0.001
Employees (log)	0.21**	(0.08)	0.006	0.21**	(0.08)	0.006
Equal sized subgroups	-0.00	(0.29)	0.993	-0.01	(0.29)	0.974
Malleable CEO	-0.72**	(0.27)	0.009	-2.09**	(0.65)	0.001
Neutral CEO	0.46	(0.34)	0.168	0.41	(0.34)	0.221
Democrat CEO	-0.26	(0.46)	0.570	-0.33	(0.46)	0.476
Republican CEO	*Omitted*	*Omitted*	*Omitted*	*Omitted*	*Omitted*	*Omitted*
Ideology-based Faultlines (strength)	-0.164	(0.39)	0.671	-1.03	(0.54)	0.055
Ideology-based Faultlines (strength) x Malleable CEO				1.76*	(0.76)	0.021
Constant	5.778***	(1.26)	0.000	6.51***	(1.30)	0.000
Wal Chi^2	1443.06***			1449.64***		
N	5147			5147		

Notes: Standard errors in parentheses; Year and state dummies included but not shown;
* p<0.05; ** p<0.01; *** p<0.001

Figure 4.1: The moderating role of CEO malleable political ideology



Source: Author

4.5 Discussion

Even though Hambrick and Mason (1984) introduced the key role of executive values and perceptual filters in affecting organizations, the vast majority of upper echelons research has used demographic attributes as proxies of value-related cognitive schemas. As demographic traits are imperfect proxies of the personal givens of executives (Lawrence, 1997; Pettigrew, 1992), their use is likely to mask the actual processes through which TMT composition affects firm outcomes. This has led scholars to use more direct indicators of executive values – with a particular emphasis on their political ideologies. Following this premise, a recent stream in upper echelons research has employed political donations to assess how political ideology acts as a direct indicator of executive values (Chin et al., 2013; Chin & Semadeni, 2017; Gupta et al., 2017; Gupta, Nadkarni, & Mariam, 2018; Gupta & Wowak, 2017). This research stressed that examining the ideology-based composition of the TMT can help us to shed new light on how an executive`s value-based dispositions reflect organizational outcomes. While research into the effects of CEO and TMT political ideology has recently gained momentum, however, little is known about how diversity, and faultlines in ideological beliefs affect TMT dynamics, behavior and outcomes. Our study adds to this literature by introducing the concept of ideology-based TMT faultlines, and demonstrating its effect on firm outcomes. It also highlights the key role of the CEO-TMT ideology interface in determining the detrimental effects of value-related schisms in organizational upper echelons. Overall, our theory and results show that the presence of TMT ideology subgroups can significantly damage organizational performance when the leader of the team (i.e. the CEO) supports one of the two sides of the faultline. At the same time, political subgroups can have positive effects when the CEO has malleable political ideology (i.e., are flexible in ideological leaning and have demonstrated ideology-hopping in prior donations to political parties).

Our study makes several contributions. First, our results support the notion that ideology-based TMT faultlines can be translated into beneficial organizational outcomes when the CEO has malleable political beliefs. In a recent paper, Carton and Cummings (2012:466) demonstrated that "it is critical for scholars to identify moderating variables that accentuate positive inter-subgroup processes … in order to understand how managers can "tip the balance" so that subgroups can be more beneficial than detrimental". Our results expand this line of argumentation by revealing that when the team leader of the group (i.e. the CEO) has malleable political beliefs, they are better equipped to overcome the ideology-based fragmentation of TMT faultlines and promote beneficial performance effects.

Second, our study also makes several significant contributions to both upper echelons and team diversity literature. Despite the fact that Carton and Cummings (2012) developed three types of subgroups: (a) the knowledge-based subgroups, (b) the resource-based subgroups, and (c) the identity-based subgroups, little attention has been paid to the value-based subgroups. This form of subgroup is mostly activated when there are differences related to the deep-level values of team members. In this regard, our study provides new insights by showing that a key form of value-related subgroups can have detrimental effects depending on the values of the group's leader. This is in line with the recent study by Johnson and Roberto (2018:1042) which proposed that "coworkers with opposing political ideology limit their communication or experience high rates of conflict due to negative feelings about each other, [… which in turn affects] the group`s overall job performance". Our research expands this logic to the executive suite, to demonstrate that such political subgroups can affect the fate of organizations.

Another contribution of the study is that we examine the CEO-TMT interface and its importance. To the best of our knowledge, this study is the first to examine the interaction between the most valuable leader of the team (i.e. the CEO) and the rest of the top executives with regard to values and political beliefs. Our study thus highlights the importance of the way that the values and beliefs of the CEO can affect the diverse values of the TMT and their subsequent organizational outcomes. Our findings confirm that a CEO who has malleable political beliefs positively affects the relationship between ideology-based TMT faultlines and firm performance. To this end, this study contributes to the faultlines and political psychology literature by focusing on the neglected moderating role of the CEO's values.

Our study also has practical implications. As there are political differences among individuals in organizations, companies should be aware and take into account the differences of values and preferences among top executives. To avoid low organizational performance due to the existence of strong ideology-based faultlines, organizations need to hire a leader who can act as an integrator and bring together the two ideological groups.

The present study has also limitations which offer opportunities for future research. First, we did not examine how the personality or the power of the CEO affects the performance implications of ideology-based TMT faultlines. We also tested our hypotheses using data from the S&P 500 firms in the USA. It can thus be argued that our findings may be not generalizable in other country contexts. While information about political donations is often not publicly available for countries other than the United States, future research can use other research designs, such as survey questionnaires, to examine how differences among executives in political ideology affect organizations across different cultural and institutional contexts. Second, another limitation is that we did not determine whether the top executives had malleable beliefs, but focused only on the CEO. It may be, for example, that ideology faultlines remain dormant and have no effect because top executives – beyond the CEO – have malleable political beliefs. Future research could examine how teams that consist of members with malleability in ideology exhibit different strategic behavior compared to those that consist of members with strong political orientations and subgroups with different ideological leanings.

To conclude, our study offers a nuanced understanding of how the values of the CEOs moderate the performance effects of ideology-based TMT faultlines. Our work may inspire future research to examine the political ideology of the top executives, and further unveil how diversity in values affects team processes and outcomes.

5 Conclusion

This doctoral dissertation has examined how the values of executives, as reflected by their political ideologies, influence core organizational aspects, such as the emergence of a diversity crisis owing to the occurrence of corporate discrimination lawsuits, the drivers of the gender-pay gap in organizational upper echelons, and the emergence of ideological subgroups and their impact on firm performance outcomes. Whereas the literature has revealed the importance of considering the values of executives and their political ideology, the three aspects examined in this dissertation were as yet unexplored. In this regard, a key contribution of the dissertation is that it allows us to understand how the ideological values of executives reflect not only firm-level financial outcomes – as argued in the third paper on the effects of ideology faultlines on firm performance – but also on firm-level social behavior, as demonstrated in the first paper of the thesis on the emergence of corporate discrimination lawsuits, as well as in the paper focused on the gender-pay gap in TMTs. Each empirical paper contributes to upper echelons theory from a different angle.

The first empirical paper contributes to upper echelons theory by highlighting that the values of the CEO can affect corporate social behavior, as well as the outcomes of diversity in organizations. The paper empirically demonstrates that conservative CEOs with less egalitarian orientation are likely to develop an organizational culture that is more prone to the emergence of corporate discrimination litigation. It also advances our understanding of the behavioral theory of corporate governance by showing that the CEO-Board interface can reflect corporate social outcomes. It empirically supports the theory that when a board of directors that is on average liberal in ideology will influence a conservative CEO to establish an appropriate climate with respect to diversity, and thus minimize the company's exposure to corporate discrimination litigation. In this regard, the dissertation contributes to the behavioral theory of corporate governance (Westphal & Zajac, 2013) by revealing that the ideological values of the board of directors influence the effects of CEO ideology on firm level social outcomes.

The second empirical paper contributes to an unsolved debate about whether or not social identity theory has more explanatory power than the queen bee perspective by highlighting that we need to examine the political ideologies of CEOs. It hypothesized and empirically supported the theory that the negative relationship between a female CEO and the gender-pay gap will become more pronounced if the CEO is conservative.

This study sheds light to the individual level values that determine how executives perceive differences in pay among individuals, and affect how gender-pay differentials may arise in organizational upper echelons (Carnahan & Greenwood, 2018; Chin et al., 2013; Chin & Semadeni, 2017). The third paper of the dissertation introduced a new unexplored concept of faultlines – ideology-based TMT subgroups. It indicated that the presence of ideology-based TMT faultlines has a detrimental effect on firm performance when the CEO supports one of the two TMT subgroups. At the same time, when the CEO has flexible political beliefs, ideology-based splits can rather trigger negative effects. This is because diversity in values translates into positive outcomes when the CEO can act as an integrator, who brings together the two sides of the faultlines and helps to reveal the positive impact of value-based diversity. The third empirical study thus contributes to faultlines literature by examining a new concept of subgroups and by highlighting the key role of a team's leader.

The findings of the doctoral dissertation should be assessed in light of its limitations. All empirical papers examine top management team members and disregard the other strategic leadership actors, such as middle managers, who may play a critical role in affecting organizations. Future research could thus expand our focus by considering middle managers, and by examining how their ideologies affect strategic decisions and outcomes. Another limitation is that all the papers focused on the S&P 500 firms, and thus results may not be generalizable to smaller organizations. Further studies could test the generalizability of our findings using samples that also include smaller firms. The focus of the dissertation, and its empirical setting is based on the US context. Undoubtedly, conservative and liberal political ideology varies across contexts. It would be interesting for future research to examine the generalizability of the findings to other cultural contexts – such as in different countries in Europe.

Generally, the dissertation places emphasis on the importance of considering how the different political values and beliefs of top executives interact and affect key strategic decisions and organizational outcomes. The findings across all three studies shed light on how different political ideologies in TMTs can serve as a basic constant for (a) how executives can formulate their strategies in order to manage corporate discrimination lawsuits, (b) how executive compensation can be concurrently influenced by the gender and ideology of the most prominent corporate leader, and (c) how firms can deal with the negative consequences that ideology-based TMT faultlines may have. As ideological differences continue to exist, and even strengthen over time, understanding how political ideology affects organizations is likely to become increasingly critical in the years to come.

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Appendices

Appendix 2.1: Heckman First-Stage: CEO Conservative Ideology as Dependent Variable

Variables	Model 1		
	β	*Std. Err.*	*P-value*
Intercept	-1.33	0.73	.069
CEO conservativism in industry peers	2.38	0.68	.000
CEO conservativism in other state-headquartered firms	1.48	0.24	.000
Workforce liberalism	-0.81	0.24	.001
Industry % of minority labor	0.00	0.01	.586
Heavily regulated industry	0.21	0.10	.035
Industry munificence	0.01	0.37	.978
Industry dynamism	-0.29	0.39	.467
Proportion of non-executive directors	-0.46	0.57	.417
CEO power	0.07	0.02	.002
Board size (log)	0.14	0.17	.437
ROA	0.01	0.00	.064
Number of employees (log)	0.00	0.00	.986
Year dummies	*Included*		
CEO female	-0.39	0.21	.067
Board liberalism	-0.07	0.02	.001
Wald Chi-square	172.57		
P-value	.000		

N = 3,175

Appendix 2.2: Supplementary Analyses with the Average Number of Lawsuits as Dependent Variable (Static Approach)

Variables	Model 1			Model 2			Model 3		
	β	*Std.Err*	*p-value*	*β*	*Std.Err*	*p-value*	*β*	*Std.Err*	*p-value*
Intercept	-2.36	1.05	.025	-2.64	1.05	.010	-2.73	1.05	.009
Inverse Mill's ratio	0.28	0.25	.266	0.44	0.25	.077	0.43	0.25	.085
Past # of discrimination lawsuits	0.85	0.03	.000	0.85	0.03	.000	0.85	0.03	.000
Workforce liberalism	-0.03	0.28	.921	-0.09	0.28	.742	-0.06	0.28	.827
Industy % of minority labor	0.01	0.01	.112	0.01	0.01	.121	0.01	0.01	.094
State ideology	1.02	0.78	.187	1.15	0.78	.140	1.16	0.77	.133
Heavily regulated industry	0.18	0.12	.128	0.20	0.12	.089	0.19	0.12	.107
Industry munificence	-0.92	0.53	.084	-0.94	0.53	.080	-0.89	0.54	.097
Industry dynamism	-0.45	0.43	.296	-0.50	0.43	.240	-0.49	0.43	.247
CEO power	-0.01	0.03	.854	-0.01	0.03	.814	-0.01	0.03	.724
Proportion of male directors	0.04	0.36	.915	0.06	0.35	.865	0.04	0.35	.915
TMT size (log)	0.12	0.25	.620	0.13	0.25	.587	0.15	0.25	.545
Board size (log)	0.03	0.24	.894	0.07	0.24	.762	0.07	0.24	.770
ROA	0.00	0.00	.447	0.00	0.00	.418	0.00	0.00	.382
Number of employees (log)	0.27	0.05	.000	0.27	0.05	.000	0.27	0.05	.000
Proportion of non-exec. Directors	0.34	0.46	.466	0.34	0.47	.468	0.39	0.47	.403
CEO female	-0.14	0.16	.371	-0.16	0.16	.312	-0.19	0.17	.250
TMT conservativism	0.05	0.12	.670	-0.03	0.12	.801	-0.01	0.12	.957
Board liberalism	-0.04	0.02	.091	-0.04	0.02	.054	-0.02	0.02	.263
Year dummies	*Included*			*Included*			*Included*		
CEO conservativism				0.14	0.06	.030	0.10	0.06	.104
CEO conservativism X Board liberalism							-0.07	0.03	.010
Wald chi-square	4056.82			4560.44			4979.97		
P-value	.000			.000			.000		
N	3,175			3,175			3,175		

Appendix 2.3: Supplementary Analyses Testing the Interaction of CEO Conservativism and the Number of Past Discrimination Lawsuits

Variables	Model 1			Model 2			Model 3 (conservative boards)			Model 4 (liberal boards)		
	β	*St.Err*	*p-value*	*β*	*St.Err*	*p-value*	*β*	*St.Err*	*p-value*	*β*	*St.Err*	*p-value*
Intercept	-2.64	1.05	.010	-3.03	1.07	.000	-2.88	1.08	.008	-1.59	2.14	.459
Inverse Mill's ratio	0.44	0.25	.077	0.53	0.24	.030	0.34	0.28	.229	0.08	0.48	.862
Past # discrimination lawsuits	-0.15	0.03	.000	-0.17	0.04	.000	-0.26	0.10	.010	-0.17	0.05	.000
Workforce liberalism	-0.09	0.28	.742	-0.14	0.28	.602	0.24	0.34	.480	-0.34	0.47	.469
Industy % of minority labor	0.01	0.01	.121	0.01	0.01	.134	0.01	0.00	.040	0.01	0.01	.583
State ideology	1.15	0.78	.140	1.26	0.84	.134	0.26	0.85	.758	1.92	1.10	.082
Heavily regulated industry	0.20	0.12	.089	0.22	0.11	.054	0.16	0.13	.212	0.28	0.21	.191
Industry munificence	-0.94	0.53	.080	-1.03	0.54	0.56	-1.36	0.61	.025	-0.17	0.59	.776
Industry dynamism	-0.50	0.43	.240	-0.49	0.42	.236	-0.23	0.52	.666	0.18	0.63	.777
CEO power	-0.01	0.03	.814	-0.01	0.03	.745	0.02	0.04	.615	-0.05	0.05	.306
Proportion of male directors	0.06	0.35	.865	0.13	0.38	.720	-0.83	0.49	.093	0.20	0.63	.756
TMT size (log)	0.13	0.25	.587	0.18	0.24	.445	0.38	0.35	.282	0.59	0.41	.148
Board size (log)	0.07	0.24	.762	0.15	0.21	.473	0.40	0.33	.233	-0.31	0.36	.382
ROA	0.00	0.00	.418	0.00	0.01	.495	0.00	0.01	.412	0.01	0.01	.095
Number of employees (log)	0.27	0.05	.000	0.28	0.05	.000	0.01	0.00	.002	0.00	0.00	.073
Proportion of non-exec. Directors	0.34	0.47	.468	0.32	0.49	.519	0.98	0.56	.079	0.45	0.64	.486
CEO female	-0.16	0.16	.312	-0.17	0.17	.314	-0.44	0.21	.041	-0.02	0.27	.927
TMT conservativism	-0.03	0.12	.801	0.00	0.13	.975	0.31	0.14	.030	-0.20	0.13	.124
Board liberalism	-0.04	0.02	.054	-0.05	0.02	0.16	-	-	-	-	-	-
Year dummies	*Included*			*Included*			*Included*			*Included*		
CEO conservativism	0.14	0.06	.030	0.10	0.09	.229	0.17	0.15	.235	-0.01	0.11	.907
CEO conservativism X Past # discr. lawsuits				0.10	0.03	.005	0.15	0.07	.028	0.00	0.05	.942
Wald chi-square	155.07			172.40			156.86			133.45		
P-value	.000			.000			.000			.000		
N	3,175			3,175			2,139			1,036		

Curriculum vitae

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