

Received: 16 Aug 2022
 Revision received: 19 Feb 2023
 Accepted: 13 Apr 2023

<https://doi.org/10.54155/jbs.40.2.53-68>

CEO Characteristics and Corporate Political Strategy: The Moderating Effects of CEO Duality

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Abstract

By relying on upper echelons theory and agency theories, this study explores how CEO characteristics impact firms' engagement in corporate political strategy (CPS). The current study proposes that depending on their CEOs' tenure, firms have different interests and incentives to make CPS investments. In addition, this study suggests that CEOs' personal involvement in political activity affects their firms' CPS investments. CEOs' personal involvement in political activity could indicate agency problems between shareholders and CEOs. To explore this agency problem further, this study also examines how CEO duality moderates the relationship between CEO characteristics and CPS. This study uses a sample of 229 pharmaceutical firms in the U.S. from the year 2000 – 2010. The results show that both CEOs' tenure and CEOs' personal involvement in political activity positively influences CPS. The results also reveal that CEO duality weakens the relationship between CEO tenure and CPS.

Keywords

Corporate political strategy, CEO, Agency theory, Upper echelons theory.

1. Introduction

Scholars have long been interested in why firms invest in corporate political strategy (CPS) (Epstein, 1969). CPS, defined as firms' deliberate attempts to shape public policy in a favorable way to themselves (Baysinger, 1984), has been recognized in different fields such as political science, sociology, economics, finance, and strategic management (Hadani, Bonardi, & Dahan, 2017). Campaign contributions to elections, lobbying, grassroots advocacy, participating in trade associations are various types of CPS that firms engage in. Theoretically,

early scholarly work on CPS proposes that firms can gain benefits from CPS. When utilized strategically, CPS is expected to produce public policy outcomes that help firms' continued economic survival and success (Baysinger, 1984; Ozer & Lee, 2009). Firms can achieve a number of objectives through CPS such as to bolster their economic positions, to hinder their domestic and foreign competitors' progress and competition, and to voice their opinions in government affairs (Hillman & Hitt, 1999; Keim & Zeithaml, 1986).

Firms' decision to engage in CPS has been analyzed at multiple levels of analysis. Prior re-

I thank the seminar participants at the Eastern Academy of Management Conference.

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search identifies industry conditions, institutional context, and firm characteristics as determinants of CPS (see Brown et al., 2022; Lawton et al., 2013; Lux et al., 2011, for a review). The underlying notion behind this stream of research is that firms allocate resources to CPS with the anticipation of generating better returns for themselves (Baron, 1995).

However, empirical work on the effectiveness of CPS has been largely inconclusive. Several studies find support for positive firm outcomes of CPS (Alakent & Ozer, 2014; Bonardi et al., 2006; Ozer & Markóczy, 2010; Ridge et al., 2017; Shaffer et al., 2000). Other studies suggest firms may be unable to accrue benefits from CPS and even sometimes outcomes of CPS can be detrimental to firm (Aggarwal et al., 2012; Hadani & Schuler, 2013). Thus, scholars started to question whether firms truly achieve their financial objectives while pursuing CPS (Hadani & Schuler, 2013).

Most of the existing studies recognize CPS decisions as unified behavior within the firm and neglects the firm's internal characteristics (Rehbein & Schuler, 1999). Even though these studies have significantly increased our understanding of firms' investments in CPS, considerably less work has examined whether firms' senior executives may play a significant role in CPS decisions and they have different attitudes or opinions on CPS. More recent research started to explore the importance of CEOs in firms' decision to engage in CPS (Fremeth et al., 2016; Greiner & Lee, 2018; Rudy & Johnson, 2019). Drawing from the upper echelons theory (Hambrick & Mason, 1984), several studies argue that certain CEO characteristics motivate CEOs to be more aware of their firms' environment and these CEOs are more likely to engage in CPS (Rudy and Johnson, 2019). These studies imply that CEOs aim to better serve their firms by making rational CPS decisions and ensure the best outcomes for their firm as they believe CPS benefits their firms (Ozer, 2010).

Other studies, however, take a different approach and articulate agency problems in the context of CPS (Cao et al., 2018; Fremeth et al., 2016; Greiner & Lee, 2020; Ozer & Alakent, 2013). They argue that CEOs might seek to gain personal benefits

from their firms' engagement in CPS, therefore these CEOs could affect their firms' investment in CPS. Hadani and Schuler (2013) suggest that CPS might signal agency problems to the extent that personal managerial motives could drive CPS. Other scholars note that CPS may benefit CEOs in the form of increased executive pay (Arlen & Weiss, 1995; Yu & Yu, 2011), personal prestige (Hart, 2004), and social capital (Reich, 2011). Taken together, these studies suggest that agency problems could occur between executives and owners as executives may have preferences or priorities to engage in CPS and those may not align with the financial interests of the owners.

The question is what are the factors that motivate CEOs to engage in CPS and under what conditions will CEOs behave in a more opportunistic behavior? In other words, under what conditions will agency problems in the case of CPS be more salient? The primary argument of the current study is that certain CEO characteristics influence firms' engagement in CPS and they will also create contingencies in which agency problems will be more salient.

In this study, I examine how CEO characteristics, tenure in particular, impact firms' engagement in CPS. Building on the upper echelons theory (Hambrick & Mason, 1984), this study suggests that CEOs with different tenure influence their firms' investments in CPS in a different manner. This study also examines how CEOs' personal involvement in political activity affects their firms' CPS. CEOs' political involvement could indicate agency problems. Politically active CEOs may accrue personal benefits from their involvement in politics and this may encourage them to engage their firms in CPS more. Yet, firms may not benefit from CPS as it is difficult to directly demonstrate causal linkage between CPS and firm outcomes (Hadani et al., 2015). Shareholders may view CEOs' political involvement as an opportunistic behavior. Consequently, CEOs' political involvement could increase agency costs. To explore this agency problem further, this study also examines how CEO duality moderates the relationship between CEO tenure and CPS as well as CEOs' political involvement and CPS.

Since CEO duality implies strong CEO power, CEO duality could intensify the agency problems in the context of CPS. Powerful CEOs may be more inclined to engage in political activity and shape their firms' CPS in accordance with their own political activity. Hence, by studying the moderating effect of CEO duality, this study uncovers the conditions under which agency problems are more prevalent in the context of CPS.

This study makes four important contributions to the CPS literature. First, this study offers a framework that integrates upper echelons and agency theories in CPS research, and extends the seemingly contradictory arguments on the role of CEOs in the pursuit of CPS. Previous literature on CPS has presumed that these two perspectives are mutually exclusive. Although both theories emphasize that CEOs exert great influence on their firms' strategic choices and organizational outcomes, existing studies concentrate on one single theory. Accordingly, previous studies in CPS literature have examined CEOs' motivation for CPS separately. Each theory offers a different perspective for CEOs' motivation for CPS. Agency theory suggests that CEOs involve in CPS for self-serving interests while upper echelons theory explains CEOs' involvement in CPS as reflections of CEOs' attributes which help them better understand their environment. I offer a theoretical framework that identifies the CEO characteristics that enable CEOs to make CPS decisions and also provides context in which CEOs' CPS decisions are self-serving or altruistic. By doing so, it provides a more comprehensive understanding of CEO characteristics that influence CEOs' motivation for CPS.

Second, this study contributes to the literature on CPS by examining how CEOs influence their firms' CPS. By considering the role of CEO tenure in shaping their firms' engagement in CPS, this study extends the antecedents of CPS literature, which focuses on firms' motivations for CPS. Third, by studying CEOs' political involvement, this study demonstrates why some firms are more actively engaged in CPS than others. While prior studies on CPS offer highly insightful explanations for why firms opt to engage in CPS, a few studies consider the management of CPS from the perspective of

CEOs. Fourth, this study advances the CPS literature by incorporating CEO duality as a moderating effect on the relationship between CEO characteristics and CPS. This offers a new insight that powerful CEOs with dual positions are more likely to differ in how they perceive CPS and respond to their firms' CPS decisions. Taken together, this study provides further analysis of agency problems in regard to CPS.

2. Hypothesis Development

CEO Tenure

Although several CEO characteristics could affect a firm's commitment to CPS, this study proposes that CEO tenure is particularly important. CEO tenure is one of the most commonly explored traits in the upper echelons literature. According to the upper echelons theory (Hambrick & Mason, 1984), CEOs' actions are defined by their understanding of the strategic situations they encounter. Their tenure significantly shapes this understanding as well as their skills, knowledge, and cognition orientation (Barker & Mueller, 2002). Following this perspective, a significant body of research relates CEO tenure to firm strategy (Barker & Mueller, 2002; Herrmann & Datta, 2006; Hou et al., 2017). The prior literature finds CEO tenure to be related to a variety of important firm outcomes such as firm performance, risk taking, strategic change, innovation, and investment strategies (Barker & Mueller, 2002; Boeker, 1997; Henderson et al., 2006). Hambrick and Fukutomi (1991) suggest that CEOs have different "seasons" of tenure and they learn as their tenure increases. In early stages of tenure, CEOs lack internal and external networks, experiences, and knowledge about their firms and industries (Wu et al., 2005), therefore they try to expand and refine their skill sets. In later stages, they gain more experience, build and capitalize on their social capital, become familiar with the decision process, and develop deep knowledge about their jobs, firms, and environments (Herrmann & Datta, 2006). In this study, I build on this categorization of CEO tenure and propose that CEOs at different seasons of their tenure perceive CPS differently.

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Research on CPS suggests that CPS could provide firms with long-term benefits such as securing government contracts (Hadani, Munshi, & Clark, 2017), minimized tax and regulatory burdens (Hillman et al., 1999; Richter et al., 2009), and government bailout (Faccio et al., 2006). This study suggests that CEOs adjust their firms' CPS over their tenure. In their early tenure, CEOs have less incentives to promote CPS because they may not be familiar with how CPS affects their firm performance due to inherent uncertainty involved during policy making process (Hadani, Bonardi, & Dahan, 2017). CEOs with long-term tenure are more likely to rec-

ognize the long-term benefits of CPS to their firms (Rudy & Johnson, 2019). Due to their greater experience within the firm, more seasoned CEOs are more inclined to grasp the strategic advantages of CPS for their firms. Hence, while CEOs with short-term tenure will have a limited ability to pursue CPS, CEOs with long-term tenure will commit more resources to CPS as they will have greater experience and knowledge about the long-term benefits of CPS for their firms. Accordingly, this study proposes CEOs with long-term tenure to be more motivated to engage in CPS.

Hypothesis 1. CEO tenure is positively associated with CPS.

CEO's Personal Involvement in CPS

A key point in analyzing CEO's personal involvement in CPS is that CEOs might pursue CPS due to personal reasons and this creates agency problems between CEOs and owners of the firm. The CEO's personal involvement in CPS may indicate that the CEO pursues self-serving interests and engage in opportunistic behaviors through CPS. Fremeth et al. (2016) find that when individuals become the CEO of a firm, they significantly increase their political campaign contributions. Following the agency theory logic, I propose that the reason for firms' engagement in CPS could be that CEOs inject their personal preferences of political activity into corporate policies. As Martin and Butler (2017) state, CEOs are key figureheads who set vision and corporate culture for their firms.

In recent years, a few studies note that CEO's political involvement is an indicator of agency problems. For example, Bebchuk and Jackson Jr. (2010) point out that the interests of senior executives in political spending may diverge from those of shareholders as political spending decisions could be a product of executives' own political preferences and beliefs. Aggarwal et al. (2012) find that CPS indicates conflict between shareholders and senior executives. By examining management entrenchment as a possible explanation for corporate lobbying, Mathur et al. (2013) demonstrate that firms with more entrenched management have a greater tendency to engage in lobbying to further their own interests. Other studies note

that senior executives personally could benefit from CPS. For instance, Gupta and Swenson (2003) find that individual senior executives' election campaign contributions via political action committees (PACs) positively affect their firms' tax benefits. They also find that senior executives whose compensation includes earnings-based bonuses and significant stock ownership make larger PAC contributions to tax-writing members of Congress. Gordon et al. (2007) suggest that senior executives' compensation tends to be influenced by their firms' performance as well as actions of government officials, therefore they are motivated by their interests and beliefs that their political contributions to elections have the potential to change the outcomes that affect them. Thus, this study proposes CEO's personal involvement in political activity to be positively associated with the firm's engagement in CPS.

Hypothesis 2. CEO's personal involvement in political activity is positively associated with CPS.

CEO Duality

CEO duality, CEO as serving also as the board chair, is one of the most widely studied corporate governance practices (Dalton et al., 2007). Prior research points out that CEO duality reflects the extent of board monitoring of CEO and CEO power (Finkelstein & D'Aveni, 1994). While researchers agree that duality gives CEOs greater power and discretion, their opinions diverge on the consequences of such power. One stream of researchers posit that CEO duality has positive firm effects as CEO duality enables CEOs to be able to use their power and discretion and direct firm's resources in a way to benefit their firms (Boyd, 1995; Donaldson & Davis, 1991). Others, however, argue that such power and discretion is problematic as CEOs' greater power and discretion diminish board monitoring and increase CEOs self-serving behaviors which could be detrimental to their firms (Finkelstein & D'Aveni, 1994). Boyd (1995) concludes that CEO duality could have both positive and negative effects on firm outcomes. While CEO duality could be associated with negative firm outcomes due to less independence of

the board from management, CEO duality could also have positive firm effects because of the unity of leadership (see Krause et al., 2014, for a review). In this study, I rely on both perspectives and conceptualize CEO duality as a moderating variable that may alter the CEO's motivation for CPS.

This study proposes that CEO duality strengthens the relationship between CEO tenure and CPS. Longer tenured CEOs will have more power over their boards. As CEOs' tenure increases, CEOs can acquire managerial expertise, develop close relationships with board of directors, and gain considerable influence over the board (Li & Yang, 2019; Shen, 2003). These CEOs can also gain more power when they hold chairmanship positions in the board. Longer tenured CEOs may exhibit more proclivity to invest in CPS when they are also the chair of the board. Taking advantage of their increased power, they may have more tendency to make investments in CPS. These CEOs may prefer stability and efficiency (Barker & Mueller, 2002). Their accumulated power enables them to pursue CPS which supposedly reduces uncertainties in the environment and provides stability to firms. As a result, longer tenured CEOs with duality can increase their firms' investments in CPS. Consistent with these arguments, it is also possible to apply stewardship theory assumptions to this context. Stewardship theory (Donaldson & Davis, 1991) proposes situations in which executives share the same interests as the owners therefore they are motivated to act in the best interests of the owners. Stewardship theory emphasizes goal alignment between the principal (owners) and the steward (executives).

Therefore, stewardship theory views executives not as self-serving, short-term oriented agents but more like stewards who seek long-term utility for their firms. Based on stewardship theory assumptions, Hadani et al. (2015) posit that high discretion CEOs may act stewards of their firms and decide to pursue CPS. These CEOs can better understand the unique nature of CPS and use their firms' resources effectively for CPS. They view CPS as beneficial to their firms' performance. Taken together, I expect longer tenured CEOs with dual positions to act like stewards for their firms and increase their

firms' investments in CPS. Accordingly:

Hypothesis 3. The positive relationship between CEO tenure and CPS is stronger for firms with CEO duality.

In the context of CEO's personal involvement in CPS, this study proposes that CEO duality exacerbates agency problems vis-à-vis CPS. The more powerful the CEO is, the more CEO will engage in CPS due to agency problems. CEO duality magnifies managerial opportunism when CEOs personally invest in political activity. This study posits that CEO duality offers CEOs an opportunity to extract private benefits by misallocating firm resources to CPS. CEO duality provides an environment in which CEO can engage in managerial actions that deviate from shareholders' interests (Aktas et al., 2019). CEO duality gives CEOs more room to act in their own self-interest at the expense of shareholders (Barker & Mueller, 2002). With this stronger power, CEOs may more easily pursue their own personal agenda. The adverse effect of CEO duality on CPS is more prevalent in firms that are potentially exposed to agency problems, particularly in the presence of CEO's personal involvement in CPS. Thus, I posit that CEO duality exacerbates this problem and leads to increased CPS. This suggests the following hypothesis:

Hypothesis 4. The positive relationship between CEO's personal involvement in CPS and CPS is stronger for firms with CEO duality.

3. Methods

Data and Sample

The empirical setting for this study is the U.S. pharmaceutical industry from the year 2000 to 2010. The pharmaceutical industry has been among the top spenders in lobbying expenditures (Barber & Diestre, 2019). The data was collected from a variety of sources. First, the pharmaceutical firms from COMPUSTAT database were identified. To collect information on firms' corporate political strategies, the Center for Responsive Politics database, which provides a public access to

firms' lobbying expenditures and campaign contributions "Opensecrets.org" (1999) was used. Then, information on CEO characteristics was retrieved from the ExecuComp database. The final number of firms with all available data from the year 2000 to 2010 is 229.

4. Measures

Dependent Variable

Corporate political strategy: CPS was measured by the natural logarithm of the total expenditures of the firm's lobbying activities and political action committee contributions in a given year. Consistent with prior research on CPS, this study focuses on these two most prominent measures of CPS (Hadani et al., 2015; Lux et al., 2011; Mathur & Singh, 2011; Schuler et al., 2002).

Independent Variable

CEO tenure. CEO tenure is measured as the number of years the CEO has held the office (Hadani et al., 2015; Rudy & Johnson, 2019).

CEO's personal involvement in CPS. Following prior studies (Fremeth et al., 2016; Gupta & Swenson, 2003), CEO's personal involvement in CPS is measured as the dollar amount of campaign contributions to particular candidates or parties made by the CEO.

CEO duality. CEO duality is measured as a dummy variable taking the value of 1 if the CEO also serves as the board chairman, and 0 otherwise (Krause et al., 2014).

Control Variables

In addition, a number of control variables are included. First, firm size is controlled as prior research has shown that firm size affects CPS (Rehbein & Schuler, 1999). Firm size is measured by using the natural logarithm of the number of employees (Hadani et al., 2015). Second, market-to-book value is included as a control variable and it is measured as the ratio of a firm's equity market value to the book value, as prior research suggests that a firm's market-to-book value may serve as a growth opportunity, thus it may impact the firm's investment in CPS (Mathur et al., 2013). Capital in-

tensity is measured by the ratio of capital expenditures to total sales, as capital intensity is likely to affect the firm's CPS decisions (Mathur et al., 2013). Following prior research (Rudy & Johnson, 2019), this study includes two measures of organizational slack which are the ratio of working capital to total assets and the ratio of common equity to long-term debt, which may influence the firm's CPS decisions. Lastly, I included firm fixed effects. Instead of using year dummies, I follow Combs et al.'s 2020 study, and I control for political variance around each election cycle between

2000 and 2010.

5. Analysis

Previous empirical studies on CPS note a methodological issue, which is the large number of observations in which firms invest zero dollars in CPS (Aggarwal et al., 2012; Gordon et al., 2007). Following previous studies, this study approaches this methodological concern by employing Tobit estimation. Tobit analysis captures and controls for both politically active and inactive firms in the sample. The regression model is estimated as:

$$\begin{aligned} CPS_{i,t} = & \beta_0 + \beta_1 * CEO\ tenure_{i,t} + \beta_2 * CEO\ personal\ involvement\ in\ CPS_{i,t} \\ & + \beta_3 * CEO\ duality_{i,t} + \beta_4 * CEO\ Tenure_{i,t} * CEO\ duality_{i,t} \\ & + \beta_5 * CEO\ personal\ involvement\ in\ CPS_{i,t} * CEO\ duality_{i,t} \\ & + \beta_6 * firm\ size_{i,t} + \beta_7 * market\ value_{i,t} + \beta_8 * capital\ intensity_{i,t} \\ & + \beta_9 * organizational\ slack_{i,t} + \beta_{10} * year_t + \epsilon_i \end{aligned}$$

where i represents firm, t represents year.

6. Results

Table 1 displays descriptive statistics and correlation matrix for all variables. Table 2 includes the results of Tobit regression models of CEO characteristics on CPS. Model 1 presents the control variables. Model 1 shows that firm size and market to book value positive and significant, thus suggesting that firms with bigger size and higher market to book value are more likely to invest in CPS. This is consistent with prior literature (Aggarwal et al., 2012; Hadani et al., 2015; Rudy & Johnson, 2019). Moreover, Model 1 shows that capital expenditures and organizational slack 1 and 2 are not significant. Interestingly, capital expenditures and organizational slack 1 are statistically significant in Model 2 when CEO level variables are included. This result may suggest that firms could be more committed to CPS when their CEOs are involved in political action. Capital expenditures and organizational slack could affect their commitment. Hypothesis 1 predicts that CEO tenure is positively associated with CPS. The main effect of CEO tenure in Model 2 is significant and positive

($\beta = 0.152$; $p < 0.01$), indicating that if CEO tenure increases by one unit, then CPS increases by the coefficient while holding all other variables in the model constant. This result supports Hypothesis 1. This is also consistent with the results of Rudy and Johnson's 2019 study. They find that firms will be more likely to invest in relational CPS if they have longer tenured CEOs.

Next, Hypothesis 2, which proposes a positive relationship between CEO's personal involvement in political activity and the firm's engagement in CPS, is tested. As shown in Model 2, this study finds a positive effect of CEO's personal involvement in political activity on the firm's engagement in CPS ($\beta = 0.0004$; $p < 0.01$). This result suggests that if CEO's personal involvement in political activity increases by one unit, then CPS increases by the coefficient while holding all other variables in the model constant. Thus, the result provides support for Hypothesis 2. Fremeth et al. (2016) demonstrate similar findings with CEOs' political contributions and firm PAC contributions and conclude that when CEOs are strategically motivated, they

contribute to PACs more.

The moderating effects of CEO duality is displayed in Model 3 and 4. Hypothesis 3 predicts that the positive relationship between CEO tenure and CPS is stronger for firms with CEO duality. Contrary to our expectations, the interaction between CEO tenure and CEO duality is negative and significant ($\beta = 0.458$; $p < 0.01$). Figure 1 depicts the interaction effect of CEO duality. These results contradict with Hypothesis 3, indicating that longer tenured CEOs with duality discourage their firms' investments in CPS. I discuss this interesting finding further in the discussion section. Lastly, this study tests whether CEO duality strengthens the positive relationship between CEO's personal involvement in political activity and CPS. The results indicate that the interaction between CEO's personal involvement in political activity and CEO duality is not statistically significant. Thus, Hypothesis 4 is not supported.

7. Discussion

This study explores how CEO characteristics influence their firms' engagement in CPS. Expanding the upper echelons theory assumptions of CEO characteristics to CPS following Rudy and Johnson (2019), there may be a positive relationship between CEO characteristics such as CEO tenure and CPS. Following the agency theory assumptions of CEO's involvement in CPS (Cao et al., 2018; Hadani et al., 2015; Mathur et al., 2013), there may be more personal motivations for CEOs to be involved in CPS. Moreover, both CEO tenure and CEO's personal involvement in political activity could be more pronounced in the presence of CEO duality. Thus, this study offers a framework that integrates the upper echelons theory and agency theory in CPS research.

The empirical findings of this study suggest that CEO tenure and CEO's personal involvement in political activity affect firms' pursuit of CPS. By doing so, this study addresses CEO-level antecedents of CPS from both the upper echelons theory and agency theory perspectives. Specifically, this study indicates that firms differ in why they invest in CPS due to their CEOs' characteristics. This study also demonstrates that CEO duality moderates the re-

lationship between CEO tenure and CPS. Interestingly, this result contradicts with the proposed hypothesis. Contrary to Hypothesis 3, I find that CEO duality weakens the relationship between CEO tenure and CPS. One possible explanation for this finding is that CEO being an insider or outsider affects how they perceive CPS especially for the pharmaceutical industry. After this finding, I check the sample and I notice that there is a few insider CEOs in the sample. Being an outsider CEO, these CEOs may be less motivated to engage in CPS. With their dual positions, they may use their power and consider investing in other firm strategies such as R&D, merger and acquisitions, and etc. Another potential explanation is that the measurement of CEO tenure could influence CEOs' perception of CPS. In this study, I measure CEO tenure as tenure within the firm. It might be interesting to further study CEO tenure as tenure within the industry or tenure as a CEO and board chair. Also, the timing of being board chair could affect the relationship between CEO tenure and CPS. Did the CEO's initial appointment include board chairmanship, or was the CEO's board chairmanship a later appointment? The timing of CEO's appointment as board chair could affect their power within the board and their perception of CPS. In addition, it is also possible that after long tenure, CEOs might lose interest in CPS which is a long-term strategy and decide not to invest in CPS. As prior studies show (Hambrick and Fukutomi, 1991), CEOs approaching retirement become more conservative and risk averse, therefore they may not view CPS as beneficial to their firms in the short-term.

This study makes several contributions to CPS research. First, this study contributes to research on the role of CEOs in CPS. From the upper echelons theory perspective, existing CPS research focuses on whether CPS decisions are influenced by CEOs (Fremeth et al., 2016; Hart, 2004; Rudy & Johnson, 2019). By considering the role of CEOs in CPS decisions, this research stream highlights the importance of CEOs within the firm and their influence on the long term success of the firm. Another stream of CPS research examines the role of CEOs in CPS from the agency theory perspective (Cao et al., 2018; Hadani et al., 2015; Mathur et al.,

Table 1: Descriptive Statistics and Correlations

Variable	Mean	Std Dev	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1) CPS	837000	2260000	1.00								
2) CEO Tenure	0.832	3.427	0.04*	1							
3) CEO-political	79.545	818.377	0.14*	0.15*	1.00						
4) CEO duality	0.084	0.278	0.09*	0.47*	0.25*	1.00					
5) Firm size	10.4677	24.41059	0.59*	0.14*	0.12*	0.16*	1.00				
6) Market-to-book	.848	209.012	0.01	0.00	0.00	0.01	0.02	1.00			
7) Capital intensity	3.28	130.677	-0.01	-0.01	-0.00	-0.02	-0.08*	-0.00	1.00		
8) Org. slack1	-5.421	373.893	0.01	0.02	0.00	0.02	0.03	0.00	0.00	1.00	
9) Org. slack2	447.551	5842.975	-0.03	0.01	-0.01	0.02	-0.03	0.00	-0.00	0.01	1.00

Note: The actual values before log transformations are used for Table 1

CPS = corporate political strategy (total dollar amount); CEO tenure = number of years; CEO-political = CEO's personal involvement in CPS via PAC contributions (total dollar amount); CEO duality= dummy variable; Firm size = the number of employees; Market-to-book value = firm's equity market value/the book value; Capital intensity = capital expenditures/total sales Org. slack1 = working capital/total assets; Org. slack2 = common equity/long-term debt

N = 229

* shows significance at the .01 level

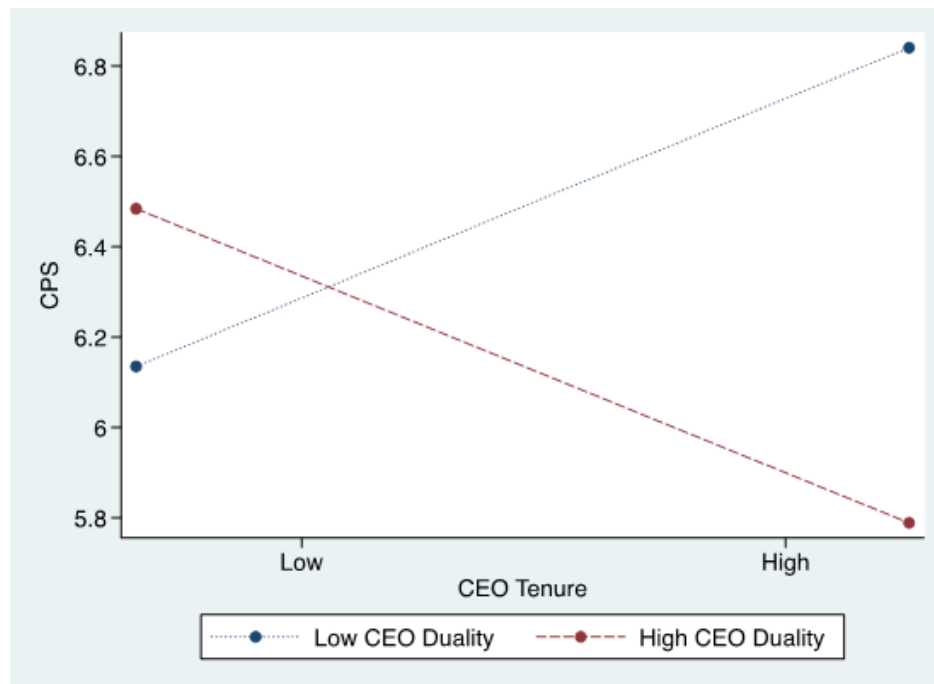
Table 2: Descriptive Statistics and Correlations

	(1)	(2)	(3)	(4)	(5)
Firm Size	4.055*** (0.101)	4.196*** (0.116)	4.162*** (0.115)	4.196*** (0.116)	4.161*** (0.115)
Market-to-book	0.010* (0.005)	0.008* (0.005)	0.008* (0.005)	0.008* (0.005)	0.008* (0.005)
Capital intensity	-1.125 (0.828)	-3.183** (1.451)	-3.131** (1.477)	-3.182** (1.451)	-3.132** (1.447)
Org. slack1	-0.010 (0.192)	4.699*** (1.075)	4.629*** (1.070)	4.707*** (1.076)	4.610*** (1.070)
Org. slack2	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
CEO tenure		0.152*** (0.048)	0.326*** (0.061)	0.150*** (0.049)	0.333*** (0.063)
CEO-political		0.0004** (0.0001)	0.0003** (0.0001)	0.0005 (0.0003)	0.0002 (0.0003)
CEO duality		-2.186*** (0.631)	-0.352 (0.742)	-2.153*** (0.655)	-0.406 (0.752)
CEO tenure X CEO duality			-0.458*** (0.101)		-0.464*** (0.102)
CEO-political X CEO duality				-0.000 (0.000)	0.000 (0.000)
Constant	-1.100*** (0.366)	-2.264*** (0.542)	-2.333*** (0.541)	-2.268*** (0.543)	-2.324*** (0.541)
Pseudo R^2	0.165	0.167	0.169	0.167	0.169

Standard errors are in parenthesis. $N= 229$. Year dummies are included but not reported.

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Figure 1: Interaction Effect of CEO Duality on CPS and CEO Tenure



2013). The underlying premise of this research is that the interests of CEOs and shareholders may diverge with respect to CPS decisions and firms' investments in CPS may be a result of CEOs' own political preferences and beliefs (Bebchuk & Jackson Jr., 2010). The present paper fills a gap by integrating upper echelons theory and agency theory in CPS research and illustrates how various motivations for CEOs to engage in CPS may co-exist.

Second, this article contributes to the literature on CPS by examining under what conditions CEOs influence their firms' CPS. To understand how CEOs shape their firms' CPS, this study examines CEO tenure as an important mechanism for firms' engagement in CPS. Consistent with prior research (Rudy & Johnson, 2019), this study suggests that firms engage in CPS as a result of certain CEO characteristics, CEO tenure in this case. Thus, this study extends the CPS literature by showing how CEO tenure affects firms' investment decisions on CPS.

Third, this study deepens our understanding of why some firms are more actively engaged in CPS by studying CEO's personal involvement in politi-

cal activity. Prior studies on CPS offer highly insightful explanations for why firms opt to engage in CPS (Lux et al., 2011; Mathur & Singh, 2011), yet a few studies consider the motivation for CPS from the perspective of CEO's personal interests. This study proposes that CEO's personal involvement in political activity could indicate agency problems. Politically active CEOs may accrue personal benefits from their involvement in politics and this may encourage them to press their firms to invest in CPS more actively. Nevertheless, firms may not benefit from CPS since it is difficult to directly demonstrate causal linkages between CPS and firm outcomes (Hadani et al., 2015). As such, shareholders may view CEO's personal involvement in political activity as an opportunistic behavior. Consequently, CEO's personal involvement in political activity could increase agency costs. This study extends this research stream and highlights the effects of CEO's personal involvement in political activity on their firms' investments in CPS.

Fourth, this study advances CPS research by incorporating CEO duality as a moderating effect on the relationship between CEO characteristics and CPS.

As the results suggested, CEO duality is a complex variable. Due to its dichotomous nature, CEO duality could give CEOs both strong and weak power (Krause et al., 2014). With duality which bestows stronger power on CEOs, CEOs may more easily pursue their own personal agenda for CPS. Duality may also deter CEOs from engaging in CPS. Hence, this study offers a new insight that powerful CEOs with dual positions are more likely to differ in how they perceive CPS and respond to their firms' CPS decisions.

Limitations and Directions for Future Research

It must be noted that this study has some limitations. While this study focuses on CEO tenure as one of the CEO characteristics impacting firms' CPS investments, future research could also examine how other CEO characteristics such as education, functional background, and age may affect firms' engagement in CPS. CEO prestige could be also another important CEO characteristic to study as an antecedent of CPS. As Fralich (2012) indicates, high prestige CEOs are inclined to take more strategic risk. Future research might study the effect of CEO prestige on CPS from the strategic risk taking perspective.

Second, this study examines the theoretical framework in the context of the pharmaceutical industry. It might be interesting to study this framework in other sectors such as consumer electronics in which firms are increasingly becoming politically active in recent years ("Opensecrets.org," 1999). This study focuses on the time period from 2000 to 2010. Future studies might extend the time frame and replicate this study by including more recent data. This extension could be valuable as CEOs' behaviors may change in recent years. Future research could also explore how CEO-top management team (TMT) interaction may influence CPS decisions. For example, how do CEOs act along with other TMT members with regards to CPS? How does duality affect this relationship? Is it possible that CEOs without dual positions act in accordance with other TMT members to support their firms' engagement in CPS? In case of duality which bestows them more power, is it more likely for CEOs who do not believe in CPS and resist to in-

vest in CPS? This could be another venue for future studies to better understand the CEO-TMT interaction in the case of CPS.

Extending the present study to explore CEO-top management team interaction seems to be a promising area to study further agency theory implications in the context of CPS. While the current study focuses on CEO duality, future studies can explore how different board leadership structures influence CPS. Walters and McCumber (2019) note a distinction between chairs who are other firm executives such as the chief financial officer and those from outside the firm. Extending the current study to explore the implications of different board leadership structures on CPS seems to be a promising area for future research. Furthermore, future work may consider applying stewardship theory assumptions to the relationship between CEO duality and CPS. It is worth to examine how CEOs with dual positions could act more like stewards than agents for their firms and decide not to invest in CPS because they may view CPS as a manifestation of agency problems. I believe future research could benefit more from stewardship theory perspective in exploring the role of CEOs in CPS. Finally, this study examines the moderating effects of CEO duality, yet, there might be other moderating variables such as CEO compensation and CEO-board relations, which can be considered to explore the relationship between CEO characteristics and CPS investments in future research.

8. Conclusion

This study proposes two theories of CEO's motivation for CPS: upper echelons theory and agency theory. Although the rationale – CEO's perception of CPS in the former theory and CEO's personal interest in CPS in the latter – differs, both theories highlight the importance of the CEO in the pursuit of CPS. By examining CEO tenure, CEO's personal involvement in political activity, and CEO duality, this study indicates that different motivations for CEOs to engage in CPS may co-exist. In sum, this study provides deep insights into the motivation of CEOs for CPS and opens up a new line of inquiry into the bigger role of CEOs in CPS decisions.

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