

# Ideological Customer Capital: Measurement and Asset Pricing Implications

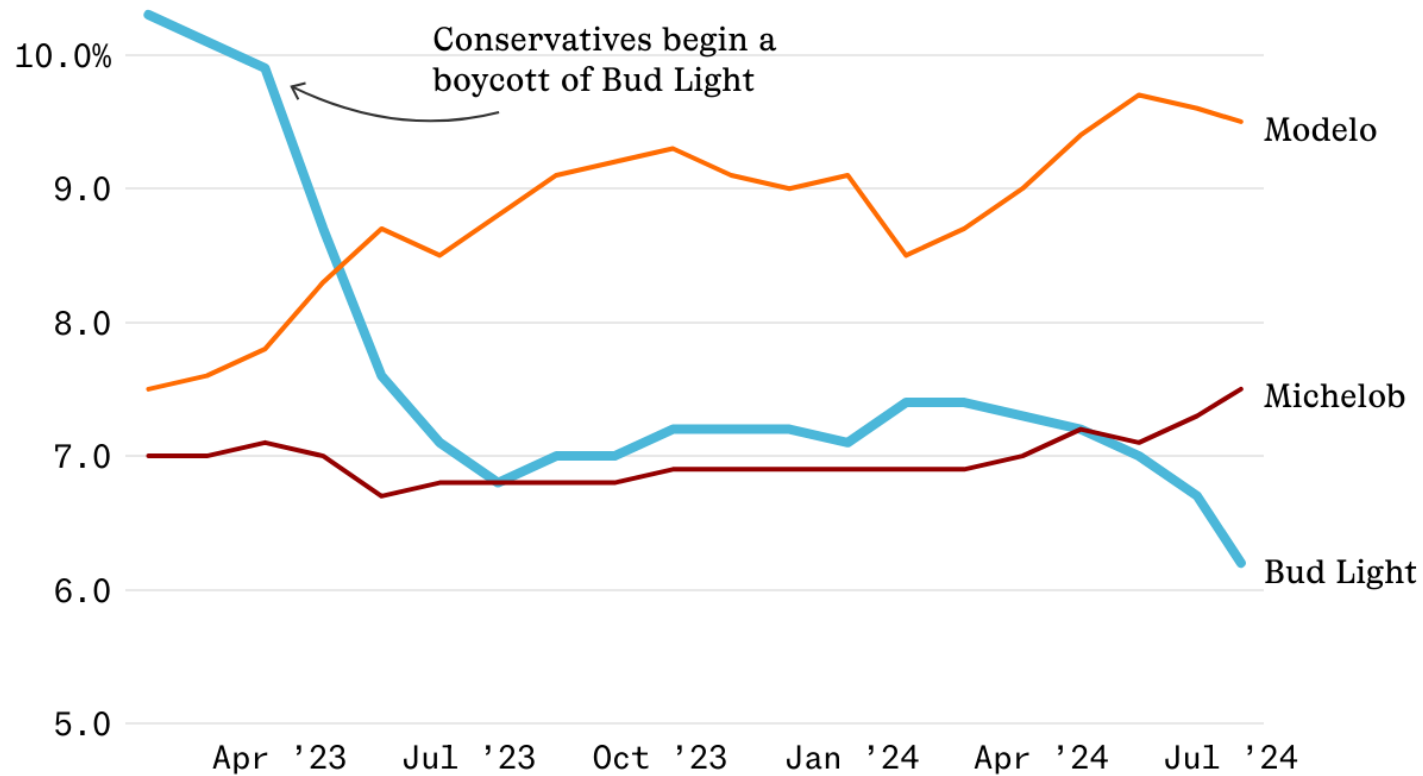
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- A very interesting and, unfortunately, an increasingly important topic.
- Rising political polarisation makes the issue more salient.
- Willingness of customers, including governments, to punish or reward certain characteristics of firms.
- Fraught issue for firms. What is their optimal strategy regarding ideological alignment with customers?

# Ideological Customer Capital

## Bud Light after partnering with a transgender social media influencer

### Bud Light's US market share takes a tumble



Last point is measuring a 1-week average, the rest measure 4-week averages.

Source: Bump Williams, Nielsen IQ

**Sherwood**

# Ideological Customer Capital: Measurement and Asset Pricing Implications

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- Construction of a very significant dataset to analyse government procurement
  - Federal government procurement data at contract level
  - Political affiliation of government sub-agency head
  - Firm characteristic data from various sources
    - Political affiliation: PAC donation data; voter registration data for key executives
    - Carbon emissions
    - Women in firm leadership positions
    - Chinese supplier or customer relationships
    - Other firm-level control variables (size, brand reputation, past govt. contracts,...)
- Total US government procurement is around USD1.5 trillion, or 5% of GDP.

## Structural model of government procurement auctions

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- Firms have different ideological characteristics (public information) and different efficiencies (private information)
- Governments offer firms payment terms that depend on these characteristics and the number of firms who bid
- Low-efficiency firms are kept in the process to help squeeze higher-efficiency firms (if more firms bid, payments will be lower)
- Payment terms are designed to elicit truthful reporting of firm efficiency
- In equilibrium, the contract will be awarded to the firm which has the lowest sum of:
  - The non-pecuniary component of the government's cost (ideological component)
  - The expected cost of the firm (given its self-reported type) to deliver the contract
  - An additional cost driven by the mechanism to get truthful reporting of type
- How the government values the ideological components can therefore be estimated

## Great variation in fixed costs between high and low efficiency firms

Table 3: Estimates of the key parameters of interest.

	A. Firm parameters			
	Fixed cost	Variable cost		
	$\gamma_L$	$\alpha_1$	$\alpha_2$	$\alpha_3$
IT	4.20 (0.23)	1.62 (0.09)	-0.18 (0.07)	0.01 (0.01)
Office	1.75 (0.16)	0.45 (0.02)	-0.22 (0.01)	0.02 (0.00)
T&L	5.17 (1.24)	1.98 (0.02)	-0.74 (0.05)	0.06 (0.01)

- Specification implication: do you have enough efficiency types? I will return to this.

## Great variation in government parameters across sectors hard to explain

	B. Government parameters								Search cost
	Weight coefficient on firm characteristics								
	$\beta_{poli}$	$\beta_{emit}$	$\beta_{fem}$	$\beta_{china}$	$\beta_{past}$	$\beta_{brand}$	$\beta_{size}$	$\beta_{\epsilon}$	$\kappa$
IT	-8.07 (1.53)	100.34 (2.96)	34.31 (2.81)	13.51 (5.17)	-14.99 (2.92)	-12.17 (2.81)	-6.10 (2.95)	85.53 (7.10)	10.11 (0.78)
Office	-2.51 (0.82)	0.99 (1.90)	6.31 (1.20)	-0.65 (1.08)	-4.21 (1.09)	-9.67 (2.55)	7.38 (1.92)	8.12 (1.51)	0.90 (0.14)
T&L	14.39 (2.81)	7.86 (1.12)	1.86 (0.77)	6.75 (1.31)	-2.02 (1.95)	-9.66 (2.30)	-28.36 (8.57)	105.81 (142.78)	2.80 (3.33)

- Especially for ideological capital components
- Explanations for this seemed somewhat speculative.
- Should this lead to more refinement of the specification?

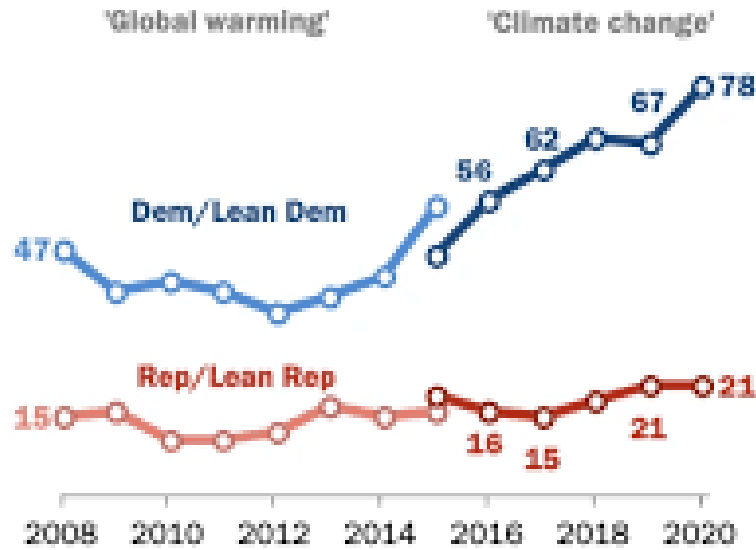
## Constant weights on each ideological characteristic?

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- Is this appropriate for items like carbon emissions or women in leadership?
- Republicans and Democrats appear to have an increasingly polarised view of these characteristics.
- When the presidency changes, new political appointees are more likely to share the views of the President.
- And the practices of subordinates may also change to match.

# Rising polarisation on Climate Change

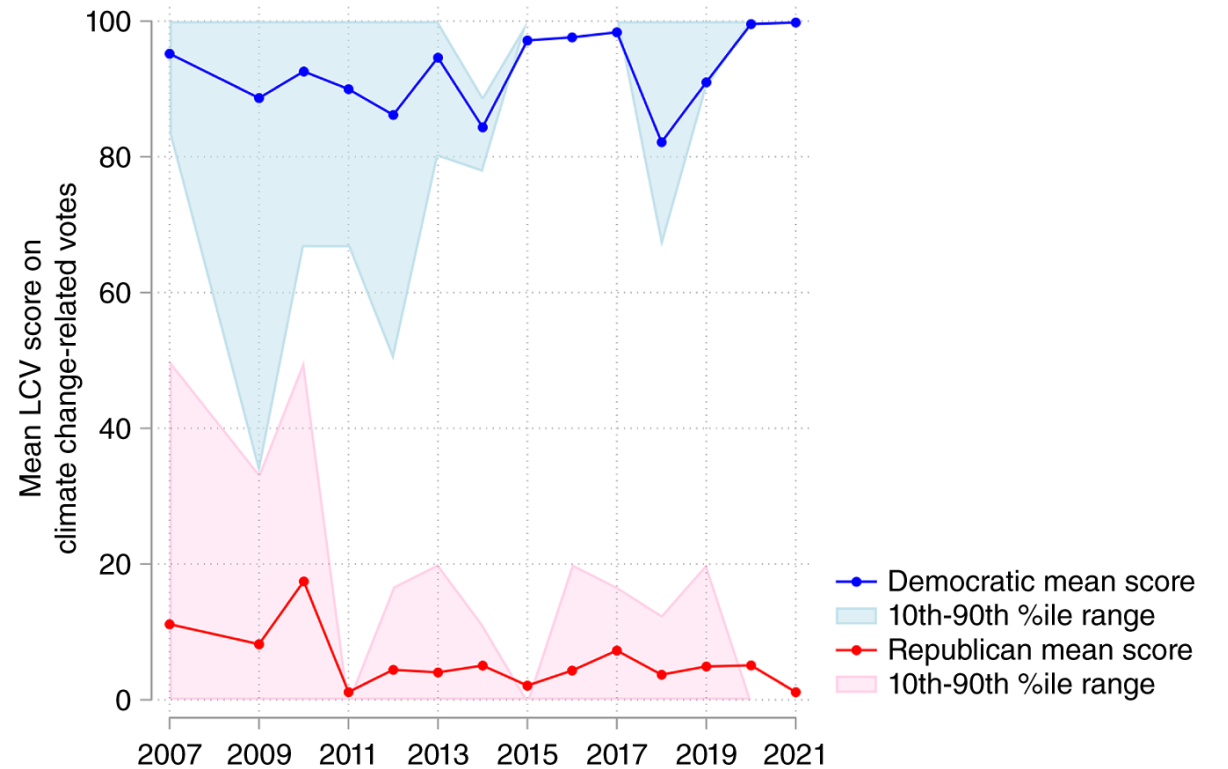
Share of US adults believing that climate change is a priority



Source: Survey of U.S. adults conducted Jan. 8-13, 2020.

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League of Conservation Voters (LCV) National Environmental Scorecard

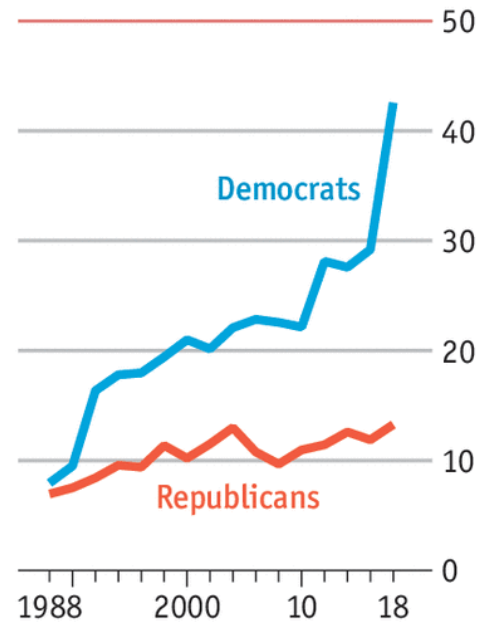


# Shifting gender alignment

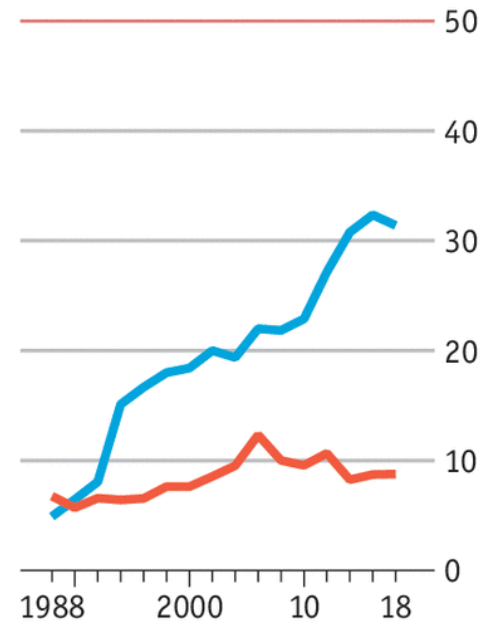
## Run like a girl

United States, share of House nominees who are women, %

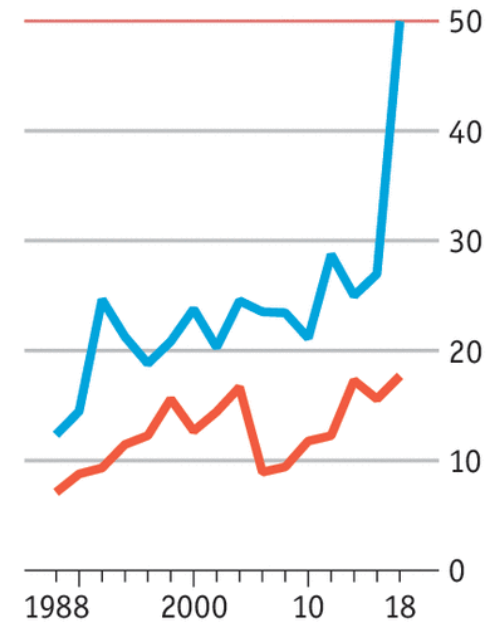
All candidates



Incumbent candidates



New candidates



Source: David A. Hopkins, Boston College

## Impact of ideological characteristics on Cashflows from procurement

Table 5: Impact of firm ideological characteristics on the cash flow from procurement.

(%)	$x_{poli}$	$x_{emit}$	$x_{fem}$	$x_{china}$
IT	-2.77	10.06	9.62	2.92
Office	-9.02	2.97	17.67	0.42
T&L	19.41	12.16	-0.38	6.89

Positive numbers indicate that the government punishes having high measures of the characteristic

The variation across the groupings for the same characteristic seems hard to rationalise – perhaps suggesting a need to consider other specifications

## Are female corporate leaders handed the poisoned chalice?

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- Govt. procurers seem to dislike female leaders. Could this be a specification issue? Is leadership of less efficient/decaying firms being handed to women and this is being interpreted as governments punishing female leadership? Anecdotes from Australian politics from decaying centre-left governments in the 4 largest states (avoids discussing H. Clinton or K. Harris):
  - Joan Kirner: becomes first female Premier of Victoria in 1990. In 1992 election landslide loss, winning only 27 seats to 61 for the opposition coalition.
  - Carmen Lawrence: becomes first female Premier of Western Australia in 1990. In 1993 election loss, wins 24 seats to 32 for the opposition coalition.
  - Anna Bligh: becomes first female Premier of Queensland late 2007 in an ageing Labor government. Holds on in the 2009 election, but is wiped out in 2013, winning just 7 seats to 78 for the opposition coalition.
  - Kristina Kenneally: becomes first female Premier of New South Wales in late 2009. In 2011 landslide election loss, wins 20 seats to 69 for the opposition.

# Asset Pricing

$$\sum_{j=0}^N \phi^j r_{i,t-j} = \beta_0 + \beta_1 \sum_{j=0}^N \phi^j x_{t-j} + \beta_2 \text{ICC}_{i,t-1} + \beta_3 \sum_{j=0}^N \phi^j x_{t-j} \times \text{ICC}_{i,t-1} + \epsilon_{i,t}$$

Table 7: Asset pricing implications.

	(1) Overall	(2) $x_{\text{poli}}$	(3) $x_{\text{emit}}$	(4) $x_{\text{fem}}$	(5) $x_{\text{china}}$
	Individual Ideological Characteristic				
	A. Log ROE				
$\sum_{j=0}^N \phi^j x_{t-j}$	1.729 (0.150)	1.731 (0.150)	1.729 (0.150)	1.729 (0.150)	1.730 (0.150)
$\text{ICC}_{i,t-1}$	0.765 (0.067)	0.863 (0.084)	0.780 (0.072)	0.728 (0.066)	0.783 (0.072)
$\sum_{j=0}^N \phi^j x_{t-j} \times \text{ICC}_{i,t-1}$	-2.184 (0.231)	-2.484 (0.300)	-2.241 (0.256)	-2.088 (0.229)	-2.248 (0.255)

**Negative  $\beta_3$ :** Ideological Capital associated with less cash flow risk (+1 SD ICC = 22% lower cash flow risk) leads to lower risk premium. Interpreted as cashflow from government procurement may be more resilient to business cycles. Political cycles?

**Large positive  $\beta_2$**  (remember, N = 4): what are the implications of that?

## Is there a bigger question lurking here?

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- It appears that it would be relatively simple to use your results to answer what I think is bigger question regarding government procurement: what is the cost to taxpayers of all this?
  - Cost of gender discrimination in procurement;
  - Cost of race discrimination in procurement (race is absent from your model);
  - Cost of environmental preferences in procurement;
  - Cost of paying attention to political alignment.
- That would of course beg another question: evaluating any benefits would have to be left for another paper.