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## **IF THE WIND BLOWS, ADJUST YOUR SAIL: POLITICAL IDEOLOGY, SOCIAL RESPONSIBILITY, AND PERFORMANCE**

### **Abstract**

Drawing on the upper echelons theory and the attention theory, this study investigates the influence of a chief executive officer's political beliefs on the market value generated by corporate social responsibility investments. The empirical analysis on U.S. hotel companies over a 25-year period (1998–2022) reveals that greater misalignment between a chief executive officer's ideology and the national political climate leads to a weaker impact of corporate social responsibility-related activities on the market value. This result is significant because it suggests that chief executive officers' actions are not solely determined by their ideological stance—as the upper echelons theory predicts—but rather by the conflict they experience when the external environment contradicts their ideological beliefs, which is a theoretical extension.

**Keywords:** upper echelons theory; attention theory; corporate social responsibility; political ideology; market value

## 1. INTRODUCTION

Political ideology is conceptualized as “an interrelated set of attitudes and values about the proper goals of society and how they should be achieved” (Tedin, 1987, p. 65). According to Jost (2006) these beliefs, deeply rooted in the minds of individuals, “helps to explain why people do what they do” (p. 653). Certainly, the political ideology of chief executive officers has become a hot topic within the upper echelons theory (Hambrick & Mason, 1984). This theory argues that the cognitive base and values of top managers explain both firm behavior and organizational performance (Appendix A presents the origin and history of this theory).

Based on this premise, researchers have examined the intricate association between chief executive officers’ political beliefs and the strategic actions adopted by the companies they lead (Chin et al., 2013; Gupta et al., 2017, 2018, 2019; Nalick et al., 2023). Specifically, one of the most analyzed aspects is the effect that ideology exerts on the attitudes that managers have towards corporate social responsibility (corporate social responsibility) (e.g., Chin et al., 2013; Gupta et al., 2017, 2019; Tetlock, 2000). The more liberal chief executive officers are, the more likely they are to encourage social engagement in the companies they manage to satisfy the interests of multiple stakeholders.

These papers have improved the knowledge of the factors that drive the decision-making of top managers. The values of chief executive officers directly influence how they interpret reality and shape their behavior (Sears & Funk, 1999). This finding demonstrates that the actions undertaken by organizations mirror the cognitions, experiences, and beliefs held by individuals in strategic leadership positions in companies (Hambrick, 2007; Hambrick & Mason, 1984). However, even though these studies represent a major advance in the strategic management literature, they do not analyze how business performance is affected by the political convictions of decision-makers (an issue of vital importance to the upper echelons theory).

Our paper aims to fill this gap by examining how ideology influences the effect of corporate social responsibility on the market value of hotel firms, as reflected in the analysis of stock returns. First, we will use an event study to analyze organizational performance because it allows us to quantify the possible atypical—or abnormal—returns that investors might obtain when companies make a corporate social responsibility-related announcement. This methodology considers that any change in an organization’s share price following an event can be interpreted as an indicator of the effect of that event on the company’s market value. In this way, it is possible to analyze how chief executive officer ideology affects the changes that corporate social responsibility-related activities produce in stock returns.

Second, we will not directly analyze political beliefs, but rather the divergence between the ideology of the political parties that control legislative and executive power and the chief executive officers’ political cognitions. Although the values embedded in the minds of individuals allow us to explain many of the decisions made by top managers accurately, we agree with Semadeni et al. (2022) that ideological convictions are a lens through which managers interpret the changing political climate. Chief executive officers are likely to perceive diminished economic opportunities when there are inconsistencies between their beliefs and the prevailing political discourse of those who have been democratically elected to govern a country. This perceived threat (stemming from the belief that laws may be enacted, or policy decisions made that are contrary to

the interests of their organizations) is likely to lead to a conservative response (see Nalick et al., 2023; Semandeni et al., 2022) that reduces the resources allocated by companies to implement corporate social responsibility-related activities (to safeguard shareholders' financial interests). In this context, it is very plausible that these initiatives will attract less attention from investors. Therefore, based on Barber and Odean's attention theory (2008), we argue that if these actions are less appealing to investors when chief executive officers experience ideological divergence, there should be a lower increase in market value when the company carries out corporate social responsibility activities.

Additionally, to gain a deeper understanding of the phenomenon, we also explore whether chief executive officer power moderates the effect of ideological divergence on stock market response to corporate social responsibility-related announcements. According to Chin et al. (2013) and Briscoe et al. (2014), when chief executive officers hold more power within the organization, they have greater capacity to make strategic decisions without being compelled to satisfy the interests of other stakeholders. In this context, investors may believe that, in the presence of ideological divergence, chief executive officers have a greater sense of control over the perceived threat, allowing them to allocate more funds at any time to the development of activities that have a positive impact on society and the environment. Given that in this scenario, investors are likely to have greater confidence in the potential benefits of the corporate social responsibility announced by the companies, the stock price should increase more significantly than it would when chief executive officers lack power and ideological divergence occurs.

The study is focused on the hotel industry because corporate social responsibility holds significant strategic importance for hotel companies. Within the hospitality industry, while corporate social responsibility is not exclusive to hotels, they, along with restaurants, are the two sectors that invest the most in corporate social responsibility and are extensively researched in this area (Song et al., 2024). This study aligns with other articles in *Annals of Tourism Research* that concentrate on hotels and address topics relevant to the broader hospitality industry, such as satisfaction (Alexakis et al., 2021), COVID-related challenges (He et al., 2022), consumer preferences (Chan and Wan, 2023), and transformative experiences (Kuokkanen & Kirillova, 2024). Nonetheless, given the enormous importance of the relationship between corporate social responsibility and business performance for tourism and hospitality (e.g., Casado et al., 2014; Nicolau, 2008; Rhou et al., 2016; Shin et al., 2021; Singal, 2014), we understand that it is crucial to examine political ideology to continue advancing in this field of study.

The structure of the article is as follows. Firstly, Section 2 includes a review of existing literature, analyzing how chief executive officers' ideological beliefs influence the development of corporate social responsibility-related activities. Based on this theoretical framework, we present the research hypotheses in Sections 3.1 and 3.2. Specifically, we theorize about the influence of ideological divergence on the effect of corporate social responsibility on the stock price of hotel companies and how chief executive officer power moderates this relationship. Building on these premises, Sections 4, 5, and 6 provide a comprehensive account of our empirical analysis, detailing the sources of information used, presenting the findings of our study, and formulating our conclusions, respectively.

## **2. THEORETICAL BACKGROUND: POLITICAL IDEOLOGY AND ITS INFLUENCE ON CORPORATE SOCIAL RESPONSIBILITY**

Political ideology reflects the set of beliefs, values, and principles about how society should be organized and governed (Erikson & Tedin, 2003; Jost et al., 2009). These philosophical convictions, acting as underlying drivers of human behavior (Bartels, 2002), typically manifest early in life (usually in late adolescence or early adulthood) and become ingrained in individuals' minds (Sears & Funk, 1999). People analyze reality through the lens of their political ideology, directly influencing their decisions (England, 1967; Esch et al., 2022; Yang et al., 2023). This set of beliefs constitutes a "dynamic force" shaping citizens' reactions and perceptions to political issues (Bartels, 2002). The more information individuals have, the more likely they are to interpret this information in ways that reinforce their partisan views (Gaines et al., 2007) and find instrumental benefits in courses of action aligned with their personal convictions (Higgins & Molden, 2003). In this context, factual reality is misused to reinforce existing values and cognitions (Gaines et al., 2007).

Individuals with strong political convictions often feel threatened when interpretations contrary to their values emerge. This heightened "sensitivity," exacerbated as these feelings intensify, leads them to proactively endorse ideological loyalty (Haidt, 2012) and the moral superiority of their interpretations (Brewer, 1999), making them hostile to alternative explanations challenging the arguments they identify with (Haidt, 2012).

While various ideological trends exist (such as communism, egalitarianism, anarchism, socialism, leftism, collectivism, rightism, totalitarianism, fascism, nationalism, or populism), most political science literature considers the liberal-conservative framework the best representation of the heterogeneous sentiments and cognitions ingrained in people's minds (e.g., Jost, 2006). This taxonomy has proven practical and effective in distinguishing political attitudes for over two centuries, remaining relevant over time (Jost, 2006).

Recently, a limited number of papers have delved into the influence of chief executive officers' ideologies on corporate social responsibility activities (e.g., Chin et al., 2013; Gupta et al., 2017, 2019). McWilliams and Siegel (2001) define these initiatives as "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (pp., 117). These voluntary activities (Aguilera et al., 2007; Mackey et al., 2007) encompass a wide range of organizational practices benefiting stakeholders beyond shareholders (including communities, employees, customers, and society at large).

Theoretically, corporate social responsibility is closely aligned with liberal ideology but clashes with conservative beliefs rooted in tradition (Chin et al., 2013; Gupta et al., 2019). Chief executive officers with conservative inclinations often perceive an organization's primary goal as satisfying owners' financial interests, leading them to allocate resources more efficiently to maximize companies' market value (Jost et al., 2003). These cognitions often result in viewing social engagement initiatives as outside their scope, considering allocating funds to corporate social responsibility as almost a "theft" from shareholders (Friedman, 2007). Conversely, chief executive officers with liberal leanings recognize the importance of shared responsibility, equality, and social change, leading to a higher commitment to poverty, environmental issues, or civil and political rights (Jost et al., 2003). This perspective prioritizes corporate social responsibility initiatives, which they consider morally necessary. Based on upper

echelons theory, Chin et al. (2013) and Gupta et al. (2019) empirically demonstrated the validity of these assertions.

While these studies are of undeniable heuristic value for the field of strategic leadership, our work goes a step further by conceptualizing ideology as a lens through which chief executive officers navigate a changing political climate (Semadeni et al., 2022). Thus, although executives' cognitions can directly influence their actions and business outcomes, we argue that the discrepancy between their beliefs and the national political climate (represented in democratic societies by the values of parties elected by voters controlling branches of government linked to legislative and executive power) is the underlying mechanism explaining their response to the threats such situations represent. This distinction is crucial because, in these contexts, the strategic response does not arise from liberal or conservative beliefs but from the conflict chief executive officers experience when confronting an environment, they perceive as contrary to their ideological beliefs. This study is the first to analyze the influence of this discrepancy on the market value of hotels engaged in corporate social responsibility activities.

### **3. IMPACT OF IDEOLOGICAL DIVERGENCE ON THE MARKET VALUE OF CORPORATE SOCIAL RESPONSIBILITY-COMMITTED HOTELS: RESEARCH HYPOTHESIS**

Following neoclassical financial theory principles, we assert that investors are to some extent rational actors adhering to the "efficient market hypothesis" (Fama, 1970). Based on this premise, stock prices integrate all available information about a company, and reflect the present value of its future cash flows. In this context, the market value of hotel companies serves as an unbiased and reliable indicator to assess the influence of corporate social responsibility efforts on business performance, and according to the efficient market hypothesis any information related to these activities quickly impacts stock prices, enabling fluctuations observed after announcing these initiatives to be directly associated with corporate social responsibility. However, how does the development of such activities affect companies' market value?

Research in tourism and hospitality has made numerous empirical efforts to unravel how corporate social responsibility influences the stock prices of companies. However, far from being clear, the association between these two variables has resulted in seemingly contradictory findings. While it is true that the majority of studies advocate for a positive relationship (e.g., Nicolau, 2008; Singal, 2014), many works have conditioned the attainment of "abnormal returns" on industry-specific characteristics (Casado et al., 2014), awareness of these activities spurred by media coverage (Rhou et al., 2016), optimal resource allocation (Chen et al., 2017; Franco et al., 2020), or the type of initiatives implemented by tourism companies (Kang et al., 2010).

However, beyond this research corpus, studies advocating for a negative relationship also exist. Cordeiro and Sarkis (1997) showed that allocating resources to protect the environment (through actions such as materials management, product redesign, pollution prevention, and emissions reduction) can negatively affect the stock price of companies. Shin et al. (2021), on the other hand, also found that corporate social responsibility efforts made by hotel companies during the COVID-19 pandemic to provide accommodation for healthcare workers (strategic philanthropy) led to a drop in their market values due to investors' perception of customer discomfort with such initiatives' implementation.

Nevertheless, apart from these contextual factors, the literature shows that, generally, corporate social responsibility offers numerous advantages, including increased profitability, improved reputation, higher employee engagement, reduced operational costs, and the building of positive, lasting relationships with the community and society at large (Li et al., 2015; Porter & Kramer, 2006).

### **3.1 Influence of Chief Executive Officer's Ideological Divergence with National Political Climate on the Market Value of Hotels Engaged in Corporate Social Responsibility Initiatives**

Since the chief executive officer is the visible face of the company, their strategic choices have a decisive impact on the organization's success (Finkelstein et al., 2009). This is particularly significant given the causal ambiguity and inherent complexity associated with the decision-making processes they face (Mannor et al., 2016). While upper-echelon theorists have pointed out that these executives' ideologies are a crucial factor in explaining the development of corporate social responsibility-related initiatives (e.g., Chin et al., 2013; Gupta et al., 2019), we agree with Semadeni et al. (2022) that the discrepancy of these values with the national political climate can create a sense of threat significantly influencing their behavior. It is essential to note that when chief executive officers' political ideologies—manifested in the social convictions ingrained in their minds (Erikson & Tedin, 2003)—are evidently contrary to the values advocated by the parties controlling the branches of power, a feeling of alarm likely emerges, decisively impacting their strategic choices (Brewer, 1999). This response does not directly stem from ideology but arises as a consequence of the challenge posed by the existing disparity with the prevalent political discourse (Brewer, 1999; Hogg, 2005).

Specifically, the threat perceived by chief executive officers when their ideological convictions do not align with the tenets advocated by those who govern the country (which need not be a real threat), may lead them to consider that there is a risk to the companies they manage (because laws may be enacted, or political decisions made that are detrimental to the interests of their organizations). As Semadeni et al. (2022) and Nalick et al. (2023) point out, when such perceptual threats occur, chief executive officers take action to protect their companies from potential negative effects (which, as previously mentioned, may not materialize in real life). In this scenario, it is highly likely that they accumulate and retain reserves of resources (Staw et al., 1981) to safeguard shareholders' wealth, financing exclusively the operational activities that are indispensable for the development of the business activity (Jackson & Dutton, 1988; Newman & Nollen, 1998). Semadeni et al. (2022) have empirically demonstrated that ideological divergence leads to conservative management practices aimed at reducing investments in R&D and retaining earnings to avoid having to borrow to respond to a possible crisis. A robust literature has also shown that chief executive officers with conservative management approaches are unlikely to allocate many resources to implementing corporate social responsibility initiatives (e.g., Chin et al., 2013; Gupta et al., 2017; Tetlock, 2000) because they offer intangible benefits that are difficult to quantify.

Based on these premises, we argue that chief executive officers with greater ideological divergence should engage in corporate social responsibility activities that attract less investor attention (as they are less likely to allocate many resources to the development

of such initiatives). Following Barber and Odean's (2008) attention theory, if these actions are less conspicuous (a sensation that would increase if there is an evident contrast with what the company has been doing in the past), there should be a lesser increase in market value.

In this regard, we do not intend to suggest that investors will perceive organizations whose chief executive officers experience ideological divergence as inefficiently utilizing their resources (or that they would use these funds worse) if they spend money on corporate social responsibility. Nor do we suggest that corporate social responsibility should not be carried out. What we mean to say is that the lower resources allocated to these initiatives should lead investors to perceive that companies may obtain fewer potential benefits from the development of these activities (especially when comparing these organizations with other hotels that may allocate more resources to supporting social commitment due to not feeling threatened by the political environment).

*H1. The greater the inconsistency between the chief executive officer's ideology and the national political climate (and thus the sense of threat), the less attention received from investors regarding corporate social responsibility-related activities resulting in a lower impact on market value.*

### **3.2 Influence of Chief Executive Officer Power on the Effect of Ideological Divergence with the National Political Climate on the Market Value of Hotels Engaged in Corporate Social Responsibility Initiatives**

Not all executives are fully free to make business decisions (e.g., Finkelstein et al., 2009; Gupta et al., 2019; Wangrow et al., 2015). Chief executive officer power can derive from personal attributes such as charisma or expertise (Flynn & Staw, 2004), structural factors such as dispersed ownership (Haynes & Hillman, 2010; Van Essen et al., 2015), the position they hold within the board of directors (Finkelstein & D'Aveni, 1994; Westphal & Zajac, 1995), or their tenure (Al-Najjar, 2017; Kim et al., 2018). The literature analyzing strategic leadership and corporate governance through the upper echelons theory (e.g., Briscoe et al., 2014; Chin et al., 2013; Nalick et al., 2023) suggests that personal values (and other idiosyncratic traits that shape personality) are less likely to significantly influence decision-making when chief executive officers do not hold substantial power. For example, Briscoe et al. (2014) observed that both liberal and conservative chief executive officers with significant authority are better positioned to deal with activists (either by yielding to their demands or presenting strong opposition) without engaging in prolonged negotiations with other executives or with members comprising the board of directors. Chin et al. (2013) found that strategic choices made by chief executive officers (particularly those related to corporate social responsibility) are more likely to be a direct consequence of their political convictions when they have considerable influence within their organizations.

Drawing on these findings, we argue that powerful chief executive officers can mitigate the impact of ideological divergence on the effect of corporate social responsibility on the market value of hotels. In other words, we postulate that if decision-makers have significant control over the board of directors and there are differences between their political beliefs and the ideology of the political parties that have won the elections, the perceived threat should reduce to a lesser extent the increase in market value derived from corporate social responsibility activities implemented by hotel companies. Investors might perceive that powerful chief executive officers have more freedom to allocate greater resources to the development of socially responsible initiatives.

Conversely, if chief executive officers have less control over the decision-making process (because they have to negotiate with other managers or board members), it is more difficult for them to disengage from the conservative management (focused on satisfying shareholder interests) to which ideological divergence leads (even if they believe that allocating greater resources to corporate social responsibility is beneficial to the companies they manage). Based on this reasoning, it seems logical to expect a greater increase in stock prices in scenarios where chief executive officers hold substantial power.

*H2: chief executive officer power positively moderates the relationship between ideological divergence and the effect of corporate social responsibility on the market value of hotel companies.*

#### **4. DATA, METHODOLOGY, AND VARIABLES**

The event study method is employed to examine the effect of a chief executive officer's political ideology on any abnormal stock market returns that might arise from corporate social responsibility actions. The aim is to identify any discernible response within the stock market; if such a response does occur, it should result in returns that deviate from "normal returns". The event study method is a widely used financial econometrics technique that allows researchers to determine whether there are any atypical changes in stock prices in reaction to specific events. The method's strength and relevance to this research lie in its capacity to distinguish changes in market value attributed to particular and well-defined events from the general and usual trends in security prices. Although the event study method, for evaluating abnormal returns stemming from various event types, has primarily been applied in some of the more traditional areas of economic and business-related literature, it is not absent in the field of tourism and hospitality studies (Nicolau and Sharma, 2022). The methodology follows a series of steps in accordance with the guidelines outlined by McWilliams and Siegel (1997). For this study, the steps are as follows:

*Event dates and companies:* We utilized the Factiva database, a comprehensive global source of news, business information, and financial data, to determine when companies released corporate social responsibility-related announcements. Specifically, we looked for corporate social responsibility-related announcements from six hotels: Choice Hotels, Hilton, Hyatt, Marriott, Starwood and Wyndham. In event studies, the unit of analysis is the announcement, not the firm. Thus, even though the sample size in terms of firms is small, the six hotels produced 314 announcements (for details on the procedure used for identifying event dates and companies, see Appendix B).

*Establishing the event timeframe:* Following McWilliams and Siegel's guidance (1997), we maintained short event windows within the (-5, +5) interval. This allowed us to capture expected responses preceding the announcement and delayed reactions due to shareholder reevaluation.

*Calculating abnormal returns (AR):* We employed the market model to estimate AR using Eq. (1),

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}, (1)$$

where  $R_{mt}$  represents market portfolio returns, for which this study uses the S&P500 as it allows us to capture general events in the economy outside the hotel industry,  $\alpha_i$  denotes firm  $i$ 's returns,  $\beta_i$  reflects the firm's market sensitivity, and  $\varepsilon_{it}$  is the random component.

AR for firm  $i$  was then calculated as shown in Eq. (2), using parameter estimates  $\hat{\alpha}_i$  and  $\hat{\beta}_i$  derived from ordinary least squares regressions within a 255-day period preceding the event. The 255-day period extends until 15 days before the event to prevent any overlap between the estimation period and the window period. To err on the side of caution, the estimation period ends 10 days before the window period begins.

$$AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt}), \quad (2)$$

*Calculating average cumulative abnormal returns (ACAR):* ACAR was computed across the event window lasting  $k$  days, evaluating the effect of  $N$  corporate social responsibility announcements on hotel stock prices using the formula described in Eq. (3).

$$ACAR_t = \left(\frac{1}{N}\right) \frac{1}{[(M-2)(M-4)]^2} \sum_{i=1}^N CAR_{it}, \quad (3)$$

where

$$CAR_i = (1/k^{1/2}) \sum_{t=1}^k SAR_{it} \quad (4)$$

and  $SAR_{it}$  are the standardized AR, shown as

$$SAR_{it} = AR_{it}/S_{it}, \quad (5)$$

$$S_{it} = S_i \sqrt{1 + \frac{1}{T} + \frac{(R_{mt} - R_m)^2}{\sum_{i=1}^T (R_{mt} - R_m)^2}}, \quad (6)$$

Where  $S_i$  represents the standard deviation of the residuals prior to the announcement. We evaluated the statistical significance of  $ACAR_t$  using the generalized sign test of Cowan (1992) and the Jackknife test of Giaccotto and Sfiridis's (1996).

*Regression Analysis:* We conducted regression analysis to examine the effects of the chief executive officer's political ideology on potential AR resulting from hotels' corporate social responsibility activities.  $CAR_i$  served as the dependent variable, while chief executive officer's political liberalism, political climate, and selected control variables were the independent variables, as detailed in the regression model.

$$CAR_i = \delta_0 + \delta_1 CEO's \text{ divergence}_i + \sum_{i=1}^l \theta_i CV_i + \omega_i.$$

where  $\omega_i$  is the error term, and  $\delta_0$  is the constant,  $\delta_1$  the parameter of interest that captures the chief executive officer's divergence, and  $\theta$  the parameters for the control variables.

*Inverse Probability Weighting Regression Adjustment (IPWRA) model:* In Hypothesis 2, we have endeavored to explore more deeply whether chief executive officer power impacts the relationship between ideological divergence and abnormal returns of hotel companies derived from the implementation of corporate social responsibility activities. To analyze this effect we applied a method known as the Inverse Probability Weighting Regression Adjustment (IPWRA) model (for further methodological details see Appendix C).

*Dependent variable:*  $CAR_i$  represents the reaction of each firm to corporate social responsibility announcements, obtained from Eq. (4).

*Key independent variables:*

chief executive officer's divergence<sup>1</sup> (calculated for the day the corporate social responsibility announcement is made) is obtained through the logarithm of the absolute value of the difference between the variables "chief executive officer's political liberalism" and "political climate". The literature argues that using logarithmic transformations reduces the probability of extreme observations affecting the results (e.g., Vanacker et al., 2018) and has been employed to measure divergence calculated through the absolute value of the difference between two variables (e.g., Haynes & Hillman, 2010). As long as the chief executive officers' ideology (manifested in donations made to political party committees) remains stable and there are no significant changes in the national political climate, the variable related to ideological divergence will have a similar score. Given that the variable chief executive officer's political liberalism usually does not undergo significant changes over time, the variable measuring ideological divergence can vary substantially each time there are presidential elections (which occur every 4 years) or House of Representatives and Senate elections (which occur every 2 years) in the United States. "chief executive officer's political liberalism" and "political climate" are defined as follows:

i) chief executive officer's political liberalism: To evaluate the political leanings of chief executive officers, we employed a well-established measure from previous research (Chin et al., 2013). This measure is constructed using the contribution records of these top executives, as disclosed by the Federal Election Commission. Donations to committees linked with political parties do not have an annual periodicity. The Federal Election Commission records the exact moment when the donation is made. Thus, the variation is daily. It is even possible for chief executive officers to make multiple donations in a single day. However, this does not mean that chief executive officers donate money every day. While some chief executive officers may be more active in supporting candidates or political parties (making systematic donations over time), some chief executive officers make donations much more sporadically (e.g., when political elections that interest them occur). Regardless of this situation, to calculate the ideology, we retrospectively consider all contributions made by the chief executive officer within a 10-year interval from the date of the corporate social responsibility announcement. This approach minimizes the risk of assigning ideology scores based on random or symbolic behaviors (Chin et al., 2013). For example, let's imagine a chief executive officer has predominantly donated to the Democratic party over time. If we only consider the donations made on the day the corporate social responsibility activity is announced, and that day the chief executive officer makes a small donation to the Republican party, we could misleadingly think that the chief executive officer has markedly conservative beliefs. Given that ideology tends to remain stable throughout a person's life, considering the donations made by chief executive officers over time allows us to capture their political leanings much more accurately (Bonica, 2019). To create this index, we computed four distinct metrics:

a) Behavioral commitment: This metric represents the proportion of a chief executive officer's donations to the Democratic Party in relation to the total number of donations made to both political parties.

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<sup>1</sup> The ideological divergence variable has a mean of 0.3536 and a standard deviation of 0.2259. The minimum value the variable takes is 0.0051, and the maximum value is 0.9767 (it is worth noting that the variable ranges from 0 to 1). In all hotels except for Hyatt (where moderate and low values of ideological divergence were detected, with a maximum of 0.5023 and a minimum of 0.0051), we have observations reflecting the existence of both high ideological divergence (with values above 0.6) and low ideological divergence (with values below 0.35).

b) Financial commitment: Reflecting the monetary value (in dollars) of donations to the Democratic Party relative to the total amount contributed to both parties.

c) Persistence of commitment: Identifying the proportion of years in which the executive made contributions to the Democratic Party compared to the total number of years of donations made to either party.

d) Scope of Commitment: Measuring the proportion of different Democratic recipients who received donations relative to the total number of distinct recipients from both parties who received contributions.

Following the methodology employed by Chin et al. (2013), we added 0.1 to all numerators and 0.2 to all denominators to account for cases where no partisan donations were made. This way of operating allows us to classify chief executive officers who do not make any type of partisan donation as neutral from an ideological point of view (so the variables will have a value of 0.5) (Chin et al., 2013). Subsequently, we computed the average of these four indicators to establish the variable chief executive officer's Political liberalism. The Cronbach's alpha coefficient, which measures reliability, is 0.98, indicating a high level of consistency in our index (Fornell & Larcker, 1981). This metric is on a scale from 0 to 1, with 1 signifying strong a liberal tendency and 0 indicating full conservatism. We conducted a thorough data verification process, meticulously reviewing details of each chief executive officer, including their names, middle names, employment history, and addresses. This comprehensive review aimed to eliminate contributions made by individuals who shared similar names with the chief executive officers in our sample. Our verification process involved cross-referencing information from different sources, such as LinkedIn, the websites of the hotel companies where they served as chief executive officers, and several media outlets to confirm the identity of each donor.

ii) Political Climate: As per Nalick et al. (2023), this variable was calculated as the percentage of Democratic control in the U.S. Presidency, Senate, and House of Representatives. Each of these governing bodies was assigned an equal weight of one-third. In cases where the President is a Republican and the House of Representatives and the Senate are Democrat-majority, the variable is set at 0.67. Consequently, this variable takes a value of 1 when Democratic control is complete and 0 when Republicans hold all governing power. Every time there are elections leading to a shift in the prevailing political discourse, there will be a change in the variable related to the national political climate.

*Control variables:*

i) Profits: We include gross profit to control whether the organizations' performance influences the market value of hotel companies.

ii) Total Assets: We consider total assets to ensure that the size of hotels does not unduly influence their market valuation.

iii) Firm fixed- and year fixed-effects: We incorporated these fixed effects through dummy variables. This approach allows us to account for unobservable factors, including possible time-varying effects such as changes in the economic climate that are common in the hotel industry (e.g., the 2008 international financial crisis or the COVID-19 pandemic), as well as other unrecorded attributes associated with the companies under investigation.

- iv) chief executive officer Age (measured in years) at the time of the event.
- v) chief executive officer Power: This variable is measured, following Chin et al. (2013) and Nalick et al. (2023), through a formative index composed of a dummy variable that records chief executive officer duality (coded as 1 if the chief executive officer was also the chairman of the board, and 0 otherwise), chief executive officer relative ownership (measured as the percentage of total outstanding shares owned by the chief executive officer excluding options), and chief executive officer tenure in the position up to the time of the event (measured in years). These variables are measured for each identified event, normalized, and then the mean is calculated to obtain an index ranging from 0 to 1 (with the chief executive officer having more power as the variable increases).
- vi) Ideological Differences Between chief executive officers: It measures the difference, in terms of political affiliation, between the incoming chief executive officer and the outgoing chief executive officer. Thus, we calculate the absolute value of the difference between the political ideology of the person occupying the chief executive officer position at the time of the event and the political ideology of the person who previously held the position. To measure ideology, we use the procedure described in the variable chief executive officer's political liberalism. If there is no previous chief executive officer in the company, the variable takes the value of 0.

## 5. RESULTS

### *Main results*

Table 1 displays the cumulative abnormal returns for various windows, spanning 5 days prior to and 5 days after the corporate social responsibility announcement. Notably, the (-4, +4) window shows a statistically significant positive deviation from zero, with the highest abnormal returns among the significant windows. This finding suggests that the implementation of corporate social responsibility-related activities positively affects the market value of hotel companies. This result aligns with previous research that has demonstrated a positive connection between corporate social responsibility and a firm's value, as evidenced in studies by Nicolau (2008) and Singal (2014). This literature underscores the benefits derived from improved reputation, increased employee engagement, and the establishment of positive and enduring relationships with the community and society as a whole, as discussed by Li et al. (2015) and Porter & Kramer (2006).

**Table 1.** Effect of corporate social responsibility Activities on Hotel Market Value

| Window  | Cumulative abnormal returns CAR | Cowan (1992) test  | Giaccotto and Sfridis (1996) test |
|---------|---------------------------------|--------------------|-----------------------------------|
| (-5,+5) | 0.03%                           | 2.038 <sup>a</sup> | 1.889 <sup>b</sup>                |
| (-4,+4) | 0.11%                           | 2.038 <sup>a</sup> | 1.828 <sup>b</sup>                |
| (-3,+3) | 0.18%                           | 1.587              | 1.591                             |
| (-2,+2) | 0.05%                           | 0.345              | 1.304                             |
| (-1,+1) | 0.01%                           | 0.107              | 0.888                             |

a=p-value<0.05; b=p-value<0.1

Before delving into the parameter estimates from the regression analysis, we take steps to verify that the Breusch-Pagan test does not yield any evidence supporting the rejection of homoskedasticity (F =10.739; p =0.8698). Furthermore, none of the variance inflation factors (VIFs) exceed the recommended threshold of 10, as outlined

by Sarstedt et al. (2016). Therefore, collinearity does not appear to be a factor of concern in this study (please refer to the last column in Table 2)<sup>2</sup>.

The “divergence” parameter is significant and negative, which supports Hypothesis 1 that the greater the inconsistency between the chief executive officer’s ideology and the national political climate (and thus the sense of threat), the lesser the impact of corporate social responsibility-related activities on the market value of hotel companies (see also complementary analyses in Appendix D). Considering that chief executive officers’ perceived threats may result in cost-cutting measures related to corporate social responsibility, ultimately diminishing a company’s capacity to have a substantial influence on the environment and society through these initiatives, it seems that the initiatives pursued by hotel companies become less appealing to attract investor interest, resulting in a smaller growth in market value compared to the corporate social responsibility endeavors led by chief executive officers who are not encumbered by such ideological discrepancies, in line with the arguments noted by Barber and Odean (2008). To illustrate the magnitude of the impact of these results in terms of their economic significance we proceed as follows. Over the study period, the average market value of the firms analyzed was \$9,862.5 million. The effect of 0.11% observed during the window (-4,+4) from corporate social responsibility actions translates into an annualized increase in average market value of 449.6 million. The negative effect of divergence (-0.1403) results in an annualized reduction of 28.3 million.

The control variables included in the study are not statistically significant. These results suggest that the level of profitability obtained by the organization, the volume of assets, the power of the chief executive officer, the age of the chief executive officer, and the ideological differences between the incoming chief executive officer and the outgoing chief executive officer do not appear to influence the market valuations derived from corporate social responsibility activities. In other words, when making their purchasing decisions, investors assess corporate social responsibility initiatives per se and value the actions of companies that carry out environmentally or socially friendly activities, without giving special consideration to these factors. Note that investors tend to have a strong positive sentiment towards corporate social responsibility activities (Nicolau, 2008) and they might believe that, regardless of the characteristics of the chief executive officers and the companies analyzed in the study, the organizations’ commitment to corporate social responsibility indicates a long-term commitment to sustainable practices and ethical behavior, which may translate to future profitability (Lee et al., 2023).

Precisely, the fact that corporate social responsibility activities are often seen as part of a company’s long-term strategy to build goodwill, enhance its reputation, and mitigate risks, leads investors to recognize that corporate social responsibility is not about short-term profit maximization but about ensuring the company’s viability and competitiveness over time. Recall that a strong corporate social responsibility program can positively influence a company’s reputation, and regardless of the current characteristics of the company and decision-makers, a good reputation can attract customers, business partners, and employees, which can contribute to long-term profitability and sustainability (Brammer and Pavelin, 2006).

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<sup>2</sup> For a more conservative and detailed analysis of collinearity, see Appendix D.

**Table 2.** Effect of chief executive officer’s Political Divergence on Market Response to corporate social responsibility Announcements

| Variable   | Parameters           | Std. Error | t-Value | VIF    |
|--|----------------------|------------|---------|--------|
| Constant   | -1.1638              | 0.7364     | -1.5804 |        |
| Divergence   | -0.1555 <sup>b</sup> | 0.0705     | -2.2075 | 1.2951 |
| Chief executive officer power                            | -0.7596              | 0.4834     | -1.5713 | 8.0462 |
| Ideological differences between chief executive officers | 0.9197               | 0.5459     | 1.6847  | 2.5961 |
| chief executive officer age                              | 0.0177               | 0.0147     | 1.2050  | 7.1612 |
| Profits  | -0.0002              | 0.0002     | -0.7791 | 7.9545 |
| Assets   | -0.0000              | 0.0000     | -0.5772 | 6.6830 |
| Year-fixed effect  | Yes                  |            |         |        |
| R-squared:   | 0.1683               |            |         |        |
| Adjusted R-squared:                                      | 0.1000               |            |         |        |
| F-statistic:   | 2.463 <sup>a</sup>   |            |         |        |

a=p-value<0.01; b=p-value<0.05

On the other hand, focusing on Table 3, the  $ATE_{2vs.1}$ , which analyzes the difference in market value that observations assigned to the treatment group (identifying companies whose chief executive officers have low ideological divergence and high control over the board of directors) and observations assigned to the control group (relative to companies whose chief executive officers have low ideological divergence and reduced power) have on average, is positive and statistically significant at the 1% level. The same occurs with  $ATE_{4vs.3}$  (where the treatment group consists of observations of companies whose chief executive officers have high ideological divergence and high power over the board of directors, and where the control group is composed of observations of companies whose chief executive officers have high ideological divergence and low power over the board of directors). This result supports Hypothesis 2 and allows us to conclude that, while the ideological divergence experienced by chief executive officers reduces the increase in market value derived from corporate social responsibility activities when chief executive officers have high control over the board of directors, the negative effect produced by ideological divergence on the market value of companies is mitigated compared to a situation where board control is more limited. Consequently, it seems that greater power provides a greater sense of controlling the situation (despite experiencing ideological divergence), allowing the chief executive officer to have somewhat more freedom to allocate resources to develop corporate social responsibility initiatives despite the perceived threat. This situation enables investors to have more confidence in the potential benefits of these initiatives, leading to a lesser decrease in the increase in market value derived from social and environmental commitment.

**Table 3.** Inverse Probability Weighting Regression Adjustment (IPWRA) model.  
Average Treatment Effect on Market Value (Standard Errors in Parentheses)

| Sample Selection Method | 4 vs. 3                         | 2 vs. 1                         |
|-------------------------|---------------------------------|---------------------------------|
|                         | ATE                             | ATE                             |
| IPWRA                   | 0.9195 <sup>b</sup><br>(0.3581) | 1.8610 <sup>p</sup><br>(0.7317) |

a=p-value<0.01; b=p-value<0.05

## 6. CONCLUDING DISCUSSION

This study has examined the impact of a chief executive officer’s political beliefs on the abnormal returns resulting from corporate social responsibility investments in the hotel industry. The empirical analysis centers on leading U.S. hotel companies publicly traded over a 25-year span (1998–2022) that have announced corporate social responsibility investments. The results suggest that while the implementation of corporate social responsibility activities positively affects hotels’ market value, shareholder responses are shaped by the chief executive officer’s political (mis)alignment. When there is a greater disparity between a chief executive officer’s ideology and the national political climate, the influence of corporate social responsibility-related activities on hotel companies’ market value diminishes.

The finding of this research has significant theoretical implications in the context of upper echelons theory. First, the study highlights the role of a chief executive officer’s political ideology as a moderating factor in the relationship between corporate social responsibility activities and a firm’s market value. This suggests that ideology is not merely a background variable but an important factor that influences the outcomes of corporate social responsibility efforts. Noticeably, this study goes beyond prior studies by considering ideology as a lens through which chief executive officers navigate the shifting political landscape. Chief executive officers, as if they were skippers, tend to adjust their sail (balance the level of corporate social responsibility investment) when the wind blows (political climate) and must weather the storm (perceive threat). The research posits that the discrepancy between chief executive officers’ ideological beliefs and the political climate is a key factor influencing their strategic responses to perceived threats. This distinction is significant because it suggests that chief executive officers’ actions are not solely determined by their ideological stance—as the upper echelons theory predicts—but rather by the conflict they experience when the external environment contradicts their ideological beliefs, which is an extension of this theory.

Second, the results enhance our understanding of the relationship between corporate social responsibility and shareholder reactions. Specifically, these findings support a non-uniform effect of corporate social responsibility on firm value. The mainstream literature has associated corporate social responsibility with positive impacts on a company’s market value, reflecting shareholder favorability toward socially responsible actions. However, these findings introduce nuance by showing that the impact of corporate social responsibility on firm value can vary contingent on chief executive officer characteristics, specifically their ideological alignment with the political climate. In fact, the chief executive officer’s role in this relationship is crucial in the sense that it is not just about implementing corporate social responsibility initiatives *per se*, it is also about how the chief executive officer’s beliefs and values align with those initiatives and the broader political context.

When chief executive officers' ideologies are closely aligned with the prevailing political climate, corporate social responsibility initiatives are more likely to be positively received by shareholders, leading to stronger impacts on market value. Conversely, when there is a divergence between the chief executive officer's ideology and the political climate, corporate social responsibility initiatives may not generate the same level of positive shareholder reactions, leading to a weaker impact on market value. Consequently, researchers must consider the specific characteristics of chief executive officers, their beliefs, and the political context in which corporate social responsibility is undertaken.

Third, the findings emphasize the importance of considering contextual factors when examining the effects of corporate social responsibility. It suggests that a one-size-fits-all approach to corporate social responsibility's impact on market value is insufficient and that context matters. Generally speaking, the findings highlight that the relationship between corporate social responsibility and market value is not universally consistent, as it is sensitive to the context in which corporate social responsibility initiatives are undertaken. More specifically, the alignment between a chief executive officer's ideology and the national political climate is a crucial contextual fact which can influence the effectiveness of corporate social responsibility initiatives in enhancing market value.

Fourth, the study also demonstrates that the impact of perceived threat arising from ideological divergence on the effect of corporate social responsibility on the market value of hotels is influenced by the power held by the chief executive officer within the organization. This finding seems to reinforce the notion that chief executive officers are not always fully free to make all types of business decisions based on their personal ideologies. The power held by the chief executive officer over the board of directors gives them a greater sense of control, reducing their perception of risk when their beliefs do not align with the political discourse advocated by the parties controlling the governing bodies. In this context, despite having to deal with the threat, it is more likely that they will allocate more funds to social and environmental actions, so investors are less likely to penalize their corporate social responsibility initiatives.

The findings of the study also have several managerial implications. As a first basic comprehensive managerial implications, organizations should pay attention to the alignment between the chief executive officer's personal ideological beliefs and the prevailing national political climate. When selecting or grooming chief executive officers, it is relevant to consider whether their values and beliefs are in sync with the company's corporate social responsibility goals and the broader political context. This understanding is crucial in determining the effectiveness of corporate social responsibility initiatives and identifying the most suitable strategic approaches to pursue.

Second, effective communication with shareholders is crucial, and along this line, organizations should clearly articulate their corporate social responsibility objectives and the rationale behind these initiatives, especially in cases where there is a misalignment between chief executive officer ideology and the national political climate. In this context, transparency can help manage shareholder expectations and minimize potential negative reactions. Third, as the study suggests that fluctuations in chief executive officer ideology can impact corporate social responsibility outcomes, organizations should aim for long-term commitment to corporate social responsibility, rather than adopting a short-term approach that changes with leadership transitions. This

consistency can help build trust and maintain the positive impact of corporate social responsibility over time.

Fourth, companies should establish robust monitoring and evaluation mechanisms to assess the effectiveness of corporate social responsibility initiatives. This includes tracking their impact on market value and shareholder reactions. In fact, regular assessments can help identify whether adjustments are needed based on changing chief executive officer ideologies or shifting political landscapes. Fifth, companies could engage with a wide range of stakeholders, including shareholders, to understand their perspectives and expectations regarding corporate social responsibility. Companies can use this input to shape their corporate social responsibility strategies in a way that resonates with various stakeholder groups, even in situations of ideological misalignment. Sixth, as context can change over time, the timing of corporate social responsibility initiatives and market reactions needs to be considered because what works in one context at a specific time may not yield the same results in another.

Seventh, given the influence of chief executive officer power on the relationship between perceived ideological threat and corporate social responsibility impact on hotel market value, it is crucial for organizations to recognize the complexities of decision-making within hierarchical structures. Chief executive officers, often wielding considerable authority, may mitigate perceived risks associated with ideological misalignment by prioritizing social and environmental initiatives. Therefore, fostering a corporate culture that encourages alignment between personal beliefs and organizational values while empowering leaders to make socially responsible decisions can enhance stakeholder perception and support for corporate social responsibility efforts.

Finally, an eighth fundamental managerial implication derived from the findings is that organizations should be aware of the delicate balancing act that chief executive officers face when addressing perceived threats and the demands of corporate social responsibility: while cost-cutting measures may be seen as necessary to protect the business, they can also impact the company's reputation and attractiveness to investors. Note that this could lead to a situation where the cure is worse than the disease. It is possible that not investing in corporate social responsibility to protect the firm could lead to a remedy worse than the symptoms they are trying to safeguard against. While cost-cutting measures may seem like a prudent way to address immediate challenges or threats, they can have unintended consequences: failing to invest in corporate social responsibility initiatives, which are increasingly important to stakeholders, including customers and investors, can harm the company's reputation and long-term sustainability. Therefore, the negative impact on reputation and the loss of trust from stakeholders could far outweigh the short-term gains from cost-cutting.

In other words, not investing in corporate social responsibility to protect the firm from perceived threats might provide a short-term solution, but it could lead to more significant and long-lasting problems in the form of reputational damage, reduced market value, and diminished trust. Consequently, it is crucial for organizations to carefully consider the potential consequences of such a decision and strive to strike a balance that ensures both short-term financial stability and long-term sustainability. At this point, it is vital for companies to recognize the challenges that chief executive officers are confronted with in managing perceived threats to the business, especially when there is misalignment between their ideological beliefs and the prevailing political climate. This would help companies better support their leadership, and the initial step in providing this support entails facilitating an open dialogue between the chief

executive officer and key stakeholders, including the board, executives, and shareholders; dialogue that should focus on finding—as indicated previously—a balance between cost-effective measures and maintaining a strong commitment to corporate social responsibility.

A first limitation in the study (due to data unavailability) is the inability to calculate a measure of political liberalism for the boards of directors of each company. Future research could focus on estimating an aggregate measure of the ideological beliefs of the members comprising these governing bodies. By incorporating this information, researchers could delve into the alignment or divergence between the chief executive officer and the board of directors concerning the prevailing political climate. Investigating how this alignment or divergence influences organizational decision-making processes and business outcomes could yield valuable insights into the complexities inherent in corporate governance, and how these norms and principles interact with democratically chosen ideological frameworks.

A second significant limitation of this study is its geographical scope, as it exclusively focused on the United States. Consequently, the findings may not be universally applicable, given the United States' distinct political dynamics. The interplay between chief executive officer political ideology, corporate social responsibility initiatives, and stock market responses could vary in other nations with diverse political systems, ideologies, and business landscapes. To overcome this constraint, future research should endeavor to replicate this investigation across various countries, enabling cross-national comparisons. Such an approach would yield a more comprehensive insight into how chief executive officer political beliefs shape stock market reactions to corporate social responsibility efforts in diverse global settings. Moreover, subindustries in tourism and hospitality—different from hotels—may be affected differently by corporate social responsibility actions, depending on the nature of their business and the stakeholders involved.

Consequently, future research can explore how chief executive officer political ideology impacts corporate social responsibility outcomes by conducting cross-border studies in various countries with distinct political climates and business environments. This approach would enable researchers to compare the effects of chief executive officer ideology on corporate social responsibility initiatives and stock market reactions in different cultural and political contexts, providing a deeper understanding of the global variations in this relationship. Additionally, further research can delve into the nuances of industry-specific factors and their influence on corporate social responsibility perceptions and outcomes. By focusing on different subindustries within the tourism and hospitality industry, studies can investigate how corporate social responsibility is perceived and valued differently in specific areas such as environmental sustainability, community engagement, innovation for social good, employee well-being, diversity and inclusion, humanitarian aid, ethical governance, among other, and how these perceptions affect stock market reactions. This approach would shed light on the industry-specific dynamics of corporate social responsibility and offer insights for tailored corporate social responsibility strategies within various sectors.

Ultimately, this study has sought to explore how the ideological conflict—derived from misalignment between a chief executive officer's ideology and the national political climate—in the context of corporate social responsibility engagement, impacts the market value of hotel companies. The findings have provided insights into the relationship between chief executive officers' ideological orientations, political

contexts, and the financial performance of firms engaged in corporate social responsibility activities, contributing to the field of strategic leadership and corporate social responsibility.

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