How CEO political leanings affect their international deals

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Conservative CEOs are four times more likely than their liberal counterparts to acquire international firms rather than forge new alliances when entering foreign markets, according to new research. The same study finds that these political biases can be moderated by active, independent boards.

Published in the *Journal of International Business Studies*, the findings come from a sample of more than 1,000 foreign market actions taken by hundreds of S&P 500 CEOs over the last decade. Aaron Hill, a professor in the Warrington College of Business at the University of Florida, conducted the study with colleagues from the University of North Texas, Western Kentucky University and Texas State University.

"In the past, the expectation has been that conservative people tend to be conservative with their money, they tend to shun risk, whereas liberal people tend to be less risk averse," Hill said. "What we found is that in the context of international expansion, our expectation of risk aversion essentially reverses. We find that more conservative CEOs are associated with more risk-seeking strategies, such as acquisitions."

When entering new markets, acquisitions are riskier than alliances, but they come with more control. Based on other research on political ideology, Hill's group believes that it is the additional control that attracts conservative CEOs to acquisitions and that compensates for the risk inherent in purchasing an international firm. On the flipside, liberal executives seem to prioritize being open to new influences, including in business alliances, a trait associated with liberalism.

Hill and his team identified the political leanings of recently hired CEOs by looking at public data on individual political donations in the years before they were named chief executives. Those who donated to the Democratic or Republican parties were considered liberal or conservative, respectively. The more consistently they donated, the stronger the researchers ranked their political ideology. Roughly a third of the CEOs had donated no money to the parties and were assumed to be politically moderate.

The researchers then analyzed how these ideological leanings affected the international moves taken by these firms from 2010 to 2018. The final data included 193 CEOs of 176 firms in the S&P 500. The more conservative a CEO, the more likely they were to choose acquisitions over alliances.

Businesses and shareholders who want to steer these decisions away from political biases and toward more rational decision making can turn to board oversight, Hill's group discovered.

"Generally speaking, the characteristics associated with sound board structure—independent directors, sound vigilance—weaken this political ideology effect," Hill said. "The board structure is really important. We need board members that are not asleep at the wheel."

The findings don't just give guidance to businesses. They also contribute to the evolving study of how our political leanings influence our thinking and behaviors in other aspects of our lives.

"I think there are two takeaways," Hill said. "One is we should have a less narrow view about political ideology. Don't just assume that liberal- or conservative-leaning people are always going to act in a certain way. There are a lot of contextual nuances."

"Second, there are structures we can put in place in business to guard against these political tendencies," he said.

More information: Jeffrey A. Chandler et al, Going global? CEO political ideology and the choice between international alliances and international acquisitions, *Journal of International Business Studies* (2023). DOI: 10.1057/s41267-023-00607-0

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