

When to Talk Politics in Business: Theory and Experimental Evidence of Stakeholder Responses to CEO Political Activism

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Abstract

CEO political activism, wherein company leaders communicate public stances on overtly political issues unrelated to their core business, is an emerging and understudied phenomenon. We propose a parsimonious formal model of stakeholder responses to political communication by companies, testing predictions of the model using two survey-based experiments. We consider the implications of communicating a stance on either side of an issue, explicitly communicating an apolitical stance, or saying nothing. We uncover three theoretically and practically interesting results. First, we identify a contingency that helps to reconcile mixed evidence on stakeholder responses to political activism: the distribution of stakeholder opinion on the issue. When stakeholder opinion is equally divided on a political issue (e.g., the November 2020 Presidential election – our first experiment), communicating a stance elicits a negative average response amongst stakeholders. This result is reversed if stakeholder opinion about an issue is highly asymmetric (e.g., the storming of the US Capitol on January 6th – our second experiment). Second, we identify the boundary conditions under which firms benefit from communicating an explicitly apolitical stance versus saying nothing: this depends on the firm's expected positioning and the distribution of stakeholder opinions. Third, we find some evidence that there exist circumstances in which firms can benefit from communicating a stance that is incongruent with expected positioning – notable given the more commonly identified incongruence penalty in existing work. We contribute to an understanding of the mechanisms through which, and situations in which, firms can(not) benefit from talking politics in business.

1 Introduction

CEO social-political activism, wherein company leaders communicate public stances on social and political issues unrelated to their core business, has increased in recent years ([Chatterji and Toffel, 2019](#)). Yet we know relatively little about the strategic implications of this practice ([Wowak et al., 2022](#)). Scholars have only recently begun to consider why companies take stances ([Hambrick and Wowak, 2021](#)) and how they respond to other firms' positioning ([Mohliver et al., 2021 WP](#)) on such issues. Amongst the nascent studies examining stakeholder responses to firm leaders' communication of stances on social and environmental issues, results have been mixed (for positive responses see [Chatterji and Toffel \(2019\)](#) and [Dodd and Supa \(2014\)](#); for negative, see [Burbano \(2021a\)](#), [Bhagwat et al. \(2020\)](#), and [Hou and Poliquin \(2021 WP\)](#)). More work is clearly needed, then, to consider the conditions under which such stances can be beneficial to the company.

In the past few years, CEOs have begun to communicate public stances on overtly political issues unrelated to their core business. That is, they have begun to engage in what could be considered to be an important and particularly recent type of CEO activism: CEO political activism. This includes CEOs' public endorsement of political candidates, such as the CEO of Expensify's dissemination of a company-wide email that endorsed Joe Biden for the US presidency in October 2020, and the CEO of MyPillow tweeting in January 2021 that the US presidential election was rigged, and that Donald Trump won. It also includes CEOs' public communication in favor of, or opposed to, political policies or laws, such as Disney's recent public criticism of the Florida HB 1557 law, referenced by some as the "Don't Say Gay" bill.¹ At the same time, some company leaders, such as those of Coinbase, Basecamp, and Whole Foods, either independently or when prodded by media, have made public statements indicating that they will not take a stance (in either ideological direction) on political issues. The Coinbase CEO wrote to his employees, "We don't advocate for any particular causes or candidates... that are unrelated to our mission, because it is a distraction from our mission... We won't... take on activism outside of our core mission at work."² The CEO of Whole Foods has commented that "I don't think businesses should take a political stand."³ Extant work examining the effects of CEO activism more broadly has not considered the strategic implications of CEOs or companies actively communicating

¹Source: [CNBC](#)

²Source: [The Coinbase Blog](#)

³Source: [Nationwordnews.com](#); The CEO of Whole Foods has also commented, "I like to keep my political beliefs, beliefs about controversial issues, to myself. I don't really want to talk about racism. I don't want to talk about climate change. I don't want to talk about riots or fires." Source: [New Yorker](#)

that the company will not take a stance on a given issue, which is distinct from passively staying silent about the issue.

In this paper we seek to answer the question: “When should company leaders talk politics in business?” That is, under what circumstances can firms stand to benefit, or lose, from communicating stances about political issues or candidates? Central to answering this question is an understanding of how company stakeholders respond to such communications; indeed, it is well-established that to understand the strategic implications of corporate communications about social issues more broadly, uncovering stakeholder responses to such communications is critical (Burbano, 2016; 2021a; Burbano and Chiles, 2021; Shea and Hawn, 2019).

First, we develop a parsimonious yet broadly general theoretical (and empirically testable) framework to analyze the effects of a firm’s communication of a stance on a political issue on stakeholder perceptions of the firm. Second, we test the main predictions resulting from the model by manipulating each of its main variables in a series of survey-based experiments on Prolific. Third, having demonstrated empirical support for the model’s main predictions, we discuss extensions of the model and additional strategic implications.

In our model, stakeholders are split, possibly unequally, between two camps of opinion on a given, divisive political issue. Companies are heterogeneous in their ex-ante expected position on the issue. Companies choose between four stance strategies: to communicate a partisan and congruent stance (one that is directionally aligned with the expected stance), a partisan and an incongruent stance (one that is directionally misaligned with the expected stance), an explicitly apolitical stance, or to remain silent. We stress an important distinction between communicating an apolitical stance versus staying silent - two distinct choices which have not been differentiated in existing literature examining the strategic implications of CEO activism.

How are stakeholder perceptions influenced by a firm’s communication of a political stance? We model two separate, complementary mechanisms supported by existing behavioral literature. First, stakeholders experience direct (dis)utility whenever a firm’s position on a political issue is close to (distant from) their own. We refer to this as the “values distance effect”. Second, stakeholders reward firms that are perceived to adhere to a certain internal coherence; stances that are further away from a firm’s expected stance are perceived as insincere or not credible. We refer to this as the “expectations distance effect”. Thus, communication of exactly the same stance can elicit different stakeholder responses depending on the company communicating it. We model both of these mechanisms - the values distance effect and expectations distance effect - as quadratic loss functions in a Hotelling-type framework.

Our model uncovers three results which we think are particularly theoretically and practically interesting. First, we highlight a key contingency which helps to reconcile existing mixed evidence with respect to average stakeholder responses to CEO activism (Bhagwat et al. (2020); Burbano (2021a); Chatterji and Toffel (2019); Dodd and Supa (2014); Hou and Poliquin (2021 WP)): the distribution of stakeholder opinion about the issue of focus. When stakeholders are equally divided on the issue, partisan political communication, on average, hurts average stakeholder perceptions of a firm (conditional on some standard, and empirically confirmed, assumptions). Theoretically, this results from the fact that partisan communication pleases one camp while displeasing another; and the latter negative effect is stronger. When the aforementioned symmetry in stakeholder opinion on a political issue is broken, the model generates a natural “pander to the majority” benefit. That is, when a large enough majority of stakeholders stand on one side of the issue, average perception is maximized by communicating the stance of the majority, irrespective of a firm’s expected positioning. Indeed, this contingency identified by the model, which predicts negative average effects when stakeholders are split in opinion on an issue and positive average effects when a large enough majority of stakeholders share an opinion on the issue, reconciles existing mixed findings in the literature (which have varied on the issue of focus and, thus, distribution of opinions on the issue; see Discussion 8.1).

Second, we identify circumstances under which an apolitical stance is better received by stakeholders than silence: it depends on the expected positioning of the firm. If firms are expected to lean to the left (right) on an issue, right-leaning (left-leaning) stakeholders prefer explicitly apolitical stances to silence, and the opposite for left-leaning (right-leaning) stakeholders. Which of these two effects dominates therefore depends on the firm’s expected positioning, combined with the political leaning of the firm’s stakeholders. When stakeholders are split symmetrically on the issue, being explicitly apolitical dominates silence for the firm whenever the “values difference” is more important than the “expectation difference”. When, instead, stakeholders are split unequally, the comparison depends on whether the firm’s expected position is aligned well with the majority or not. In this case, only firms with unpopular expected positions benefit from communicating an apolitical stance.

Third, we shed light on the fact that there can be benefits to communicating a partisan stance which is incongruent with the expected stance, contrary to the more commonly-identified incongruence penalty. Specifically, an extension of our model implies that it can be optimal for dominant firms (which enjoy high non-political stakeholder valuations) to communicate a stance which is incongruent with that which is expected by its stakeholders. This can enable the firm to align politically with the

camp that would otherwise value it less, without giving up its existing stakeholder base (due to their established dominance). The recent Goya endorsement of Donald Trump in 2020 was an example of this. Given Goya's strongly dominant position amongst hispanic consumers who tend to lean to the Democrats, its political communication (which was on average liked by Republican, and disliked by Democrat, consumers), succeeded in increasing consumer demand amongst right-leaning consumers more so than it eroded demand amongst its left-leaning consumers (Liaukonyte et al., 2022 WP). Given extant work which has highlighted the general benefits of congruence and penalties of incongruence in company claims and characteristics, it is notable that there is a scenario in which communicating an incongruent stance can be beneficial for firms.

Additionally, our model highlights the relevance of a related strategic choice faced by firms: whether the stakeholder management goal is to address average, versus extreme, stakeholder perceptions. Indeed, our paper illustrates that firms communicating ideological political stances obtain higher shares of very high stakeholder perceptions (enthusiastic stakeholders) as well as higher shares of very low stakeholder perceptions (very displeased stakeholders). Thus, even in scenarios in which stakeholders are evenly split on an issue (opinion is symmetric), firms could benefit from communication of an ideological political stance if they are trying to appeal to the right-tail of their stakeholders (even when this implies being strongly disliked by the left tail of their stakeholders). Whether firms would prefer to increase average stakeholder opinion versus polarize stakeholder opinions depends on a firm's particular goals regarding stakeholder management (e.g., if the stakeholder group of focus is employees, does the firm want raise the motivation of its average employee, or focus on retaining/motivating its currently-motivated employees?). We discuss how this likely manifests for niche and dominant firms in our Discussion 8.2.

We use two pre-registered, survey-based experiments on Prolific to test and provide empirical support for the theoretical predictions of the model. In these experiments, we manipulate four key parameters from the model: the firm's communication strategy (silent, apolitical, political in either direction on the issue), the firm's expected positioning (centrist, left-leaning, right-leaning), the distribution of stakeholders' opinions on the issue (symmetric vs asymmetric) and the relative importance of the expectations vs. values difference (proxied by whether the communication is "cheap talk" vs backed by monetary donations and thus likely to be viewed as more credible).⁴ The experiments took place during two periods when company CEOs were actively communicating

⁴IRB approval was obtained. The experiment was also pre-registered on Open Science Framework. The pre-registration will be made public when this paper is accepted for publication. In the meantime, the pre-registration can be made available upon request (please contact the authors).

stances on political issues: November 2020 (Study 1 – immediately before the US presidential election) and January 2021 (Study 2 – shortly after the storming of the US Capitol building). For each study, we gathered a sample of individuals evenly split between Democrats, Republicans, and Independents, and asked them to provide their opinions of hypothetical company descriptions. The distribution of ideological leanings of the recruited participants allows us to examine responses to a political issue about which opinion was evenly divided in Study 1 (as opinion was split along partisan lines, with Democrats supporting Biden and Republicans supporting Trump), and, in Study 2, about which public opinion was asymmetric and not evenly divided (as almost all Democrats, most Independents and half of Republicans denounced the storming of the Capitol building).

This paper is, to our knowledge, the first to both formally predict and empirically examine how individual stakeholders are likely to respond to CEO political activism, an emerging and unexplored phenomenon.⁵ Importantly, we not only generate predictions about the contingencies under which firms are more likely to benefit from communication about political issues and shed light on the mechanisms driving this in our formal model, we also empirically test these predictions. Our paper thus provides theoretical and empirical evidence of when and whether communication on political issues can be optimal for firms, offering a nuanced picture that rationalizes a variety of real-world company strategies and helps to reconcile some of the contradicting existing literature. It thus contributes to the nascent literature on the strategic implications of CEO activism (Burbano, 2021a; Chatterji and Toffel, 2019; Dodd and Supa, 2014; Melloni et al., 2019 WP), by theorizing and providing empirical evidence of conditions under which firms can benefit from engaging in CEO political activism.

2 The Strategic Implications of Corporate Political Activism

Corporate social-political activism refers to communication by a firm about social-political issues unrelated to its core business (Chatterji and Toffel, 2019). There has been a recent proliferation of statements made by companies both for and against a host of social-political issues including LGBTQ equality, climate change, gun control,

⁵Melloni et al. (2019 WP) propose a “cheap talk” model of CEO communication. Unlike our model, every CEO in theirs has the same ex-ante probability of being a Democrat or a Republican. As such, *i*) staying silent or expressing an explicitly apolitical stance are equivalent (unlike in our formulation, as we discuss in more detail shortly), and *ii*) their model does not speak to which CEOs benefit more from taking stances – those that were expected to be partisan to begin with, or those who were expected to be centrist?

racial equality, healthcare, and immigration (Burbano, 2021a). This phenomenon is often referred to as “CEO activism”, given that the communication tends to be imparted by the CEO of the firm.

Given the recency of the phenomenon, scholars have only just begun to examine the drivers and implications of corporate social-political activism. With respect to the drivers, Hambrick and Wowak (2021) highlight the importance of a CEO’s personal values, and expectations about stakeholder responses to the communication, as key determinants of CEO social-political activism. Indeed, there has been interest in examining the role that CEO political ideology plays in influencing company strategies (Gupta et al., 2017; 2019), including investment in CSR (Chin et al., 2013). Hurst (2020 WP) demonstrates that pro-diversity claims increased after the Unite the Right rally in Charlottesville, Virginia, suggesting that claims may be made in order to compensate for the actions of others within the category to which they pertain. Mohliver et al. (2021 WP) highlight the role that a rival firms’ positioning on a social issue plays in influencing a focal firm’s positioning.

With respect to the implications of corporate social-political activism, there is nascent literature examining key corporate stakeholders’ responses to such communications. Interestingly, this empirical work has found mixed results. On the one hand, there is evidence that communication of stances on issues including climate change and religious freedom (Chatterji and Toffel, 2019), as well as gay marriage, health care reform, and emergency contraception (Dodd and Supa, 2014), can positively affect consumers’ intent to purchase. On the other hand, Burbano (2021a) demonstrates a demotivating effect of communicating a stance on the issue of gender-neutral bathrooms when employees disagree with the stance, but no motivating effect when employees agree, suggesting a negative outcome to communicating such stances. Similarly, Hou and Poliquin (2021 WP) illustrate a complementary asymmetric affect on consumers, resulting in a negative average effect on customer sales from taking a stance on gun control. Amongst investors, Bhagwat et al. (2020) uncover an average adverse reaction from investors to such communications, while Mohliver and Hawn (2019 WP) find evidence of positive reactions. Given these mixed empirical findings, there is a need to identify the circumstances under which company stakeholders are likely to respond more or less positively to corporate social-political activism.

The set of issues which have been examined in the literature to date have been social and environmental in nature. While a stance on LGBTQ rights, climate change, or emergency contraception is likely to be interpreted by stakeholders as indicative of a CEO’s or company’s partisan or political leanings, such stances are not overtly or directly political in nature. Over the past few years, CEOs have expanded the set of

issues on which they publicly opine to include overtly political issues unrelated to their core business. Within the already contemporary phenomenon of social-political activism more broadly, communication about overtly political issues is thus a particularly recent manifestation of this phenomenon.

Our paper joins a small set of concurrent working papers applying formal modeling to examine the drivers and implications of CEO activism. In particular, [Mohliver et al. \(2021 WP\)](#) use formal modeling to elucidate how firms are likely to respond to other firms' polarizing CSR activities, while [Melloni et al. \(2019 WP\)](#) study a "cheap talk" model of political communication to determine when CEO activism is credible, and thus profitable.⁶

2.1 The Values and Expectations Distance Mechanisms

Our model formally describes two mechanisms through which communicating a political stance influences stakeholder perceptions of the firm: the values distance mechanism and the expectations distance mechanism. These mechanisms build on, and are consistent with, existing behavioral theory.

The values distance effect is consistent with work which has shown that stakeholders have a preference for perceptions of value congruence - compatibility as regards values ([Chatman, 1989](#)) - between themselves and a firm more broadly. Amongst employees, for example, perceptions of value congruence with an employing firm have been shown to be critical to perceptions of person-organization fit ([Dineen and Noe, 2009](#); [Kristof-Brown et al., 2005](#); [Kutcher et al., 2013](#)), which in turn influence important attitudinal and behavioral outcomes ([Amos and Weathington, 2008](#); [Cable and Judge, 1996](#); [Kristof-Brown et al., 2005](#)). Social and environmental value congruence has been shown to influence stakeholder attitudes and behavior, including that of investors (e.g., [Bolton et al. \(2020\)](#)), employees (e.g., [Burbano \(2021b\)](#)), and consumers (e.g., [Casadesus-Masanell and Vasishth \(2009\)](#)). Similarly, social-political and political value congruence between stakeholders and companies, more specifically, has been shown to influence employee behavior and outcomes ([Bermis and McDonald, 2018](#); [Burbano, 2021a](#); [Carnahan and Greenwood, 2018](#)), and to matter to investors ([Mohliver and Hawn, 2019 WP](#)), and consumers ([Panagopoulos et al., 2020](#)).

The expectations distance effect is consistent with extant work which has shown that congruence or consistency in claims and company attributes is generally viewed positively, while incongruence or inconsistency in claims and attributes is generally

⁶We expand on the differences between the theory presented in our paper and the one in [Melloni et al. \(2019 WP\)](#) in our model section. It should also be noted that, contrary to our paper, [Melloni et al. \(2019 WP\)](#) do not empirically test their model's predictions.

viewed negatively (Baum et al., 2016), due to the fact that greater congruence in claims and characteristics is associated with greater credibility and legitimacy (Durcikova and Gray, 2009). Gender (in)congruence, between social claims and the gender of leadership, has been shown to result in greater (negative) positive assessments by stakeholders, for example (Abraham and Burbano (2022); Bode et al. (2017); Lee and Huang (2018)). Indeed, given mounting pressure on firms to respond to, and take sides on, social and political issues (Durand et al., 2019; Hambrick and Wowak, 2021), stakeholders may worry that firms have an incentive to make claims that are untrue signals of a company’s values (Cuypers et al., 2016; Delmas and Burbano, 2011; Farrell and Gibbons, 1989) or that are decoupled from actuality (Crilly et al., 2012; 2016). Thus, stakeholders are likely to consider consistency with a company’s expected political stance in assessing the sincerity of that firm’s current stance.

We model both the values and expectations distance effects as convex loss functions. While such convexity is quite standard from a modeling perspective, it is furthermore consistent with nascent, empirical, behavioral research on the topic. Indeed, stakeholders appear to pay more negative attention to companies whose stances they dislike than positive attention to companies whose causes they like (Burbano, 2021a; Hou and Poliquin, 2021 WP; Jungblut and Johnen, 2021). Similarly, individuals have been shown to pay greater attention, and react more strongly, to information that is unexpected as opposed to expected (Brockner et al., 1990; Skowronski and Carlston, 1989; Wong and Weiner, 1981).

3 A Model of Firms’ Political Communication

3.1 Set Up

We start by proposing a stylized and empirically testable theoretical model of companies’ political communication. We focus on a single issue, and we allow positioning on the issue to range between 0 (strongly against) and 1 (strongly in favor).

We denote the company’s expected positioning by $\mu \in [0, 1]$. μ is determined by the set of the firm’s characteristics that influence a stakeholder’s expectations about the likely positioning of firm. In our experiment, we manipulate μ by varying both the industry (tech, food or oil) and location (CA, PA and AK, respectively) of a focal firm.

There is a continuum of stakeholders, \mathcal{J} . We denote each stakeholder’s position on the issue by $\mu_j \in [0, 1]$. For simplicity, we will assume that stakeholders’ positions, which we index by μ_j , are either 0 or 1, in proportion p and $1 - p$ respectively. While not a key driver for any of our results, the assumption that stakeholders are highly polarized

is realistic when looking at divisive issues such as the ones on which we focus (see, e.g., [Iyengar and Westwood \(2015\)](#)), and simplifies the exposition and computations. For a political issue split along ideological lines, one can think of stakeholders in two camps of opinion: one of Democrats and one of Republicans. Experimentally, we consider the implications of variations in p by examining a different focal issue in each experiment: in Study 1, we consider an issue about which opinions are symmetrically distributed (the November 2020 Presidential election); in Study 2, asymmetrically distributed (the January 6th storming of the US Capitol).

The firm chooses an action, $a \in [0, 1]$, with respect to its communication, or lack thereof, regarding the political issue. In our experiment, we manipulate this directly. In particular, we focus on four salient and empirically relevant potential choices for a :

- **Congruent Political Positioning:** $a_{con} = 1$ whenever $\mu > 1/2$, and $a_{con} = 0$ otherwise. The firm takes the (extreme) political stance that is aligned with its expected positioning.⁷
- **Incongruent Political Positioning:** $a_{inc} = 1$ whenever $\mu \leq 1/2$, and $a_{inc} = 0$ otherwise. The firm takes the (extreme) political stance that is misaligned with its expected positioning.
- **Apolitical Positioning:** $a_{apol} = \frac{1}{2}$ for every μ . The firm takes an explicitly neutral position on the issue, equidistant from the two extreme camps 0 and 1.
- **Silence:** $a_{sil} = \mu$. The firm does not say anything about the issue, and stakeholders thus assume its positioning on the current issue is the same as its expected positioning.

A firm's communication, or lack thereof, about its stance on a political issue affects stakeholders' perceptions about the firm in two ways. First, and intuitively, stakeholders (dis)like firms whose positions on the issue are (far) close from their own position on the issue. This is consistent with nascent empirical evidence on the topic ([Burbano, 2021a](#); [Chatterji and Toffel, 2019](#); [Dodd and Supa, 2014](#); [Panagopoulos et al., 2020](#)). Second, firms' communication is more (dis)liked when the stated position, a , is (mis)aligned with stakeholder's prior expectations about the firm. This is consistent with existing work highlighting that stakeholders generally favor consistency over inconsistency, with consistent or congruent communications being more likely to be perceived as sincere ([Abraham and Burbano, 2022](#); [Baum et al., 2016](#); [Durcikova](#)

⁷We break the tie at $1/2$ by assuming the firm would select 0. This is inconsequential as, in this case, congruence and incongruence are equivalent.

and Gray, 2009). See Section 2.1 for more discussion on the literature supporting the mechanisms.

Lastly, we assume another dimension of firm heterogeneity, which we call Q , or quality. The term “quality” here broadly captures all non-political-stance inputs to stakeholders’ perceptions about the firm, including perceptions of actual product quality, firm reputation, etc.

Combining the three elements above, we have it that, for a stakeholder of political ideology $\mu_j \in \{0, 1\}$, her perception of a company of quality Q , expected positioning μ , and taking action a is given by

$$V^\mu(a, \mu_j) = Q - r(a - \mu_j)^2 - (1 - r)(a - \mu)^2.$$

This reflects that stakeholder utility is increasing in quality and decreasing in both (1) the stakeholders’ ideological distance from that of the firm’s stated communication (which we refer to as the “values difference”), as well as (2) the distance between the firm’s chosen positioning and its expected one (which we refer to as the “expectations difference”).

The parameter $r \in [0, 1]$ quantifies the relative importance of the values and expectations differences. We can consider the extremes to elucidate the function of this parameter. When $r \approx 1$, stakeholders only care about the distance between their stance and that communicated by the firm (one can think of this case as one in which sincerity in company communications is always assumed). When $r \approx 0$, stakeholders simply reward firms that maintain positions in line with expectations, regardless of how close this stance on the issue is from their own. In most cases we would expect both differences to matter, with the values difference holding more weight than the expectations difference (that is, $r \geq 1/2$).

Unlike the three other model parameters that we manipulate directly or vary in our experiments (μ , a and p), r as a concept is generally not observable and thus not easily manipulable. We navigate this issue in Study 2 by varying the company communications of an ideological stance to proxy for the expected credibility of the communication. Specifically, we randomize whether the communication is accompanied by reference to a monetary donation or not. Because a communication backed by a monetary donation should decrease concerns about the sincerity of the firm’s communication compared to one which is not, this should reduce the relative weight or importance of the “expectations difference”. We thus interpret the inclusion of monetary donations in the communication as decreasing the weight associated with the expectations difference, $1 - r$, and increasing the weight associated with the values difference, r . We model this

explicitly in Section 3.4.3.

The convexity of the loss functions – and thus concavity of $V^\mu(\cdot, \mu_j)$ – is an important feature of the model. While reasonably standard, it is furthermore consistent with empirical behavioral research. Consistent with the convexity of the “values difference”, stakeholders appear to respond more negatively to firms endorsing causes they hate, than positively to firms endorsing causes they love (Burbano, 2021a; Hou and Poliquin, 2021 WP; Jungblut and Johnen, 2021). Similarly, for the convexity of the “expectations difference” to hold, we simply draw on literature which has shown that expected information receives disproportionately more attention than unexpected information, as has been shown in (Brockner et al., 1990; Skowronski and Carlston, 1989; Wong and Weiner, 1981) (see Section 2.1 for related supporting literature).

It should be noted that, combined, these two convexity assumptions result in a situation in which communicating a political stance (that is different from μ) comes with non-trivial costs – and non-obvious benefits – for the firm. In light of this fact, we believe that our model offers a fairly conservative picture of the circumstances under which firms can benefit from communicating stances on politically divisive issues.

We define by $V^\mu(a)$ the average perception of a firm of prior position μ , taking action a . Aggregating across all stakeholders, under the assumption that stakeholders are split between a $\mu_j = 0$ camp (in proportion p) and a $\mu_j = 1$ camp (in proportion $1 - p$), we have it that

$$V^\mu(a) = pV^\mu(a, 0) + (1 - p)V^\mu(a, 1).$$

Thus,

$$\begin{aligned} \mathbf{V}^\mu(\mathbf{a}) &= pV^\mu(a, 0) + (1 - p)V^\mu(a, 1) \\ &= \mathbf{Q} - (1 - \mathbf{r}) \cdot (\mathbf{a} - \mu)^2 - \mathbf{p} \cdot \mathbf{r} \cdot \mathbf{a}^2 - (1 - \mathbf{p}) \cdot \mathbf{r} \cdot (1 - \mathbf{a})^2. \end{aligned}$$

We also define the polarization in stakeholders’ perceptions about the firm, $P^\mu(a)$, as the absolute value of the difference between $V^\mu(a, 0)$ and $V^\mu(a, 1)$:

$$\begin{aligned} \mathbf{P}^\mu(\mathbf{a}) &= |V^\mu(a, 0) - V^\mu(a, 1)| \\ &= \max(V^\mu(a, 0), V^\mu(a, 1)) - \min(V^\mu(a, 0), V^\mu(a, 1)) \\ &= r \cdot \max(a^2 - (1 - a)^2, (1 - a)^2 - a^2) \\ &= r \cdot \max(2a - 1, 1 - 2a) \\ &= \mathbf{r}|2\mathbf{a} - \mathbf{1}|, \end{aligned}$$

where the equality between the second and third lines comes from straightforward

algebraic manipulation.

One can immediately see that, intuitively, polarization in stakeholder opinion about the firm is minimized at $a = 1/2$, and maximized for extreme positioning by the firm: $a = 1$ or $a = 0$. Moreover, polarization does not depend on Q or μ , since both Q and μ enter the “expectations difference” part of perception equally for the two camps of stakeholders, and thus cancel one another out.

We will mostly focus on characterizing properties of $V^\mu(a)$ as a function of both a and μ for the remainder of Section 3. We will then return to the costs and benefits of polarizing stakeholders’ opinions about the firm (that is, increasing $P^\mu(a)$) later in this Section (as well as in an extension of the baseline model, introduced in Section 7), in which we discuss whether, and when, it can be optimal for firms to express ideological positions, including ones incongruent with expectations, to influence the distribution – and not simply the average – of stakeholder opinions on an issue.

3.2 Political Causes with Symmetric Stakeholder Opinions

We now turn to one of our model’s most important predictions. We derive this result in the context of $p = 1/2$ or, in other words, equally sized opinion camps on an issue. Such issues are of particular interest in that they are “zero-sum” in nature, as pleasing one group of stakeholders by taking a position close to theirs is equivalent to displeasing an equally large group, thus making any costs or benefits of communication non-trivial. Our first hypothesis highlights how, in this symmetric case, partisan communication ($a = 1$ or $a = 0$) harms firms’ average stakeholder perceptions:

Hypothesis 1. *Let $r \geq 1/2$. Then, when stakeholder opinion about the issue is symmetrically distributed ($p = 1/2$),*

- **1.A:** *The average perception of a firm when communicating a political stance is always lower than in the case of either silence or communicating an apolitical stance.*
- **1.B:** *The average perception of a firm when communicating a congruent political stance is always higher than when communicating an incongruent political stance. This difference is proportional to the weight associated with the “expectations difference”, $1 - r$.*

Formally, we have:

$$\mathbf{1.A:} \quad \max(V^\mu(0), V^\mu(1)) < \min(V^\mu(1/2), V^\mu(\mu)),$$

$$\mathbf{1.B}: V^\mu(0) \geq V^\mu(1), \quad \frac{\partial(V^\mu(0) - V^\mu(1))}{\partial r} \leq 0 \Leftrightarrow \mu \leq 1/2.$$

The results come from the combination of costs we impose on communication. When the two camps of stakeholders with opposing positions are equal in size, the benefits of taking a position that is closer to that of one camp is lower than the corresponding costs of taking a position that is farther from that of the opposite camp. Moreover, incongruent positions incur higher “expectations difference” costs while not alleviating the “values difference” costs of congruent positions, and thus are expected to perform worse overall than congruent positions when stakeholder opinions about an issue are symmetric.

Why do we need the $r \geq 1/2$ condition for the above? When $r < 1/2$, the “expectations difference” becomes more important than the “values difference”. If this is the case, stakeholders primarily value a firm’s stance credibility. Thus, firms whose μ is close to 1 (0) are better off taking the extreme stance $a = 1$ ($a = 0$) than the explicitly apolitical one ($a = 1/2$), as the latter is considered much less credible. That is, $V^\mu(\mu) > V^\mu(1) > V^\mu(1/2)$. Furthermore, we show in the proof of Hypothesis 1 that the condition $r \geq 1/2$ is not necessary whenever $\mu \leq 3/4$. That is, if firms’ expected positioning is not unduly partisan, then both congruent and incongruent stances are strictly dominated by either silence or apolitical stances, irrespective of $r \in [0, 1]$.

In our experiment under symmetric stakeholder opinions (Study 1), we find that any ideological stance – whether congruent or incongruent with expected political affiliation – is indeed associated with an average perception penalty (see Section 6), in line with our H1a. Interestingly, our empirical results in Study 1 do not appear to support H1b; that is, we do not find a statistically significant difference in stakeholder perceptions of firms expressing congruent and incongruent political stances. This could be due to the fact that stakeholders care (much) more about the “values difference” than the “expectations difference”, as we had conjectured earlier in this Section (see 3.1), that no firm is perceived to be *ex-ante* highly partisan, or both. In line with this, it should be noted that, in the experiment, we do not explicitly prime priors about the firms’ expected positioning, to avoid experimenter demand effects. Thus, while our subjects are likely to expect that an oil company in Alaska is more likely to be Republican than a tech firm in California, these beliefs are probably not particularly extreme. We discuss this in greater detail in Section 6.

3.3 Political Causes with Asymmetric Stakeholder Opinions

So far, we have assumed that the distribution of stakeholder opinion on the issue was symmetric, $p = 1/2$. We now relax this assumption. The picture looks quite different when considering issues which have asymmetric stakeholder opinions. If this is the case, then endorsing a popular cause can be beneficial for average stakeholder perception despite the costs incurred, as highlighted in our next result:

Corollary 1. *Partisan messages (that is, $a \in \{0, 1\}$) can dominate both silence and apolitical stances if the issue is one for which there is asymmetric stakeholder opinion, whenever r is great enough.*

Formally, there exists a $r^ > 0$, $p^* = p^*(r^*) > 1/2$ such that*

$$V^\mu(0) > \max(V^\mu(\mu), V^\mu(1/2), V^\mu(1)) \quad \forall r > r^*, p > p^*(r^*), \mu \in [0, 1].$$

This “boundary condition” result guarantees that, however strong the average costs of political communication, they are dwarfed if there is sufficient asymmetry in stakeholders’ positions, provided stakeholders do not solely care about the perceived sincerity of the firm’s action (that is, $1 - r$ is not too large). For instance, this result guarantees that, if all of a firm’s stakeholders support the cause, the firm’s best course is to do the same, regardless of its expected position. In particular, this holds even when the firm’s expected position is very far from the position held by the stakeholders, such that a stance which is incongruent with the firm’s expected positioning and thus comes at a considerable “expectations difference” cost can nonetheless be optimal. This is a first instance of firms benefiting from incongruent communication. In Section 7, we present an orthogonal, and more subtle, motive for incongruent communication by dominant firms.

To give some sense of how strong this asymmetry must be to encourage a firm’s communication of partisan stances (whether congruent or incongruent), see Appendix C for an illustrative example.

3.4 Political Causes with Either Symmetric or Asymmetric Stakeholder Opinions

We now present some additional results that hold for causes with both symmetric or asymmetric distributions of stakeholder opinion.

3.4.1 Silence vs. An Apolitical Stance

We consider the effect of communication on perceptions amongst the two camps of stakeholders as a function of the expected positioning of the firm.

Hypothesis 2. *Let $r \geq 1/2$. If a firm is expected to support (oppose) a cause, stakeholders who oppose (support) the cause prefer an explicitly apolitical stance to silence, while stakeholders who support (oppose) the cause prefer silence to an apolitical stance.*

Formally, we have

$$V^\mu(1/2, 0) - V^\mu(\mu, 0) \geq 0 \geq V^\mu(1/2, 1) - V^\mu(\mu, 1) \quad \text{when } \mu \geq 1/2$$

and

$$V^\mu(1/2, 0) - V^\mu(\mu, 0) \leq 0 \leq V^\mu(1/2, 1) - V^\mu(\mu, 1) \quad \text{when } \mu \leq 1/2.$$

Hypothesis 2 formalizes a simple intuition: stakeholders hold a prior expectation about the firm's position, which is updated if the firm communicates an apolitical stance, but remains unchanged if the firm says nothing. So, for instance, a tech firm in California (expected to lean left) which declares itself apolitical during the 2020 Presidential Election would elicit a negative response from Democrats (who preferred the expected stance to the updated stance) and a positive response from Republicans (who preferred the updated stance to the expected stance).

Moreover, if the firm's internal coherence between expectations and actions matters enough to stakeholders (that is, if $1 - r$ is high), the negative surprise among those who disagree will be stronger than the positive one from those who agree. This will lower the firm's average perception whenever p is close to $1/2$, as shown in the following result:

Corollary 2. *When $p = 1/2$, silence dominates apolitical whenever the “expectation difference” matters more than the “values difference”, or $r \leq 1/2$.*

When $p \neq 1/2$, silence is more likely to dominate apolitical stances whenever r and $|p - \mu|$ are small.

Corollary 2 offers two interesting insights. First, the comparison between silence and being apolitical generally depends on r , p , and μ . For instance, when a firm's expected positioning is in line with the majority of stakeholders (e.g., $\mu > 1/2$ and $p > 1/2$), then silence is more likely to dominate apolitical stances. The opposite is true when (exactly) one of μ and p is below $1/2$: as the firm's expected positioning is at odds

with the preferences of the majority of stakeholders, the firm is better off shifting to an explicitly apolitical stance.

Second, for symmetric issues ($p = 1/2$), the relative appeal of silence and apolitical stances solely depends on the relative weight of the expectation and values differences, r , and not on the firm's expected positioning, μ . This results from the combination of two countervailing forces. When (without loss of generality) μ moves towards $1/2$, the average perception associated with silence increases, as the sum of "values differences" from the two camps of stakeholders decreases. At the same time, the value of explicitly apolitical positions also increases, as they now incur a lower "expectations difference". These two effects are equal in magnitude.

3.4.2 Beyond Average Stakeholder Perceptions: Political Communication and Polarization of Opinions about the Firm

So far, we have highlighted that average stakeholder perceptions of a firm are improved by partisan communication only if such communication aligns with the position of a vast majority of the companies' stakeholders. Does this mean that, whenever causes are divisive enough (that is, stakeholders are close to a 50% – 50% split in distribution of opinion), firms are always better off shying away from communicating a political stance? We argue that this is not necessarily the case, and highlight conditions - beyond average stakeholder perceptions falling clearly on one side of the issue - that can justify political positioning by firms. We start with the following

Hypothesis 3. *Communicating a political stance on an issue polarizes (increases the variance of) stakeholders valuations of the firm, thus – in particular – increasing the right tail of stakeholder perceptions.*

Formally,

$$P^\mu(1), P^\mu(0) \geq P^\mu(a) \quad \forall a \in (0, 1).$$

That is, while political expression ($a \in \{0, 1\}$) minimizes average stakeholder perception of the firm (at least in the symmetric case, $p = 1/2$) compared to not communicating a stance on an issue, it also simultaneously maximizes the share of stakeholders who hold very high opinions of the firm. Consideration of more extreme, rather than average, stakeholder opinions of a firm is important because, especially in highly competitive markets, the share of stakeholders holding very high opinions of the firm is probably a much more telling indicator of stakeholders behaving in a firm-benefiting manner. In other words, it might be optimal both to sacrifice average perception and to increase the left tail of perception (thus losing at least some stakeholders) to maximize the

right tail of perception (that is, to foster product demand from consumers, interest in working at a firm from employees, investment in a firm from investors, etc).

3.4.3 The Role of Donations

Last, we investigate the implications of backing political communication with monetary donations, a widespread practice. We interpret monetary donations as a tool that makes political communication more credible. Communication backed by a monetary donation is likely to incur higher “values difference” costs with stakeholders who disapprove of the position endorsed (and funded) by the firm, and this effect would probably strengthen with the magnitude of the donation. At the same time, the relative importance of the “expectations difference” would decrease for stakeholders, as the firm is more credible in its stance.

This interpretation allows us to study the role of monetary donations – one of our treatments in our Study 2 – in a parsimonious way: instead of modeling donations as an additional parameter of our model, we can simply study their effects as comparative statics in r .

In light of this, what are the effects of firms’ backing up political communication with monetary donations on their average perception, and the polarization of stakeholders’ opinions? We have the following.

Hypothesis 4. *Backing a political stance with monetary donations increases aggregate perception compared to communicating a political stance without monetary donations whenever the firm is not expected to communicate that stance, or the fraction of stakeholders who oppose the stance, p , is sufficiently low. Formally,*

$$\frac{\partial V^{\mu}(1)}{\partial r} > 0 \Leftrightarrow \frac{(1 - \mu)^2}{p} > 1$$

The intuition for this result is simple: by increasing the weight associated with the “values difference”, and decreasing the one associated with the “expectations difference”, donations disproportionately help firms for which the latter was large. That is, donations are effective in increasing average perception (only) if the firm’s stance seemed substantially incoherent with expectations absent a donation. Conversely, when the firm’s position was consistent with expectations to begin with, donations increase the (negative) attention from the opposing camp of stakeholders, decreasing perception. Naturally, this effect is larger whenever this camp is large.

3.5 Model Summary

To sum up, the model presents two separate, orthogonal conditions under which communicating an ideological, political stance on an issue can be beneficial to business. First, it benefits firms to pander to stakeholders' position whenever a large enough majority of a firm's set of stakeholders endorses (or rejects) the cause. In this case, political communication maximizes average stakeholder perceptions of the firm; even if such communication is incongruent with the expected stance of the firm. Second, even in situations in which communication does not maximize average stakeholder perceptions, firms might find it optimal to communicate strong political positions in the hope of attracting at least a camp of "enthusiastic" stakeholders, even if this implies becoming more disliked by the opposite camp. Moreover, our model, and experiment, formalize an important difference between staying silent and expressing an explicitly apolitical position, delineating the conditions – on both stakeholders' preferences and firms' expected positions – that make one preferable to the other. Last, monetary donations decrease overall company perception whenever the firm's communicated stance is not too far from its expected position, or the fraction of stakeholders who oppose the stance is large enough.

In Section 8.3, we discuss a slightly more complicated extension of our model in which firms are horizontally differentiated in addition to being, potentially, politically differentiated (that is, we relax the assumption of a fixed Q across stakeholders, and study what happens when Q_j differs across camps of stakeholders) to highlight additional circumstances in which firms can benefit from communication which is incongruent with expectations.

4 Experimental Design

We test our model's main predictions using two pre-registered experiments.⁸ Participants were recruited on Prolific in November 2020 before the US election (Study 1) and in January 2021 after the storming of the US capitol building (Study 2).⁹ After indicating informed consent to complete a study to "gauge opinions about companies", participants were informed that they would be provided with a company description and be asked to respond to some questions about the (hypothetical) company.

⁸Pre-registrations are available from the authors upon request, and will be made publicly available on Open Science Framework after article acceptance, or after the 4-year OSF embargo period has passed, whichever comes first. IRB approval was also obtained.

⁹They were recruited to answer a 20-minute survey, implemented on an external survey site.

Only US-based participants were eligible to complete the survey, and using Prolific’s screening option by political affiliation of participants, we targeted an equal proportion of Democrats and Republicans, as well as Independents for completeness (based on Prolific’s political affiliation information on participants) for each study. This split the distribution of political ideology equally across participants, enabling us to construct a sample with evenly divided (symmetric) opinions on the political issue of focus in Study 1, and non-evenly divided (asymmetric) opinions on the political issue of focus in Study 2.¹⁰ Indeed, leading up to the presidential election (Study 1), Democrats supported Biden and Republicans supported Trump, whereas after the storming of the US Capitol building (Study 2), almost all Democrats and a vast majority of Independents denounced the action, while Republicans were evenly split on whether to support or denounce the action.¹¹

4.1 Study 1: Effects of Communicating a Stance on a Political Issue on Which Opinions are Symmetrically Divided (US Presidential Election)

In Study 1, participants were randomly assigned to one of 12 company descriptions in a 3x4 design. Our first manipulation varied the description of the type of company making the statement in order to manipulate the expected political leaning of the firm, or the μ in our model (without using a heavy-handed statement about expected political leaning in the vignette, which could lead to a social desirability bias in the results). That is, we randomly assigned whether the company was described as a Tech company headquartered in California (which would be more likely to be expected to take a Democrat-leaning stance and thus be perceived as congruent with a pro-Biden stance, and incongruent with a pro-Trump stance); an Oil & Gas company headquartered in Alaska (more likely to be expected to take a Republican-leaning stance and thus be perceived as congruent with a pro-Trump stance and incongruent with a pro-Biden stance); or a Food & Beverage company headquartered in Pennsylvania (neither congruent nor incongruent with either ideological stance). We picked these industries and states for our manipulations based on data about actual average partisan leanings. Tech is an industry that donates mostly to Democrats, Oil & Gas to Republicans, and

¹⁰This breakdown is also reasonably representative of that of the US population. A Pew Center analysis of surveys conducted in 2018 and 2019 reflected that 29% of the US population identifies as Republican, 33% as Democrat, and 34% as Independent. Source: [Pew Research Center](#)

¹¹A [YouGov](#) poll taken immediately after the attack found that, among voters who had heard about the attack, 21% supported it, while 71% opposed it. For Democrats these numbers were 2% supporting and 96% opposing, for Independents 21% and 67%, while Republicans were evenly split at 45% and 43%.

Food & Beverage is relatively evenly split.¹² According to election forecasts at the time, California was a solidly Democratic state, Alaska a solidly Republican state, and Pennsylvania a battleground state.¹³

Participants were asked to indicate their opinion about the company after this description to gauge baseline reactions to the company type and location. They were then given information about a communication from the CEO of the company (*a* in our model), which varied in accordance with political stance. The pro-Biden stance conditions included the phrase “anything less than a vote for Biden is a vote against democracy”; the pro-Trump stance conditions, “anything less than a vote for Trump is a vote against America”; the apolitical stance conditions indicated that the company would not take a political position on the issue; and the control condition made no mention of a political stance.¹⁴ Participants were then again asked to indicate their opinions about the company.

Figure 1 shows the exact wording, by condition. Each participant read four company descriptions, one per stance condition (pro-Biden, pro-Trump, Apolitical, Control); the order that these were presented was randomly assigned. At the end of the survey, participants were asked a series of opinion-related and demographic questions.

4.2 Study 2: Effects of Communicating a Stance on a Political Issue on Which Opinions are Asymmetrically Divided (the Storming of the US Capitol)

The design of Study 2 mirrored that of Study 1 for a different issue: a stance regarding the members of Congress who voted against certifying the results of the 2020 presidential election. This is an issue about which opinions in the US were asymmetrically divided at the time the experiment was conducted.

Participants were first asked to indicate their opinion about a company after a brief description of the hypothetical company (randomly assigned to be a Tech company

¹²Opensecrets.org, an NGO collecting political donations, reports that in the 2020 cycle, the Tech industry donations split between the two top presidential candidates was 84% Biden and 16% Trump. For the Oil Gas industry, 69% Trump, 31% Biden. For Food & Beverage, 50.5% Trump and 49.5% Biden. Source: [Open Secrets](#).

¹³According to election forecast website 538, Alaska was a solidly pro-Trump state (85% likelihood of winning the state), California a solidly pro-Biden state (99% likelihood of winning the state) and Pennsylvania was a battleground state, indicated as the more likely state to be a “tipping point” (36.5% chances of delivering the decisive Electoral College vote). Source: [FiveThirtyEight](#). Furthermore, election results after the experiment concluded confirmed these forecasts: Biden had a clear victory in California (29+% margin), Trump a clear victory in Alaska (10+% margin), while in Pennsylvania there was a 1.17% difference between the two candidates.

¹⁴The pro-Biden, pro-Trump, and apolitical stance wording was constructed using real-world stance communications as a guide.

headquartered in California, an Oil & Gas company headquartered in Alaska, or a Food & Beverage company headquartered in Pennsylvania). They were then given information about a communication from the CEO of the company, which varied according to political stance. Similarly to Study 1, there were four main stance manipulations - one against (“Denounce”), one for (“Not Denounce”), one apolitical, and one which made no mention of a political stance (the silence control). As in Study 1, each participant read four company descriptions, one per political stance condition (Denounce, Not Denounce, Apolitical, Control). The order in which these descriptions were presented was again randomly assigned. After each description, participants were asked to indicate their opinions about the company. At the end of the survey, participants were again asked a series of opinion-related and demographic questions.

In a departure from the Study 1 design, here we also divided each of the “for” and “against” stances into two sub-variations of the communication: one which was stated to be backed by donations and one which made no mention of donations. As explained in Section 3, communication of donations can be interpreted as increasing the relative importance of the “values” compared to the “expectations” difference; an increase in r . Thus, within the Denounce and Not Denounce conditions, participants were randomly assigned to either the “statement” or the “donations” version of the condition. The “Denounce Statement” sub-condition indicated that the CEO “publicly denounced members of Congress who voted against certifying the results of the 2020 presidential election”, while the “Denounce Donations” sub-condition indicated that the CEO “publicly announced that [the company] suspended its political donations through its PAC to members of Congress who voted against certifying the results of the 2020 presidential election.” Similarly, the “Not Denounce Statement” sub-condition indicated that the CEO did not “publicly denounce members of Congress who voted against certifying the results of the 2020 presidential election”, while the “Not Denounce Donations” sub-condition indicated that the CEO “publicly announced that [the company] will keep giving its political donations through its PAC, including to members of Congress who voted against certifying the results of the 2020 presidential election.” In the Apolitical Stance condition, the CEO “announced that it would not take a political position following last week’s events in the US capital”; and the Control condition made no mention of a political stance. Figure 2 shows the exact wording, by condition.

See Figure 3 for a high level summary of how our manipulations in the experiments reflect each of the key parameters in our theoretical model: p , a , μ , and r .

5 Samples and Measures

1200 and 1800 US-based individuals were recruited on Prolific for Study 1 and Study 2, respectively. No participants exited the survey after the random assignment of conditions in either study, such that there was no selection bias due to attrition. Observations were dropped due to repeat platform ID numbers, suggesting that an individual may have participated in the experiment more than once, and due to failing the attention check questions. The resulting sample size was 1153 individuals for Study 1 and 1754 for Study 2.

Table 1 presents summary statistics for individuals in each experimental sample, by condition. In Study 1 (Study 2), about 40 (40) percent were Democrat, 32 (32) percent were Republican, and 29 (28) percent were Independent. Though our sample was recruited to be an equal 1/3-1/3-1/3 split based on the ideology recorded by Prolific, the final sample somewhat deviates from this due to the use of respondents' self-reported political affiliation as opposed to that recorded by Prolific (as it is possible that individuals' political affiliation may have shifted since Prolific gathered that information). Our results are robust to re-weighting our sample to reflect a 1/3 - 1/3 - 1/3 split in participant ideology. Incidentally, the breakdown of political ideology in our sample is very similar to that of the actual Democrat/Republican party affiliation ratio in the US.¹⁵ Forty-four (43) percent of participants were female in Study 1 (2), the mean age was 33 (35), and about 48 (51) percent had a college degree. We performed t-tests of means comparisons for the characteristics listed in Table 1 across conditions for each of the experiments and report in bold those that are significantly different (at 5%) from a control.

5.1 Measures

5.1.1 Dependent Variables

Our main dependent variable, *Pos Opinion*, is a variable constructed from the question "I have a positive opinion of this company", measured on a 7-point agreement Likert scale, where 1 indicates "Strongly Disagree", 4 "Neither Agree not Disagree", and 7 "Strongly Agree". *Pos Opinion* indicates the difference between the response to this question after having read the CEO communication (i.e., political stance manipulation), and the baseline response to this question after reading the company's description and before reading the CEO communication. A positive (negative) value for this variable

¹⁵The breakdown in the US is 49 percent Democrat or Democrat leaning, and 40 percent Republican or Republican-leaning. Source: [Gallup](#)

reflects that subjects have a more positive (negative) opinion about the company after reading the CEO communication compared to their opinion before reading it.

5.1.2 Independent Variables

To examine responses to our political stance manipulations, we constructed binary variables equal to 1 if subjects were assigned to the named condition and equal to 0 otherwise. In Study 1, the four political stance condition indicator variables are *Biden*, *Trump*, *Apolitical*, and *Control*. In Study 2, the four political stance condition indicator variables are *Denounce*, *Not Denounce*, *Apolitical*, and *Control*. In Study 2, we combine the two versions of the Denounce and Not Denounce communications (the statement and donation versions of each) in most specifications, to facilitate presentation and comparison of results across the two studies. For Study 2, we also create a *Donations* variable, which takes value 1 when the company's statement indicated that they were supporting their statement with financial backing (the *Denounce Donations* or *Not Denounce Donations* condition), and 0 when the company's political statement did not include mention of financial backing (the *Denounce Statement* and *Not Denounce Statement* conditions). We specify the comparison groups in each of our analyses.

To examine how congruence between a CEO's communicated stance and the expected stance (proxied by company type and headquarters location) might affect individuals' responses, we constructed three binary variables, *Congruent*, *Incongruent*, and *Neither Congruent nor Incongruent*. In Study 1, *Congruent* (*Incongruent*) is equal to 1 if either a Californian Tech company communicated a pro-Biden (pro-Trump) position or if an Alaskan Oil company communicated a pro-Trump (pro-Biden) position, and 0 otherwise. *Neither Congruent nor Incongruent* is equal to 1 if the company is a Pennsylvania Food and Beverage Company which communicated either a pro-Biden or pro-Trump stance and 0 otherwise. In Study 2, *Congruent* (*Incongruent*) is equal to 1 if either a California Tech company denounced (would not denounce) members of Congress who voted against certifying the results of the 2020 presidential election, or an Alaskan Oil company would not denounce (denounced) those members of Congress. *Neither Congruent nor Incongruent* is equal to 1 if a Pennsylvania-based Food and Beverage Company communicated either a denounce or a not denounce stance. Note that, if a partisan stance was not communicated (i.e., the apolitical or control group conditions), these observations are excluded for this set of analyses given the construction of these variables.

5.1.3 Moderating Variables

To examine how effects vary by individuals' opinion on the issue, we examine as moderators political ideology in Study 1 (given that we expect opinions on who should be president to match individuals' political ideology), and confidence in the election results in Study 2 (given that we expect opinion on the issue of the storming of the Capital match individuals' perceptions about whether the presidential election was held fairly or not, rather than political ideology). In Study 1, we use responses to the question "What political party do you identify with?", administered with a series of demographic questions at the end of the survey. The variable *Republican (Democrat)* takes the value 1 if a subject responded "Republican" (Democrat) and 0 otherwise. *Independent* indicates that subjects responded either "None" or "Other" to this question.¹⁶ In Study 2, we use responses to the question "How much confidence do you have that the 2020 presidential election was held fairly?" The variable *Confidence* is a binary indicator taking value 1 if subjects responded, "A great deal", "Quite a bit", or "A moderate amount," and 0 otherwise.¹⁷

6 Results

6.1 Average Effects of Communicating a Stance (H1A and Corollary 1)

We begin by examining the average effects of communicating a stance about a political issue, compared to a control group which made no mention of the political issue, on individuals' perceptions of the firm in a case with symmetric (Study 1) and asymmetric (Study 2) stakeholder opinions on the issue. We report both between-subject and within-subject comparisons. Between-subject analyses tend to present a noisier picture because of their smaller sample size (we focus only on the first company description that each subject evaluated), and because our within subject analyses include subject fixed effects. The between-subject analyses reflect OLS regressions with robust standard errors, while the within-subject analyses reflect linear regressions with individual and iteration fixed effects.

Table 2, in columns 1 and 2, illustrates between-subject results for Study 1 for the whole sample, with and without inclusion of political affiliation in the regressions.

¹⁶We use respondents' self-reported political affiliation as opposed to the political affiliation recorded by Prolific, as it is possible that individuals' political affiliation may have shifted since Prolific gathered that information.

¹⁷The other possible responses were "Only a little", "Not sure", or "None at all".

Columns 3 and 4 report within-subject results for the same study, with and without the inclusion of political affiliation. Both *Biden* and *Trump* have negative and statistically significant coefficients across specifications, illustrating a negative average effect for companies communicating a political stance in either ideological direction. This provides support for Hypothesis 1A.

As we would expect, communicating a pro-Biden stance improves perceptions of the company among Democrats, while communicating a pro-Trump stance improves perceptions of the company among Republicans, as shown by the interactions in Columns 2 and 4. Furthermore, our results show that the negative effect from those opposing the stance is greater than the positive effect from those in favor of the stance. This is consistent with our model's assumptions regarding the convexity of the values difference.

Table 3 reports the average effects of a company expressing a political stance about the events at the US Capitol on individuals' overall opinion about the company (Study 2). Columns 1 and 2 report the results of between-subject regressions, while columns 3 and 4 report within-subject regressions. Columns 1 and 3 show that denouncing the members of Congress who would not certify the election results had a positive average effect on perceptions of the company, while openly not denouncing them had a negative effect. Thus, taking the political stance (i.e., denounce) which is in line with the stance held by the vast majority of the sample was the optimal strategy from the perspective of average stakeholder perceptions. In line with our Corollary 1, the average effects reported in Table 3 differ from those of those in Table 2 in the direction we would expect given the distribution of opinions with respect to the political of issue of focus. The "Denounce" stance was indeed the popular one: 74% of our sample was confident that the 2020 elections were held fairly. Furthermore, opinions about this particular political issue were not split evenly along partisan lines, with some Republicans joining Democrats and Independents in sharing this view. As such, a sample relatively evenly split by Republicans, Democrats, and Independents at the time was not split in opinion on this issue in the same way that it was were regarding the issue in Study 1. Columns 2 and 4 show that the positive effect of denouncing is driven by those who reported that they were confident that the elections were held fairly, as we would expect, while subjects who were not confident in the election results penalized companies taking a Denounce stance.

6.2 Average Effects of Communicating a Congruent and Incongruent Stance (H1B)

Interestingly, we do not find support for Hypothesis 1B. Instead, we observe that the average perception of communicating a congruent political stance turns out to be very similar to that of communicating an incongruent political stance. (To save space, we report these results in Appendix E.)

There are a few reasons that are consistent with our model which might explain this. First, it could be the case that stakeholders care (much) more about the “values difference” than the “expectations difference”. Indeed, we would expect this to be the case intuitively, as we discussed earlier (see Section 3.1). Furthermore, since the prediction that a congruent stance should be preferred to an incongruent stance stems in the model from the importance of the expectations difference, it is also possible that we do not find a congruence preference in our experimental results because we did not explicitly prime subjects’ priors about the firm’s expected positioning (we felt that doing so would have been too heavy-handed and result in experimenter demand effects in our results). Interestingly, our results furthermore suggest that there can be a *positive* effect on stakeholder perceptions from communicating a stance that is *incongruent* with expectations. This is interesting because of the wealth of literature which has pointed to incongruence penalties in the context of organizational claims and characteristics. In Section 8.3, we use our model to elucidate the mechanism behind the benefits of communicating political stances incongruent with expectations.

6.3 Apolitical Stances vs. Silence (H2 and C2)

To begin to examine the effects of taking an apolitical stance versus staying silent, we first compare the coefficients of *Apolitical* with those of a *Control* in Study 1 in Table 2. Here, we find that taking an apolitical stance has a directionally positive effect in all specifications, though not statistically different from that of the control in column 1. In particular, in columns 2 and 4, we see a positive coefficient of *Apolitical* among Republicans and Independents, but a negative, and statistically significant, coefficient among Democrats. Examining the same comparisons for Study 2, Table 3 shows that the average effect of *Apolitical* is not significantly different from a *Control*. In the interactions we observe heterogeneities that are consistent with the prediction in H2 given that in the Study 2 context, on average it is likely that firms were expected to be confident in the election (as opposed to not confident) given the asymmetry in opinions on the issue at the time. Consistent with H2, we see that subjects who were confident in

the election results disliked an apolitical stance compared to silence on average, while subjects who were not confident preferred an apolitical stance to silence.

To test H2 directly, we then focus our analyses on sub-samples of Democrats and Republicans in Study 1. Table 4 report our main regressions for Democrats only, and Table 5 for Republicans only (both exclude Independents). In Table 4 we observe that the interaction between Alaska and Apolitical is positive, both in Column 2 (between-subjects analysis) and Column 4 (within-subjects), suggesting that Democrats positively update their perception about a company communicating an apolitical stance when such a company was expected to lean Republican (the Alaskan oil and gas company). Similarly, Table 5 shows that Republicans negatively update their perceptions in response to an an apolitical stance for a company expected to lean Republican. While only the Democrat-only effects are statistically significant, the Republican-only effects are still directionally consistent with our Hypothesis 2 (and note the smaller sample sizes for these sub-sample analyses). For completeness, Tables A2 and A3 in Appendix E report the parallel analyses for Study 2, by focusing on subjects that are confident in the election results in Table A2 and subjects that are not confident in the election results in Table A3. Here we find null effects of taking an apolitical stance, which is unsurprising given the nature of the issue of focus in Study 2. Since opinion about the issue at the time was not split along ideological lines, the company's location and type manipulations in Study 2 were not as clearly linked to an expected side on the issue.

6.4 Polarization of Company Opinions (H3)

We examine whether communicating a political stance on an issue polarizes (increases the variance of) stakeholder valuations of the firm (Hypothesis 3) by looking at summary statistics of opinions before and after our political stance manipulations. Table 6 displays the means and the standard deviations for the *Pos Opinion* variable divided for both Study 1 (Panel A) and Study 2 (Panel B). Additionally, it shows the percentage of stakeholders who reported maximum appreciation for the company (7/7 on a Likert scale), that we refer to as “enthusiastic” stakeholders and the percentage of stakeholders who reported minimum appreciation for the company (1/7 on a Likert scale), that we refer to as “very displeased” stakeholders. The top four rows in each panel display these values before the treatment, while the bottom four rows display the same values after the treatment. Each column reports values for one of the treatments. The first column displays the mean, standard deviation, percentage of enthusiastic stakeholders, and percentage of very displeased stakeholders for subjects exposed the the pro-Biden

political statements, before and after treatment. The other columns follow the same structure.

Table 6 Panel A shows that firms taking political stances in favor of Biden or Trump experience both a decrease in average perception (from 4.49 to 3.92 for pro-Biden firms and from 4.32 to 2.97 for pro-Trump firms), and also an increase in the variance of these perceptions (the standard deviations increase from 1.15 to 1.85 for pro-Biden firms and from 1.23 to 2.05 for pro-Trump firms).¹⁸ Additionally, these firms experience an increased share of very high stakeholder perceptions (“enthusiastic” stakeholders) after taking pro-Biden (from 3.8% to 5.1%) or pro-Trump (from 3.4% to 7.2%) stances. They also experience an even more increased share of very low stakeholder perceptions (“very displeased” stakeholders): from 0.9% to 16.6% when taking pro-Biden stances and from 2.7% to 36.5% when taking pro-Trump stances.

Panel B reports consistent results for Study 2. The “Denounce” stance leads to a slight increase in a firm’s average perception, while a “Not Denounce” stance leads to a marked decrease. In both cases, the variance increases. Additionally, the share of very high stakeholder perceptions increases both after communicating either a “Denounce” (from 7.2% to 13%) or a “Not Denounce” (from 5.2% to 6.9%) stance, though notably less than the corresponding increase in the share of very displeased stakeholders from communicating either stance.¹⁹ The same happens with very low stakeholder perceptions (from 4.6% to 9.6% with “Denounce” and from 2.8% to 22.1% with “Not Denounce”).

6.5 The Effect of Donations and Relative Importance of the Values and Expectations Differences (r) - H4

Last, we test hypothesis 4, focusing on the parameter r , which quantifies the relative importance of the values and expectations differences. We manipulate this parameter directly in Study 2, as we randomize whether the company publicly announces monetary support of their statement (i.e., the “Donations” conditions) or not. Communication backed by a monetary donation should be perceived as more credible, and

¹⁸An F test on the equality of variances before and after treatment confirms that these difference are statistically significant (variances which are statistically different (at 5%) from those before are indicated in bold).

¹⁹We performed a t-test of mean comparisons for the percentage of enthusiastic stakeholders and that of very displeased stakeholders before and after treatment. In Study 1 we see the increase in enthusiastic stakeholders is statistically significant for Trump but not Biden. In Study 2, it is significant for “Denounce” but not for “Not Denounce”. The increase in very displeased stakeholders is always significant in both studies for both political stances.

thus reduce the relative importance of the expectations difference compared to that of the values difference.

Table 7 reports the result of these analyses with between-subject regressions.²⁰ We observe that mentioning donations does indeed lower the perception of the firm in both specifications compared to not doing so, in line with the logic outlined in our model. Specifically, Column 2 shows that the negative effect of donations is driven by the firms supporting “Not Denounce” with monetary commitments, while the interaction between “Donations” and “Denounce” is directionally positive.

6.6 Robustness checks

We conducted a number of robustness checks for the main analyses reported in the paper. Consistent with our pre-registration, we confirmed that our results are robust to alternative specifications of our dependent variable, which include using as our DV the opinions about companies after having read the CEO communication (rather than deleting from this the the baseline responses after reading the company location and type descriptions); using as our DV a composite variable combining the subjects’ responses to the various opinion questions, which are all highly correlated; and using single variables alternative to *Positive Opinion*.²¹ In Study 1, our results are robust to re-weighting our sample to reflect a 1/3 - 1/3 - 1/3 split in participant ideology. Finally, our results are sufficiently robust to include as covariates in our regression specifications any observable variables that were statistically different across conditions (none in Study 1; political affiliation in Study 2 - see Table 1).

7 Extension: Explaining the (Surprising) Benefits of Communicating an Incongruent Stance

Overall, our empirical results provide support for the model’s predictions, with the exception of H1b. Our lack of support for H1b is interesting, given that congruence or consistency in claims and signals is generally viewed positively, and incongruence or inconsistency in claims and signals is generally viewed negatively (Baum et al., 2016), due to the fact that greater consistency and congruence in claims is associated with greater credibility and legitimacy (Durcikova and Gray, 2009). Nevertheless, our

²⁰We do not include within-subjects regressions as each subject read only one between the “Statement” and the “Donations” condition for the “Denounce” and the “Not Denounce” political stances.

²¹In our pre-registration we also indicated we would explore potential moderating variables. We opted not to include these, as we find the main effects of the experiment already rich and comprehensive.

experimental results provided some evidence of positive, rather than negative, reactions to incongruent political stances. Furthermore, we observe incongruent messaging in the real world, with CEOs endorsing political positions that are surprising in light of their prior/expected positioning. How can we reconcile this?

Our theoretical model helps to illuminate two conceptually distinct potential mechanisms through which firms can benefit from incongruent communication. The first is perhaps the more obvious one: firms should accept the costs of incongruent communication when their expected/prior positioning is (too) far from the current positioning of the average stakeholder. In other words, firms will sometimes engage in incongruent communication to pander to the majority (Corollary 1). In doing so, firms *maximize* the expectation of stakeholders perceptions.

The second mechanism through which incongruent communication can benefit the firm from a stakeholder perception perspective is more subtle, and requires relaxing one assumption of the model, as we explain in what follows.

An important underlying assumption in our theoretical analysis in Section 3 is that stakeholders' political stances and their non-political taste for the firm (Q) are uncorrelated. In other words, Q was agreed upon by both camp 0 and camp 1 stakeholders. It could be the case, however, that individuals' political orientation and non-political preferences for a firm (e.g., due to preferences for the firm's mission or other characteristics), are positively correlated. For example, new tech enthusiasts are both more likely to lean Democrat and more likely to have a preference for tech companies, while gun enthusiasts are both more likely to lean Republican and to have a preference for gun companies.

To consider the implications of this possibility using the scaffolding of our formal model, we relax the assumption of a common, agreed upon Q , and instead assume that the two camps of stakeholders have different non-political valuations for the firm, which we denote by Q_0 and Q_1 . Notice that the introduction of asymmetric Q 's does not influence any of our results regarding average perception: the levels of Q simply shift perceptions for the two camps of stakeholders up or down, but do not affect optimal strategies.

The empirically realistic case of a positive correlation between Q and μ corresponds to the scenario in which $\mu > 1/2$ if and only if $Q_1 > Q_0$. In other words, stakeholders who rate the firm more highly on non-political dimensions ($Q_1 > Q_0$) are the same as those who are more closely aligned with it politically.

In this setting, how should the firm use its political communication to complement its non-political positioning in the market? In particular, can political communication aid the firm's average stakeholder perception? And what about polarization? Moreover,

should political communication be used to *reinforce* the firm's position among its stakeholders or, conversely, to attract the *opposite* camp of stakeholders?

It is easy to think of examples which might lead to firms choosing each of the aforementioned strategies. For instance, a firm which is currently struggling with its own stakeholder base (Q_1 not too high, despite the fact that $Q_1 > Q_0$) might employ political communication to rally its existing core stakeholder base ($a = 1$). On the other hand, a firm that finds itself in an extremely strong strategic position with its existing stakeholder base (Q_1 very high) might elect to employ political communication in an opposite manner; that is, to try and attract camp 0 stakeholders (if Q_0 is not too low), while not giving up its existing stakeholder base.

We find that which of these two strategies is optimal crucially depends on the levels of Q_0 and Q_1 . In particular, when Q_1 is very high and Q_0 not too low (the strongest possible strategic position for the firm), we find that the firm can achieve a pivotal increase in camp 0 perception while managing a non-pivotal decrease in camp 1 perception, thus achieving full demand. Formally,

Hypothesis 5 (Incongruent Political Stance As A Mainstream Strategy). *Incongruent political communication can maximize stakeholder perceptions whenever it helps high-quality firms align with the stakeholder camp which value it less, without eroding support from the stakeholder camp which value it more.*

Formally, let $\mu > 1/2$. If Q_1 is high enough and Q_0 not too low, then the firm can maximize demand by choosing $a = 0$. This is true independent of p .

That is, when operating from a strong strategic position, the firm can choose to displease its original stakeholder base (but not enough to give up market share) in order to please the opposite camp of stakeholders (so as to attract it, and thus increasing its total market share). When the firm is dominant enough with one camp to begin with (and not too disliked by the opposite camp), it can benefit by doing this.

Notice that, contrary to the case illustrated in Corollary 1, incongruent communication here *minimizes* the average stakeholder perception, at least when $p = 1/2$. This follows from Hypothesis 1. However, it maximizes the share of stakeholders whose perception is above a (high enough) threshold. In Appendix B we formalize the notion of stakeholder behavioral responses to the firm in a little greater detail, and offer some additional comments to the proof of this result.

In contemporary research, [Liukonyte et al. \(2022 WP\)](#) quantify the demand consequences of Goya's endorsement of Donald Trump in 2020. Such endorsement constitutes a stance probably incongruent with expectations, as Goya's traditional consumer base skews Democratic (in our framework, $\mu > 1/2$, $a = 0$). Moreover, we believe its

strategic strength is well described in Hypothesis 4, since the brand has historically been very strong with Latinos and – to a lesser extent – Black consumers (high Q_1), who lean Democrat, and relatively weaker with Republican-leaning whites ($Q_0 < Q_1$, despite Q_0 being relatively high). In line with our theoretical prediction, they find evidence of large sales increases (56.4%) in heavily Republican counties but do not find a strong countervailing negative effect on sales in heavily Democratic counties. In particular, and again highlighting the incongruence benefit theorized in Hypothesis 4, they show that Latino consumers, who make up Goya’s core customer base and who tend to skew Democratic, did not significantly reduce their purchases.

8 Discussion

This paper presents a formal model and empirical evidence of stakeholders’ response to company leaders communicating stances on political issues. It provides insight, from a maximization of stakeholder (positive) perceptions perspective, into whether, when, and how firms should talk politics in business. We highlight two critical contingencies for firms to consider when deciding whether, and how, to speak out. One is the distribution of stakeholder opinion on a political issue. Another is stakeholders’ likely expectations about the firm’s political positioning, which we empirically proxy as being influenced by the type and location of the firm, and which are likely also influenced by other company characteristics as well as any prior communications by the firm on social and/or political issues. Our results also suggest that firms must consider whether their stakeholder strategy is to increase average perceptions, or to polarize perceptions, when assessing the costs and benefits of communicating a stance on a political issue. We discuss our main findings in more detail below.

8.1 Average Effects of Communicating a Stance on an Issue Depend on the Distribution of Stakeholder Opinion

We provide theory and evidence that, when stakeholder opinion on a given issue is symmetrically divided, communication of a political stance in either ideological direction is on average negatively received. While individuals who share the opinion communicated by the company respond positively, their positive response is not enough to offset the stronger negative response amongst individuals of the opposing political affiliation. On the other hand, when stakeholder opinion on a given issue is (sufficiently) asymmetric, firms can indeed benefit from pandering to popular stakeholder opinion. For example, a company whose vast majority of stakeholders are Democrat (Republican) could

benefit from communicating political stances that are pro-Democrat (pro-Republican). This contingency is more probably applicable to smaller, entrepreneurial organizations. Larger, more geographically diverse companies, not to mention international companies, on the other hand, are more likely to have disagreement on political preferences amongst their stakeholders.

This distinction helps to reconcile the mixed empirical results found to date when examining average stakeholder responses to firms communicating stances on social-political issues. In Burbano (2021a), the distribution of stakeholder opinion on the issue of focus (gender neutral bathrooms) was symmetric by design; and indeed, this paper found an average negative effect of communicating a stance on employee motivation. Likewise, the issue of focus in other working papers on the topic which find evidence of negative average stakeholder responses are issues about which opinion is likely close to symmetrically divided. Hou and Poliquin (2021 WP) find evidence of an average negative effect on sales resulting from corporate activism about gun control - an issue about which 48 percent of Americans support.²² Wang et al. (2022) find an average negative impact of brands' Black Lives Matter support on consumer responses; 55 percent of US adults express at some support for the movement.²³ In contrast, Chatterji and Toffel (2019) find a positive average effect on intent to purchase Apple products after priming participants with the Apple CEO's communication in favor of LGBTQ rights. Given that 70 percent of Americans support same-sex marriage²⁴, it seems likely that the distribution of opinion amongst participants on this issue was asymmetric. Thus, what appear to be mixed results in assessing effects of CEO activism on stakeholder responses can probably be reconciled with the contingency highlighted in this paper - the distribution of stakeholder opinion on the issue.²⁵

8.2 Silence vs. An Apolitical Stance

Existing work on the implications of social-political activism has not considered the strategic implications of the difference between actively communicating an apolitical stance and staying silent on an issue, yet these are two clearly differentiated communication strategies that firms must choose between if they make the decision not to take

²²<https://www.pewresearch.org/fact-tank/2021/09/13/key-facts-about-americans-and-guns>

²³<https://www.pewresearch.org/fact-tank/2021/09/27/support-for-black-lives-matter-declined-after-george-floyd-protests-but-has-remained-unchanged-since/>

²⁴<https://news.gallup.com/poll/350486/record-high-support-same-sex-marriage.aspx>

²⁵Other than in Burbano (2021a), the distribution of opinion in the samples included in the aforementioned papers is not directly reported. We are thus making the inference that the distribution of opinion in each paper's samples is likely to mirror that of the US population. This seems likely to be the case as, for example, Chatterji and Toffel (2019) use a US survey sample of participants.

an ideological stance. Related work in the context of prosocial claims has emphasized the importance of considering the implications of silence as a strategic choice (Carlos and Lewis, 2018), though prosocial claims refer to claims that are broadly socially acceptable (McDonnell and King, 2013), and thus are theoretically and practically distinct from the type communication of focus in this paper.

We provide theory and evidence of when an overtly apolitical stance is preferred to saying nothing at all with respect to an issue. The critical contingency here is stakeholders' expectations about the firm's positioning on an issue. If firms are expected to support an issue, stakeholders who do not support the issue prefer explicitly apolitical stances to silence, while stakeholders who support the issue prefer silence to an apolitical stance on the issue. Which of these two effects dominates depends on both the (a)symmetry of the issue and the prior positioning of the firm. With symmetric issues, being apolitical dominates over silence whenever $r \geq 1/2$ (which we believe, and show, to be mostly the case empirically). When symmetry is broken, explicitly apolitical positions are more likely to dominate whenever firms were expected to be centrist in the first place.

8.3 The Incongruence Benefit

Interestingly, if we assume stakeholders vary not only in their political opinions but also hold different valuations of the firm (based on non-political-stance factors), our model predicts that it can be optimal for dominant firms to communicate a stance which is incongruent with that which is expected. We find empirical evidence of this "incongruence benefit" as well, which is notably contrary to much extant work examining the implications of inconsistency and incongruence across organizational characteristics, claims, and actions (Abraham and Burbano (2022); Baum et al. (2016); Bode et al. (2017)). To our knowledge this one of the first papers to show evidence of an incongruence benefit.

Our model helps to shed light on the mechanisms behind the incongruence benefit. Essentially, dominant firms can align politically with the camp that would otherwise value them less, while, due to their initial dominance, not giving up too much of their existing stakeholder base. The incongruence benefit in this context can be thought of as the "Goya effect" - with Goya's endorsement of Donald Trump in 2020 and the resulting effect on Goya sales providing a clear illustration of this mechanism (Liukonyte et al., 2022 WP). Future work could examine the incongruence-sincerity paradox in other contexts to explore whether such effects persist in other (non-political) domains.

The fact that dominant firms can benefit from political communication by firms is notable, given that existing work tends to characterize political communication as a niche strategy (Melloni et al. (2019 WP) and Hydock et al. (2020)). For instance, Melloni et al. (2019 WP) characterize instances in which it is possible, and beneficial, for the firm to please one audience credibly while displeasing another. In this sense, their framework regards political communication as an intrinsically niche position: any firm aiming to capture both audiences should shy away from communication to avoid displeasing one of them. This is particularly true because, ex-ante, the firm (CEO) is both politically neutral and equally appealing (product-wise) to both camps. Hydock et al. (2020) bring a different but related perspective to this debate: niche firms have a lot to gain from the visibility brought by communicating bold political stances, while the opposite is true for mainstream firms, who run the risk of displeasing their (large) stakeholder bases with little benefit to show for it. That is, the “boycott-buycott asymmetry” from political communication tilts in favor of less established firms. Nevertheless, we routinely observe major brands (e.g., Nike, Goya) taking bold political stances. Moreover, these stances can be beneficial, against Hydock et al. (2020)’s predictions: for example, Liaukonyte et al. (2022 WP) show how Goya’s sales increased (albeit temporarily) after their endorsement of President Trump. Equally strikingly, they show how this demand boost occurred *despite* the fact that boycott-related social media (specifically, Twitter) posts and media coverage – arguably a good proxy for average firm perception – dominated boycott ones. Again, this is in line with Hypothesis 3 predictions, and further highlights the importance of considering the distribution – and not only the average – of effects on stakeholder perception.

8.4 Effects on Average versus Tail-end Stakeholder Perception

We note that considering effects on not just average perception, but also the distribution of a firm’s stakeholder perceptions about the firm, is critical for consideration of the strategic implications of taking a stance. We provide theory and empirical evidence that communication of an ideological stance polarizes (increases the variance of) stakeholder perceptions of the firm. This means that taking a controversial political stance could be beneficial for a firm seeking to maximize the number of its “enthusiastic” stakeholders. Whether a firm might prefer to raise its average perception among a set of stakeholders or polarize perceptions amongst those stakeholders will depend on the set of stakeholders of focus and the goals of the firm with respect to that set of stakeholders (and is outside the scope of this paper). For example, if the set of stakeholders of focus is current and prospective employees, for example, it is not immediately obvious

whether a firm might prefer to increase the average level of motivation amongst its set of employees or highly motivate the already-motivated and highly demotivate the already-demotivated. Factors such as whether the firm faces extreme competition and how “locked in” its and its competitors’ set of stakeholders are some of the factors that are likely to influence which strategic option a firm would prefer.

8.5 Limitations and Opportunities for Future Work

Certainly, our paper is not without limitations. Our formal model includes a number of assumptions which may or may not always hold in practice. We discuss our model’s assumptions and how our results might change if these assumptions were to change in Appendix D.

Our survey experiments capture hypothetical self-reported responses to CEO political activism, as opposed to observing responses and behavior in response to CEO political activism in the field. Given the recency of the phenomenon of focus in our paper, we maintain that these hypothetical survey experiments represent a useful first step in the empirical examination of the strategic implications of this emerging phenomenon given the challenges of gathering observational data on a phenomenon that is so new. Each of the two experiments was furthermore implemented during the time that the political issue of focus was being covered extensively by the media and after companies and CEOs had communicated stances on the issues. Additionally, given that individual stakeholders’ responses are often key to the mechanisms which underlie how firms’ strategic choices influence firm success (Felin and Foss, 2006; Foss and Pederson, 2016), scholars examining the strategic implications of social and environmental activism by companies and CEOs have highlighted the importance of examining individual-level responses to the communication of such stances (Burbano, 2021a; Chatterji and Toffel, 2019; Dodd and Supa, 2014; Wowak et al., 2022), and an experiment is particularly well-positioned to shed causal light on individual-level responses to such communications.

Furthermore, we believe that the coupling of our formal theory with direct empirical manipulation of the model’s key variables to test our model’s predictions is an important strength of our paper. The empirical support we provide of our model’s main tenets and predictions points to the validity of the model, and suggests that extensions of our model could be a fruitful direction for future work. We believe that there are a number of extensions that could be explored with our model as the base. One potential extension would be to model stakeholder opinion dynamics which could be allowed to change over time. In our model, issues are fixed, and so are stakeholders’ positions

over time. It would be interesting to examine whether and how firms might consider dynamically adapting their political communication strategies to changing societal norms and beliefs. In this case, the “expectations difference” effects might be more salient than in our experiment (in which firms’ expected positions were manipulated to proxy expected political leaning at one moment in time). We thus might expect firms’ internal coherence to play a more salient role in shaping stakeholders’ perceptions.

Our experiments focused on issues which are overtly political in nature, a recent form of CEO social-political activism which has seen an uptick in recent years. We expect that our findings and model should apply more broadly to the wide range of social-political issues about which CEOs and firms are increasingly communicating stances, however. Indeed, it has been established that all social-political issues which have been the focus of CEO activism more broadly can essentially be categorized on the left-right ideological spectrum (Wowak et al., 2022).

9 Conclusion

We contribute to an understanding of stakeholder responses to a recent and under-explored phenomenon: CEO (political) activism. This paper thus directly contributes to the nascent scholarship on the strategic implications of CEOs and corporations communicating stands on social, environmental, and political issues outside the realm of their core businesses (Bhagwat et al., 2020; Burbano, 2021a; Chatterji and Toffel, 2019; Dodd and Supa, 2014; Hou and Poliquin, 2021 WP; Mohliver and Hawn, 2019 WP; Mohliver et al., 2021 WP; Wowak et al., 2022). It also speaks to the literature examining how political ideology, of the CEO and/or the firm, influences strategic choices made in business more broadly (Benton et al., 2022; Chin et al., 2013; Gupta et al., 2017; 2019; Werner, 2017). Our paper serves as an important step in moving forward our understanding of the circumstances under which it is more or less beneficial to “talk politics in business”.

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A Tables and Figures

Table 1: Descriptive Statistics

Panel A: Study 1

| | Biden | Trump | Apolitical | Control | AK | CA | PA | Total |
|-------------|-------|-------|------------|---------|-------|-------|-------|-------|
| Republican | 0.32 | 0.35 | 0.30 | 0.29 | 0.32 | 0.33 | 0.30 | 0.32 |
| Democrat | 0.38 | 0.40 | 0.39 | 0.43 | 0.39 | 0.39 | 0.41 | 0.40 |
| Independent | 0.30 | 0.25 | 0.32 | 0.28 | 0.30 | 0.27 | 0.29 | 0.29 |
| Female | 0.44 | 0.49 | 0.42 | 0.43 | 0.46 | 0.42 | 0.46 | 0.44 |
| Mean Age | 32.67 | 34.09 | 33.40 | 32.53 | 33.78 | 32.75 | 33.00 | 33.18 |
| Education | 0.48 | 0.51 | 0.48 | 0.46 | 0.52 | 0.44 | 0.49 | 0.48 |
| Total | 313 | 293 | 279 | 268 | 384 | 398 | 371 | 1153 |

Panel B: Study 2

| | Denoun | NotDenoun | Apolitical | Control | AK | CA | PA | Total |
|---------------|-------------|-------------|------------|---------|-------|-------|-------|-------|
| Republican | 0.33 | 0.28 | 0.33 | 0.34 | 0.30 | 0.33 | 0.32 | 0.32 |
| Democrat | 0.41 | 0.43 | 0.38 | 0.33 | 0.42 | 0.38 | 0.40 | 0.40 |
| Independent | 0.26 | 0.28 | 0.29 | 0.33 | 0.28 | 0.29 | 0.28 | 0.28 |
| Confidence | 0.74 | 0.74 | 0.75 | 0.73 | 0.75 | 0.75 | 0.71 | 0.74 |
| No Confidence | 0.26 | 0.26 | 0.25 | 0.27 | 0.25 | 0.25 | 0.29 | 0.26 |
| Female | 0.45 | 0.41 | 0.46 | 0.40 | 0.42 | 0.43 | 0.44 | 0.43 |
| Mean Age | 35.19 | 34.47 | 33.99 | 35.29 | 34.30 | 34.82 | 35.22 | 34.77 |
| Education | 0.54 | 0.48 | 0.50 | 0.52 | 0.52 | 0.52 | 0.50 | 0.51 |
| Total | 583 | 579 | 295 | 297 | 611 | 570 | 573 | 1754 |

Notes: This table displays descriptive statistics for our samples. Panel A displays descriptive statistics for Study 1, while Panel B displays them for Study 2. We performed t-tests of mean comparisons for the characteristics listed in Panel A and B across conditions. In particular we compared the means of the Biden, Trump, and Apolitical treatments with those of the control condition and the means of each company treatment with the other two company treatments. We report in bold those that are significantly different (at 5%) from the control or from the other company conditions.

Table 2: Effects of Communicating a Stance on Positive Opinion of the Firm - Study 1

| | (1) | (2) | (3) | (4) |
|--------------------------|----------------------|----------------------|----------------------|----------------------|
| | Pos Opinion | Pos Opinion | Pos Opinion | Pos Opinion |
| | <i>All</i> | <i>All</i> | <i>All</i> | <i>All</i> |
| <i>Political stances</i> | | | | |
| Biden | -0.632*** (0.135) | -0.444** (0.207) | -0.299*** (0.065) | -0.411*** (0.101) |
| Trump | -1.408*** (0.132) | -1.541*** (0.236) | -1.233*** (0.061) | -1.267*** (0.101) |
| Apolitical | 0.080 (0.098) | 0.331* (0.173) | 0.438*** (0.048) | 0.543*** (0.083) |
| <i>Other variables</i> | | | | |
| Republican | | 0.064 (0.147) | | |
| Democrat | | 0.127 (0.115) | | |
| Biden*Dem | | 1.221*** (0.248) | | 1.442*** (0.128) |
| Biden*Rep | | -2.027*** (0.314) | | -1.455*** (0.145) |
| Trump*Rep | | 1.703*** (0.320) | | 1.407*** (0.144) |
| Trump*Dem | | -1.177*** (0.277) | | -1.031*** (0.127) |
| Apolitical*Rep | | 0.160 (0.247) | | 0.275** (0.115) |
| Apolitical*Dem | | -0.760*** (0.231) | | -0.481*** (0.114) |
| R2 | .105 | .383 | .264 | .483 |
| N | 1153 | 1153 | 4612 | 4612 |

Notes: This table examines the effect of our treatments on the perceptions about companies for Study 1. Columns 1 and 2 report between-subjects results, while Columns 3 and 4 report within-subjects results. “All” indicates that all participants are included. The baseline for Political Stances is the Silence/Control condition. The baseline for political affiliation of the individual is Independent. *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table 3: Effects of Communicating a Stance on Positive Opinion of the Firm - Study 2

| | (1) Pos Opin <i>All</i> | (2) Pos Opin <i>All</i> | (3) Pos Opin <i>All</i> | (4) Pos Opin <i>All</i> |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <i>Political Stances</i> | | | | |
| Denounce | 0.308*** (0.091) | -1.202*** (0.178) | 0.385*** (0.049) | -1.043*** (0.099) |
| Not Denounce | -0.905*** (0.086) | 0.166 (0.145) | -0.756*** (0.048) | 0.285*** (0.085) |
| Apolitical | -0.129 (0.095) | 0.655*** (0.155) | 0.002 (0.041) | 0.812*** (0.077) |
| <i>Other Variables</i> | | | | |
| Confidence | -0.055 (0.100) | -0.078 (0.083) | | |
| Denounce*Conf | | 2.043*** (0.201) | | 1.929*** (0.109) |
| NotDenounce*Conf | | -1.455*** (0.175) | | -1.413*** (0.100) |
| Apolitical*Conf | | -1.046*** (0.190) | | -1.098*** (0.089) |
| R2 | .086 | .232 | .244 | .370 |
| N | 1754 | 1754 | 7016 | 7016 |

Notes: This table examines the effects of our treatments on the perceptions about companies for Study 2. Columns 1 and 2 report between-subjects results, while Columns 3 and 4 report within-subjects results. "All" indicates that all participants are included. The baseline for Political Stances is the Silence/Control condition. The baseline for the Confidence variable is No Confidence. *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table 4: Effects on Positive Opinion - Democrats Only - Study 1

| | (1) Pos Opin <i>Dem</i> | (2) Pos Opin <i>Dem</i> | (3) Pos Opin <i>Dem</i> | (4) Pos Opin <i>Dem</i> |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <i>Political Stances</i> | | | | |
| Biden | 0.835*** (0.164) | 0.285 (0.211) | 1.060*** (0.113) | 0.810*** (0.186) |
| Trump | -2.524*** (0.181) | -2.796*** (0.241) | -2.029*** (0.107) | -2.457*** (0.175) |
| Apolitical | -0.416** (0.186) | -0.771*** (0.234) | 0.174 (0.109) | -0.087 (0.197) |
| <i>Other Variables</i> | | | | |
| Alaska | | -0.107 (0.195) | | 0.092 (0.164) |
| Alaska*Biden | | 1.241*** (0.309) | | 0.510* (0.297) |
| Alaska*Trump | | 0.583 (0.363) | | 0.817*** (0.266) |
| Alaska*Apolitical | | 0.673* (0.365) | | 0.546* (0.302) |
| R2 | .518 | .559 | .605 | .633 |
| N | 305 | 305 | 1215 | 1215 |

Notes: This table examines the effect of our treatments on the perceptions among Democrats in Study 1. Only the Alaska-based Oil and Gas Company and the California-based company are included in these regressions. Columns 1 and 2 report between-subjects results, while Columns 3 and 4 report within-subjects results. “Dem” indicates that only Democrats are included. The baseline for Political Stances is the Silence/Control condition. The baseline for company type is the California-based tech company. *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table 5: Effects on Positive Opinion - Republicans Only - Study 1

| | (1) Pos Opin <i>Rep</i> | (2) Pos Opin <i>Rep</i> | (3) Pos Opin <i>Rep</i> | (4) Pos Opin <i>Rep</i> |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <i>Political Stances</i> | | | | |
| Biden | -2.383*** (0.272) | -2.496*** (0.346) | -1.743*** (0.138) | -1.907*** (0.206) |
| Trump | 0.344 (0.244) | 0.447 (0.380) | 0.115 (0.134) | 0.307 (0.242) |
| Apolitical | 0.606*** (0.196) | 0.760*** (0.244) | 0.902*** (0.115) | 0.999*** (0.213) |
| <i>Other Variables</i> | | | | |
| Alaska | | -0.370 (0.241) | | -0.116 (0.192) |
| Alaska*Biden | | 0.276 (0.531) | | 0.319 (0.345) |
| Alaska*Trump | | -0.191 (0.473) | | -0.379 (0.348) |
| Alaska*Apolitical | | -0.311 (0.381) | | -0.178 (0.327) |
| R2 | .380 | .394 | .563 | .568 |
| N | 254 | 254 | 987 | 987 |

Notes: This table examines the effect of our treatments on the perceptions among Republicans in Study 1. Only the Alaska-based Oil and Gas Company and the California-based company are included in these regressions. Columns 1 and 2 report between-subjects results, while Columns 3 and 4 report within-subjects results. "Rep" indicates that only Republicans are included. The baseline for Political Stances is the Silence/Control condition. The baseline for company type is the California-based tech company. *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table 6: Positive Opinion of Firm - Comparisons across Treatments

Panel A: Study 1

| | Biden | Trump | Control |
|---------------------------|--------------|--------------|---------|
| <i>Before Treatment</i> | | | |
| Mean | 4.49 | 4.32 | 4.29 |
| Std. Deviation | 1.15 | 1.23 | 1.35 |
| “Enthusiastic” stakeh. | 3.8% | 3.4% | 3% |
| “Very displeased” stakeh. | 0.9% | 2.7% | 4.8% |
| <i>After Treatment</i> | | | |
| Mean | 3.92 | 2.97 | 4.35 |
| Std. Deviation | 1.85 | 2.05 | 1.37 |
| “Enthusiastic” stakeh. | 5.1% | 7.2% | 4.1% |
| “Very displeased” stakeh. | 16.6% | 36.5% | 4.1% |

Panel B: Study 2

| | Denounce | Not Denounce | Control |
|---------------------------|-------------|--------------|-------------|
| <i>Before Treatment</i> | | | |
| Mean | 4.41 | 4.51 | 4.49 |
| Std. Deviation | 1.42 | 1.3 | 1.25 |
| “Enthusiastic” stakeh. | 7.2% | 5.2% | 5.4% |
| “Very displeased” stakeh. | 4.6% | 2.8% | 1% |
| <i>After Treatment</i> | | | |
| Mean | 4.58 | 2.97 | 4.35 |
| Std. Deviation | 1.80 | 1.94 | 1.31 |
| “Enthusiastic” stakeh. | 13% | 6.9% | 5.4% |
| “Very displeased” stakeh. | 9.6% | 22.1% | 2.3% |

Notes: This table compares the means and the standard deviations of the “Pos Opinion” variable for the Biden and Trump manipulations in Study 1 (Panel A) and the Denounce and Not Denounce manipulations in Study 2 (Panel B) in the first iteration each subject observes. It also displays the percentage of stakeholders (“enthusiastic stakeholders”) who reported maximum appreciation for the company (7/7 on a Likert scale) and the percentage of stakeholders (“very displeased stakeholders”) who reported minimum appreciation for the company (1/7 on a Likert scale). The top four rows per panel display these values before the treatment, while the bottom four rows display the same values after the treatments. We performed a test on the equality of standard deviations, and bolded the standard deviations that were significantly different (at 5%) after treatment compared to those before treatment. We also performed t-tests of mean comparisons for the characteristics listed in the last two rows (enthusiastic stakeholders and very displeased stakeholders) across conditions. We report in bold those that are statistically different (at 5%) from the same characteristics before treatment.

Table 7: Effect of Referencing Donations in Political Stance Communications- Study 2

| | (1) | (2) |
|--------------------|---------------------|----------------------|
| | Pos Opin | Pos Opin |
| Donations | -0.235** (0.115) | -0.401*** (0.152) |
| Confidence | 0.213 (0.130) | 0.199 (0.142) |
| Denounce | | 1.059*** (0.146) |
| Denounce*Donations | | 0.313 (0.219) |
| R2 | .006 | .104 |
| N | 1162 | 1162 |

Notes: This table examines the effect of the Donations treatment on the perceptions about companies in Study 2. It reports between-subjects results. The baseline for Donations is political stance conditions with no mention of Donations (Statement conditions). The baseline for Denounce is the Not Denounce condition. The baseline for the Confidence variable is No Confidence. *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Figure 1: Experimental Manipulations - Study 1

| 1. California Tech | | 2. Alaska Oil | | 3. Pennsylvania Food | |
|---|---|--|---|----------------------|--|
| The focus of this business case is the CEO of | | | | | |
| a major technology company, which is headquartered in California (“Tech Company”). The company produces, markets and sells consumer-facing software and hardware. | a major energy company, which is headquartered in Alaska (“Oil&Gas Company”). The company produces, markets and sells crude oil and natural gas and petroleum products. | a major food and beverage company, which is headquartered in Pennsylvania (“Food Company”). The company produces, markets and sells food products and non-alcoholic beverages. | | | |
| a. Biden | b. Trump | c. Apolitical | d. Control | | |
| The (<i>Manipulation 1 Company</i>) headquartered in (<i>Manipulation 1 State</i>) was recently in the news | | | | | |
| because the CEO spoke up publicly and urged voters to support Joe Biden in the upcoming election. | because the CEO spoke up publicly and urged voters to support Donald Trump in the upcoming election. | because the CEO spoke up publicly regarding the wave of political activism across US companies ahead of the upcoming election. | | | |
| The company reached out to users of its (<i>Manipulation 1 Products</i>) products with an email from the CEO, describing how “anything less than a vote for Biden is a vote against democracy.” | The company reached out to users of its (<i>Manipulation 1 Products</i>) products with an email from the CEO, describing how “anything less than a vote for Trump is a vote against America.” | The company reached out to users of its (<i>Manipulation 1 Products</i>) products with an email from the CEO, describing how it is not taking a political position because it “should be focused on achieving its mission. This is the way that we can have the biggest impact.” | The company reached out to users of its (<i>Manipulation 1 Products</i>) products with an email from the CEO. | | |

Notes: This figure displays the manipulations of Study 1 by condition.

Figure 2: Experimental Manipulations - Study 2

| 1. California Tech | | 2. Alaska Oil | | 3. Pennsylvania Food | |
|--|---|---|---|--|--|
| a major technology company, which is headquartered in California ("Tech Company"). The company produces, markets and sells consumer-facing software and hardware. | | The focus of this business case is the CEO of a major energy company, which is headquartered in Alaska ("Oil&Gas Company"). The company produces, markets and sells crude oil and natural gas and petroleum products. | | a major food and beverage company, which is headquartered in Pennsylvania ("Food Company"). The company produces, markets and sells food products and non-alcoholic beverages. | |
| a. Denounce | | b. Not Denounce | | c. Apolitical | |
| a1. Statement | | b1. Statement | | d. Control | |
| because the CEO publicly denounced members of Congress who voted against certifying the results of the 2020 presidential election. | because the CEO publicly announced that it suspended its political donations through its PAC to members of Congress who voted against certifying the results of the 2020 presidential election. | because the CEO would not publicly denounce members of Congress who voted against certifying the results of the 2020 presidential election. | because the CEO publicly announced that it will keep giving its political donations through its PAC, including to members of Congress who voted against certifying the results of the 2020 presidential election. | was recently in the news | |
| "Last week's attempts by some congressional members to subvert the presidential election results and disrupt the peaceful transition of power do not align with our values", | "Last week's attempts by some congressional members to subvert the presidential election results and disrupt the peaceful transition of power do not align with our values. Our financial support will reflect this", | "We will keep supporting lawmakers that serve our communities and align with our values, without being affected by what is going on in the news cycle", | "We will keep supporting lawmakers that serve our communities and align with our values, without being affected by what is going on in the news cycle. Our financial support will reflect this", | and the company's CEO wrote a memo. | |
| The (<i>Manipulation 1 Company</i>) headquartered in (<i>Manipulation 1 State</i>) | | | | | |
| a1. Statement | | b1. Statement | | b2. Donations | |
| because the CEO publicly denounced members of Congress who voted against certifying the results of the 2020 presidential election. | because the CEO would not publicly denounce members of Congress who voted against certifying the results of the 2020 presidential election. | because the CEO publicly announced that it will keep giving its political donations through its PAC, including to members of Congress who voted against certifying the results of the 2020 presidential election. | because the CEO publicly announced that it will keep giving its political donations through its PAC, including to members of Congress who voted against certifying the results of the 2020 presidential election. | because the CEO publicly announced that it would not take a political position following last week's events in the U.S. capital. | |
| "Last week's attempts by some congressional members to subvert the presidential election results and disrupt the peaceful transition of power do not align with our values", | "Last week's attempts by some congressional members to subvert the presidential election results and disrupt the peaceful transition of power do not align with our values. Our financial support will reflect this", | "We will keep supporting lawmakers that serve our communities and align with our values, without being affected by what is going on in the news cycle", | "We will keep supporting lawmakers that serve our communities and align with our values, without being affected by what is going on in the news cycle. Our financial support will reflect this", | "We should be focused on achieving our mission. This is the way that we can have the biggest impact," | |
| the company's CEO wrote in a memo. | | | | | |

Notes: This figure displays the manipulations of Study 2 by condition.

Figure 3: Theoretical Parameters and Experimental Manipulations

| | Study 1 | Study 2 |
|---|--|---|
| Symmetry in opinion re: political issue (p) | Presidential election 2020 $p=1/2$ | (Some) Congress members voted against certifying US election results 2021 $p>1/2$ |
| Political stance manipulations (a) | <ol style="list-style-type: none"> 1. Pro-Biden Stance 2. Pro-Trump Stance 3. Apolitical Stance 4. Control | <ol style="list-style-type: none"> 1. Denounce Congress members who voted against certifying election results 2. Would not denounce 3. Apolitical Stance 4. Control |
| Expected stance manipulations (μ) | <ol style="list-style-type: none"> 1. Tech co., HQ in CA (expected to lean democrat) 2. Oil co., HQ in AK (expected to lean republican) 3. Food & beverage co., HQ in PA (expected to be neutral) | |
| Relative importance of expectations vs. values difference (r) | NA | Political stance manipulations 1 & 2 sub-divided into: <ol style="list-style-type: none"> a) Mention of monetary support (higher r) b) No mention of monetary support (lower r) |

Notes: This figure displays a summary of how our manipulations in the experiments reflect each of the key parameters in our theoretical model.

B Proofs

Proof of Hypothesis 1

1.A Assume without loss of generality $\mu \geq 1/2$. (The case of $\mu < 1/2$ case can be handled symmetrically.)

We have the following:

$$V^\mu(1) = \frac{2Q - r - (1-r)(1-\mu)^2 - (1-r)(1-\mu)^2}{2}$$

$$V^\mu(0) = \frac{2Q - r - (1-r)\mu^2 - (1-r)\mu^2}{2}$$

$$V^\mu(1/2) = \frac{2Q - 2(1-r)(1/2 - \mu)^2 - r(1/2 - 1)^2 - r(1/2 - 0)^2}{2}$$

$$V^\mu(\mu) = \frac{2Q - r\mu^2 - r(1-\mu)^2}{2}$$

To prove **1.A**, it suffices to show that $V^\mu(1) < V^\mu(\mu)$ and $V^\mu(1) < V^\mu(1/2)$, given that in **1.B** we show that $V^\mu(1) > V^\mu(0)$. Combined, these three inequalities imply that $\max(V^\mu(0), V^\mu(1)) = V^\mu(1) < \min(V^\mu(1/2), V^\mu(\mu))$.

As we are interested in relative comparisons, we can multiply each of these by 2, then subtract Q .

Let's start from the starkest comparison: not saying anything at all versus taking an extreme (congruent) position. We have

$$V^\mu(1) \geq V^\mu(\mu) \Leftrightarrow r\mu^2 + r(1-\mu)^2 \geq r + 2(1-r)(1-\mu)^2 \Leftrightarrow r(1-\mu)(-2\mu) \geq 2(1-r)(1-\mu)^2.$$

If $\mu = 1$, the two strategies coincide and equality trivially holds. Consider now $\mu < 1$. In this case, the left hand side is strictly negative, while the right hand side is strictly positive, leading to a contradiction. Thus, $V^\mu(1) < V^\mu(\mu)$.

To show that silence dominates extreme congruent positioning, notice that

$$V^\mu(1/2) \geq V^\mu(1) \Leftrightarrow r + 2(1-r)(1-\mu)^2 \geq 2(1-r)(1/2-\mu)^2 + \frac{r}{4}.$$

Simplifying, this yields

$$V^\mu(1/2) \geq V^\mu(1) \Leftrightarrow \frac{r}{4} - \frac{r}{2} < (1-r)((1-\mu)^2 - (1/2-\mu)^2).$$

This simplifies to $-r/4(1-r) < (1/2)(3/2-2\mu)$. The right hand side is positive whenever $\mu < 3/4$: for these values, the equality holds for every r , since the LHS is always negative.

To study the case $\mu > 3/4$, notice that the right hand side is minimized at $\mu = 1$. (Its derivative in μ is given by $-2(1-\mu) + 2(1/2-\mu) < 0$). When $\mu = 1$, the right hand side equals $1/2 \cdot (3/2 - 2) = -1/4$. On the other hand, the left hand side, $-r/4$, is smaller than $-1/4$ whenever $r \geq 1/2$, which concludes the proof.

1.B We now show that $V^\mu(1) > V^\mu(0)$. We have

$$\begin{aligned} V^\mu(1) > V^\mu(0) &\Leftrightarrow -r - 2(1-r)(1-\mu)^2 > -r - 2(1-r)\mu^2 \\ &\Leftrightarrow 1 - \mu > \mu \\ &\Leftrightarrow \mu > 1/2. \end{aligned}$$

Moreover, since $V^\mu(1) - V^\mu(0) = -(1-r)((1-\mu)^2 - \mu^2)$, we have it that

$$\frac{\partial V^\mu(1) - V^\mu(0)}{\partial r} = (1-\mu)^2 - \mu^2 \leq 0 \Leftrightarrow \mu \geq 1/2,$$

which concludes the proof.

Proof of Corollary 1

Let $r = 1, p = 1$. Then, $V^\mu(1) = Q$, independently on μ . On the other hand $V^\mu(\mu) = Q - (1-\mu)^2$, $V^\mu(1/2) = Q - (1-1/2)^2$ and $V^\mu(1/2) = Q - (1-0)^2$.

Thus, clearly we have it that

$$V^\mu(1) \geq \max(V^\mu(\mu), V^\mu(1/2), V^\mu(0)),$$

whenever $r = 1$, $p = 1$, with equality holding only in the trivial case that $\mu = 1$.

By continuity, there exists a $\bar{p} < 1$ such that, for every $p^* \in (\bar{p}, 1)$, there exists a value $\bar{r}(p^*) < 1$ such that, for every $r^* \in (\bar{r}(p^*), 1)$, the above inequality continues to hold for $p = p^*$ and $r = r^*(p^*)$ (and thus *a fortiori* for $p \geq p^*$ and $r \geq r^*(p^*)$), which concludes the proof.

Proof of Hypothesis 2

We prove the case $\mu \geq 1/2$. The case $\mu \leq 1/2$ can be handled symmetrically.

When $\mu \geq 1/2$, we have it that

$$V^\mu(1/2, 0) = V^\mu(1/2, 1) = Q - \frac{r}{4} - (1-r) \cdot \left(\frac{1}{2} - \mu\right)^2,$$

$$V^\mu(\mu, 0) = Q - r \cdot \mu^2,$$

$$V^\mu(\mu, 1) = Q - r \cdot (1 - \mu)^2.$$

Thus,

$$\begin{aligned} V^\mu(1/2, 0) - V^\mu(\mu, 0) &= -\frac{r}{4} - (1-r) \cdot \left(\frac{1}{2} - \mu\right)^2 + r\mu^2 \\ &\geq r\left(\mu^2 - \left(\frac{1}{2} - \mu\right)^2 - \frac{1}{4}\right) \\ &\geq r\left(\frac{1}{4} - 0 - \frac{1}{4}\right) \\ &= 0, \end{aligned}$$

where the first inequality follows from the fact that $r \geq 1/2$, and the second from the fact that the expression is increasing in μ (its derivative is given by $2\mu + 2(\frac{1}{2} - \mu) = 1$).

To show that $V^\mu(1/2, 1) - V^\mu(\mu, 1) < 0$, notice that

$$\begin{aligned} V^\mu(1/2, 1) - V^\mu(\mu, 1) &= -\frac{r}{4} - (1-r) \cdot \left(\frac{1}{2} - \mu\right)^2 + r(1-\mu)^2 \\ &\leq -(1-r) \cdot \left(\frac{1}{2} - \mu\right)^2 \\ &\leq 0, \end{aligned}$$

where the inequality follows from the fact that, whenever $\mu \geq 1/2$, $(1-\mu)^2 \leq \frac{1}{4}$. This concludes the proof.

Proof of Corollary 2

We now turn to the comparison between staying silent and being explicitly apolitical.

$$V^\mu(\mu) \geq V^\mu(1/2) \Leftrightarrow \frac{r}{4} + (1-r)(1/2 - \mu)^2 \geq \frac{r}{2}(1-\mu)^2 - \frac{r}{2}\mu^2$$

Simplifying, we obtain

$$\begin{aligned} V^\mu(\mu) \geq V^\mu(1/2) &\Leftrightarrow \frac{2(1-r)}{r} \cdot (1/2 - \mu)^2 \geq 1/2\mu + \mu^2 + \mu^2 - 1/2 \\ &\Leftrightarrow \frac{2(1-r)}{r} (1/2 - \mu)^2 \geq 2(\mu^2 - \mu + 1/4) \\ &\Leftrightarrow \frac{2(1-r)}{r} \geq \frac{2(\mu - 1/2)^2}{(1/2 - \mu)^2} = 2 \\ &\Leftrightarrow r \leq 1/2, \end{aligned}$$

which concludes the proof.

Proof of Hypothesis 3

The result follows straightforwardly from the definition of $P^\mu(\cdot)$. See page 7.

Proof of Hypothesis 4

We have it that

$$\frac{\partial V^\mu(1, 0)}{\partial r} = -1 + (1-\mu)^2$$

and

$$\frac{\partial V^\mu(1,1)}{\partial r} = (1-\mu)^2.$$

Combined, these imply that

$$\begin{aligned} \frac{\partial V^\mu(1)}{\partial r} &= \frac{\partial(pV^\mu(1,0) + (1-p)V^\mu(1,1))}{\partial r} \\ &= -p + (1-\mu)^2. \end{aligned}$$

Thus, $\frac{\partial V^\mu(1)}{\partial r} \geq 0 \Leftrightarrow \frac{(1-\mu)^2}{p} > 1$, which concludes the proof.

Proof of Hypothesis 5

Defining demand/endorsement from camp j as

$$D^{\mu_j}(a) = 1 \Leftrightarrow Q_j - r \cdot (\mu_j - a)^2 - (1-r) \cdot (\mu - a)^2 \geq 0,$$

we have it that, $D^0(\cdot) = 1$ is achievable if, and only if,

$$D^0(0) = 1 \Leftrightarrow Q_0 - (1-r) \cdot \mu^2 \geq 0.$$

This is more likely when r is close to 1 and μ is close to 1/2. Intuitively, both decrease the expectations difference.

Can the firm achieve full demand by means of this extreme incongruent positioning?

This is the case whenever

$$D^1(0) = 1 \Leftrightarrow Q_1 - r - (1-r) \cdot (1-\mu)^2 \geq 0.$$

Notice that this is more likely when r is close to 0 and μ is close to 1. This is the exact opposite of the previous condition. Intuitively, from the camp 1 point of view, the values difference is more damaging than the expectation difference (as the firm's chosen positioning is close to 0, while its expected/prior positioning $\mu \geq 1/2$), and the latter is least damaging when μ is close to 1.

If Q_1 is sufficiently high to satisfy this condition, then the firm can obtain full demand by choosing $a = 0$, that is, by pandering to the incongruent camp. Notice that this can be optimal even when doing so is detrimental to average firm perception – as a particular case, when the incongruent camp is small in size, or $p < 1/2$.

Of course, 0 need not be the only viable strategy to achieve full demand. Whenever $Q_0 - (1 - r) \cdot \mu^2 > 0$, by continuity in a we have it that $Q_0 - r \cdot a^2 - (1 - r) \cdot (a - \mu)^2 \geq 0$ for a small enough.

C Illustrative Example

Let $r = 4/5$ and $\mu = 1/4$. Denote by p the percentage of stakeholders opposing the cause (that is, $\mu_j = 0$). Then, ordering the four strategies from left (0) to right (1), we have that

$$V^\mu(0) = Q - \frac{4}{5} \cdot (1 - p)(1 - 0)^2 - \frac{1}{5} \cdot (1/4 - 0)^2,$$

$$V^\mu(1/4) = Q - \frac{4}{5} \cdot p(1/4 - 0)^2 - \frac{4}{5} \cdot (1 - p)(1 - 1/4)^2,$$

$$V^\mu(1/2) = Q - \frac{4}{5} \cdot p(1/2 - 0)^2 - \frac{4}{5} \cdot (1 - p)(1 - 1/2)^2 - \frac{1}{5}(1/2 - 1/4)^2,$$

$$V^\mu(1) = Q - \frac{4}{5} \cdot p(1 - 0)^2 - \frac{1}{5} \cdot (1 - 1/4)^2.$$

Simple algebra shows that:

- The firm should pick the congruent strategy and pander to the (camp 0) majority ($a = 0$) when $p > 0.91$
- The firm should stay silent ($a = 1/4$) when $p \in [0.59, 0.91]$
- The firm should be explicitly apolitical ($a = 1/2$) when $p \in [0.125, 0.59]$

- The firm should pick the incongruent strategy and pander to the (camp 1) majority ($a = 1$) when $p < 0.125$.

In the example above, being explicitly apolitical – and not silent – dominates when stakeholders are symmetrically divided on the issue. This is because silence ($\mu = 1/4$) incurs very high “values difference” costs with camp 1 stakeholders, and when these stakeholders are at least $100\% - 59\% = 41\%$ of the total, this effect dominates. This might help rationalize Coinbase and Basecamp’s strategies: if expected to be closer to the left than to the right, re-positioning to the middle might have helped if the issue was close to symmetric (and, *a fortiori*, if it was skewed towards the right), and if “values differences” were not too salient (they only count for $1/5$ in our example).

Second, it takes a more overwhelming majority of camp 0 stakeholders (91%) for it to be optimal for the firm to pander to them than it does of camp 1 stakeholders ($100\% - 12.5\% = 87.5\%$). That is, pandering appears to be more beneficial when it is an incongruent strategy than when it is a congruent one. This is not immediately intuitive. Given the costs imposed by “expectations differences”, why is pandering on the congruent side not more beneficial? The reason is that pandering on the congruent side ($a = 0$) is well approximated by silence ($a = 1/4$) and, unless the majority of camp 0 stakeholders is overwhelming (at least 91%), silence does better, as it incurs no “expectations differences” costs and lower “values differences” costs with camp 1 stakeholders (which are particularly high when the firm is located close to 0, due to convexity). Pandering on the incongruent side does slightly worse in absolute terms (due to the “expectations difference”), but because there is no alternative strategy approximating it, it is more likely to be optimal among the four strategies whenever camp 1 stakeholders are an overwhelming enough majority.

D A Brief Discussion of Our Model’s Assumptions

We now discuss some of our modeling choices – as well as how alternative ones might influence the results.

- **No intrinsic preferences for political communication (or silence).** In our model, stakeholders do not value communication – or, conversely, silence – *per se*. In reality, stakeholders likely display substantial heterogeneity in these dimensions, some believing that firms should “stay out of politics”, and some, on the contrary, finding silence and apolitical positions on important issues repugnant. Our empirical data reflect such heterogeneity in predictable directions, e.g., with older and more right-leaning stakeholders favoring the former positions, while Gen-Zers and more left-leaning ones favor the the latter. In our model, silence ($a = \mu$) and communication ($a \neq \mu$) are treated similarly, with no additional punishment (or reward) for communication versus silence *per se*.

It should be noted that, if anything, by featuring an explicit “expectation difference” – which hurts the perception of firms that choose to communicate ($a \neq \mu$) – our model is closer to one that intrinsically rewards silence. Nevertheless, when studying situations about which silence might be considered repugnant (e.g., George Floyd’s murder in June 2020), one can write an augmented perception function including an additional “expression benefit”, such as

$$V^{\mu}(a, \mu_j) = Q - r(a - \mu_j)^2 - (1 - r)(a - \mu)^2 + k\left(a - \frac{1}{2}\right)^2.$$

for some $k > 0$. This benefit is minimized whenever $a = 1/2$, and maximized when $a = 0$ or $a = 1$. Clearly, this would skew our normative results towards more partisan communication. However, this increase would be constant across firms (that is, it would not depend on Q or μ), such that the main features of our results would remain unaltered.

- **Modeling “Credibility”.** We model the importance of credibility explicitly by including an “expectations difference” component in stakeholders’ valuations of the firm. In this sense, our model assumes that stakeholders are partially naïve in their belief formation, as they do not explicitly take the firm’s incentives to communicate into account when determining how credible such communication is, but simply discount messages that are ideologically far from the firm’s expected positioning. Motivated by a rich literature in information economics, originating with Crawford and Sobel (1982), Melloni et al. (2019 WP) study a formal “cheap talk” model of political communication. They find that communication can only be credible when issues are sufficiently polarizing: if this is not the case, then rational stakeholders can infer that firms are simply pandering to the majority to increase profits, which renders a firm’s message unbelievable and thus fully discounted by stakeholders. Accordingly, they predict that communication should not occur (or, at least, that it would not be beneficial) whenever p is far from $1/2$. In sharp contrast with this, these are the situations in which we argue (and empirically show) that communication is most (if trivially) beneficial to firms. We believe our conclusions align with the intuitive notion that, if all or a vast majority of a firm’s set of target stakeholders share the same ideological position on an issue, then silence on those stances would be perceived negatively. Thus, while our model takes credibility issues seriously by featuring an “expectations difference” term, it also predicts these will be dwarfed, rather than magnified, whenever stakeholder opinions on issues are highly asymmetric. In this sense, one could think of our model as providing support for some naïvete in stakeholders’ belief formation about firms’ communication and motives.
- **No competitive considerations** Our model only features one firm. How would our conclusions change if several firms were present? To provide some intuition, consider the case of an asymmetric issue. Whenever the popular position becomes

crowded – that is, several competing firms endorse it – the less popular one could become more attractive as a “differentiation tool”. With two firms of very unequal qualities, for instance, an equilibrium might feature the high quality firm endorsing the popular position, and the low quality one endorsing the unpopular one. We refer to [Mohliver et al. \(2021 WP\)](#) for a thorough study of how competition affects the incentives of firms to communicate.

E Additional Tables

Table A1: Effects of Congruent and Incongruent Political Stances - Study 1

| | (1) Pos Opinion | (2) Pos Opinion |
|-------------|----------------------|----------------------|
| Congruent | 0.496** (0.202) | 0.505** (0.202) |
| Incongruent | 0.630*** (0.232) | 0.648*** (0.232) |
| Democrat | | 0.120 (0.204) |
| Republican | | -0.166 (0.221) |
| Constant | -1.335*** (0.159) | -1.335*** (0.206) |
| R2 | .015 | .018 |
| N | 606 | 606 |

Notes: This table examines the effect of taking a political position that is congruent with the expectation about the company in Study 1. We limited the sample to instances where companies took either a pro-Biden or pro-Trump position. The baseline for Congruence and Incongruence is Neither Congruent nor Incongruent. The baseline for political affiliation of the individual is Independent. *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table A2: Effects on Positive Opinion - Confident Only - Study 2

| | (1) Pos Opin <i>Conf</i> | (2) Pos Opin <i>Conf</i> | (3) Pos Opin <i>Conf</i> | (4) Pos Opin <i>Conf</i> |
|--------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <i>Political Stances</i> | | | | |
| Denounce | 0.746*** (0.114) | 0.631*** (0.182) | 0.907*** (0.074) | 0.873*** (0.119) |
| Not Denounce | -1.169*** (0.116) | -1.381*** (0.177) | -0.968*** (0.071) | -1.198*** (0.115) |
| Apolitical | -0.294** (0.127) | -0.291 (0.221) | -0.127** (0.063) | -0.185* (0.111) |
| <i>Other Variables</i> | | | | |
| Alaska | | 0.041 (0.130) | | 0.151 (0.098) |
| Alaska*Denounce | | 0.223 (0.231) | | 0.055 (0.197) |
| Alaska*Not Denounce | | 0.469** (0.231) | | 0.487*** (0.165) |
| Alaska*Apolitical | | -0.010 (0.267) | | 0.101 (0.162) |
| R2 | .217 | .227 | .473 | .484 |
| N | 887 | 887 | 3459 | 3459 |

Notes: This table examines the effect of our treatments on the perceptions among people confident in the election results in Study 2. Only the Alaska-based Oil and Gas Company and the California-based company are included in these regressions. Columns 1 and 2 report between-subjects results, while Columns 3 and 4 report within-subjects results. “Conf” indicates that only people confident in the election results are included. The baseline for Political Stances is the Silence/Control condition. The baseline for Alaska is the California-based tech company. *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$

Table A3: Effects on Positive Opinion - Not Confident Only - Study 2

| | (1) | (2) | (3) | (4) |
|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | Pos Opin <i>No Conf</i> | Pos Opin <i>No Conf</i> | Pos Opin <i>No Conf</i> | Pos Opin <i>No Conf</i> |
| <i>Political Stances</i> | | | | |
| Denounce | -1.214*** (0.223) | -0.707** (0.305) | -1.073*** (0.154) | -0.765*** (0.229) |
| Not Denounce | 0.155 (0.170) | 0.207 (0.243) | 0.289** (0.129) | 0.312 (0.224) |
| Apolitical | 0.377** (0.190) | 0.364* (0.205) | 0.731*** (0.117) | 0.836*** (0.192) |
| <i>Other Variables</i> | | | | |
| Alaska | | 0.290** (0.133) | | 0.160 (0.194) |
| Alaska*Denounce | | -0.883** (0.438) | | -0.591 (0.365) |
| Alaska*Not Denounce | | -0.038 (0.342) | | -0.066 (0.334) |
| Alaska*Apolitical | | 0.115 (0.397) | | -0.215 (0.283) |
| R2 | .143 | .157 | .455 | .458 |
| N | 294 | 294 | 1211 | 1211 |

Notes: This table examines the effect of our treatments on the perceptions among people not confident in the election results in Study 2. Only the Alaska-based Oil and Gas Company and the California-based company are included in these regressions. Columns 1 and 2 report between-subjects results, while Columns 3 and 4 report within-subjects results. “No Conf” indicates that only people not confident in the election results are included. The baseline for Political Stances is the Silence/Control condition. The baseline for Alaska is the California-based tech company. *** $p < 0.01$ ** $p < 0.05$ * $p < 0.10$